

CAI International, Inc.
Form 10-Q
July 26, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from to

Commission file number: 001-33388

CAI International, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

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

Steuart Tower, 1 Market Plaza, Suite 900
San Francisco, California
(Address of principal executive offices)

94105
(Zip Code)

415-788-0100
(Registrant's telephone number, including area code)

None

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

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

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

Common Common Stock, \$.0001 par value per share	July 20, 2012 19,295,359 shares
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CAI INTERNATIONAL, INC.

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

This Quarterly Report on Form 10-Q contains certain forward-looking statements, including, without limitation, statements concerning the conditions in our industry, our operations, our economic performance and financial condition, including, in particular, statements relating to our business and growth strategy and service development efforts. The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for certain forward-looking statements so long as such information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. When used in this Quarterly Report on Form 10-Q, the words “may,” “might,” “should,” “estimate,” “project,” “anticipate,” “expect,” “intend,” “outlook,” “believe” and other similar expressions are intended to identify forward-looking statements and information. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. These forward-looking statements are based on estimates and assumptions by our management that, although we believe to be reasonable, are inherently uncertain and subject to a number of risks and uncertainties. These risks and uncertainties include, without limitation, those in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission (SEC) on March 8, 2012 and our other reports filed with the SEC. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law. Reference is also made to such risks and uncertainties detailed from time to time in our other filings with the SEC.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CAI INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except share information)
(UNAUDITED)

	June 30, 2012	December 31, 2011
Assets		
Current assets		
Cash	\$23,151	\$14,078
Accounts receivable (owned fleet), net of allowance for doubtful accounts of \$658 and \$819 at June 30, 2012 and December 31, 2011, respectively	25,382	26,381
Accounts receivable (managed fleet)	21,390	19,054
Current portion of direct finance leases	8,782	6,158
Prepaid expenses	7,521	7,079
Deferred tax assets	1,969	1,968
Other current assets	250	185
Total current assets	88,445	74,903
Restricted cash	1,142	599
Rental equipment, net of accumulated depreciation of \$124,666 and \$109,336 at June 30, 2012 and December 31, 2011, respectively	1,024,756	841,847
Net investment in direct finance leases	53,785	31,591
Furniture, fixtures and equipment, net of accumulated depreciation of \$1,072 and \$1,006 at June 30, 2012 and December 31, 2011, respectively	1,969	2,095
Intangible assets, net of accumulated amortization of \$6,940 and \$6,519 at June 30, 2012 and December 31, 2011, respectively	1,860	2,333
Total assets	\$1,171,957	\$953,368
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$5,554	\$3,536
Accrued expenses and other current liabilities	7,927	5,761
Due to container investors	20,105	20,113
Unearned revenue	7,606	6,786
Current portion of term loans	30,887	25,764
Current portion of capital lease obligations	2,867	3,792
Current portion of collateralized financing obligations	2,000	-
Rental equipment payable	70,667	13,301
Total current liabilities	147,613	79,053
Revolving credit facilities	255,633	261,000
Term loans	325,010	263,014
Asset backed warehouse facility	100,000	51,000
Deferred income tax liability	33,868	33,816
Capital lease obligations	5,877	16,480

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Collateralized financing obligations	24,776	-
Income taxes payable	269	269
Total liabilities	893,046	704,632
Stockholders' equity		
Common stock: par value \$.0001 per share; authorized 84,000,000 shares; issued and outstanding 19,295,359 shares at June 30, 2012 and December 31, 2011, respectively	2	2
Additional paid-in capital	128,788	128,183
Accumulated other comprehensive loss	(3,915)	(3,381)
Retained earnings	134,758	105,232
Total CAI stockholders' equity	259,633	230,036
Non-controlling interest	19,278	18,700
Total stockholders' equity	278,911	248,736
Total liabilities and stockholders' equity	\$1,171,957	\$953,368

See accompanying notes to unaudited consolidated financial statements.

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CAI INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(UNAUDITED)

	Three Months Ended June		Six Months Ended June	
	2012	30, 2011	2012	30, 2011
Revenue				
Rental revenue	\$35,101	\$24,711	\$67,588	\$47,096
Management fee revenue	3,006	3,275	7,207	6,790
Gain on sale of container portfolios	-	253	1,256	1,663
Finance lease income	1,618	520	3,081	952
Total revenue	39,725	28,759	79,132	56,501
Operating expenses				
Depreciation of rental equipment	11,053	7,441	21,711	14,182
Amortization of intangible assets	225	343	452	686
Gain on disposition of used rental equipment	(3,225)	(2,785)	(6,320)	(6,400)
Storage, handling and other expenses	1,762	1,360	3,768	2,455
Marketing, general and administrative expenses	5,812	5,517	12,335	10,119
(Gain) loss on foreign exchange	(264)	(37)	(68)	23
Total operating expenses	15,363	11,839	31,878	21,065
Operating income	24,362	16,920	47,254	35,436
Interest expense	6,320	3,529	12,256	6,503
Interest income	(2)	(1)	(7)	(4)
Net interest expense	6,318	3,528	12,249	6,499
Net income before income taxes and non-controlling interest	18,044	13,392	35,005	28,937
Income tax expense	2,396	2,301	4,901	4,851
Net income	15,648	11,091	30,104	24,086
Net income attributable to non-controlling interest	(513)	(211)	(578)	(410)
Net income attributable to CAI common stockholders	\$15,135	\$10,880	\$29,526	\$23,676
Net income per share attributable to CAI common stockholders				
Basic	\$0.78	\$0.56	\$1.53	\$1.23
Diluted	\$0.77	\$0.55	\$1.50	\$1.20
Weighted average shares outstanding				
Basic	19,295	19,295	19,295	19,295
Diluted	19,719	19,798	19,712	19,779

See accompanying notes to unaudited consolidated financial statements.

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CAI INTERNATIONAL, INC.
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (In thousands)
 (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$15,648	\$11,091	\$30,104	\$24,086
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(1,311)	460	(534)	1,730
Comprehensive income	14,337	11,551	29,570	25,816
Comprehensive income attributable to non-controlling interest	(513)	(211)	(578)	(410)
Comprehensive income attributable to CAI common stockholders	\$13,824	\$11,340	\$28,992	\$25,406

See accompanying notes to unaudited consolidated financial statements.

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CAI INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(UNAUDITED)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities		
Net income	\$30,104	\$24,086
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	21,943	14,407
Amortization of debt issuance costs	1,216	621
Amortization of intangible assets	452	686
Stock-based compensation expense	604	572
Loss (gain) on foreign exchange	263	(95)
Gain on sale of container portfolios	(1,256)	(1,663)
Gain on disposition of used rental equipment	(6,320)	(6,400)
Deferred income taxes	51	480
Bad debt expense (recovery)	85	(1,044)
Changes in other operating assets and liabilities:		
Accounts receivable	(1,679)	2,031
Prepaid expenses and other assets	(207)	(1,306)
Accounts payable, accrued expenses and other current liabilities	4,080	(890)
Due to container investors	(8)	849
Unearned revenue	844	(7)
Net cash provided by operating activities	50,172	32,327
Cash flows from investing activities		
Purchase of rental equipment	(195,784)	(261,258)
Net proceeds from sale of container portfolios	10,320	12,642
Net proceeds from disposition of used rental equipment	16,449	15,627
Purchase of furniture, fixtures and equipment	(107)	(65)
Receipt of principal payments from direct financing leases	3,879	3,010
Net cash used in investing activities	(165,243)	(230,044)
Cash flows from financing activities		
Stock issuance costs	-	(132)
Proceeds from bank debt	299,458	221,800
Proceeds from collateralized financing obligations	17,235	-
Principal payments on bank debt	(188,707)	(24,600)
Principal payments on collateralized financing obligations	(436)	-
Principal payments on capital leases	(1,348)	(2,661)
Debt issuance costs	(1,517)	(456)
Increase in restricted cash	(543)	-
Net cash provided by financing activities	124,142	193,951
Effect on cash of foreign currency translation	2	437
Net increase (decrease) in cash	9,073	(3,329)
Cash at beginning of the period	14,078	14,393
Cash at end of the period	\$23,151	\$11,064

Supplemental disclosure of cash flow information

Cash paid during the period for:

Income taxes	\$1,912	\$3,353
Interest	10,254	5,112
Supplemental disclosure of non-cash investing and financing activity		
Transfer of container rental equipment to direct finance lease	28,720	5,510
Payment of revolving credit facility from term loan	20,000	-

See accompanying notes to unaudited consolidated financial statements.

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CAI INTERNATIONAL, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) The Company and Nature of Operations

Organization

CAI International, Inc. (CAI or the Company) operates primarily in the international intermodal marine cargo container leasing business. The Company also owns a fleet of railcars, which it leases in North America. The Company generates revenue from two reportable segments: equipment leasing and container management. The equipment leasing segment specializes primarily in the ownership and leasing of intermodal containers, while the container management segment manages containers for container investors. The Company leases its containers principally to international container shipping lines located throughout the world. The Company sells containers primarily to investor groups and provides management services to those investors in return for a management fee.

The Company's common stock is traded on the New York Stock Exchange under the symbol "CAP". The Company's corporate headquarters are located in San Francisco, California.

Basis of Presentation

The accompanying unaudited consolidated financial statements include the financial statements of the Company and its subsidiaries. All intercompany transactions have been eliminated in consolidation.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the Company's financial position as of June 30, 2012 and December 31, 2011, the Company's results of operations for the three and six months ended June 30, 2012 and 2011 and the Company's cash flows for the six months ended June 30, 2012 and 2011. The results of operations and cash flows for the periods presented are not necessarily indicative of the results of operations or cash flows which may be reported for the remainder of 2012 or in any future period. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The accompanying unaudited interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2011, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on March 8, 2012.

(2) Accounting Policies and Recent Accounting Pronouncements

(a) Accounting Policies

The Company depreciates its rental equipment over their estimated useful life to their estimated fixed residual value using the straight line method of depreciation. During the three months ended March 31, 2012, the Company completed a review of historical disposal experience relating to its fleet of container equipment and concluded that the estimated residual values and depreciable lives used in its depreciation calculations should be amended effective January 1, 2012. The following table shows the current and prior residual values and depreciable lives that the Company adopted for each type of equipment:

Residual Value		Depreciable Life in Years	
Current	Prior	Current	Prior

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20-ft. standard dry van container	\$	1,050	\$	950	13.0	12.5
40-ft. standard dry van container	\$	1,300	\$	1,150	13.0	12.5
40-ft. high cube dry van container	\$	1,650	\$	1,300	13.0	12.5
20-ft. refrigerated container	\$	2,750	\$	2,250	12.0	12.0
40-ft. high cube refrigerated container	\$	3,500	\$	3,000	12.0	12.0

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CAI INTERNATIONAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The residual values, which range from \$1,000 to \$3,500, and the depreciable life of 12.5 years for other specialized containers remain unchanged.

The above changes reduced the Company's depreciation expense and increased pre-tax income by approximately \$1.9 million and \$3.6 million, increased net income by approximately \$1.7 million and \$3.1 million, and increased diluted earnings per share by \$0.09 and \$0.16 for the three and six months ended June 30, 2012, respectively.

The Company purchased railcars during the three months ended June 30, 2012. Railcar equipment is depreciated over its estimated useful life of between 40 and 43 years, to its estimated residual value using the straight-line method.

There were no other changes to the Company's accounting policies during the six months ended June 30, 2012. See Note 2 to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on March 8, 2012.

(b) Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued guidance to increase the prominence of other comprehensive income in financial statements. Under this guidance, an entity has the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. The option to present other comprehensive income in the statement of changes in equity has been eliminated. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The implementation of the accounting guidance did not have a material effect on the Company's consolidated financial statements.

(3) Consolidation of Variable Interest Entities as a Non-Controlling Interest

The Company regularly performs a review of its container fund arrangements with investors to determine whether a fund is a variable interest entity (VIE) and whether the Company has a variable interest that provides it with a controlling financial interest and is the primary beneficiary of the VIE in accordance with ASC 810, Consolidation. If the fund is determined to be a VIE, a further analysis is performed to determine if the Company is a primary beneficiary of the VIE and meets both of the following criteria under Paragraph 14A of ASC 810:

It has power to direct the activities of a VIE that most significantly impact the entity's economic performance; and

It has the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

If in the Company's judgment both of the above criteria are met, the VIE's financial statements are included in the Company's consolidated financial statements as required under ASC 810. The equity attributable to the VIE is shown as a non-controlling interest on the Company's consolidated balance sheet and the after tax result attributable to its operations is shown as a net income or loss attributable to non-controlling interest on the Company's consolidated statement of income.

The Company currently enters into two types of container fund arrangements with investors which are reviewed for under ASC 810. These arrangements include container funds that the Company manages for investors and container funds that the Company has entered into financing arrangements with investors. Included among several of the funds

that the Company manages, and all of the funds under financing arrangements, are Japanese container funds that were established by a related party under separate investment agreements allowed under Japanese commercial laws (see Note 11). Each of the funds is financed by unrelated Japanese third party investors.

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CAI INTERNATIONAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Managed Container Funds

All container funds under management by the Company are considered VIEs because as manager of the funds, the Company has the power to direct the activities that most significantly impact the entity's economic performance including the leasing and managing the containers owned by the funds. With the exception of two specific Japanese funds established in September 2010, the fees earned for arranging, managing and establishing the funds are not significant to the expected returns of the funds so the Company does not have a variable interest in the funds. The rights to receive benefits and obligations to absorb losses that could potentially be significant to the funds belong to the third party investors, so the Company concluded that it is not the primary beneficiary of the funds. With the exception of the sale of containers to the two Japanese funds established in September 2010, the Company recognizes gain on sale of containers to the unconsolidated VIEs as sales in the ordinary course of the business. No containers were sold to the Japanese VIEs during the three months ended June 30, 2012. For the six months ended June 30, 2012 the Company sold \$10.3 million of container portfolios to the Japanese VIEs and recognized gains of \$1.3 million. For the three and six months ended June 30, 2011, the Company sold \$4.3 million and \$12.6 million, respectively, of container portfolios and recognized gains on sale of \$0.3 million and \$1.7 million, respectively.

In September 2010, the Company transferred approximately \$16.0 million of containers to two specific Japanese funds that are considered VIEs. The terms of the transaction included options for the Company to purchase the containers from the funds at a fixed price. As a result of the residual interest resulting from the fixed price call option, the Company concluded that it may absorb a significant amount of the variability associated with the funds' anticipated economic performance and as a result the Company has a variable interest in the funds. As the Company has the power to direct the activities that most significantly impact the economic performance of the VIEs and the variable interest provides the Company with the right to receive benefits from the entity that could potentially be significant to the funds, the Company determined that it is the primary beneficiary of these two specific VIEs and included the VIEs' assets and liabilities as of June 30, 2012 and December 31, 2011, the results of the VIEs' operations for the three and six months ended June 30, 2012 and 2011, and the cash flows of the VIEs for the six months ended June 30, 2012 and 2011 in the Company's consolidated financial statements.

The containers transferred to the two consolidated Japanese VIEs had a net book value of \$13.6 million as of June 30, 2012. The container equipment, along with \$3.3 million of cash held by these container funds and \$1.6 million of net investment in direct finance leases, have been included on the Company's consolidated balance sheet with the offsetting equity related to the funds presented separately as non-controlling interest of \$19.3 million in the equity section of the Company's consolidated balance sheet as of June 30, 2012. No gain or loss was recognized upon the initial consolidation of the VIEs in September 2010. The net income of \$0.5 million and \$0.2 million for the three months ended June 30, 2012 and 2011, respectively, and \$0.6 million and \$0.4 million for the six months ended June 30, 2012 and 2011, respectively, attributable to the two Japanese funds is presented as net income attributable to non-controlling interest in the Company's consolidated statements of income for the three and six months ended June 30, 2012 and 2011.

Collateralized Financing Obligations

In November 2011 and June 2012 the Company transferred two container portfolios for \$10.0 million and one container portfolio for \$17.2 million, respectively, to Japanese investor funds while concurrently entering into lease agreements for the same containers, under which the Company will lease the containers back from the Japanese investors. In accordance with ASC 840, Sale-Leaseback Transactions, the Company concluded these were financing transactions under which sale-leaseback accounting was not applicable.

The container funds under financing arrangements are considered VIEs under ASC 810 because as lessee of the funds, the Company has the power to direct the activities that most significantly impact the entity's economic performance including the leasing and managing the containers owned by the funds. The terms of the transactions include options for the Company to purchase the containers from the funds at a fixed price. As a result of the residual interest resulting from the fixed price call option, the Company concluded that it may absorb a significant amount of the variability associated with the funds' anticipated economic performance and as a result the Company has a variable interest in the funds. As the Company has the power to direct the activities that most significantly impact the economic performance of the VIEs and the variable interest provides the Company with the right to receive benefits from the entity that could potentially be significant to the funds, the Company determined that it is the primary beneficiary of these VIEs and included the VIEs' assets and liabilities as of June 30, 2012 and December 31, 2011 and the cash flows of the VIEs for the six months ended June 30, 2012 in the Company's consolidated financial statements.

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CAI INTERNATIONAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The containers transferred to the consolidated VIEs under financing arrangements had a net book value of \$26.2 million as of June 30, 2012. The container equipment has been included on the Company's consolidated balance sheet with the offsetting debt related to the funds presented separately as collateralized financing obligations of \$26.8 million in the debt section of the Company's consolidated balance sheet as of June 30, 2012. No gain or loss was recognized upon the initial consolidation of the VIEs in November 2011 or June 2012. As of December 31, 2011, the debt related to the collateralized financing obligations was included in capital lease obligations in the accompanying balance sheet.

(4) Net Investment in Direct Finance Leases

The following table represents the components of the Company's net investment in finance leases (in thousands):

	June 30, 2012	December 31, 2011
Gross finance lease receivables (1)	\$ 83,948	\$ 52,673
Unearned income (2)	(21,381)	(14,924)
Net investment in finance leases	\$ 62,567	\$ 37,749

(1) At the inception of the lease, the Company records the total minimum lease payments, executory costs, if any, and unguaranteed residual value as gross finance lease receivables. The gross finance lease receivable is reduced as customer payments are received. Approximately \$7.7 million and \$6.3 million of unguaranteed residual value at June 30, 2012 and December 31, 2011, respectively, were included in gross finance lease receivables. There were no executory costs included in gross finance lease receivables as of June 30, 2012 and December 31, 2011.

(2) The difference between the gross finance lease receivable and the cost of the equipment or carrying amount at the lease inception is recorded as unearned income. Unearned income together with initial direct costs, are amortized to income over the lease term so as to produce a constant periodic rate of return. There were no unamortized initial direct costs as of June 30, 2012 and December 31, 2011.

In order to estimate the allowance for losses contained in the gross finance lease receivables, the Company reviews the credit worthiness of its customers on an ongoing basis. The review includes monitoring credit quality indicators, the aging of customer receivables and general economic conditions.

The categories of gross finance lease receivables based on the Company's internal customer credit ratings can be described as follows:

Tier 1— These customers are typically large international shipping lines that have been in business for many years and have world-class operating capabilities and significant financial resources. In most cases, the Company has had a long commercial relationship with these customers and currently maintains regular communication with them at several levels of management, which provides the Company with insight into the customer's current operating and financial performance. In the Company's view, these customers have the greatest ability to withstand cyclical down turns and would likely have greater access to needed capital than lower-rated customers. The Company views the risk of default for Tier 1 customers to range from minimal to modest.

Tier 2— These customers are typically either smaller shipping lines or freight forwarders with less operating scale or with a high degree of financial leverage, and accordingly the Company views these customers as subject to higher volatility in financial performance over the business cycle. The Company generally expects these customers to have less access to capital markets or other sources of financing during cyclical down turns. The Company views the risk of default for Tier 2 customers as moderate.

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CAI INTERNATIONAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Tier 3— Customers in this category exhibit volatility in payments on a regular basis. The Company has initiated or implemented plans to recover equipment on lease to these customers and believes that default is likely, or has already occurred.

Based on the above categories, the Company's gross finance lease receivables were as follows (in thousands):

	June 30, 2012	December 31, 2011
Tier 1	\$ 63,636	\$ 31,017
Tier 2	20,312	21,656
Tier 3	—	—
	\$ 83,948	\$ 52,673

During the first quarter of 2012, the company revised its criteria for categorizing gross finance lease receivables as Tier 1, Tier 2 and Tier 3 to better reflect its assessment of customer credit quality. The change did not have an effect on the Company's financial statements. The Company has conformed its presentation of gross finance lease receivables as of December 31, 2011 with the revised criteria for assessing customer credit quality.

Contractual maturities of the Company's gross finance lease receivables subsequent to June 30, 2012 are as follows (in thousands):

2012	\$ 14,504
2013	12,476
2014	15,722
2015	11,014
2016	10,342
2017 and thereafter	19,890
	\$ 83,948

(5) Intangible Assets

The Company amortizes intangible assets on a straight line basis over their estimated useful lives as follows:

Trademarks	1-10 years
Contracts – third party	7 years
Contracts – owned equipment	5-7 years

Total amortization expense was \$0.2 million and \$0.3 million for the three months ended June 30, 2012 and 2011, respectively, and \$0.5 million and \$0.7 million for the six months ended June 30, 2012 and 2011, respectively.

Intangible assets as of June 30, 2012 and December 31, 2011 were as follows (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
June 30, 2012			

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Trademarks	\$	1,277	\$	(766)	\$	511
Contracts – third party		3,650		(2,998)		652
Contracts – owned equipment		3,873		(3,176)		697
Total intangible assets	\$	8,800	\$	(6,940)	\$	1,860

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CAI INTERNATIONAL, INC.
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2011	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks	\$ 1,278	\$ (702)	\$ 576
Contracts – third party	3,650	(2,738)	912
Contracts – owned equipment	3,924	(3,079)	845
Total intangible assets	\$ 8,852	\$ (6,519)	\$ 2,333

(6) Debt

The Company's term loans, asset backed warehouse facility and capital lease obligations are secured by specific pools of containers owned by the Company, the underlying leases thereon and the Company's interest in any money received under such contracts.

(a) Revolving Credit Facilities

Revolving credit facilities consist of the following:

(i) The Company has a revolving line of credit agreement with a consortium of banks to finance the acquisition of assets and for general working capital purposes. As of June 30, 2012, the maximum credit commitment under the revolving line of credit was \$465.0 million.

The Company's revolving credit facility may be increased up to a maximum of \$475.0 million under certain conditions described in the agreement governing the facility. In addition, there is a commitment fee on the unused amount of the total commitment, payable quarterly in arrears. The agreement provides that swing line loans (short-term borrowings of up to \$10.0 million in the aggregate that are payable within 10 business days or at maturity date, whichever comes earlier) and standby letters of credit (up to \$15.0 million in the aggregate) will be available to the Company. These credit commitments are part of, and not in addition to, the total commitment provided under the agreement. The interest rates vary depending upon whether the loans are characterized as Base Rate loans or Eurodollar rate loans, as defined in the revolving credit agreement. As of June 30, 2012, the average interest rate under the amended agreement was 3.0%. The agreement governing the Company's revolving credit facility contains various financial and other covenants. It also includes certain restrictions on the Company's ability to incur other indebtedness or pay dividends to stockholders. As of June 30, 2012, the Company was in compliance with the terms of the revolving credit facility.

As of June 30, 2012, the outstanding balance under the Company's revolving credit facility was \$223.0 million. As of June 30, 2012, the Company had \$241.9 million in availability under the revolving credit facility (net of \$0.1 million in letters of credit) subject to its ability to meet the collateral requirements under the agreement governing the facility. The entire amount of the facility drawn at any time plus accrued interest and fees is callable on demand in the event of certain specified events of default.

The agreement under the Company's revolving credit facility will terminate on September 25, 2014.

The Company's revolving credit facility, including any amounts drawn on the facility, is secured by substantially all of the assets of the Company (not otherwise used as security for its other credit facilities) including the containers owned by the Company, the underlying leases thereon and the Company's interest in any money received under such

contracts.

(ii) On June 7, 2012, CAI and CAI Rail Inc. (CAI Rail), a wholly-owned subsidiary of the Company, entered into a revolving credit agreement with a consortium of banks to finance the acquisition of railcars. As of June 30, 2012, the maximum credit commitment under the revolving line of credit was \$85.0 million.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Borrowings under the credit facility bear interest at a variable rate. The interest rates vary depending upon whether the loans are characterized as Base Rate loans or Eurodollar rate loans, as defined in the revolving credit agreement. For domestic base rate loans, the interest rate is equal to the highest of (i) the daily federal funds open rate as published by the Federal Reserve Bank of New York and (ii) the administrative agent's published "Reference Rate", in each case plus a margin ranging from 0.5% to 1.25% based on certain conditions. For Eurodollar rate loans, the interest rate is equal to a LIBOR-based rate plus a margin ranging from 1.50% to 2.25% based on certain conditions. As of June 30, 2012, the average interest rate under the agreement was 2.7%.

The agreement governing CAI Rail's revolving credit facility contains various financial and other covenants. As of June 30, 2012, the Company was in compliance with the terms of the revolving credit facility.

As of June 30, 2012, the outstanding balance under CAI Rail's revolving credit facility was \$32.6 million. As of June 30, 2012, CAI Rail had \$52.4 million in availability under the revolving credit facility, subject to its ability to meet the collateral requirements under the agreement governing the facility. The entire amount of the facility drawn at any time plus accrued interest and fees is callable on demand in the event of certain specified events of default.

The agreement under CAI Rail's revolving credit facility will terminate on June 7, 2015.

CAI Rail's revolving credit facility, including any amounts drawn on the facility, is secured by all of the assets of CAI Rail and is guaranteed by the Company.

(b) Term Loans

Term loans consist of the following:

(i) On August 20, 2009, the Company signed a \$10.0 million five-year loan agreement with the Development Bank of Japan (DBJ). The loan is payable in 19 quarterly installments of \$0.2 million starting October 31, 2009 and a final payment of \$6.2 million on July 31, 2014. The loan bears a variable interest rate based on LIBOR and is secured by container rental equipment owned by the Company. The loan had a balance of \$7.8 million and an interest rate of 2.9% as of June 30, 2012. The agreement governing the Company's term loan contains various financial and other covenants. As of June 30, 2012, the Company was in compliance with the terms of the term loan.

(ii) On December 20, 2010, the Company entered into a term loan agreement with a consortium of banks. Under this loan agreement, the Company was eligible to borrow up to \$300.0 million, subject to certain borrowing conditions, which amount is secured by certain assets of the Company's wholly-owned foreign subsidiaries. The loan agreement is an amortizing facility with a term of six years. Quarterly payments of principal for the \$185.0 million initially borrowed are \$3.7 million each (i.e. 2.0% of the drawn amount) for the first 23 quarterly payment dates with a final payment of \$99.9 million (54.0% of the drawn amount) due on December 20, 2016. The quarterly payments of principal on the additional draw downs (each determined separately) are an amount equal to the product of (x) the quotient obtained by dividing 46.0% by the number of remaining scheduled principal payment dates as of the drawdown date and (y) the initial principal balance of such term loan, with a final payment due on December 20, 2016 of 54.0% of the initial principal balance of such term loan. The interest rates vary depending upon whether the loans are characterized as Base Rate loans or Eurodollar rate loans, as defined in the term loan agreement. The loan bears a variable interest rate based on LIBOR for Eurodollar loans, and Base Rate for base rate loans. The Base Rate is defined as the highest of (i) the federal funds rate plus 1/2 of 1.0%, (ii) the prime rate (as published in The Wall Street Journal), and (iii) the Eurodollar rate (for three-month loans) plus 1.0%. The proceeds from this borrowing were used

to pay down part of the Company's borrowings under the revolving credit facility. As of June 30, 2012, the loan had a balance of \$268.1 million, of which \$25.0 million is repayable within one year, and an average interest rate of 3.5%. The loan agreement contains various financial and other covenants. As of June 30, 2012, the Company was in compliance with all the covenants under the loan agreement.

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CAI INTERNATIONAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(7) Stock-Based Compensation Plan

The following table summarizes the activity in the Company's stock option plan for the six-months ended June 30, 2012 and 2011:

	Six Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding at January 1	1,192,680	\$ 12.89	972,680	\$ 10.32
Options granted - employees	111,000	\$ 17.77	180,000	\$ 24.82
Options granted - directors	40,000	\$ 17.77	40,000	\$ 21.62
Options outstanding at June 30	1,343,680	\$ 13.44	1,192,680	\$ 12.89
Options exercisable	952,055	\$ 12.15	735,180	\$ 11.69
Weighted average remaining term	6.2 years		7.6 years	

Stock options granted to employees have a vesting period of four years from grant date, with 25% vesting after one year, and 1/48th vesting each month thereafter until fully vested. Stock options granted to independent directors vest in one year. The estimated fair value of stock options granted to employees during the six months ended June 30, 2012 and 2011 was \$0.9 million, or \$8.46 per option share, and \$2.2 million, or \$12.44 per option share, respectively. The options granted to the independent directors during the six months ended June 30, 2012 and 2011 were valued at \$0.3 million, or \$8.09 per option share, and \$0.4 million, or \$10.22 per option share, respectively.

The fair value of the stock options granted to the Company's employees and independent directors was estimated using the Black-Scholes-Merton pricing model using the following weighted average assumption:

	Six Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Stock price	\$17.77	\$24.24		
Exercise price	\$17.77	\$24.24		
Expected term:				
Employees	6.25 years	6.25 years		
Directors	5.5 years	5.5 years		
Expected volatility:				
Employees	49.5	% 50.2	%	%
Directors	50.2	% 50.8	%	%
Dividend yield	0	% 0	%	%
Risk free rate	0.75	% 1.89	%	%

As the Company has insufficient historical data, the expected option term is calculated using the simplified method in accordance with SEC guidance. In the absence of sufficient historical data, 50% of the assumed volatility factor used in the calculation was derived from the average volatility of common shares for similar companies over a period approximating the expected term of the options. The remaining 50% of the assumed volatility factor was derived from

the average volatility of the Company's common shares since their initial public offering in 2007. The risk-free rate is based on daily U.S. Treasury yield curve with a term approximating the expected term of the option. No forfeiture was estimated on all options granted during the six months ended June 30, 2012 and 2011 as management believes that none of the grantees will leave the Company within the option vesting period.

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CAI INTERNATIONAL, INC.
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The Company recorded stock-based compensation expense of \$0.3 million for each of the three months ended June 30, 2012 and 2011, and \$0.6 million for each of the six months ended June 30, 2012 and 2011. As of June 30, 2012, the remaining unamortized stock-based compensation cost relating to stock options granted to the Company's employees was approximately \$2.7 million which is to be recognized over the remaining weighted average vesting period of approximately 3.1 years. Unamortized stock-based compensation cost relating to independent directors' options as of June 30, 2012 was approximately \$0.3 million which is to be recognized over a remaining weighted average vesting period of approximately 11 months. The aggregate intrinsic value of all options outstanding as of June 30, 2012 was \$9.6 million based on the closing price of the Company's common stock of \$19.88 per share.

Stock-based compensation expense is recorded as a component of marketing, general and administrative expense in the Company's consolidated statements of income.

(8) Income Taxes

The consolidated income tax expense for the three and six months ended June 30, 2012 and 2011 was determined based upon estimates of the Company's consolidated effective income tax rates for the years ending December 31, 2012 and 2011, respectively. The difference between the consolidated effective income tax rate and the U.S. federal statutory rate is primarily attributable to state income taxes, foreign income taxes and the effect of certain permanent differences.

The Company's effective tax rates for the three and six months ended June 30, 2012 were 13.3% and 14.0%, respectively, compared to 17.2% and 16.8%, for the three and six months ended June 30, 2011, respectively. Movements in the effective tax rates are due primarily to changes in the proportion of the Company's U.S. and overseas earnings.

The Company recognizes in the financial statements a liability for tax uncertainty if it is more likely than not that the position will not be sustained on audit, based on the technical merits of the position. As of June 30, 2012, the Company had unrecognized tax benefits of \$0.3 million, which if recognized, would reduce the Company's effective tax rate. Total accrued interest relating to unrecognized tax benefits was less than \$0.1 million as of June 30, 2012. The Company does not believe the total amount of unrecognized tax benefits as of June 30, 2012 will increase or decrease significantly for the remainder of 2012.

In June 2012, we received notification from the IRS that the 2008 and 2009 U.S. tax returns have been selected for examination.

(9) Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash, accounts receivable and accounts payable approximate fair value because of the immediate or short-term maturity of these financial instruments. The Company's capital lease obligations of \$8.7 million as of June 30, 2012 were estimated to have a fair value of approximately \$8.4 million, based on the fair value of estimated future payments calculated using the prevailing interest rates. The fair value of the Company's capital lease obligations would be categorized as Level 3 of the fair value hierarchy. Management believes that the balances of the Company's revolving credit facility of \$255.6 million, term loans totaling \$355.9 million, asset-backed secured warehouse facility of \$100.0 million, lease financing obligation of \$26.8 million and net investment in direct finance leases of \$62.6 million approximate their fair values as of June 30, 2012. The fair value of these financial instruments would be categorized as Level 3 of the fair value hierarchy.

(10)

Commitments and Contingencies

In addition to its debt obligations described in Note 6 above, the Company had commitments to purchase approximately \$100.7 million of container equipment as of June 30, 2012. The Company also utilizes certain office facilities and equipment under long-term non-cancellable operating lease agreements with total future minimum lease payments of approximately \$6.1 million as of June 30, 2012.

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CAI INTERNATIONAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(11) Related Party Transactions

The Company has transferred legal ownership of certain containers to Japanese container funds which were established by Japan Investment Adviser Co., Ltd. (JIA) and CAIJ, Inc. (CAIJ). CAIJ is an 80%-owned subsidiary of CAI with the remaining 20% owned by JIA. JIA is owned and controlled by a Managing Director of CAIJ. Prior to the transfer of containers from the Company, the container funds received contributions from unrelated Japanese investors, under separate Japanese investment agreements allowed under Japanese commercial laws. The contributions were used to purchase container equipment from the Company. Under the terms of the agreements, the CAI-related Japanese entities manage the activities of certain Japanese entities but may outsource the whole or part of each operation to a third party. Pursuant to its services agreement with investors, the Japanese container funds have outsourced the general management of their operations to CAIJ. The Japanese container funds have also entered into equipment management service agreements and financing arrangements whereby the Company manages the activities including the leasing and managing of containers owned by the Japanese container funds.

As described in Note 3, the Japanese managed container funds and financing arrangements are considered VIEs. However, with the exception of the two specific Japanese funds and the financing arrangements described in Note 3, the Company does not consider its interest in the managed Japanese container funds to be a variable interest. As such, the Company did not consolidate the assets and liabilities, results of operations or cash flows in its consolidated financial statements. The sale of containers to the unconsolidated Japanese VIEs has been recorded on the Company's books as a sale in the ordinary course of the business.

As described in Note 3, the Company has included in its consolidated financial statements, the assets and liabilities, results of operations, and cash flows of two specific Japanese container funds that it manages and the financing arrangements, in accordance with ASC 810.

(12) Segment Information

The Company operates in one industry segment, equipment leasing, but has two reportable business segments: equipment leasing and container management. The equipment leasing segment derives its revenue primarily from the ownership and leasing of containers to container shipping lines and freight forwarders. The container management segment derives its revenue from management fees earned from portfolios of containers and associated leases which are managed on behalf of container investors. The Company also derives revenue from the sale of containers to container investors who in turn enter into management agreements with the Company. There are no inter-segment revenues.

With the exception of amortization of intangible assets and marketing, general and administrative expenses (MG&A), operating expenses are directly attributable to the equipment leasing segment. Amortization of intangible assets relating to owned and third party contracts is charged directly to the equipment leasing segment and container management segment, respectively. The amortization of remaining intangible assets relating to the trademark is allocated to the segments based on the average number of twenty-foot equivalent units (TEUs) of containers in each segment during the year.

MG&A expenses are allocated to each segment based on either revenue or the number of TEUs in each segment, depending on the function of the department which incurred the expense, after directly assigning MG&A expenses relating to CAI Consent Sweden AB (Consent) and CAI Rail to the equipment leasing segment and MG&A expenses relating to CAIJ to the container management segment.

The Company does not allocate interest income and income tax expense/benefit to its segments.

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CAI INTERNATIONAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Total assets of the container management segment consist of managed accounts receivable, the net carrying value of the intangible asset relating to third party contracts and a portion of the intangible asset relating to trademarks (determined based on the percentage of average TEUs of managed containers to total average TEUs). The remaining balance of total assets is allocated to the equipment leasing business.

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CAI INTERNATIONAL, INC.
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The following tables show condensed segment information for the Company's equipment leasing and container management segments for the three and six months ended June 30, 2012 and 2011, reconciled to the Company's net income before income taxes and non-controlling interest as shown in its consolidated statements of income for such periods (in thousands):

	Three Months Ended June 30, 2012			
	Equipment Leasing	Container Management	Unallocated	Total
Total revenue	\$ 36,719	\$ 3,006	\$ -	\$ 39,725
Operating expenses	13,394	1,969	-	15,363
Operating income	23,325	1,037	-	24,362
Net interest expense	6,320	-	(2)	6,318
Net income before income taxes and non-controlling interest	\$ 17,005	\$ 1,037	\$ 2	\$ 18,044
Total assets	\$ 1,149,676	\$ 22,281	\$ -	\$ 1,171,957

	Three Months Ended June 30, 2011			
	Equipment Leasing	Container Management	Unallocated	Total
Total revenue	\$ 25,231	\$ 3,528	\$ -	\$ 28,759
Operating expenses	9,487	2,352	-	11,839
Operating income	15,744	1,176	-	16,920
Net interest expense	3,529	-	(1)	