INTERPOOL INC
Form 10-K
January 09, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
OR

| | TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER 1-11862

INTERPOOL, INC.

(Exact name of registrant as specified in the charter)

DELAWARE	**13-3467669**
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification Number)

211 COLLEGE ROAD EAST, PRINCETON, NEW JERSEY 08540
(Address of principal executive office) (Zip Code)

(609) 452-8900
(Registrant's telephone number including area code)

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

Title of Each Class	Name of Each Exchange on which Registered
COMMON STOCK, PAR VALUE $.001	**NEW YORK STOCK EXCHANGE**
9.25% CONVERTIBLE REDEEMABLE SUBORDINATED DEBENTURES	**NEW YORK STOCK EXCHANGE**

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
NONE

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 |X|

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in the Exchange Act Rule 12b-2). Yes |X| No |_|

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $167,769,211 as of December 15, 2003.

At December 15, 2003, there were 27,376,552 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

INTERPOOL, INC.

FORM 10-K

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PART I

ITEM 1. BUSINESS

Introductory Note

In preparation for our 2002 annual audit, we determined that several direct finance lease transactions with customers in 2001 and 2000 had been accounted for incorrectly in our prior financial statements. Down payments received from these customers had been erroneously recorded as revenue when collected rather than as a reduction to the net investment in the lease. We also determined that our former computer leasing segment, which had been classified as a discontinued operation in our financial statements for the first three quarters of 2002 and for 2001 and 2000, should have been classified as part of continuing operations because the requirements of discontinued operation accounting treatment were not satisfied.

As a result, we determined that it would be necessary for us to restate our financial statements for the first three quarters of 2002 and for the years ended December 31, 2001 and 2000. Because our financial statements for 2001 and 2000 originally had been audited by Arthur Andersen LLP, which has discontinued its auditing practice, we requested that our new auditors, KPMG LLP, conduct audits of our restated financial statements for the years ended December 31, 2001 and 2000, along with their audit of our financial statements for the year ended December 31, 2002.

The Audit Committee of our Board of Directors engaged as special counsel a law firm that had not previously represented us to conduct an internal investigation into the accounting errors and circumstances requiring restatement of our previously issued 2001 and 2000 financial statements. This investigation was not completed until the fourth quarter of 2003. The findings and recommendations of this investigation, and the measures we have taken and are taking to implement these recommendations, are detailed later in this report under Item 9A.

As a result of an extensive review by us and the re-audits conducted by KPMG, we determined that, in addition to the accounting errors mentioned above, certain additional items in our prior financial statements also would require restatement, including the following:

(1) Certain leases that had been accounted for as operating leases should have been accounted for as direct finance leases. In addition, revenue related to leases classified as finance leases had been understated;
(2) Reserves established for residual guaranties under certain financings were overstated;
(3) The documentation of a swap designed to hedge interest rate fluctuations for a chassis securitization facility did not meet the requirements of SFAS 133 and, therefore, the swap did not qualify for hedge

accounting treatment. In addition, we incorrectly applied the transition rules for certain swaps when we adopted SFAS 133 on January 1, 2001;

(4) Receivables related to our piggyback trailer fleet had been overstated in 1999, 2000 and the first three months of 2001;

(5) Income earned on intercompany transactions with our 50% owned subsidiary Container Applications International, Inc. ("CAI") had not been eliminated from the equity earnings recorded for this subsidiary;

(6) Deferred tax asset valuation allowances related to the realization of our net operating losses and other tax assets were understated;

(7) The net book value of certain containers, acquired from an investment partnership in December 1996, was overstated;

(8) Adjustments were required relating to certain inter-company accounts with foreign subsidiaries that had not been reconciled at December 31, 2000 and 2001;

(9) The accounting for an insurance claim for a defaulted lease was changed, which resulted in a reduction to recorded receivables due from the insurance carrier and, correspondingly, reduced lease revenues and other income for certain amounts billable under the lease contract that are not probable of collection from the lessee but which we believe are fully collectible under the insurance contract; and

(10) Other adjustments were made, consisting primarily of changes in accruals and estimates as well as reclassification of previously recorded entries to proper periods.

The aggregate effect of the restatement of all of these items had the following impact on previously issued financial statements:

Increased net income by $.2 million for the year ended December 31, 2000;
Decreased net income by $14.4 million for the year ended December 31, 2001;
Decreased retained earnings at January 1, 2000 by $2.0 million;
Decreased stockholders' equity by $11.2 million and $1.7 million for the years ended December 31, 2001 and 2000, respectively;
Increased net investment in direct financing leases by $46.1 million and $61.8 million at December 31, 2001 and December 31, 2000, respectively; and
Decreased leasing equipment, net by $37.5 million, and $24.7 million at December 31, 2001 and December 31, 2000, respectively.

While the restatement was necessary, we believe that these changes to our previously issued financial statements do not represent a material change in our financial condition or result in a material increase in the amount of our future obligations or our future cash needs.

Because our financial restatement and the 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 Annual Report on Form 10-K for the year ended December 31, 2002 and our financial statements and Quarterly Reports on Form 10-Q for interim periods in 2003, we requested and received necessary waivers under our debt agreements. Most of these waivers, as currently in effect, waive any default resulting from the late preparation and filing with the Securities and Exchange Commission (SEC) of our financial statements and required periodic reports for 2002 and the first three quarters of 2003, provided that our 2002 Annual Report on Form 10-K is filed with the SEC by January 9, 2004, and our Quarterly Reports on Form 10-Q for the first three quarters of 2003 are filed with the SEC by January 31, 2004, February 29, 2004, and March 31, 2004, respectively. We have not requested or received waivers with respect to our Annual Report on Form 10-K for the year ending December 31, 2003, or our Quarterly Reports on Form 10-Q for 2004, although we anticipate requesting such waivers prior to March 31, 2004.

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 report was filed with the SEC. The New York office of the SEC has received a copy of the written report of the internal investigation and has issued subpoenas requesting documents and information from our Audit Committee and certain other parties. We have also been advised that the United States Attorney's office for the District of New Jersey has received a copy of the written report of the internal investigation and has opened a parallel investigation focusing on certain matters described in the report by the Audit Committee's special counsel. We have been informed that Interpool is neither a subject nor a target of the investigation by the U.S. Attorney's office. We are cooperating fully with both of these investigations.

We have usually funded a significant portion of the purchase price for new containers and chassis through borrowings under our revolving credit agreement and other lines of credit or through secured financings with the financial institutions with which we have relationships. However, while we have successfully completed several significant financings during 2003, our ability to borrow funds on favorable terms has been severely limited since March 31, 2003 because of the restatement to our historical financial statements, the related Audit Committee and SEC investigations and the delay in completing our audited 2002 financial statements and the filing of our Annual Report on Form 10-K for 2002. Our reduced ability to borrow funds on favorable terms has required us to reduce the level of new business we have written with customers. In addition, although we have in the past paid our equipment manufacturers for our acquisitions of containers and chassis within normal trade terms (generally 60-90 days), in recent months we have generally not made payments on this schedule because of the limited availability of new financings. As of December 22, 2003, the total amount we owed to these manufacturers for equipment already delivered (most of which has been placed into service in our fleet) or committed to purchase was approximately $120.5 million. We advised our manufacturers that we intended to satisfy a total of $54.0 million of these outstanding obligations in December 2003, with the remaining balances to be paid in January or February 2004. Our manufacturers have consented to this payment schedule. We have made the payments due in December 2003 to these manufacturers. We may seek further deferrals from these manufacturers.

We currently intend to fund our remaining payment obligations to these manufacturers with proceeds from one or more financings that are currently in process. We have received a signed commitment from a bank regarding a term loan facility of up to $100.0 million, which would be secured by newly acquired equipment. While this financing is not assured and remains subject to documentation and other customary closing conditions before it would be consummated, our discussions with this institution are at an advanced stage as of the date of filing of this Annual Report on Form 10-K and the preparation of formal legal documentation for this loan has been commenced by counsel for the lender.

We also have had discussions with other financial institutions, though at a more preliminary stage, regarding other potential financing transactions that we believe could be consummated early in 2004. Therefore, we believe that we should be able to obtain the financing necessary for us to satisfy our remaining manufacturer payment obligations in the near future. We may also elect to fund a portion of our remaining obligations to our manufacturers through use of our available cash (subject to obtaining approval from certain lenders, if required).

While we are optimistic that we will be able to obtain the financing necessary to enable us to satisfy our remaining manufacturer obligations on the schedule we have presented to our manufacturers, in the event that we are unable to promptly consummate one or more financings of at least $50 million, our available cash resources would likely not be sufficient to make the remaining payments that may be required by our manufacturers, and one or more of these manufacturers could take action against us. In addition, the taking of such action by one or more manufacturers, or the possibility that such action could be taken based upon our failure to satisfy our remaining payment obligations to these manufacturers, may prompt one or more of our other lenders to claim that a cross-default has occurred under the provisions of such lender's debt instruments and to attempt to declare our obligations to such lender immediately due and payable.

For a further discussion of our financial restatement, see Note 2 to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

(Unless otherwise indicated, 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 Annual Report on Form 10-K exclude the information of our 50%-owned consolidated subsidiary CAI. The market share, ranking and other data contained in this Annual Report on Form 10-K 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 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 December 31, 2002, our chassis fleet totaled approximately 204,000 chassis and our container fleet totaled approximately 796,000 twenty foot equivalent units (TEUs). From 1997 to 2002, we increased the size of our chassis fleet at a compound annual rate of 27%, primarily as the result of the chassis fleet acquired during 2000 from the North American Intermodal Division of Transamerica Leasing, Inc. ("TA"), and increased our container fleet at a compound annual rate of 13%.

We concentrate on leasing equipment to our customers on a long-term basis. Substantially all of our new equipment is initially leased for terms of five to eight years and approximately 75% of our total fleet of chassis and 85% of our total fleet of containers are currently on long-term lease. We believe our focus on long-term leasing has enabled us to:

- Maintain high utilization rates of our equipment, 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 25% of our chassis are currently leased on a short-term basis to satisfy customers' peak or seasonal requirements, 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 15% 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 the world's third largest container lessor fleet on a combined basis. At December 31, 2002, CAI had a container fleet of approximately 299,000 containers, including approximately 189,000 containers that were managed for others. CAI's managed equipment included approximately 80,600 containers that were managed for us. CAI's average utilization at December 31, 2002 was 79.7%.

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 customers throughout the world, including all of the world's 20 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, 7 of our top 10 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 vessel arrives in port, each marine container is 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 in areas where transport 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 transport 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. 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 2001, worldwide container traffic at the world's major ports has grown at a compound annual rate of 9.85%, calculated using the *Containerization International Yearbook* of 1992 and 2003.

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, with the balance owned predominantly by shipping lines and railroads according to our estimates. 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:

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

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;

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

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

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 worldwide 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 usually contain an early termination provision allowing the lessee to return equipment prior to expiration of the lease only 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 domestic chassis and international marine container leasing. Our strong market position 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 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. If we are not successful in re-leasing containers, the equipment is 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.

Purchase chassis and containers to fulfill specific customer orders. We generally purchase new equipment to fulfill new long-term lease orders.

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, however, notwithstanding strong conditions in the leasing markets, we have entered into a limited amount of new lease transactions, because our financial restatement and Audit Committee investigation, and the resulting delay in completion of our audited financial statements and filing of our Annual Report on Form 10-K, have significantly reduced the availability of new financing necessary to fund acquisitions of new equipment for lease to customers. We anticipate that once our delinquent financial statements and SEC reports have been filed, we will again be able to obtain long-term financing on favorable terms and will resume writing new business at the levels we have experienced over the past few years.

Operations

Lease Terms. Approximately 85% of our containers and 75% of our chassis are leased on a long-term basis as of December 31, 2002. Our long-term leases generally have five to eight year initial terms.

We offer our customers both operating leases and direct finance leases to satisfy customer preference and demand. In most cases, a direct finance 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 or quarterly 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. Lessees are also required to indemnify us against our losses arising from accidents or similar occurrences involving the leased equipment. Our leases generally provide for pick-up, drop-off and other charges and set forth a list of locations where lessees may pick-up or return equipment.

Long-term leases provide the lessee with advantageous pricing structures, but usually contain an early termination provision allowing the lessee to return equipment prior to expiration of the lease only 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. In addition, such customers must return all equipment covered by the particular long-term lease being terminated, generally totaling several hundred units, and bear substantial costs related to their repositioning and repair.

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, either for one or more additional one-year periods or as part of a short-term agreement. In some cases, the customer has the right to purchase the equipment at the end of a long-term lease.

Chassis Equipment Tracking and Billing. We use a real time, internet accessible proprietary computer software system to enable sophisticated equipment tracking and billing and to provide a central operating database that coordinates our chassis leasing activities. The system processes information received electronically from our regional offices. The system records the movement and status of each chassis and links that information with the complex data comprising the specific lease terms in order to generate billings to lessees. In 2002, more than 165,000 movement transactions per month were processed on average through the system, which is capable of tracking revenue on the basis of individual chassis. The system also generates a wide range of management reports containing information on all aspects of our leasing activities.

Chassis Pools. For customers who require daily or weekly chassis rentals, we operate "chassis pools" at most of the major port authorities and terminal operations throughout the United States. These chassis pools consist of our chassis and those of our customers. The principal ports in the United States where we operate chassis pools are Baltimore, Boston, Charleston, Houston, New Orleans, Norfolk, Long Beach, Oakland, Seattle and Savannah. We also operate chassis pools at railroad locations within the United States.

Depots. We and our 50% owned consolidated subsidiary, CAI, operate in all major transportation markets 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. We retain independent agents at these depots to handle and inspect equipment delivered to or returned by lessees, to store equipment that is not leased and to handle maintenance and repairs of chassis and containers. Some agents are paid a fixed monthly retainer to defray recurring operating expenses and some are guaranteed a minimum level of commission income. In addition, we generally reimburse our agents for incidental expenses.

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 Related 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 $700 per item of equipment, depending on geographic location, distance and other factors, and may not be fully covered by the drop-off charge collected from the lessee. In connection with necessary repositioning, we may also incur storage costs, which generally range between $.20 and $1.45 per TEU per day. In addition, we bear certain operating expenses associated with our chassis and containers, such as:

The 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 involve substantial cost, but remanufacture or refurbish costs are substantially less than the cost of purchasing a new chassis.

Disposition of Chassis and Container Residual Values. On an ongoing basis, we sell equipment that was previously leased. The decision whether 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 provided to CAI for deployment in CAI's short-term fleet. For each of our containers in CAI's fleet, CAI pays us its average total fleet per diem rate less a management fee. 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 old chassis are more easily remanufactured than old containers, chassis are less likely to be sold than containers.

At the time of sale, the residual value of a container or chassis will depend upon, among other factors, mechanical or economic obsolescence, the current newly manufactured equipment price, as well as its physical condition. 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. Most chassis used in the United States are manufactured domestically. Manufacturers of chassis frequently produce over-the-road trailers as well, and can convert some production capability to chassis as needed. Because of the rising demand for containers and the availability of relatively inexpensive labor in the Pacific Rim, approximately 85% of world container production now occurs in China. Containers are also produced in other countries, such as South Korea, India, Indonesia, Malaysia, Taiwan, Turkey, South Africa, and, to a lesser extent, other parts of the world.

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 Pool Management

Our proprietary internet-based real-time chassis management system is called "PoolStat" . "PoolStat" has enabled us to operate, on a cooperative basis, pools of chassis that are owned by us and by shipping lines. Using this program, shipping lines and railroads can "pool" their chassis at common locations such as marine terminals and railroad depots. Our "PoolStat" software compiles data from each location and reports on levels of chassis contribution as compared to levels of chassis usage by each shipping line in the cooperative pool. In addition, the centralized maintenance and repair feature improves service levels to customers and we receive a management fee.

"PoolStat" provides several benefits to customers, including allowing customers to:

- Maintain lower overall inventory requirement at each location;
- Decrease maintenance, repair and other operating expenses;
- Improve equipment control capabilities;
- Reduce the time and expense of managing a chassis fleet; and
- 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. There are now approximately 255,000 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 tools in the United States.

Marketing and Customers

We lease our chassis and containers to over 600 shipping and transportation companies throughout the world, including all of the world's 20 largest international container shipping lines and major North American railroads. The customers for our chassis are a large number of domestic companies, 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. Our customer base is diverse. As of December 31, 2002, our top 25 customers represented approximately 71% of our consolidated net billing, with no single customer accounting for more than 8.2%.

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 have sought to reduce credit risk by maintaining insurance coverage against customer insolvency and related equipment losses. Through January 31, 2002 we maintained contingent physical damage, recovery/repatriation and loss of revenue insurance, which provided 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 covered 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 covered a portion of the lease revenues 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 premium rates and deductibles for this type of insurance have increased as a result of our higher claim experience and that of the industry. As a result, effective March 1, 2003, we obtained a new policy covering similar occurrences for a twelve-month period. The new coverage decreases the recoverable amount per occurrence to $9 million as compared to $35 million in our previous policy and increases the deductible per occurrence from $.4 million to $3 million. 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 subsidiaries or divisions of much larger companies. Over the last several years, there has been consolidation in the container leasing business resulting from several acquisitions. The result of the consolidation has been fewer lessors, a more rational industry and a stabilizing pricing environment.

In addition, the containerized shipping industry, which we service, competes with providers of alternative methods of transporting goods, such as 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 its own fleet of containers and also manages, for a fee, containers owned by us and by third parties. We pay CAI a fee for managing our equipment and leasing it on our behalf based on the net operating income of CAI's fleet of owned, leased and managed containers and the portion of CAI's fleet that consists of our equipment. We entered into our operating relationship with CAI primarily to facilitate the leasing in the short-term market of containers coming off long-term 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. 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 and direct finance lease business and short-term lease business on master lease agreements. We have a right to purchase long-term and direct finance lease business generated by CAI, subject to offering to CAI, at cost, 10% of this long-term and direct finance lease business. Recently, by mutual agreement, CAI has retained most of the long-term and direct finance lease business it has written. 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.

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. An 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 payable quarterly at a fixed rate. The original repayment terms required mandatory quarterly principal payments of $1.7 million beginning July 30, 2003 through April 30, 2008. The subordinated note was subject to certain financial covenants and was cross-defaulted with CAI's senior credit facility, subject to the terms of a subordination agreement.

On June 27, 2002, CAI entered into an amended $110 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 through 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-defaulted 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.

For additional information about CAI's indebtedness, see Note 15 to the Consolidated Financial Statements.

Other Business Operations

In addition to our chassis and container leasing operations we also receive revenues from the leasing of approximately 475 freight rail cars to railroad companies through our Illinois based Railpool division. Also, our former computer leasing segment consisted of two majority owned subsidiaries, Microtech Leasing Corporation ("Microtech") and Personal Computer Rental Corporation ("PCR"). During the third quarter of 2001, we adopted a plan to exit this segment. As part of this plan, we acquired the portion of the ownership interest in Microtech that we did not already own and took steps to terminate Microtech's operations in late 2001. Also, in December 2001 we sold our ownership stake in PCR to a new company formed by certain former employees of PCR. The consideration for the sale, totaling $3.2 million, consisted of $.6 million in cash and a $2.6 million non-recourse promissory note issued by the buyer. In addition, we agreed to guarantee repayment by the buyer of $8.0 million of borrowings from its bank lenders. One of these guarantees, for $3.0 million of borrowings, was released effective December 31, 2001 by one of these bank lenders, Yardville National Bank, and was replaced by personal guarantees in the same amount from two of our principal stockholders or their affiliates. In connection with the sale of PCR, we entered into consulting and bonus contracts with two officers of PCR. In addition, our subsidiary Microtech had lease and other receivables in the amount of $1.4 million due from PCR at December 31, 2001.

During 2002, PCR experienced liquidity problems, and we took steps to assist PCR, such as by purchasing receivables of PCR and by arranging advances to PCR from The Ivy Group, a partnership controlled by several of our principal stockholders or their affiliates. PCR ultimately became insolvent and was liquidated during 2003. We have recorded our obligations relating to PCR's liquidation in the fourth quarter of 2002. As discussed elsewhere in this report, the computer leasing segment was originally reported under discontinued operation and sale accounting principles, but we subsequently determined that restatement would be necessary because the termination of Microtech's operations and legal sale of PCR did not qualify for discontinued operation or sale accounting treatment.

(See Note 2 Restatement of Previously Issued Financial Statements "Elimination of Discontinued Operations Classification and Gain on Sale of PCR" to the Consolidated Financial Statements for further explanation regarding the accounting treatment of PCR and Microtech.)

Employees

As of December 31, 2002, we had 192 employees, 172 of whom are based in the United States, excluding CAI's 53 employees and the computer leasing segment currently being liquidated. None of our employees is covered by a collective bargaining agreement. We believe our relationships with our employees are good.

Risk Factors

Investors in Interpool should consider the following risk factors as well as the other information contained herein.

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 numerous domestic and foreign leasing companies, some of which have greater financial resources and access to capital than we do. Some of our competitors have large underutilized 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 of this report. The New York office of the SEC has received a copy of the written report of the internal investigation and has issued subpoenas requesting documents and information from us, our Audit Committee and certain other parties. We have also been advised that the United States Attorney's office for the District of New Jersey has received a copy of the written report of the internal investigation and has opened a parallel investigation focusing on certain matters described in the report by the Audit Committee's special counsel. We have been informed that Interpool is neither a subject nor a target of the investigation by the U.S. Attorney's office. We are fully cooperating with both of these investigations. 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.

Our limited ability to consummate financings in 2003 has reduced our liquidity and impaired our ability to pay our manufacturers.

We have usually funded a significant portion of the purchase price for new containers and chassis through borrowings under our revolving credit agreement and other lines of credit or through secured financings with the financial institutions with which we have relationships. However, while we have successfully completed several significant financings during 2003, our ability to borrow funds on favorable terms has been severely limited since March 31, 2003 because of the restatement to our historical financial statements, the related Audit Committee and SEC investigations and the delay in completing our audited 2002 financial statements and the filing of our Annual Report on Form 10-K for 2002. Our reduced ability to borrow funds on favorable terms has required us to reduce the level of new business we have written with customers. In addition, although we have in the past paid our equipment manufacturers for our acquisitions of containers and chassis within normal trade terms (generally 60-90 days), in recent months we have generally not made payments on this schedule because of the limited availability of new financings. As of December 22, 2003, the total amount we owed to these manufacturers for equipment already delivered (most of which has been placed into service in our fleet) or committed to purchase was approximately $120.5 million. We advised our manufacturers that we intended to satisfy a total of $54.0 million of these outstanding obligations in December 2003, with the remaining balances to be paid in January or February 2004. Our manufacturers have consented to this payment schedule. We have made the payments due in December 2003 to these manufacturers. We may seek further deferrals from these manufacturers.

We currently intend to fund our remaining payment obligations to these manufacturers with proceeds from one or more financings that are currently in process. None of these financings is assured and each of them remains subject to documentation and other customary closing conditions before it would be consummated. We may also elect to fund a portion of our remaining obligations to these manufacturers through use of our available cash (subject to obtaining approval from certain lenders).

In the event that we are unable to promptly consummate one or more financings of at least $50 million, our available cash resources would likely not be sufficient to make the remaining payments that may be required by our manufacturers, and one or more of these manufacturers could take action against us. These actions could be very disruptive to our business and might include the commencement of legal proceedings (either in the United States or in another country), exercising offset rights with respect to lease payments due from lessees under common ownership or otherwise affiliated with the manufacturer, directing lessees of equipment not yet paid for to make their lease payments to the manufacturer, or seeking to take possession of equipment sold to us for which payment had not been made. Even without any such action being taken, our future relationships with these manufacturers could be adversely affected by our continued non-payment beyond February 2004. In addition, the taking of such action by one or more manufacturers, or the possibility that such action could be taken based upon our failure to satisfy our payment obligations to these manufacturers, may prompt one or more of our other lenders to claim that a cross-default has occurred under the provisions of such lender's debt instruments and to attempt to declare the obligations due to such lender immediately due and payable. If at that time we were to be unable to pay these obligations in full or obtain deferrals from, or otherwise satisfy, the manufacturers, such a lender might attempt to exercise its rights as a secured creditor with respect to its collateral or take other action against us. If any of these circumstances were to occur, we might not be able to meet our obligations to our lenders and other creditors and might not be able to prevent such parties from taking actions that could jeopardize our ability to continue to operate our business.

We may need to obtain additional waivers from our financial institutions if we cannot complete and file our delinquent SEC reports promptly or if we are unable to file our 2004 SEC reports on a timely basis. In addition, we cannot ensure that the existing waivers we have obtained will remain in effect.

Because 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 Annual Report on Form 10-K for the year ended December 31, 2002 and our financial statements and Quarterly Reports on Form 10-Q for interim periods in 2003, we requested and received necessary waivers under our debt agreements. Most of these waivers, as currently in effect, waive any default resulting from the late preparation and filing with the SEC of our financial statements and required periodic reports for 2002 and the first three quarters of 2003, provided that our Annual Report on Form 10-K is filed with the SEC by January 9, 2004, and our Quarterly Reports on Form 10-Q for the first three quarters of 2003 are filed with the SEC by January 31, 2004, February 29, 2004, and March 31, 2004, respectively. Although we hope that we will be able to complete and file our Quarterly Reports on Form 10-Q for 2003 by the applicable dates, we cannot provide assurance that we will meet these deadlines. If we were to be unable to meet these deadlines, we would need to request additional waivers from certain of our financial institutions. In addition, we have not requested or received any waivers with respect to our Annual Report on Form 10-K for the year ended December 31, 2003, or our quarterly reports for 2004. We anticipate requesting such waivers prior to March 31, 2004. In the event that any additional waiver is required and cannot be obtained before the applicable deadline, we might be in violation of the terms of the applicable indebtedness, and the lender could exercise its right to declare us in default, accelerate the indebtedness owed to such lender, and take other action against us. Moreover, the taking of any such action, or the possibility that such action could be taken, could cause one or more of our other financial institutions to take action against us.

Several of the waivers we received from our financial institutions during 2003 provide by their terms that the waiver is void if certain events occur, such as a declaration of default by one or more of our other lenders, or the commencement of civil or criminal proceedings against us or any adverse action by the SEC or the New York Stock Exchange, if such action has a material adverse effect upon our ability to perform our contractual obligations. Although we do not believe that any of these actions has occurred to date, there can be no assurance that they will not occur in the future. In addition, several of the waivers we have obtained are contingent upon a determination by the applicable lender that the changes resulting from our financial restatement to our historical financial statements for 2001 and 2000 and the first nine months of 2002 do not represent a material change to our financial condition for these periods as originally reported. While the restatement was necessary, we believe that our revised financial statements do not represent such a material change, but we cannot assure that our lenders would reach a similar conclusion. In the event any of our existing waivers ceased to be effective by its terms, we could be deemed to be in violation of the terms of the indebtedness to which the waiver relates. In this event of any such default under the terms of our indebtedness, one or more of our lenders could exercise their right to declare us in default, accelerate the indebtedness owed to such lender, and take other actions against us, such as attempting to exercise rights as a secured creditor with respect to any collateral. If any of these circumstances were to occur, we might not be able to meet our obligations to our lenders and other creditors and might not be able to prevent such parties from taking actions that could jeopardize our ability to continue to operate our business.

Our internal controls and procedures may not be adequate.

As a result of our efforts to evaluate weaknesses in the design and effectiveness of our internal controls for the years ended December 31, 2002, 2001 and 2000, we concluded that certain internal control deficiencies which we identified constituted "material weaknesses" or "significant deficiencies" as defined under the standards established by the American Institute of Certified Public Accountants. These deficiencies fall into nine categories: deficiencies related to the accounting for direct finance leases, deficiencies related to ineffective policies for complex transactions, deficiencies related to inadequate communication of complex transactions, deficiencies related to the lack of adequate staffing within the accounting department, deficiencies related to accounting for income taxes, deficiencies related to communication of information regarding related-party transactions, deficiencies related to the security of information technology, deficiencies related to accounting for inter-company eliminations and deficiencies related to recordkeeping by various internal departments. We have assigned the highest priority to the short and long-term correction of the internal control deficiencies that have been identified. We have taken and are continuing to take remedial measures to strengthen our internal controls and to address their deficiencies. We believe that these efforts have addressed the material weaknesses and significant deficiencies that have affected our internal controls for the years ended 2002, 2001 and 2000. As of the date of this filing, we are satisfied that actions implemented to date and those in progress will correct the material weaknesses in our internal controls and information systems and that our processes and systems of internal controls will be adequate. 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 internal control weakness could materially affect our financial results.

Our insurance carriers are disputing our claim for payment under our insurance coverage for lessee defaults and have commenced litigation seeking rescission of the insurance policies. The outcome of this litigation may be adverse to us.

In February 2001, we demanded return of all our equipment on lease to a significant customer based in South Korea. The lessee subsequently commenced insolvency proceedings and did not return our equipment. At the time of this insolvency, we maintained insurance coverage against such lessee defaults, and we submitted a claim to our insurance carriers seeking to recover the value of the receivables owed by the customer (to the extent covered by the insurance policies). Our claim includes per diem rental charges for up to 180 days after the default date for equipment not returned by the lessee, as well as loss, damage and recovery costs relating to the equipment on lease that are also billable to the lessee in accordance with the lease. We have filed an insurance claim in excess of the policy's maximum coverage of $34.6 million, net of a $.4 million deductible under the insurance policy. The supporting documentation for our claim has been provided to an adjuster appointed by the insurance underwriters. As of December 31, 2002, the outstanding receivable recorded from the insurance carrier is $19.6 million. The difference between the receivable recorded due from the insurance carrier and the claim submitted primarily relates to per diem revenues, repairs and maintenance and other costs billable to the lessee (and covered by the insurance contract) that are in excess of costs incurred. Upon collection of the receivable from the insurance carriers, any amounts in excess of or less than the receivable recorded would be recorded as other (income)/expense, net in the Consolidated Statements of Income. For further explanation, see Note 2 Restatement of Previously Issued Financial Statements "Accounting For Insurance Claims" to the Consolidated Financial Statements.

On December 26, 2002, our insurance underwriters commenced a declaratory judgment action against us in the United States District Court for the Southern District of New York seeking rescission of our customer default insurance coverage or, in the alternative, a declaration that the premiums paid by us for this insurance were inadequate. The insurance underwriters' primary contention is that we did not fully disclose to them all material information concerning our South Korean lessee. The underwriters also dispute the timing of our notifications to them of this loss and the amount of the loss. We have filed a response to this complaint. We intend to vigorously pursue our claim for recovery under our insurance policies and believe that we have strong claims under the policies and defenses to the arguments asserted by the insurance underwriters. It is impossible to predict the ultimate outcome of this proceeding, in view of the uncertainties inherent in any litigation. As the litigation progresses, reserves for the impairment of the asset values on our balance sheet may become necessary.

Our insurance coverage, which reduces our exposure to credit risk, expires in March 2004. Failure to replace such coverage could increase our costs in the event a customer defaults.

We have in the past sought to reduce our credit risk by maintaining insurance coverage against lessee defaults. Our current insurance policy covering such credit risks will expire on March 31, 2004. We do not know whether replacement coverage can be obtained upon terms acceptable to us. Even if replacement coverage is obtainable we expect that premium rates and deductibles will increase as a result of general rate increases for this type of insurance as well as our historical claim experience and that of our competitors in the industry. If such insurance coverage is not obtained, it could adversely affect our business by increasing our risks and our costs in the event a 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.

Defaults by our customers could adversely affect our business by decreasing revenues and increasing 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 lose revenues 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 long-term 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.

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

Changes in the political, economic or financial condition of China, which would increase the market price, availability or transportation costs of containers, could adversely affect our ability to maintain our supply of containers. China is currently the largest container producing nation in the world and we currently purchase substantially all of our containers from manufacturers in China. In the event that it were to become more expensive for us to procure containers in China or to transport these containers at a low cost from China to the locations where they are needed by customers, 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.

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.

Approximately 70.2% of our common stock is beneficially owned, directly or indirectly, in the aggregate by Martin Tuchman, Warren L. Serenbetz, 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 Item 13, "*Certain Relationships and Related Transactions*" for more information.)

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 several of our executive officers.

We previously relied in part on the knowledge and experience of Raoul J. Witteveen, our former President and Chief Operating Officer, and Mitchell Gordon, our former Executive Vice President and Chief Financial Officer, each of whom was a member of our Board of Directors. Mr. Witteveen and Mr. Gordon separately resigned as executive officers and directors during 2003. Although we have an experienced management team, the loss of these individuals may adversely affect our ability to continue to achieve our business strategy and to pursue new business initiatives.

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;
- The cost of comparable new equipment;
- The availability of used equipment;
- Rates of inflation;
- Market conditions;
- The costs of materials and labor; and
- The obsolescence of the equipment.

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 finance leases.

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

We currently receive tax benefits under an income tax convention between the United States and Barbados, the jurisdiction in which our subsidiary Interpool Limited, 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. At some future date the tax convention could be 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, because such tax returns are required to be accompanied by audited financial statements for Interpool Limited, which are not available. We believe that the failure to file these returns has not resulted in any underpayment of taxes, interest or penalties (other than a nominal late filing penalty recently enacted in Barbados), because we believe that no Barbados taxes would have been due for the years for which returns have not been filed. We further believe that Interpool Limited's failure to file these returns would not present any other material risk to Interpool. Nonetheless, we intend to have the necessary Interpool Limited financial statements prepared and audited as promptly as practicable so that Interpool Limited's Barbados tax returns can be filed as required. We cannot be assured that 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. Also, because our debt has been downgraded recently, our cost of borrowing has increased and our access to future financing may be more limited.

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 December 31, 2003, our total outstanding indebtedness was approximately $1,683.5 million (including $66.5 million due to certain equipment manufacturers to whom we have not paid amounts due in accordance with our normal trade terms). 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 for 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 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. We may not have sufficient unencumbered assets to pledge as security for new indebtedness. 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 President, continued delay in issuing audited restated financial statements for 2000 and 2001 and our audited financial statements for 2002 to be included in our 2002 Annual Report on Form 10-K, and the need to obtain waivers from our lending group for 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. Such downgrades may have a negative effect on our ability to access the capital markets in the future, as well as on our interest costs.

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.

Although our common stock is listed on The New York Stock Exchange, the Exchange suspended trading in our common stock and other listed securities on December 29, 2003 and informed us that delisting proceedings will be commenced. The Exchange stated that this action was taken because of the delay in filing of our Annual Report on Form 10-K for 2002 and the uncertainty surrounding our restatement. Although we will appeal this decision and hope that trading on the New York Stock Exchange will resume after this report is filed with the Securities and Exchange Commission, we cannot give any assurance that trading in our securities will resume on the New York Stock Exchange. Since this suspension took effect, our common stock has been traded on the over-the-counter market under the symbol IPLI. Information regarding bid and asked prices may be obtained from the web site maintained by pinksheets.com.

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

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.

Website Access

Our website address is www.interpool.com. You may obtain free electronic copies of our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports under the heading "Financial Information." These reports are available on our website as soon as reasonably practicable after we electronically file them with the SEC.

ITEM 2. PROPERTIES

In connection with our acquisition of Transamerica's North American Intermodal Division in October 2000, we purchased real property located in Chicago, Illinois and Atlanta, Georgia. The purchase price for these two properties was included in the acquisition's aggregate purchase price. The Atlanta site was sold on July 31, 2001. The Chicago site was sold in April 2002.

In May 2002, we purchased an office building located at 211 College Road East, Princeton, New Jersey which houses our principal executive offices. The property was purchased from 211 College Road Associates, a New Jersey general partnership in which our chief executive officer and one of our other directors together hold 89.73% of the partnership interests. We had previously leased approximately 28,500 square feet in this building at an annual rent of $.6 million under a triple net lease with 211 College Road Associates. The purchase price we paid for the 39,000 square foot building was $6.3 million, based upon a determination of the fair market value of the property by an independent property appraisal firm. The purchase price and other terms of the purchase were approved by our Board of Directors. (See "*Certain Relationships and Related Transactions*" and Note 14 to the Consolidated Financial Statements for further information regarding this transaction.)

We own approximately 18,000 square feet of condominium office space located on the 27th floor at 633 Third Avenue, New York, NY 10017 that serves as our New York office. All of our other commercial office space is leased.

ITEM 3. LEGAL PROCEEDINGS

In February 2001, we demanded return of all our equipment on lease to a significant customer based in South Korea. The lessee subsequently commenced insolvency proceedings and did not return our equipment. At the time of this insolvency, we maintained insurance coverage against such lessee defaults, and we submitted a claim to our insurance carriers seeking to recover the value of the receivables owed by the customer (to the extent covered by the insurance policies). Our claim includes per diem rental charges for up to one hundred and eighty days after the default date for equipment not returned by the lessee as well as loss, damage and recovery costs relating to the equipment on lease that are also billable to the lessee in accordance with the lease. The maximum insurance coverage related to this claim is $34.6 million, net of a $.4 million deductible under the insurance policy.

We provided the supporting documentation for our claim to an adjuster appointed by the insurance underwriters. Based upon discussions with the adjuster, the analysis of the supporting documentation is complete and a report of the adjuster's findings was submitted to the underwriters in November 2002.

On December 26, 2002, our insurance underwriters commenced a declaratory judgment action against us in the United States District Court for the Southern District of New York seeking rescission of our customer default insurance coverage or, in the alternative, a declaration that the premiums paid by us for this insurance were inadequate. The insurance underwriters' primary contention is that we did not fully disclose to them all material information concerning our South Korean lessee. The underwriters also dispute the timing of our notifications to them of this loss and the amount of the loss. We have filed a response to this complaint. We intend to vigorously pursue our claim for recovery under our insurance policies and believe that we have strong claims under the policies and defenses to the arguments asserted by the insurance underwriters. Although it is impossible to give assurances as to the ultimate outcome of this proceeding in view of the uncertainties inherent in any litigation, based upon the progress of this case to date and the merits of our position, and after consultation with external counsel, we believe that the facts as they have been developed through discovery, and the applicable law, should entitle us to a recovery in the full amount of our claim. We will continue to monitor the progress and development of this litigation. As the litigation progresses, we will continue to evaluate the prospects for full recovery on our insurance claim, and reserves for the impairment of the asset values may become necessary.

For additional information about this claim, see Management's Discussion and Analysis of Financial Condition and Results of Operations "Insurance Claim."

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 report was filed with the SEC. The New York office of the SEC has received a copy of the written report of the internal investigation and has issued subpoenas requesting documents and information from us, our Audit Committee and certain other parties. We have also been advised that the United States Attorney's office for the District of New Jersey has received a copy of the written report of the internal investigation and has opened a parallel investigation focusing on certain matters described in the report by the Audit Committee's special counsel. We have been informed that Interpool is neither a subject nor a target of the investigation by the U.S. Attorney's office. We are cooperating fully with both of these investigations.

We are engaged in various other legal proceedings from time to time incidental to the conduct of our business. Such proceedings may relate to claims arising out of chassis accidents that occur from time to time which involve death and injury to persons and damage to property. Accordingly, we require all of our lessees to indemnify us against any losses arising out of such accidents while the chassis are on-hire to the lessees. In addition, lessees are generally required to maintain a minimum of $2 million in general liability insurance coverage which is standard in the industry. In addition, we maintain a back-up general liability policy of $200 million, in the event that the above lessee coverage is insufficient. While we believe that such coverage should be adequate to cover current claims, there can be no guarantee that future claims will not exceed such amounts. Nevertheless, we believe that no current asserted or unasserted claims of which we are aware will have a material adverse effect on our financial condition or results of operations and that we are adequately insured against such claims.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders through a solicitation of proxies during the fourth quarter of fiscal 2002.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Until December 26, 2003, our common stock was traded on the New York Stock Exchange under the symbol "IPX". The following table sets forth for the periods indicated commencing on January 1, 2000, the high and low closing sale prices for the common stock on the New York Stock Exchange. All share and per share data have been rounded to the nearest cent.

	HIGH	LOW
Calendar Year 2000		
First Quarter	$8.00	$5.75
Second Quarter	9.75	5.50
Third Quarter	13.31	8.50
Fourth Quarter	17.50	11.63
Calendar Year 2001		
First Quarter	$18.44	$12.56
Second Quarter	17.00	13.55
Third Quarter	19.45	14.60
Fourth Quarter	19.25	11.65
Calendar Year 2002		
First Quarter	$19.90	$14.61
Second Quarter	24.02	17.26
Third Quarter	18.96	12.02

Fourth Quarter..................................	17.32	11.49

As of December 1, 2003, there were approximately 75 stockholders of record of our common stock. On December 15, 2003, the last reported sale price of the common stock on the New York Stock Exchange was $17.94 per share.

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. We will appeal this decision. Since this suspension took effect, our common stock has been traded on the over-the-counter market under the symbol IPLI. Information regarding bid and asked prices may be obtained from the web site maintained by pinksheets.com.

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. Effective January 2003, the quarterly dividend rate was increased to $0.0625 per share, which was paid in January, April, July and October of 2003 and declared on December 10, 2003 for payment on January 15, 2004 to stockholders of record on January 2, 2004. In connection with our delayed SEC filings and the receipt of waivers from our lenders necessitated by the delayed filings, the members of our Board of Directors and certain of their affiliates who own shares of our common stock have agreed to defer their receipt of any dividend payments, including those we may declare in the future, until we are in compliance with all SEC filing requirements.

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 will be acquired on the open market by an independent third party plan administrator and not through the issuance of additional shares by us.

Equity Compensation Plan Information

The following presents equity compensation plan information as of December 31, 2002. This table does not include shares issuable under the Deferred Bonus Plan (the "Bonus Plan") as outlined in Note 19 to the Consolidated Financial Statements. The shares issuable under the Bonus Plan with respect to the calendar year ended December 31, 2002 were granted in January 2003 and vest in installments beginning in January 2004.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c Number of secu remaining avai future issuanc equity compens plans (excludi securities ref in column (a))
Equity compensation plans approved by security holders	4,539,001	10.34	1,559
Equity compensation plans not approved by security holders	-----	-----	---
Total	4,539,001	10.34	1,559

For a description of these plans see Item 10 and Note 19 to the Consolidated Financial Statements.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected historical consolidated financial data, for the periods and at the dates indicated. This information should be read in conjunction with our historical consolidated financial statements included in this Annual Report on Form 10-K and the notes thereto. (See Note 2 to the Consolidated Financial Statements for additional details of the restated amounts in 2001 and 2000.)

SELECTED FINANCIAL DATA

(in thousands, except per share amounts)

	YEAR ENDED DECEMBER 31, (1)			
	2002 (2)	2001	2000 (3)	1999
INCOME STATEMENT DATA:		Restated	Restated	Restate
Revenues	$327,124	$338,718	$287,553	$216,06
Income before cumulative effect of change in accounting principle	$4,389	$28,104	$44,040	$23,27
Income per share before change in accounting principle:				
Basic	$0.16	$1.03	$1.61	$0.8
Diluted	$0.15	$0.97	$1.61	$0.8
Weighted average shares outstanding:				
Basic	27,360	27,417	27,421	27,57
Diluted	29,202	28,973	27,426	28,23
Cash dividends declared per common share:	$0.2275	$0.1925	$0.15	$0.1

	2002	2001	2000	1999
BALANCE SHEET DATA:		Restated	Restated	Restated
Cash and short-term investments	$170,613	$103,760	$157,224	$207,85
Net investment in direct financing leases	$334,129	$275,372	$213,180	$185,35
Leasing equipment	$1,556,816	$1,334,787	$1,230,214	$846,34
Total assets	$2,241,121	$1,922,229	$2,203,767	$1,442,06
Debt and capital lease obligations	$1,597,211	$1,354,680	$1,631,985	$998,22
Stockholders' equity	$336,193	$351,269	$340,519	$299,41

(1) As a result of adopting Statement of Financial Accounting Standards No. 145 ("SFAS 145") extraordinary gains related to the retirement of debt for all years presented 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, $840 and $740 for years ended December 31, 2001, 2000 and 1999, respectively.

(2) Effective June 27, 2002, the Company's financial statements include CAI as a consolidated subsidiary. (See Note 15 to the Consolidated Financial Statements.)

(3) The 2000 income statement data excludes $660 resulting from the cumulative effect of change in accounting principle. The 2000 results include contributions 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.

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

The following discussion of our historical financial condition and results of operations should be read in conjunction with the historical consolidated financial statements and the notes thereto and the other financial information appearing elsewhere in this report. All financial information in this report gives effect to the restatement of our financial statements for 2001 and 2000. *(Unless otherwise indicated, 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 Annual Report on Form 10-K exclude the information of our 50%-owned consolidated subsidiary CAI.)*

The information in this Annual Report on Form 10-K contains certain "forward-looking statements" within the meaning of the securities laws. These forward-looking statements reflect the current view of the Company with respect to future events and financial performance and 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 in this report, including the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations," 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 report, 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 report. 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 report are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved. Future economic and industry trends that could potentially impact revenues and profitability are difficult to predict.

Restatement of Previously Issued Financial Statements

In preparation for our 2002 annual audit, we determined that several direct finance lease transactions with customers, in 2001 and 2000 had been accounted for incorrectly in our prior financial statements. Down payments received from these customers had been erroneously recorded as revenue when collected rather than as a reduction to the net investment in the lease. We also determined that our former computer leasing segment, which had been classified as a discontinued operation in our financial statements for the first three quarters of 2002 and for 2001 and 2000, should have been classified as part of continuing operations because the requirements of discontinued operation accounting treatment were not satisfied.

As a result, we determined that it would be necessary for us to restate our financial statements for the first three quarters of 2002 and for the years ended December 31, 2001 and 2000. Because our financial statements for 2001 and 2000 originally had been audited by Arthur Andersen LLP, which has discontinued its auditing practice, we requested that our new auditors, KPMG LLP, conduct audits of our restated financial statements for the years ended December 31, 2001 and 2000, along with their audit of our financial statements for the year ended December 31, 2002.

The Audit Committee of our Board of Directors engaged as special counsel a law firm that had not previously represented us to conduct an internal inquiry into the accounting errors and circumstances requiring restatement of our previously issued 2001 and 2000 financial statements. Upon completion of this inquiry, in July 2003 our Audit Committee decided to conduct a broader internal investigation of our accounting and related matters and engaged another law firm that had not previously represented us, Morrison & Foerster LLP, as special counsel, which in turn engaged the accounting firm of Ernst & Young LLP to assist with such investigation. This investigation was not completed until the fourth quarter of 2003. The findings and recommendations of this investigation, and the measures we have taken and are taking to implement these recommendations, are detailed later in this report under Item 9A.

As a result of an extensive review by us and the re-audits conducted by KPMG, we determined that, in addition to the accounting errors mentioned above, certain additional items in our prior financial statements also would require restatement, including the following:

(1) Certain leases that had been accounted for as operating leases should have been accounted for as direct finance leases. In addition, revenue related to leases classified as finance leases had been understated;
(2) Reserves established for residual guaranties under certain financings were overstated;
(3) The documentation of a swap designed to hedge interest rate fluctuations for a chassis securitization facility did not meet the requirements of SFAS 133 and, therefore, the swap did not qualify for hedge accounting treatment. In addition, we incorrectly applied the transition rules for certain swaps when we adopted SFAS 133 on January 1, 2001;
(4) Receivables related to our piggyback trailer fleet had been overstated in 1999, 2000 and the first three months of 2001;
(5) Income earned on intercompany transactions with our 50% owned subsidiary CAI had not been eliminated from the equity earnings recorded for this subsidiary;
(6) Deferred tax asset valuation allowances related to the realization of our net operating losses and other tax assets were understated;
(7) The net book value of certain containers, acquired from an investment partnership in December 1996, was overstated;
(8) Adjustments were required relating to certain inter-company accounts with foreign subsidiaries that had not been reconciled at December 31, 2000 and 2001;
(9) The accounting for an insurance claim for a defaulted lease was changed, which resulted in a reduction to recorded receivables due from the insurance carrier and, correspondingly, reduced lease revenues and other income for certain amounts billable under the lease contract that are not probable of collection from the lessee but which we believe are fully collectible under the insurance contract; and
(10) Other adjustments were made, consisting primarily of changes in accruals and estimates as well as reclassification of previously recorded entries to proper periods.

The impact of these items on our previously issued financial statements for 2001 and 2000 is summarized below. While the restatement was necessary, we believe that these changes to our previously issued financial statements do not represent a material change in our financial condition or result in a material increase in the amount of our future obligations or our future cash needs.

Because our financial restatement and the 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 Annual Report on Form 10-K for the year ended December 31, 2002 and our financial statements and Quarterly Reports on Form 10-Q for interim periods in 2003, we requested and received necessary waivers under our debt agreements. Most of these waivers, as currently in effect, waive any default resulting from the late preparation and filing with the SEC of our financial statements and required periodic reports for 2002 and the first three quarters of 2003, provided that our 2002 Annual Report on Form 10-K is filed with the SEC by January 9, 2004, and our Quarterly Reports on Form 10-Q for the first three quarters of 2003 are filed with the SEC by January 31, 2004, February 29, 2004, and March 31, 2004, respectively. We have not requested or received waivers with respect to our Annual Report on Form 10-K for the year ending December 31, 2003 or our Quarterly Reports on Form 10-Q for 2004, although we anticipate requesting such waivers prior to March 31, 2004.

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 of this report. The New York office of the SEC has received a copy of the written report of the internal investigation and has issued subpoenas requesting documents and information from our Audit Committee and certain other parties. We have also been advised that the United States Attorney's office for the District of New Jersey has received a copy of the written report of the internal investigation and has opened a parallel investigation focusing on certain matters described in the report by the Audit Committee's special counsel, Morrison & Foerster LLP. We have been informed Interpool is not a subject or a target of the investigation by the U.S. Attorney's office. We are fully cooperating with both of these investigations.

Overall Impact of the Restatement

The tables below show the effect of the restatement on our previously reported results for the years ended December 31, 2001 and 2000:

	Year Ended December 31, 2001			
	Income before taxes and change in accounting principle	Net Income	Income Per Share (Basic)	Income Per Sha (Dilute
Previously reported	$49,723	$42,480	$1.55	$1.47
Lease accounting	(1,817)	(2,023)	(0.07)	(0.07
Residual guarantees	2,150	1,290	0.05	0.05
Swap accounting	(6,435)	(4,320)	(0.16)	(0.15
Income on piggyback trailer fleet	(26)	(16)	(0.00)	(0.00
Intercompany transactions with CAI	(1,290)	(1,121)	(0.04)	(0.04
Reduction in carrying value of containers	38	36	0.00	0.00
Deferred tax asset valuation	0	(924)	(0.03)	(0.03
Intercompany account reconciliations	(1,305)	(1,259)	(0.05)	(0.04
Accounting for insurance claim	(5,125)	(4,497)	(0.16)	(0.16
Changes in accruals and estimates				
Bonus accrual	(614)	(369)	(0.01)	(0.01
Estimated repair costs incurred on equipment	(728)	(437)	(0.02)	(0.02
Other	663	565	0.02	0.02
Net restatements	(14,489)	(13,075)	(0.47)	(0.45
As restated, before reclassifications of extraordinary items and discontinued operations	35,234	29,405	1.08	1.02
Changes in accounting for adoption of SFAS 133 in 2001	---	(833)	(0.03)	(0.03
Elimination of discontinued operations classification and gain on sale of PCR	(2,660)	(468)	(0.02)	(0.02
Adoption in 2002 of SFAS 145 on retirement of debt	930	---	---	---
As restated	$33,504	$28,104	$1.03	$0.97

	Year Ended December 31, 2000			
	Income before taxes and change in accounting principle	Net Income	Income Per Share (Basic)	Income Per Share (Dilute
Previously reported	$49,975	$44,456	$1.62	$1.62
Lease accounting	(116)	133	0.01	0.01
Residual guarantees	525	315	0.01	0.01
Income on piggyback trailer fleet	(1,448)	(869)	(0.03)	(0.03)
Intercompany transactions with CAI	(762)	(603)	(0.02)	(0.02)
Reduction in carrying value of containers	38	36	0.00	0.00
Deferred tax asset valuation	0	(584)	(0.02)	(0.02)
Intercompany account reconciliations	1,178	1,137	0.04	0.04
Changes in accruals and estimates				
Bonus accrual	614	369	0.01	0.01
Estimated repair costs incurred on equipment	340	204	0.01	0.01
Other	257	106	0.00	0.00
Net restatements	626	244	0.01	0.01
As restated, before reclassifications of extraordinary items and discontinued operations	50,601	44,700	1.63	1.63
Elimination of discontinued operations classification	1,606	---	---	---
Adoption in 2002 of SFAS 145 on retirement of debt	1,400	---	---	---
As restated	$53,607	$44,700	$1.63	$1.63

In addition to the amounts above, we recorded a reduction of approximately $2.0 million to retained earnings and stockholders equity at December 31, 1999.

The cumulative effect of all of the restatements was a decrease in retained earnings of $16.1 million and $1.7 million at December 31, 2001 and December 31, 2000, respectively. In addition, the restatements resulted in a decrease to accumulated comprehensive loss of $4.9 million at December 31, 2001.

While the restatement was necessary, we do not believe that the changes to the previously issued financial statements represent a material change in our financial condition or result in a material increase in the amount of our obligations going forward or our future cash needs. In connection with the completion of our internal investigation and the re-audits of our financial statements, we have received waivers related to the timely reporting of financial data under our debt agreements.

For further discussion of the restatement, see Note 2 to the Consolidated Financial Statements.

General

We generate revenues through leasing transportation equipment, primarily intermodal chassis and dry freight standard containers. Most of our revenues are derived from payments under operating leases and from income earned under finance leases, under which the lessee generally has the right to purchase the equipment at the end of the lease term.

Revenue derived from an operating lease generally consists of the total lease payment from the customer. In 2002, 2001 and 2000, revenues derived from operating leases were $290.9 million (89% of revenues), $312.2 million (92% of revenues), and $263.7 million (92% of revenues), respectively.

Revenue derived from a direct finance lease consists only of income recognized over the term of the lease using the effective interest method. The principal component of the direct finance lease payment is reflected as a reduction to the net investment in the direct finance lease. In 2002, 2001 and 2000, total payments from direct finance leases were $96.0 million, $91.8 million, and $100.4 million, respectively. In 2002, 2001 and 2000, the revenue component of total lease payments totaled $36.2 million (11% of revenues), $26.5 million (8% of revenues), and $23.8 million (8% of revenues), respectively.

Our mix of operating and direct finance leases is a function of customer preference and demand and our success in meeting those customer requirements. During the initial two years of either an operating lease or a direct finance lease, the contribution to our earnings before interest and taxes is very similar. In subsequent periods however, the operating lease will generally be more profitable than a direct finance lease, primarily due to the return of principal inherent in a direct finance lease. However, after the long-term portion (and any renewal) of an operating lease expires, the operating lease will have redeployment costs and related risks that are avoided under a direct finance lease.

We conduct business with shipping line customers throughout the world and are thus subject to the risks of operating in disparate political and economic conditions. 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 98% 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 conducted through our subsidiary, Interpool Limited, a Barbados corporation. Our effective tax rate benefits substantially from the application of an income tax convention, pursuant to which the profits of Interpool Limited from 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. (See "*--United States Federal Income Tax*", below within this Item 7.) Our chassis leasing operations are conducted primarily through Trac Lease, Inc. ("Trac Lease") and Interpool. The short-term portion of our container leasing operations is conducted through our 50%-owned consolidated subsidiary, CAI. A portion of our other United States equipment leasing activities are conducted through Interpool itself.

On June 27, 2002, our 50% owned subsidiary, CAI, which concentrates on short term container leasing, entered into a new $110 million senior 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 an outstanding subordinated note of CAI held by us and modified certain financial covenants of the note. At the same time, we were granted the right to appoint a majority 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. Previously, CAI was accounted for under the equity method of accounting. Our share of the equity earnings (losses) of CAI for the periods prior to June 27, 2002 has been recorded in "(Income)/Loss for Investments Accounted for Under the Equity Method" in the accompanying Consolidated Statements of Income. For the period from June 27 through December 31, 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, 2002 have been included on the accompanying Consolidated Balance Sheet.

Results of Operations

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Revenues. Our revenues decreased to $327.1 million for the year ended December 31, 2002, from $338.7 million in the year ended December 31, 2001, a decrease of $11.6 million or 3%. The decrease was primarily attributable to our December 31, 2001 sale of PCR that resulted in reduced leasing revenues of $31.0 million, partially offset by $20.7 million of incremental leasing revenues as a result of consolidating CAI. In addition, operating lease revenues decreased $10.7 million, partially offset by increased finance lease revenues of $9.7 million. Although our container and chassis fleets increased in size by 14% and 7%, respectively as compared to the year ended December 31, 2001, the operating lease revenue declined due to reductions in the daily rental rates of 15% for containers and 9% for chassis. The decrease in container rates resulted from the termination of leases with higher rates that were written when the cost of equipment was higher than it is currently. These leases are being replaced by leases with lower rates reflecting the current cost of equipment. Our chassis rates declined as a result of the acquisition, in December 2001, of 20,700 used chassis on hire at per diem rates lower than our existing fleet. In addition, a change to California law, which made the lessee of the equipment responsible for the payment of licensing costs, lowered the rates since these costs were previously recovered through per diem rates. 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. Under this method, utilization rates of our container fleet and our domestic intermodal chassis operating fleet at December 31, 2002 were 98% and 93%, respectively, as compared to 96% and 93%, respectively, at December 31, 2001. The utilization rates of our container fleet, considering CAI's actual utilization rates for our containers managed by CAI, were 92% and 89% at December 31, 2002 and 2001, respectively. The weighted average revenue per day earned by us for our containers managed by CAI was $.93 and $1.09 per unit for the years ended December 31, 2002 and 2001, respectively. The reduction in revenue per day was the result of lower rates in the short term leasing market.

Lease Operating and Administrative Expenses. Our lease operating and administrative expenses decreased to $103.9 million for the year ended December 31, 2002 from $128.9 million in the year ended December 31, 2001, a decrease of $25.0 million or 19%.

The decrease was primarily due to:

- A reduction of $27.8 million resulting from the sale of PCR as of December 31, 2001.
- An increase of $11.5 million resulting from the consolidation of the activities of CAI.
- A reduction in California licensing costs of $5.8 million due to a change in California law, which made the user of the equipment, not the lessor, responsible for the payment of the licensing fees. This reduction in expense has brought about a reduction in operating lease revenues since these licensing costs were previously recovered through increased rental rates.
- An increase in storage costs of $3.4 million primarily due to the recovery of equipment from a customer in default and the increased size of our fleet.
- An increase in maintenance and repair costs of $3.7 million primarily due to the refurbishment of chassis for use within the chassis product line.
- A reduction in positioning and handling expense of $2.4 million primarily due to the recovery of equipment from a customer in default for which the majority of the recovery effort took place in 2001.
- A reduction in insurance expense of $1.9 million primarily due to the termination for a portion of 2002 of insurance to cover losses from lessee insolvencies, bankruptcies and defaults.
- A reduction in equipment rental expense of $1.9 million for equipment leased from The Ivy Group, an entity controlled by certain current and former officers and directors, for the period prior to July 1, 2001.
- A reduction in California use taxes of $1.2 million related to the TA assets acquired in October 2000.
- A decrease in salaries of $1.1 million primarily resulting from reduced headcount following the completion of the integration of the assets acquired from TA and the consolidation of the operations.

Lease operating and administrative expenses for 2003 are expected to increase due to the costs of the restatement and the investigation conducted by the Audit Committee as well as severance payments to be made to two of our former officers.

Provision for Doubtful Accounts. Our provision for doubtful accounts decreased to $7.8 million for the year ended December 31, 2002 from $9.0 million for the year ended December 31, 2001. The decrease was primarily attributable to $3.1 million of provisions (provided in 2001) related to amounts billed to a lease customer that went into default which were no longer probable of collection from the lessee, partially offset by increased reserves for a specific customer which became part of our non-performing receivables during 2002. During 2002, we experienced an increase in our non-performing receivables of $5.1 million. As of December 31, 2002 and 2001, our non-performing receivables, net of applicable reserves, were 2.54% and 5.96%, respectively, of accounts and notes receivables, net. Our provision for doubtful accounts is provided based upon a review of the outstanding receivables and an evaluation of the adequacy of the allowance for doubtful accounts. The adequacy of our allowance for doubtful accounts is periodically reviewed 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 finance lease receivables. (See Note 4 to the Consolidated Financial Statements.)

Fair Value Adjustment for Derivative Instruments. Our non-cash market value adjustment for derivative instruments expense decreased to $5.5 million for the year ended December 31, 2002 from $8.2 million in the year ended December 31, 2001, a decrease of $2.7 million. This decrease is comprised of the following items:

- The change in the fair value of interest rate swaps accounted for as free standing derivatives (including the amortization of amounts included in accumulated other comprehensive income upon the adoption of SFAS No. 133 on January 1, 2001) was a loss of $5.6 million in 2002 as compared to a loss of $8.1 million in 2001; and
- The amount of ineffectiveness recognized for interest rate swaps that are accounted for as cash flow hedges of variable rate debt was income of $.1 million in 2002 as compared to a loss of $.1 million in 2001.

Depreciation and Amortization of Leasing Equipment. Our depreciation and amortization expenses increased to $93.5 million for the year ended December 31, 2002, from $79.7 million for the year ended December 31, 2001, an increase of $13.8 million or 17%.

The increase was primarily due to additions to our fleet as well as:

- An increase in depreciation expense of $8.7 million resulting from the consolidation of the activities of CAI.
- Depreciation savings of $7.0 million and $.5 million due to the changes to our depreciation policy for chassis and containers, respectively. (See Note 1 to the Consolidated Financial Statements for further information regarding the depreciation policy changes for chassis and containers).
- A decrease in depreciation expense of $6.0 million resulting from the sale of PCR as of December 31, 2001.
- An impairment write-down of $2.2 million based on an evaluation on the carrying value of our long-lived assets.
- An impairment write-down of $1.9 million for defective units supplied by a specific manufacturer for which the expenses are not recoverable due to the bankruptcy of the manufacturer.
- A write off of $7.5 million which represents the book value of the unrecovered equipment from a lease customer in default.
- Reduced depreciation expense of $1.3 million as a result of our sale of rail trailers and domestic containers to GE Capital Corporation in March 2001.

Losses for Investments Accounted for Under the Equity Method. The increase in losses for investments accounted for under the equity method of $5.8 million during the year ended December 31, 2002 as compared to the prior year period resulted primarily from increased 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, as compared to equity losses of CAI of $.2 million for the year ended December 31, 2001. The increase in losses was primarily the result of CAI recording an impairment loss of $3.5 million related to equipment held for sale that was impaired, as well as a change in the container depreciation policy which resulted in an increase in CAI's depreciation of $1.3 million. These two items increased losses we recorded by $1.6 million, net of CAI's tax benefit. The remaining increase in losses resulted from reduced operating performance of the CAI fleet. In addition, for the year ended December 31, 2002, we recorded $2.6 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 $0.6 million for the year ended December 31, 2001.

Other (Income)/Expense, Net. We had other (income)/expense, net of $1.1 million during the year ended December 31, 2002 compared to $(9.8) million in 2001. The increase of $10.9 million from the year ended December 31, 2001 was due to:

- The establishment of a reserve 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).
- The write off of Microtech's $1.4 million of computer equipment related receivables from PCR which have been determined to be uncollectible.
- The sale of our Chicago property, which had been acquired as part of the acquisition of TA and resulted in a gain of $4.8 million recorded in the second quarter of 2002.
- Additional losses of $3.0 million primarily resulting from the sale of leasing equipment recovered from a customer in default.
- A $1.6 million increase for income recorded in 2002 ($10.6 million) over 2001 ($9.0 million) for costs incurred and losses realized on a defaulted lease that we expect to recover through our insurance policy.
- Payments of $2.7 million made to PCR by a company controlled by certain of our officers and directors which were expensed.
- Gain of $1.8 million on the sale of rail trailers and domestic containers previously owned by us to GE Capital Corporation during the three months ended March 31, 2001.
- Fee income of $.5 million as a result of our acting as an agent and arranging a lease transaction between two parties.

Interest Expense. Our interest expense increased to $108.3 million in the year ended December 31, 2002 from $98.3 million in the year ended December 30, 2001, an increase of $10.0 million or 10%. The increase in interest expense was primarily attributable to $2.3 million of incremental interest expense as a result of consolidating CAI, deferred financing fees of $4.8 million which were written off when we refinanced certain of our debt instruments, and increased borrowings to fund capital expenditures, resulting in incremental interest expense of $10.3 million. These increases to interest expense were partially offset by reduced interest rates resulting in reduced interest expense of $7.3 million.

Interest Income. Our interest income decreased to $4.6 million in the year ended December 31, 2002 from $9.4 million in the year ended December 31, 2001, a decrease of $4.8 million or 51%. The decrease in interest income was primarily due to reduced earnings on invested cash balances due to lower interest rates.

Minority Interest (Income)/Expense, Net. The change in minority interest (income)/expense, net of $2.3 million for the year ended December 31, 2002 as compared to the prior year period resulted primarily from:

An increase in minority interest expense for dividends and distributions paid by Chassis Holdings I LLC ("Chassis Holdings") of $3.2 million for the year ended December 31, 2002 as compared to $1.7 million in 2001. This increase for 2002 reflects a full year of operation for Chassis Holdings, a consolidated subsidiary which was formed on July 1, 2001.
A reduction in minority interest income of $2.1 million resulting from losses sustained by Microtech and PCR for the year ended December 31, 2001. During 2001, we acquired the remaining 24.5% ownership stake in Microtech, thereby increasing our ownership in Microtech to 100%. In addition, on December 31, 2001, we completed the contractual sale of its 51% ownership stake of PCR. As a result, neither PCR nor Microtech are included in minority interest (income)/expense, net for 2002.
An increase in minority interest income of $1.3 million as a result of the consolidation of CAI effective June 27, 2002.

(Benefit)/Provision for Income Taxes. We recorded an income tax benefit of $1.4 million for the year ended December 31, 2002 as compared to a tax provision of $5.4 million for the year ended December 31, 2001. This reduction in the provision for income taxes was caused by lower pre-tax income before cumulative effect of change in accounting principle of $30.5 million. The international container division that is taxed at lower rates based upon the income tax convention between the United States and Barbados, contributed favorably to pre tax income. Losses contributed by the domestic intermodal division, which are taxed at higher United States tax rates, provided a tax benefit. These losses include certain expenses related to the liquidation of PCR for which no tax benefit will be realized. The 35% statutory tax rate applied to these losses would have given rise to additional tax benefits of $1.2 million. Additionally, other provisions for deferred tax asset valuation allowances decreased tax benefits by $6.3 million.

Net Income. As a result of the factors described above, our net income decreased to $4.4 million in the year ended December 31, 2002 from $28.1 million in the year ended December 31, 2001.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Revenues. Our revenues increased to $338.7 million for the year ended December 31, 2001, from $287.6 million in the year ended December 31, 2000, an increase of $51.1 million or 18%. The increase was primarily attributable to our October 2000 acquisition of TA chassis which resulted in $58.2 million of additional leasing revenue, partially offset by reduced operating lease revenues contributed by PCR ($5.4 million) and Microtech ($1.7 million) as compared to the prior year period. In addition, finance lease revenues increased $2.6 million and operating lease revenues decreased $2.6 million as compared to the prior year period. Although our container and chassis fleets increased in size by 19% and 2%, respectively as compared to the year ended December 31, 2000, the operating lease revenue increased at a slower rate due to reductions in the daily rental rates of 10% for containers while daily rental rates remained the same for chassis as compared to the prior year. The decrease in container rates resulted from the termination of leases with higher rates that were written when the cost of equipment was higher than it is currently. These leases are being replaced by leases with lower rates reflecting the current cost of equipment. 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. Under this method, utilization rates of our container fleet and domestic intermodal chassis operating lease fleet at December 31, 2001 were 96% and 93%, respectively, and at December 31, 2000 were 99% and 97%, respectively. The utilization rates of our container fleet, considering CAI's actual utilization rates for our containers managed by CAI, were 89% and 95% at December 31, 2001 and 2000, respectively, due to weak market conditions. The weighted average revenue per day earned on the CAI managed assets was $1.09 and $1.31 per unit for the years ended December 31, 2001 and 2000, respectively. The reduction in revenue per day was the result of lower utilization of the equipment in the short term leasing market.

Lease Operating and Administrative Expenses. Our lease operating and administrative expenses increased to $128.9 million for the year ended December 31, 2001 from $90.6 million in the year ended December 31, 2000, an increase of $38.3 million or 42%.

The increase was primarily due to:

- The October 2000 acquisition of assets from TA that resulted in $21.4 million of incremental lease operating and administrative expense.
- An increase in equipment rental expense of $4.8 million primarily due to the operating lease sale/leaseback transactions entered during the fourth quarter of 2000.
- An increase in storage costs of $5.6 million primarily due to the recovery of equipment from a customer in default and the increased size of our fleet.
- An increase in maintenance and repairs expense of $4.2 million primarily due to repairs on our operating lease fleet.
- An increase in positioning and handling expense of $1.6 million primarily due to the recovery of equipment from a customer in default.
- An increase in salary expense of $1.3 million primarily due to increased headcount as a result of the October 2000 acquisition of assets from TA.
- A reduction of $1.0 million in lease administrative and operating expense incurred by Microtech as compared to the prior year period.

Provision for Doubtful Accounts. Our provision for doubtful accounts increased to $9.0 million for the year ended December 31, 2001 from $3.8 million in the year ended December 31, 2000. The increase was primarily attributable to $3.1 million of provisions related to amounts billed to a lease customer that went into default which were no longer probable of collection from the lessee, as well as additional reserves provided for specific customers in default under their lease obligations. During 2001, we experienced a decrease in our non-performing receivables of $8.2 million; primarily as a result of $18.3 million in write-offs in 2001 as compared to $0.8 in 2000. As of December 31, 2001 and 2000, our non-performing receivables, net of applicable reserves, were 5.96-% and 7.34%, respectively, of accounts and notes receivables, net. Our provision for doubtful accounts is provided based upon a review of the outstanding receivables and an evaluation of the adequacy of the allowance for doubtful accounts. The adequacy of our allowance for doubtful accounts is periodically reviewed 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 finance lease receivables. (See Note 4 to the Consolidated Financial Statements).

Depreciation and Amortization of Leasing Equipment. Our depreciation and amortization expenses increased to $79.7 million for the year ended December 31, 2001 from $66.1 million for the year ended December 31, 2000, an increase of $13.6 million or 21%.

The increase was primarily due to additions to the fleet as well as:

- An increase in depreciation expense of $12.4 million resulting from the October 2000 acquisition of assets from TA.
- Reduced depreciation expense of $3.9 million as a result of our sale of rail trailers and domestic containers to GE Capital Corporation in March 2001.
- Depreciation savings of $2.7 million due to the changes to our depreciation policy for chassis. (See Note 1 to the Consolidated Financial Statements for further information regarding the depreciation policy changes for chassis and containers).
- A decrease in depreciation expense of $1.0 million relative to Microtech and PCR compared to the prior year period.

Losses for Investments Accounted for Under the Equity Method. The increase in losses for investments accounted for under the equity method of $.2 million during the year ended December 31, 2001 as compared to the prior year period resulted primarily from an increase in our equity losses from our unconsolidated subsidiaries, which are accounted for under the equity method of accounting.

Other (Income)/Expense, Net We had other (income)/expense, net of $(9.8) million during the year ended December 31, 2001 compared to $1.5 million in 2000. The change in other (income)/expense, net of $11.3 million from the year ended December 31, 2000 was due to:

- $9.0 million of income recorded in 2001 for costs incurred and losses realized on a defaulted lease that we expect to recover through our insurance policy.
- A gain of $1.8 million on the sale of rail trailers and domestic containers previously owned by us to GE Capital Corporation during the three months ended March 31, 2001.
- A reduction in gains on retirement of debt of $.5 million as compared to the prior year period.
- A reduction in losses of $.9 million resulting from the sale of leasing equipment as compared to the prior year period.

Interest Expense. Our interest expense increased to $98.3 million in the year ended December 31, 2001 from $87.8 million in the year ended December 31, 2000, an increase of $10.5 million or 12%. The increase in interest expense was primarily due to increased borrowings to fund assets acquired from TA and fund capital expenditures, resulting in incremental interest expense of $12.4 million, partially offset by reduced interest rates resulting in reduced interest expense of $1.9 million.

Interest Income. Our interest income decreased to $9.4 million in the year ended December 31, 2001 from $17.2 million in the year ended December 31, 2000, a decrease of $7.8 million or 45%. The decrease in interest income was primarily due to reduced earnings on invested cash balances, as well as reduced cash balances on hand during 2001. Average cash balances on hand during 2000 were higher than 2001 in anticipation of our acquisition of TA assets in October 2000.

Minority Interest (Income)/Expense, Net. The change in minority interest (income)/expense, net of $1.2 million for the year ended December 31, 2001 as compared to the prior year period resulted primarily from an increase in minority interest income of $2.9 million resulting from losses sustained by Microtech and PCR for the year ended December 31, 2001 as compared to the prior year period, partially offset by $1.7 million in dividends and distributions paid by Chassis Holdings I LLC, which was formed in July 2001.

Provision for Income Taxes. Our provision for income taxes decreased to $5.4 million for the year ended December 31, 2001 from $9.6 million for the year ended December 31, 2000. This reduction in the provision for income taxes was caused by lower pre-tax income before cumulative effect of change in accounting principle of $20.1 million. The international container division that is taxed at lower rates based upon the income tax convention between the United States and Barbados, contributed the majority of the pre tax income. In addition, there were losses relating to PCR for which tax benefits of $0.7 million will not be realized and a provision for deferred tax asset valuation allowances that increased tax expense by $0.9 million.

Income Before Cumulative Effect of Change in Accounting Principle. As a result of the factors described above, our income before cumulative effect of change in accounting principle was $28.1 million in the year ended December 31, 2001 versus $44.0 million in the year ended December 31, 2000.

Cumulative Effect of Change in Accounting Principle. We recorded the cumulative effect of a change in accounting principle of $.7 million in 2000 resulting from a change in our accounting for our maintenance and repairs expense from the accrual in advance to the direct expense method.

Net Income. As a result of the factors described above, our net income decreased to $28.1 million in the year ended December 31, 2001 from $44.7 million in the year ended December 31, 2000.

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.

We have usually funded a significant portion of the purchase price for new containers and chassis through borrowings under our revolving credit agreement and other lines of credit or through secured financings with the financial institutions with which we have relationships. Throughout our years in business, we have been successful in completing financings on favorable terms on a regular basis and in the ordinary course of our business. However, while we have successfully completed several significant financings during 2003 (See Note 21 to the Consolidated Financial Statements for further discussion), our ability to borrow funds on favorable terms has been severely limited since March 31, 2003 because of the restatement to our historical financial statements, the related Audit Committee and SEC investigations and the delay in completing our audited 2002 financial statements and filing our Form 10-K for 2002. Our reduced ability to borrow funds on favorable terms has required us to reduce the level of new business we have written with customers.

In addition, although we have in the past paid our equipment manufacturers, most of which are located in China, for our acquisitions of containers and chassis within normal trade terms (generally 60-90 days), in recent months we have generally not been able to make payments on this schedule because of the limited availability of new financings. As a result, we have negotiated extensions of these trade terms and have obtained approval of our manufacturers to defer our payment obligations to them. As of December 22, 2003, the total amount we owed to these manufacturers for equipment already delivered (most of which has been placed into service in our fleet) or committed to purchase was approximately $120.5 million. Of this amount, $54.6 million of such trade debt is represented by promissory notes we issued to these manufacturers during 2003, each of which originally provided for payment in full by November 30, 2003. We advised our manufacturers that we intended to satisfy a total of $54.0 million of these outstanding obligations in December 2003, with the remaining balances to be paid in January or February 2004. Our manufacturers have consented to this payment schedule. We have made the payments due in December 2003 to these manufacturers. We may seek further deferrals from these manufacturers.

We currently intend to fund our remaining payment obligations to these manufacturers with proceeds from one or more financings that are currently in process. We have received a signed commitment from a bank regarding a term loan facility of up to $100.0 million, which would be secured by newly acquired equipment. While this financing is not assured and remains subject to documentation and other customary closing conditions before it would be consummated, our discussions with this institution are at an advanced stage as of the date of filing of this Annual Report on Form 10-K and the preparation of formal legal documentation for this loan has been commenced by counsel for the lender.

We also have had discussions with other financial institutions, though at a more preliminary stage, regarding other potential financing transactions that we believe could be consummated early in 2004. Therefore, we believe that we should be able to obtain the financing necessary for us to satisfy our remaining manufacturer payment obligations in the near future. We may also elect to fund a portion of our remaining obligations to our manufacturers through use of our available cash (subject to obtaining approval from certain lenders, if required).

While we are optimistic that we will be able to obtain the financing necessary to enable us to satisfy our remaining manufacturer obligations on the schedule we have presented to our manufacturers, in the event that we are unable to promptly consummate one or more financings of at least $50 million, our available cash resources would likely not be sufficient to make the remaining payments that may be required by our manufacturers, and one or more of these manufacturers could take action against us. These actions could be very disruptive to our business and might include the commencement of legal proceedings (either in the United States or in another country), exercising offset rights with respect to lease payments due from lessees under common ownership or otherwise affiliated with the manufacturer, directing lessees of equipment not yet paid for to make their lease payments to the manufacturer, or seeking to take possession of equipment sold to us for which payment had not been made. Even without any such action being taken, our future relationships with these manufacturers could be adversely affected by any failure to meet the agreed upon schedule of payments. In addition, the taking of such action by one or more manufacturers, or the possibility that such action could be taken based upon our failure to satisfy our remaining payment obligations to these manufacturers, may prompt one or more of our other lenders to claim that a cross-default has occurred under the provisions of such lender's debt instruments and to attempt to declare the obligations due to such lender immediately due and payable. If at that time we were to be unable to pay these obligations in full or obtain additional deferrals from, or otherwise satisfy, the manufacturers, such a lender might attempt to exercise its rights as a secured creditor with respect to its collateral or take other action against us. Accordingly, we believe it is in our best interests for us to pay our obligations to our equipment manufacturers as promptly as possible.

Because 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 Annual Report on Form 10-K for the year ended December 31, 2002 and our financial statements and Quarterly Reports on Form 10-Q for interim periods in 2003, we requested and received necessary waivers under our debt agreements. Most of these waivers, as currently in effect, waive any default resulting from the late preparation and filing with the SEC of our financial statements and required periodic reports for 2002 and the first three quarters of 2003, provided that our Annual Report on Form 10-K is filed with the SEC by January 9, 2004, and our Quarterly Reports on Form 10-Q for the first three quarters of 2003 are filed with the SEC by January 31, 2004, February 29, 2004, and March 31, 2004, respectively. We hope that we will be able to make these SEC filings by the applicable dates. We have not requested or received waivers with respect to our Annual Report on Form 10-K for the year ending December 31, 2003, or our Quarterly Reports on Form 10-Q for 2004, although we anticipate requesting such waivers prior to March 31, 2004. In the event that any additional waiver is required and cannot be obtained before the applicable deadline, we might be in violation of the terms of the applicable indebtedness, and the lender could exercise its right to declare us in default, accelerate the indebtedness owed to such lender, and take other action against us. Moreover, the taking of any such action, or the possibility that such action could be taken, could cause one or more of our other financial institutions to take action against us. As described below, in connection with the receipt of certain 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. Several of these waivers provide by their terms that the waiver is void if certain events occur, such as a declaration of default by one or more of our other lenders, or the commencement of civil or criminal proceedings against us or any adverse action by the SEC or the New York Stock Exchange, if such action has a material adverse effect upon our ability to perform our contractual obligations. To date, we do not believe that any of these actions has occurred. In addition, several of the waivers are contingent upon a determination by the applicable lender that the changes resulting from our financial restatement to our historical financial statements for 2001 and 2000 and the first nine months of 2002 do not represent a material change to our financial condition for these periods as originally reported. While the restatement was necessary, we believe that our revised financial statements do not represent such a material change, but we cannot assure that our lenders would reach a similar conclusion. In the event any of our existing waivers ceased to be effective by its terms, we could be deemed to be in violation of the terms of the indebtedness to which the waiver relates.

In this event of any default or violation under the terms of our indebtedness, one or more of our lenders could exercise their right to declare us in default, accelerate the indebtedness owed to such lenders, and take other actions against us, such as attempting to exercise rights as a secured creditor with respect to any collateral. If any of these circumstances were to occur, we might not be able to meet our obligations to our lenders and other creditors and might not be able to prevent such parties from taking actions that could jeopardize our ability to continue to operate our business.

In connection with our delayed SEC filings and the receipt of waivers from our lenders necessitated by the delayed filings, the members of our Board of Directors and certain of their affiliates who own shares of our common stock have agreed to defer their receipt of any dividend payments, including those we may declare in the future, until we are in compliance with all SEC filing requirements.

Cash Flow Through 2002

Between 1990 and the early part of 2003, we steadily increased our fleet of chassis and containers and added to our portfolio of finance leases. We provided (used) cash flow from operations of $120.1 million, $410.8 million, and $(155.7) million in 2002, 2001 and 2000, respectively. In 2002, 2001 and 2000 net cash (used for) provided by financing activities was $123.1 million, $(216.5) million, and $631.0 million, respectively. We purchased equipment and entered into direct finance leases requiring funding of $256.0 million in 2002, $328.2 million in 2001, and $286.8 million in 2000. Although, as noted above, our equipment purchases have decreased in 2003, we plan to resume increasing the size of our chassis and container fleets in 2004, once financing is available to us.

The following table sets forth certain historical cash flow information for the three years ended December 31, 2002.

	Year Ended December 3		
	2002	2001 restated	r
	(Dollars in millions		
Net cash provided by (used for) operating activities	$120.1	$410.8	
Proceeds from disposition of leasing equipment	12.0	15.6	
Acquisition of leasing equipment	191.9	201.4	
Investment in direct financing leases	64.1	126.8	
Net collections on direct finance leases	59.7	65.3	
Net proceeds (payments) of issuance of long-term debt and capital lease obligations in excess of payment of long-term debt and capital lease obligations	203.8	(91.0)	

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. (See Notes 4 and 5 to the Consolidated Financial Statements.) We are also obligated under various commercial commitments, including obligations to our equipment manufacturers. In the past, our equipment manufacturer obligations have been in the form of conventional accounts payable and have been satisfied within normal trade terms. As discussed above, in 2003, we have not been able to pay our manufacturers on this schedule and have converted a total of $54.6 of these obligations into promissory notes, which matured by their terms on November 30, 2003. We obtained approval from our manufacturers to defer payment of a portion of these obligations provided we make payments totaling $54.0 million to them in December 2003. We have made the payments due in December 2003 to the manufacturers. We are seeking to satisfy our remaining payment obligations to our manufacturers as promptly as possible.

The following tables summarize our contractual obligations and commercial commitments at December 31, 2002.

	Amounts Due by Period (Dollars in millions)				
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years

Long Term Debt	$823.0	$100.0	$416.5	$256.0	$50.5
Capital Lease Obligations	774.2	61.4	132.4	110.9	469.5
Operating Leases	101.9	20.1	37.8	30.0	14.0
Unconditional Purchase Obligations	33.5	33.5	---	---	---
Employment Agreements	13.9	2.9	5.1	3.8	2.1
Obligations Related to PCR Liquidation	6.4	5.9	.5	---	---
Total Contractual Cash Obligations	$1,752.9	$ 223.8	$ 592.3	$ 400.7	$ 536.1

Other Commercial Commitments	Total Amounts Committed	Amount of Commitment Expiration Per Period Less than 1 year	1-3 years	4-5 years	Over 5
Standby Letters of Credit	$6.0	$---	$6.0	$---	$---
Guarantees	12.4	---	---	1.5	10.
Total Commercial Commitments	$18.4	$---	$6.0	$1.5	$10.

These tables do not reflect obligations and commitments entered into or which have arisen since January 1, 2003 and include obligations and commitments that have been terminated since that date.

Debt Obligations

We have a container securitization facility, which was originally established as an off-balance sheet source of financing in March 1999. This facility was amended in July 2001 to allow additional financings to be accounted for as on-balance sheet secured debt financing. In August 2002, the container securitization facility was extended with the maximum outstanding limited to $150.0 million. In October 2002, the facility was renewed and the facility amount was increased to $200.0 million. At December 31, 2002, $123.1 million of the container securitization facility was utilized, of which $31.1 million relates to off-balance sheet financing, while $92.0 million relates to on-balance sheet financing and is included in debt and capital lease obligations in the consolidated balance sheets. At December 31, 2002, the rate on this facility was 5.85%, including the effect of interest rate swap contracts in place as of December 31, 2002. In April 2003, the Company borrowed $33.6 million. In July 2003 and October 2003, in connection with obtaining necessary waivers under this facility to the late filing of our periodic reports with the SEC and the restatement of our past financial statements, we amended the container securitization facility to relinquish the right to request additional advances under the facility and 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 our amendment to our revolving credit agreement, as described below.

In July 2000, we established a chassis securitization facility of $280.0 million. In October 2000, this chassis securitization facility was increased to $300.0 million. At December 31, 2001, $277.4 million of this facility was outstanding with an interest rate of 4.75%, including the effect of interest rate swap contracts in place as of December 31, 2001. We repaid this facility in full in March 2002 with the proceeds from our new chassis asset-backed securitization facility completed in March 2002.

In March 2002, we established a $500.0 million chassis asset-backed securitization facility. This facility is guaranteed by MBIA, Inc., a financial guarantee company, and was therefore rated AAA by Standard & Poor's and Aaa by Moody's. The proceeds from this financing were used to repay debt related to a secured financing facility used to fund the acquisition of assets from Transamerica, to repay a previously established chassis securitization facility, to fund growth of our intermodal equipment fleet and for working capital purposes. On September 30, 2002, we entered into a sale/leaseback transaction and expanded the total debt and capital lease obligations to a total of $540.9 million outstanding, of which $129.3 million is a debt obligation and $411.6 million is a capital lease obligation under the sale/leaseback. At December 31, 2002 the total debt and capital lease obligation outstanding under the sale/leaseback totaled $530.7 million of which $120.2 million is a debt obligation and $410.5 million is a capital lease obligation. At December 31, 2002, the interest rate on this facility was 5.08%, including the effect of interest rate swap contracts in place as of December 31, 2002. This facility continues to be accounted for as an on-balance sheet secured financing. The assets used to secure this facility are segregated in a Delaware statutory titling trust (the Trust) and in a special purpose entity (which is consolidated by us) and amount to $18.6 million of accounts receivable and fixed assets with a net book value of $504.3 million at December 31, 2002. In addition, $24.0 million of cash and marketable securities at December 31, 2002 are restricted for use by the Trust and the special purpose entity and included on our consolidated balance sheet. The assets, which are segregated in the special purpose entity and included on our consolidated balance sheet, are not available to pay the claims of our creditors. In July 2003 and October 2003, in connection with obtaining necessary waivers under this facility to the late filing of our periodic reports with the SEC and the restatement of our past financial statements, we agreed to certain modifications of the terms of the facility.

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. This warehouse facility has a 364-day revolving period and will start debt amortization in May 2004 if not extended or renewed. The interest rate on the debt outstanding under this warehouse facility is 4.12%, including the effect of an interest rate swap contract in place at time of funding. In July 2003 and October 2003, in connection with obtaining necessary waivers under this facility 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 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.

We have a $215.0 million revolving credit facility with a group of commercial banks; on December 31, 2002, $175.0 million was outstanding, with an interest rate of 2.64%. This facility, which is secured by equipment on lease to customers and the related lease receivables, was renewed and amended in July 2000, at which time the term was extended until July 31, 2005. The credit limit under this facility was $215.0 million through July 31, 2003, at which time the credit limit declined to $193.5 million through July 31, 2004. The credit limit is scheduled to decline to $172.0 million from July 31, 2004 through July 31, 2005. Under our revolving credit facility and most of our other debt instruments, we are required to maintain a tangible net worth (as defined) of $125.0 million, a fixed charge coverage ratio of 1.5 to 1 and a funded debt to net worth ratio of 4.0 to 1. At December 31, 2002, we were in compliance with these requirements.

In July 2003, October 2003 and January 2004, in connection with obtaining necessary amendments under the revolving credit facility 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 the facility, to add several events of default, to increase the interest rate margin until we are in compliance with all SEC reporting requirements, and to maintain specified levels of unrestricted cash and cash equivalents until our delinquent SEC filings are made. 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 our financial advisor, FTI Consulting Inc., or to engage another acceptable financial advisor. We believe we are in compliance with the requirements of the agreement as amended.

In February 1998, we issued $100.0 million principal amount of 6-5/8% Notes due 2003 (the "6-5/8% Notes"). The net proceeds were used to repay $83.0 million in borrowings under our revolving credit agreement and for other general corporate purposes. During the fourth quarter of 1999, we retired $17.0 million of the 6-5/8% Notes and recognized a gain of $1.2 million. During the first quarter of 2000, we retired $8.2 million of the 6-5/8% Notes and recognized a gain of $.8 million. During 2001, we retired $27.2 million of the 6-5/8% Notes and recognized a gain of $.7 million. During 2002, we retired $6.4 million of the 6-5/8% Notes and recognized a gain of $.03 million. In October 2002, we commenced a tender offer for any and all of our outstanding 6-5/8% Notes, of which approximately $41.3 million principal amount was outstanding upon commencement of the tender offer. The purchase price in the tender offer was $1,000 per $1,000 principal amount of 6-5/8% Notes tendered, plus accrued and unpaid interest. The source of the consideration for the tender offer was cash on hand. The expiration date of the tender offer was November 15, 2002. As a result of this tender offer we retired $33.1 million principal amount of the 6-5/8% Notes at par. As of December 31, 2002, $8.2 million principal amount of the 6-5/8% Notes remained outstanding. On March 1, 2003 the remaining 6-5/8% Notes outstanding were paid off in accordance with terms of the agreement.

In July and August 1997, we issued $225.0 million of ten year notes, comprised of $150.0 million of 7.35% Notes due 2007 and $75.0 million of 7.20% Notes due 2007. The net proceeds from these offerings were used to repay secured indebtedness, to purchase equipment and for other investments. During the first quarter of 2000, we retired $3.0 million of the 7.35% Notes and recognized a gain of $.6 million. During 2001, we retired $2.1 million of the 7.20% Notes and recognized a gain of $.2 million. During 2002 we retired $10.1 million of the 7.20% Notes and recognized a gain of $1.1 million. As of December 31, 2002, $62.8 million and $147.0 million principal amount of the 7.20% and 7.35% Notes, respectively, remained outstanding.

In addition to the debt specifically identified above, we had additional notes and loans outstanding with various financial institutions totaling $111.7 million, as of December 31, 2002, with installments payable in varying amounts through 2009 with interest rates of approximately 2.61% to 9.95%. In the fourth quarter of 2003, we agreed to certain modifications to the provisions of some of these instruments. These modifications include in certain instances changes to the amortization schedule resulting in accelerated principal payments totaling approximately $16.6 million to be paid in 2004 and 2005, an interest rate increase on $23.8 million of debt outstanding and the pledging of additional collateral with a value of $35.7 million.

In July 2002, we commenced a registered subscription rights offering of up to $31.5 million of our 9.25% Convertible Redeemable Subordinated Debentures. The debentures were offered to holders of our common stock pursuant to the exercise of non-transferable subscription rights and were to be convertible into shares of our common stock. We had the right in our discretion to accept offers from other parties to purchase debentures not subscribed for by stockholders. On August 14, 2002, we terminated the subscription rights offering due to a delay in filing our Form 10-Q for the quarter ended June 30, 2002. We re-commenced the offering during November 2002 and accepted subscriptions for $32.1 million of debentures, which were issued in December 2002. The size of the offering was increased and we subsequently accepted $5.1 million of additional subscriptions in January and February 2003, resulting in a total of $37.2 million of debentures being issued. The debentures bear interest at an annual rate of 9.25%. They have a mandatory redemption feature upon the earlier of the occurrence of a change of control or December 27, 2022. They have an optional redemption feature after the third anniversary at a price of 100% of outstanding principal, plus accrued interest. They have a special redemption feature between December 27, 2006 and December 27, 2007, during which period we may redeem the debentures at $25.50 per debenture plus accrued interest, if the average closing price of our common stock for five consecutive trading days equals or exceeds $25.50 per share. Lastly, at any time, any holder of the debentures may convert the debentures into our common stock at a per share conversion price of $25.

In October 2000, we established a secured financing facility in the amount of $300.0 million, to fund our acquisition of assets from TA. At December 31, 2001, $97.7 million of this facility was outstanding with an interest rate of 3.94%. We repaid this facility in full in March 2002 with the proceeds from our new chassis asset-backed securitization facility completed in March 2002.

Subsequent to December 31, 2002, we have incurred additional debt obligations in connection with financing our equipment leasing activities. However, as indicated above, our financial restatement and Audit Committee and SEC investigations, as well as the delay in completing our financial statements and filing our SEC reports, have resulted in a significant reduction in our amount of new financings during 2003 as compared to prior years.

In July 2003, October 2003 and January 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 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 our delinquent SEC filings are made. 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 Form 10-K is filed. Thereafter, we agreed to maintain at least $60.0 million at all times and at least $67.5 million as of the last business day of the month until receipt of all delayed financial statements. This minimum cash requirement was also adopted in the waivers for the container securitization and one other loan agreement. The Company 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 its other financial institutions in connection with obtaining waivers. The October 2003 amendment also required the Company to provide additional financial information to the lenders under the facility and to continue the engagement of a financial advisor.

As of December 31, 2002, our commitments for capital expenditures totaled approximately $33.5 million. Our available liquidity at December 31, 2002 was $188.1 million consisting of $148.1 million of cash and marketable securities (which excludes $24.0 million of cash within the chassis securitization facility) and $40.0 million of availability under our $215.0 million revolving credit facility. Required debt repayments and capital lease payments for 2003 totaled $161.4 million for the next twelve months.

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 in appropriate markets has been sufficient to meet our working capital needs, capital expenditures and required debt repayments. Because the availability of financing to us has been limited in 2003, due to our financial restatement and the investigations by our Audit Committee's special counsel and the SEC, and the delay in completing our audited financial statements and filing our 2002 Form 10-K, we have not been able to fund all of our capital expenditure commitments, specifically our obligations to equipment manufacturers, during the second half of 2003, and we have deferred payments due to our equipment manufacturers. As described above, we are seeking to satisfy our remaining payment obligations through proceeds of one or more financings that are currently in process but have not been consummated. There can be no assurance that we will be able to consummate any of these financings and satisfy our obligations to manufacturers. We also expect to continue to rely in substantial part on long-term financing for any future 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.

Transamerica Leasing

In October 2000, we completed the acquisition of the North American Intermodal Division of Transamerica Leasing, Inc., ("TA") a subsidiary of Transamerica Finance Corporation and AEGON N.V. Under the terms of the agreement, we acquired substantially all of the domestic containers, chassis and trailers of the North American Intermodal Division and related assets and assumed most of the liabilities of the business. We paid approximately $681 million in cash for the acquisition, which included $8.4 million in fees and other costs for advisors. The acquisition was financed through a combination of cash on hand, proceeds obtained from a committed secured financing facility equal to approximately $300.0 million, as well as approximately $101.0 million of proceeds obtained from a chassis securitization facility established in July 2000. In the acquisition, we acquired approximately 70,000 chassis, 23,000 rail trailers and 18,000 domestic containers. In March 2001, we sold all rail trailers and domestic containers previously acquired in the TA transaction along with 9,000 of our existing rail trailers and domestic containers to GE

Capital for approximately $345.3 million.

Insurance Claim

In February 2001, we demanded return of all our equipment on lease to a significant customer based in South Korea. The lessee subsequently commenced insolvency proceedings and did not return our equipment. At the time of this insolvency, we maintained insurance coverage against such lessee defaults, and we submitted a claim to our insurance carriers seeking to recover the value of the receivables owed by the customer (to the extent covered by the insurance policies). Our claim includes per diem rental charges for up to one hundred and eighty days after the default date for equipment not returned by the lessee as well as loss, damage and recovery costs relating to the equipment on lease that are also billable to the lessee in accordance with the lease. We have filed an insurance claim in excess of the policy's maximum coverage of $34.6 million, net of a $.4 million deductible under the insurance policy. As of December 31, 2002, the outstanding receivable recorded from the insurance carrier is $19.6 million. The difference between the receivable recorded due from the insurance carrier and the claim submitted primarily relates to per diem revenues, repairs and maintenance and other costs billable to the lessee (and covered by the insurance contract) that are in excess of costs incurred. Upon collection of the receivable from the insurance carriers, any amounts in excess of or less than the receivable recorded would be recorded as other (income)/expense, net in the Consolidated Statements of Income. For further explanation, see Note 2 Restatement of Previously Issued Financial Statements - "Accounting for Insurance Claim" to the Consolidated Financial Statements.

We provided the supporting documentation for our claim to an adjuster appointed by the insurance underwriters. Based upon discussions with the adjuster, the analysis of the supporting documentation is complete and a report of the adjuster's findings was submitted to the underwriters in November 2002.

On December 26, 2002, our insurance underwriters commenced a declaratory judgment action against us in the United States District Court for the Southern District of New York seeking rescission of our customer default insurance coverage or, in the alternative, a declaration that the premiums paid by us for this insurance were inadequate. The insurance underwriters' primary contention is that we did not fully disclose to them all material information concerning our South Korean lessee. The underwriters also dispute the timing of our notifications to them of this loss and the amount of the loss. We have filed a response to this complaint. We intend to vigorously pursue our claim for recovery under our insurance policies and believe that we have strong claims under the policies and defenses to the arguments asserted by the insurance underwriters. Although it is impossible to give assurances as to the ultimate outcome of this proceeding in view of the uncertainties inherent in any litigation, based upon the progress of this case to date and the merits of our position, and after consultation with external counsel, we believe that the facts as they have been developed through discovery, and the applicable law, should entitle us to a recovery in the full amount of our claim. We will continue to monitor the progress and development of this litigation. As the litigation progresses, we will continue to evaluate the prospects for full recovery on our insurance claim, and reserves for the impairment of the asset values may become necessary.

Allowance for Doubtful Accounts

The allowance for doubtful accounts includes our estimate of allowances necessary for receivables on both operating and finance 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 on our accounts and notes receivable. The allowance for doubtful accounts is intended to provide for losses inherent in the accounts and notes 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. Finance leases are evaluated on a case by case basis. When evaluating our operating and finance 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 finance 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 and notes receivable,
- The equipment value supporting such finance 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 periodically reviewed 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 finance lease receivables. (See Note 4 to the Consolidated Financial Statements.)

As of December 31, 2002 and 2001, included in accounts and notes receivable are non-performing receivables of $11.1 million and $6.0 million, respectively. The Company's average non-performing receivables are $9.2 million and $4.8 million for the years ended December 31, 2002 and 2001, respectively. As of December 31, 2002 and 2001, included in the allowance for doubtful accounts are reserves for the non-performing receivables of $9.5 million and $2.8 million, respectively. As of December 31, 2002 and 2001 our non-performing receivables net of applicable reserves, were 2.54% and 5.96%, respectively, of accounts and notes receivable, net.

Other

CAI

In April 1998, we acquired a 50% common equity interest in CAI. CAI owns and leases its own fleet of containers and manages, for a fee, containers owned by third parties. We entered into an operating relationship with CAI primarily to facilitate the rental in the short-term market of containers coming off long-term 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. 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 and direct finance lease business and short-term lease business on master lease agreements. All long-term and direct finance lease business is purchased by us, except that we offer to CAI, at cost, 10% of this long-term and direct finance lease business.

In connection with the acquisition of our equity interest in CAI, we loaned CAI $33.7 million under a Subordinated Note Agreement (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 was calculated at an annual fixed rate of 10.5% 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-defaulted 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-defaulted 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 earnings (losses) of CAI for the periods from January 1, 2002 through June 26, 2002 have been recorded in "Loss for Investments Accounted for Under the Equity Method" in the accompanying Consolidated Statements of Income. For the period from June 27 through December 31, 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, 2002 have been included on the accompanying Consolidated Balance Sheets.

A total of $74.0 million was outstanding under CAI's senior revolving credit facility at December 31, 2002. Borrowings under CAI's senior credit facility are secured by substantially all CAI's assets, other than certain excluded assets, and are payable on June 27, 2005. The senior credit facility contains various financial and other covenants. At June 30, 2002, CAI would not have been in compliance with one of the financial covenants then contained in its senior credit facility as well as similar covenants under two master lease agreements relating to equipment in CAI's fleet. CAI received amendments to these covenants in September 2002 that were made retroactive to June 30, 2002. As a result, CAI was in compliance as of June 30, 2002 with all senior credit facility and lease covenants as amended and continued to be in compliance as of December 31, 2002. The senior credit facility was amended in May 2003 to increase the letter of credit commitment by the lenders' administrative agent.

In addition, CAI has entered into numerous sale-leaseback transactions with third parties pursuant to which CAI sells maritime shipping containers to such third parties and then leases the shipping containers back from such third parties. In connection with such transactions, CAI has entered into the following lease agreements:

CAI entered into a master lease agreement dated April 30, 1998, as amended, which amends and restates a prior agreement dated July 17, 1996, pursuant to which CAI currently leases shipping containers from a banking corporation. The master lease agreement has an expiration date of July 31, 2008. CAI is required to make regular payments to lessor and, as of December 31, 2002, CAI's total outstanding obligation under this lease agreement was approximately $23.2 million. CAI has the option to purchase the leased equipment on a date prior to the expiration of the initial term of the lease agreement or at the time of such expiration. In addition, upon the expiration of the initial term of the lease agreement, CAI has the right to extend the lease agreement for one year or return the leased equipment to lessor under the terms and conditions set forth in the lease agreement. This lease agreement was amended in 2002 to include certain additional negative covenants and financial covenants of CAI. The lease agreement was amended in May 2003 to provide for a rent prepayment under the lease agreement in the approximate amount of $3.75 million to the lessor.

CAI entered into a master lease agreement dated April 30, 1998, as amended, which amends and restates a prior agreement dated November 21, 1996, pursuant to which CAI currently leases shipping containers from a banking corporation. The master lease agreement has a term of ten years. CAI is required to make regular payments to lessor and, as of December 31, 2002, CAI's total outstanding obligation under this lease agreement was approximately $5.6 million. CAI has the option to purchase the leased equipment on a date prior to the expiration of the initial term of the lease agreement or at the time of such expiration. In addition, upon the expiration of the initial term of the lease agreement, CAI has the right to extend the lease agreement for one year or return the leased equipment to lessor under the terms and conditions set forth in the lease agreement. This lease agreement was amended in 2002 to include certain additional negative covenants and financial covenants of CAI.

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 $2,000 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 owned by The Ivy Group, totaling $3.1 million and $1.7 million for the years ended December 31, 2002 and 2001, 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 $500,000 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 approximately 15,000 chassis at preferred pricing over a ten-year period, of which 1,100 chassis were ordered by us during 2003. The LLC began operations during the second quarter of 2003.

Stock Repurchases

During 1999, we authorized the repurchase of up to 1,000,000 shares of our common stock from time to time through open market purchases or privately negotiated transactions. During 2002, we purchased 9,300 shares for an aggregate price of $.13 million. During the fourth quarter of 2001, we purchased 58,100 shares for an aggregate purchase price of $.9 million.

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 current management projections, we will not be considered a personal holding company for federal income tax purposes for 2002 (and possibly in subsequent years). 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 38.6% (15% for 2003 and later years). 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 Losses." These losses can be carried forward indefinitely to offset income from future leasing activities. As of December 31, 2002, such suspended passive losses totaled approximately $193.0 million.

Trac Lease. Trac Lease has approximately $15.6 million of net operating loss carry-forwards for federal income tax purposes, which may be used only to offset the income of Trac Lease and, if not utilized, will expire between 2005 and 2006. The use of substantially all these loss carry-forwards is subject to a number of limitations under federal tax laws.

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. One of the conditions for treating a foreign subsidiary as a foreign personal holding company is that a minimum of 60% of the foreign subsidiary's gross income must be foreign personal holding company income. Foreign personal holding company income does not include rental income that constitutes at least 50% of the subsidiary's gross income. Because we expect that rental income will constitute at least 50% of Interpool Limited's gross income, we do not anticipate that Interpool Limited will be deemed a foreign personal holding company.

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.

At December 31, 2002, unremitted earnings of this subsidiary were approximately $275.7 million. The deferred U.S. Federal Income taxes related to the unremitted earnings of this subsidiary would be approximately $96.5 million, assuming these earnings are taxable at the U.S. statutory rate, net of foreign tax credits.

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 "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 is entitled to the benefits of the Tax Convention for each year that more than 50% of the shares of Interpool Limited are owned, directly or indirectly, by United States citizens or residents and its income is not used in substantial part, directly or indirectly, to meet liabilities to persons who are not residents or citizens of the United States. We believe that Interpool Limited passes both of these tests and should continue to be eligible for the benefits of the Tax Convention, but there can be no assurance as to this continued eligibility. If Interpool Limited ceased to be eligible for the benefits of the Tax Convention, 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. To the extent that Interpool Limited has United States source income that is personal holding company income or is not needed in its business, Interpool Limited could be taxed on this income unless it is distributed to Interpool as a dividend. We expect that Interpool Limited would distribute this income to Interpool.

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, because such tax returns are required to be accompanied by audited financial statements for Interpool Limited, which are not available. We believe that the failure to file these returns has not resulted in any underpayment of taxes, interest or penalties (other than a nominal late filing penalty recently enacted in Barbados), because we believe that no Barbados taxes would have been due for the years for which returns have not been filed. We further believe that Interpool Limited's failure to file these returns would not present any other material risk to Interpool. Nonetheless, we intend to have the necessary Interpool Limited financial statements prepared and audited as promptly as practicable so that Interpool Limited's Barbados tax returns can be filed as required.

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 Limited and Trac Lease generally have not paid sales taxes on their 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. In the early 1990's, Itel Containers International Corp. ("Itel"), a container leasing company, challenged an attempt by the State of Tennessee to collect sales tax on Itel's proceeds from the leasing of containers delivered in Tennessee. In a ruling by the United States Supreme Court in February 1993, Itel's position was rejected and the Court upheld the right of Tennessee to impose sales tax on leasing revenues from containers delivered in Tennessee. We cannot predict the extent to which states other than Tennessee will now attempt to collect sales tax on our equipment leasing revenues based on this Supreme Court decision. Under the terms of our equipment leases, we would be entitled to pass any such sales tax on to our lessees.

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

The preparation of financial statements in conformity with generally accepted accounting principles requires management to use judgment in making estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The following accounting policies 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 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 and notes 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.

Accounting for an Insurance Claim for a Customer in Default We have sought to reduce credit risk by maintaining insurance against customer insolvency and equipment related losses. The Company ceases the recognition of lease revenues for amounts billable to the lessee after the lease default date at the time the Company determines that such amounts are not probable of collection from the lessee. In connection with the accounting for the insurance policy, the Company records 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 the Company, are considered a gain contingency. Upon collection of the receivable from the insurance carriers, any amounts in excess of or less than the receivable recorded would be recorded as other (income)/expense, net in the Consolidated Statements of Income. At December 31, 2002, the receivable due from the insurance carriers totaled approximately $19.6 million related to our claim that exceeded $34.6 million, the maximum coverage of our insurance policy. The collectibility of the claim is subject to litigation. It is impossible to give assurance as to the ultimate outcome of this proceeding in view of the uncertainties inherent in any litigation. We believe that the facts as they have been developed through discovery, and the applicable law, should entitle us to a recovery in the full amount of the claim. If we were unsuccessful in this litigation, our maximum write-off would amount to $19.6 million ($17.2 million, net of tax) or $0.63 and $0.59 in basic and diluted net income per share, respectively.

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.

United States/Barbados income tax convention We currently receive tax benefits under an income tax convention between the United States and Barbados, the jurisdiction in which our subsidiary, Interpool Limited, 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 at an approximate 3% tax rate, and not in the United States. Interpool Limited is entitled to the benefits of the tax convention for each year that more than 50% of the shares of Interpool Limited are owned, directly or indirectly, by United States citizens or residents and its income is not used in substantial part, directly or indirectly, to meet liabilities to persons who are not residents or citizens of the United States. We believe that Interpool Limited passes both of these tests and should continue to be eligible for the benefits of the tax convention, but there can be no assurance as to this continued eligibility. 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.

Recent Accounting Pronouncements

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("SFAS 146"). SFAS 146 requires that a liability for costs associated with exit or disposal activities be recognized when the liability is incurred. Existing U.S. GAAP provide for the recognition of such costs at the date of management's commitment to an exit plan. In addition, SFAS 146 requires that the liability be measured at fair value and be adjusted for changes in estimated cash flows. The provisions of the new standard are effective for exit or disposal activities initiated after December 31, 2002. It is not expected that SFAS 146 will materially affect our consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor in interim and annual financial statements about its obligations under certain guarantees it has issued. A guarantor is required to disclose (a) the nature of the guarantee, including the approximate term, how the guarantee arose, and the events and circumstances that would require the guarantor to perform under the guarantee; (b) the maximum potential amount of future payments under the guarantee; (c) the carrying amount of the liability, if any, for the guarantor's obligation under the guarantee; and (d) the nature and extent of any recourse provisions or available collateral that would enable the guarantor to recover the amounts paid under the guarantee. FIN 45 also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. Disclosure requirements are effective for financial statements with periods ending after December 15, 2002 while the initial recognition and initial measurement provisions shall be applied on a prospective basis to guarantees issued or modified after December 31, 2002. We have adopted the disclosure requirements of FIN 45 on December 31, 2002. (See Note 12 to the Consolidated Financial Statements for disclosures regarding our guarantees.) We do not expect the adoption of the recognition and measurement provision to have a material impact on our consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46, **Consolidation of Variable Interest Entities** ("FIN 46"). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements* ("ARB 51"), to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. ARB 51 requires that an enterprise's consolidated financial statements include subsidiaries in which the enterprise has a controlling financial interest. That requirement usually has been applied to subsidiaries in which an enterprise has a majority voting interest. The voting interest approach is not effective in identifying controlling financial interests in entities that are not controllable through voting interests or in which the equity investors do not bear the residual economic risk. FIN 46 explains how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether it is its primary beneficiary and therefore is required to consolidate that entity. FIN 46 also addresses the initial valuation of the assets and liabilities to be consolidated, the treatment of any gain or loss resulting from the initial measurement and disclosure requirements for the primary beneficiary. All entities with variable interests in variable interest entities created after January 31, 2003 shall apply the provisions of FIN 46 immediately. Public entities with a variable interest in a variable interest entity created before February 1, 2003 shall apply the provisions of this interpretation no later than the first interim or annual reporting period beginning after December 15, 2003. On December 24, 2003, FASB issued an Interpretation which clarified and modified FASB Interpretation No. 46. We are in the process of analyzing FIN 46, as modified. Based upon its preliminary analysis, it would appear we may be required to deconsolidate our investment in Interpool Capital Trust. As a result, Company-obligated Mandatorily Redeemable Preferred Securities in Subsidiary Grantor Trusts would be eliminated and replaced by an amount reported as debt in the Consolidated Financial Statements. Such changes are not expected to have any significant impact on our financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* ("SFAS 150"). This statement requires that certain financial instruments that, under previous guidance, issuers could account for as equity, be classified as liabilities in statements of financial position. Almost all instruments within the scope of this statement are initially measured at fair value with subsequent changes in fair value flowing through the income statement. One exception is mandatorily redeemable instruments. These instruments are initially measured at the present value of the amount to be paid at the earliest settlement date and adjusted to their redemption/settlement amount using the implicit interest rate at inception. Most of the guidance in SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. On November 7, 2003, the provisions of SFAS 150, relating to mandatorily redeemable non-controlling interest, were deferred indefinitely. It is not expected that SFAS 150 will materially affect our consolidated financial statements.

ITEM 7A. 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 borrowing transactions. We seek to minimize 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.

For 2002, a 10% change in variable interest rates would have resulted in a $1.1 million change in pretax earnings.

For further information regarding our floating and fixed rate debt, see Note 5 to the Consolidated Financial Statements.

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. Through January 31, 2002 we maintained contingent physical damage, recovery/repatriation and loss of revenue insurance, which provided 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 covered 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 covered a portion of the lease revenues 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 premium rates and deductibles for this type of insurance have increased as a result of higher claim experience by the Company and also within the industry. As a result, effective March 1, 2003, we obtained a new policy covering similar occurrences for a twelve-month period but with revised terms. The new coverage decreases the recoverable amount per occurrence to $9 million as compared to $35 million in our previous policy and increases the deductible per occurrence from $.4 million to $3 million. 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.

Allowance for Doubtful Accounts

The allowance for doubtful accounts includes our estimate of allowances necessary for receivables on both operating and finance 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 on our accounts and notes receivable. The allowance for doubtful accounts is intended to provide for losses inherent in the accounts and notes 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. Finance leases are evaluated on a case by case basis. When evaluating our operating and finance 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 finance 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 and notes receivable,
- The equipment value supporting such finance 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 periodically reviewed 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