

INTERPOOL INC
Form 10-Q
November 12, 2004

**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, 2004

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 1-11862

INTERPOOL, INC.

(Exact name of registrant as specified in the charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3467669
(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)

Indicate by check 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 requirement for the past 90 days. Yes No

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

As of October 25, 2004, there were 27,378,846 shares of common stock, \$.001 par value outstanding.

INTERPOOL, INC. AND SUBSIDIARIES

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**PART I - FINANCIAL INFORMATION
INTERPOOL, INC. AND SUBSIDIARIES**

ITEM 1: FINANCIAL STATEMENTS

The Condensed Consolidated Financial Statements as of June 30, 2004 (unaudited) and December 31, 2003 and for the three and six months ended June 30, 2004 (unaudited) and 2003 (unaudited) (the Condensed Consolidated Financial Statements) of Interpool, Inc. and Subsidiaries (the Company or the Registrant) included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements

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prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although the Registrant believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these Condensed Consolidated Financial Statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's December 31, 2003 Annual Report on Form 10-K (the 2003 Form 10-K). These Condensed Consolidated Financial Statements reflect, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the results for the interim periods. The results of operations for such interim periods are not necessarily indicative of the results for the full year.

As discussed in the Company's 2003 Form 10-K, the Company has restated its financial statements for the first three quarters of 2003. The Company concluded that this restatement was necessary while preparing for its 2003 annual audit in July 2004. For further information regarding this restatement, see Note 2 to the Condensed Consolidated Financial Statements. All financial information for the three and six months ended June 30, 2003 included in this Quarterly Report on Form 10-Q gives effect to the restatement.

As a result of adopting SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*, the Company is required in 2004 to classify its outstanding Preferred Capital Securities issued in 1997 within the debt section on the face of the Condensed Consolidated Balance Sheet. Previously, these instruments were classified separately with the caption Company-Obligated Mandatorily Redeemable Preferred Securities in Subsidiary Grantor Trusts. There was no modification of the terms of the Preferred Capital Securities and no impact on net income upon adoption.

The information in this Quarterly Report on Form 10-Q 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 the Company's control. All statements, other than statements of historical facts included in this report, regarding the Company's 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. The Company does not undertake any obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

INTERPOOL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share and per share amounts)
(Unaudited)

	June 30, 2004
ASSETS	
CASH AND CASH EQUIVALENTS	\$158,
MARKETABLE SECURITIES, available for sale at fair value	65,
ACCOUNTS RECEIVABLE, less allowance of \$15,212 and \$16,358, respectively	382,
NET INVESTMENT IN DIRECT FINANCING LEASES	12,
OTHER RECEIVABLES, net	1,613,
LEASING EQUIPMENT, net of accumulated depreciation and amortization of \$525,776 and \$521,874, respectively	68,
OTHER ASSETS	-----
TOTAL ASSETS	\$2,301,

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LIABILITIES

ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$125,
INCOME TAXES	48,
DEFERRED INCOME	2,
DEBT AND CAPITAL LEASE OBLIGATIONS	
Due within one year	225,
Due after one year	1,444,

TOTAL DEBT AND CAPITAL LEASE OBLIGATIONS	1,670,
TOTAL LIABILITIES	\$1,846,

MINORITY INTEREST IN EQUITY OF SUBSIDIARIES	36,
COMMITMENTS AND CONTINGENCIES	-----
STOCKHOLDERS' EQUITY	
Preferred stock, par value \$.001 per share; 1,000,000 authorized, none issued	
Common stock, par value \$.001 per share; 100,000,000 shares authorized, 27,604,746 issued at June 30, 2004 and 27,602,452 issued at December 31, 2003	
Additional paid-in capital	127,
Unamortized deferred compensation-stock grants	(
Treasury stock, at cost, 225,900 shares at June 30, 2004 and December 31, 2003	(2,
Retained earnings	298,
Accumulated other comprehensive loss	(5,

TOTAL STOCKHOLDERS' EQUITY	418,

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$2,301,
	=====

The accompanying notes to the Condensed Consolidated Financial Statements are an integral part of

INTERPOOL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except share and per share amounts)
(unaudited)

	Three Months Ended June 30,		Six Mo Ju
	2004	2003	2004
	-----	-----	-----
		(Restated)	
REVENUES, including income recognized on direct financing leases of \$10,504, \$11,657, \$21,363 and \$22,633, respectively	\$96,225	\$91,399	\$191,628
	-----	-----	-----
COSTS AND EXPENSES:			
Lease operating and administrative expenses	31,134	26,696	59,939
Provision for doubtful accounts	492	359	1,104
Fair value adjustment for derivative instruments	(849)	(231)	(1,035)
Depreciation and amortization of leasing equipment	22,679	22,104	45,551
Impairment of leasing equipment	1,439	3,139	3,413
(Income)/losses for investments accounted for under the equity method	(199)	558	(384)
Gain on settled insurance litigation	(6,267)	---	(6,267)
Other income, net	(3,961)	(888)	(4,661)
Interest expense	26,290	26,050	54,671
Interest income	(495)	(1,221)	(1,189)
	-----	-----	-----
	70,263	76,566	151,142
	-----	-----	-----

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Income before minority interest expense and provision for income taxes	25,962	14,833	40,486
MINORITY INTEREST EXPENSE, NET	(1,944)	(526)	(2,803)
	-----	-----	-----
Income before provision for income taxes	24,018	14,307	37,683
PROVISION FOR INCOME TAXES	4,394	1,971	6,935
	-----	-----	-----
NET INCOME	\$19,624	\$12,336	\$30,748
	=====	=====	=====
NET INCOME PER SHARE:			
Basic	\$0.72	\$0.45	\$1.12
	=====	=====	=====
Diluted	\$0.66	\$0.42	\$1.04
	=====	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING (in thousands):			
Basic	27,379	27,354	27,378
	=====	=====	=====
Diluted	30,575	30,449	30,421
	=====	=====	=====

The accompanying notes to the Condensed Consolidated Financial Statements are an integral part of these

INTERPOOL, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (dollars in thousands) (unaudited)

		Six Mon Jun 2004 ----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income		\$30,748
Adjustments to reconcile net income to net cash provided by operating activities --		
Depreciation and amortization		46,905
Impairment of leasing equipment		3,413
Restricted stock grant expense		42
Gain on settled insurance litigation		(6,267)
Gain on sale of leasing equipment		(4,305)
Loss on sale of marketable securities		---
Provision for doubtful accounts		1,104
Fair value adjustment for derivative instruments		(1,035)
(Income)/loss on investment accounted for under the equity method		(384)
Other, net		21,956

Net cash provided by operating activities		92,177

CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of leasing equipment		(56,031)
Proceeds from dispositions of leasing equipment		15,299
Purchase of leasing equipment for resale		(34,240)
Proceeds from disposal of leasing equipment for resale		38,004
Investment in direct financing leases		(34,293)
Cash collections on direct financing leases		44,563
Purchase of marketable securities		---
Proceeds from minority interest in subsidiary		---
Sales and matured marketable securities and other investing activities		---

Net cash used for investing activities		(26,698)

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CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from issuance of debt	95,218
Payment of long-term debt and capital lease obligations	(118,748)
Borrowings of revolving credit lines	4,500
Repayment of revolving credit lines	(26,357)
Dividends paid	(2,904)
Net cash (used for) provided by financing activities	(48,291)
Net increase in cash and cash equivalents	17,188
CASH AND CASH EQUIVALENTS, beginning of period	141,019
CASH AND CASH EQUIVALENTS, end of period	\$158,207
Cash paid for interest	\$54,389
Cash paid for taxes	\$ 435
Supplemental disclosure of non-cash investing activities:	
Direct financing leases financed through capital lease obligations	\$---
Transfers from leasing equipment to direct financing leases	\$5,504
Transfers from direct financing leases to leasing equipment	\$6,970

The accompanying notes to the Condensed Consolidated Financial Statements are an integral part of

INTERPOOL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
AT DECEMBER 31, 2003 AND THE SIX MONTHS ENDED JUNE 30, 2004
(dollars and shares in thousands)
(unaudited)

	<u>Common Stock</u>						<u>Acum. Other Comp. Income (Loss)</u>
	<u>Outstanding Shares</u>	<u>Par Value</u>	<u>Additional Paid-in Capital</u>	<u>Unamortized Deferred Compensation</u>	<u>Treasury Stock</u>	<u>Retained Earnings</u>	
BALANCE, January 1, 2004	27,377	28	128,538	(1,184)	(2,229)	272,012	(14,328)
Net income	---	---	---	---	---	30,748	---
Other comprehensive income	---	---	---	---	---	---	9,139
Comprehensive income							
Restricted stock award	2	---	371	(371)	---	---	---
Amortization of restricted stock award	---	---	---	42	---	---	---
Forfeitures restricted stock award	---	---	(1,017)	916	---	---	---
Cash dividends declared:							

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Common stock, \$0.125 per share	---	---	---	---	---	(3,857)	---
	----	----	----	----	----	-----	----
BALANCE, June 30, 2004	27,379	\$28	\$127,892	\$ (597)	\$ (2,229)	\$298,903	\$ (5,189)
	=====	=====	=====	=====	=====	=====	=====

The accompanying notes to the Condensed Consolidated Financial Statements are an integral part of

INTERPOOL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)
(Unaudited)

Note 1 - Nature of Operations and Accounting Policies

A. Basis of Presentation

The Condensed Consolidated Financial Statements of Interpool, Inc. and Subsidiaries (the Company) as of June 30, 2004 and December 31, 2003 and for the three and six months ended June 30, 2004 and 2003 (the Condensed Consolidated Financial Statements) included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. The Company has made certain reclassifications to prior balances to conform to the current year presentation. It is suggested that these Condensed Consolidated Financial Statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's December 31, 2003 Annual Report on Form 10-K (the 2003 Form 10-K). These Condensed Consolidated Financial Statements reflect, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the results for the interim periods. The results of operations for such interim periods are not necessarily indicative of the results for the full year.

As discussed in the Company's 2003 Form 10-K, the Company has restated its financial statements for the first three quarters of 2003. The Company concluded that this restatement was necessary while preparing for its 2003 annual audit in July 2004. For further information regarding this restatement, see Note 2 to the Condensed Consolidated Financial Statements. All financial information for the three and six months ended June 30, 2003 included in this Quarterly Report on Form 10-Q gives effect to the restatement.

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

B. Nature of Operations

The Company and its subsidiaries conduct business principally in a single industry segment, the leasing of intermodal dry freight standard containers, chassis and other transportation related equipment. Within this single industry segment, the Company has two reportable segments: container leasing and domestic intermodal equipment leasing. The container-leasing segment specializes primarily in the leasing of intermodal dry freight standard containers, while the domestic intermodal equipment segment specializes primarily in the leasing of intermodal

container chassis. The Company leases its containers principally to international container shipping lines located throughout the world. The customers for the Company's chassis are a large number of domestic companies, many of which are domestic subsidiaries or branches of international shipping lines, as well as major U.S. railroads and independent truckers. Equipment is purchased directly or acquired through conditional sales contracts and lease agreements, many of which qualify as capital leases.

The Company's container leasing operations are conducted through its subsidiary, Interpool Limited, a Barbados corporation. 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 substantially lower than the applicable rates in the United States. For further information regarding the United States and Barbados income tax treaty, see Note 7 (Subsequent Events - July 2004 Protocol to the United States and Barbados Tax Treaty) to the Condensed Consolidated Financial Statements.

The Company previously had operations in a third reportable segment that specialized in leasing microcomputers and related equipment. The 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, the Company adopted a plan to exit this segment that included i) acquiring the remaining ownership interest in Microtech and terminating its operations, and ii) selling the Company's ownership interest in PCR. The Company liquidated the assets of Microtech as of March 31, 2004. PCR ceased active operations and began to liquidate in 2003. At March 31, 2004, all of the assets of PCR were liquidated.

C. Basis of Consolidation

The Company's Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States. The Consolidated Financial Statements include the accounts of the Company and subsidiaries which are more than 50% owned or otherwise controlled by the Company. All significant intercompany transactions have been eliminated in consolidation. Minority interest in equity of subsidiaries represents the minority stockholders' proportionate share of the equity in the income/(losses) of the subsidiaries.

In connection with certain investments in which the Company does not own a majority interest or otherwise control, or have the ability to exercise significant influence over the investee, these investments are accounted for using the equity method of accounting. The Company's investment in its equity method investees is included in other assets on the accompanying Condensed Consolidated Balance Sheets.

D. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of shares outstanding during the period (which is net of treasury shares). Diluted income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The dilutive effect of stock options and the un-vested portion of restricted stock grants is computed using the treasury stock method, which assumes the repurchase of common shares at the average market price for the period. Stock options that do not have a dilutive effect (because the exercise price is above the market price) are not included in the diluted income per share. For the three and six months ended June 30, 2004 and 2003, all stock options to acquire common shares are dilutive. Unvested restricted stock grants were dilutive for the three and six months ended June 30, 2004 but did not have a dilutive effect to earnings per share (EPS) for the same periods in 2003. The convertible redeemable subordinated debentures issued by the Company in December 2002, January 2003 and February 2003 were dilutive for the three and six months ended June 30, 2004 and 2003.

A reconciliation of the numerator and denominator of basic EPS with that of diluted EPS is presented below:

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	Three Months Ended June 30, -----		Six Months Ended June 30, -----	
	2004 ----	2003 ---- (Restated) -----	2004 ----	2003 ---- (Restated) -----
Numerator				
Net Income - Basic EPS	\$19,624	\$12,336	\$30,748	\$24,105
Interest expense on convertible debentures, net of tax of \$344, 344, 688 and 644, respectively	516	516	1,032	967
	-----	-----	-----	-----
Net Income - Diluted EPS	\$20,140	\$12,852	\$31,780	\$25,072
	=====	=====	=====	=====
Denominator				
Weighted average common shares outstanding-Basic	27,379	27,354	27,378	27,354
Dilutive stock options	1,704	1,608	1,552	1,487
Dilutive convertible debentures	1,487	1,487	1,487	1,432
Dilutive restricted stock grants	5	---	4	---
Weighted average common shares outstanding-Diluted	30,575	30,449	30,421	30,273
	=====	=====	=====	=====
Earnings per common share				
Basic	\$0.72	\$0.45	\$1.12	\$0.88
	=====	=====	=====	=====
Diluted	\$0.66	\$0.42	\$1.04	\$0.83
	=====	=====	=====	=====

E. Comprehensive Income

Comprehensive income consists of net income or loss for the current period and gains or losses that have been previously excluded from the income statement and were only reported as a component of equity.

The tax effect of other comprehensive income/(loss) is as follows:

	Before Tax Amount -----	Tax Effect -----
Six Months Ended June 30, 2004		
Unrealized holding gains/(losses) arising during the period:		
Cumulative foreign currency translation adjustment	\$5	\$(2)
Swap agreements	15,291	(6,155)
	-----	-----
	\$15,296	\$(6,157)
	=====	=====
Six Months Ended June 30, 2003		
Unrealized holding gains arising during the period:		
Marketable securities (1)	\$37	\$(13)
Other investment securities	8	(3)
Swap agreements	(4,653)	1,463
	-----	-----
	\$(4,608)	\$1,447
	=====	=====

(1) Amounts are net of losses on sales of marketable securities of \$26

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(before income tax effect of \$1) recognized in the income statement.

The components of accumulated other comprehensive loss, net of taxes, are as follows:

	June 30, 2004	December 31,
Cumulative foreign currency translation adjustment	\$ 6	\$ 3
Swap agreements	(5,195)	(14,331)
	\$ (5,189)	\$ (14,328)

F. Stock-Based Compensation

Stock option plans are accounted for in accordance with SFAS No. 148, Accounting for Stock-Based Compensation (SFAS 148). This Statement amends SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123), which allows for the retention of principles within Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees (APB 25). As permitted by the Statement, the Company has chosen to continue to account for stock-based compensation using the intrinsic value method. To date, all options were granted with exercise price equal to the market price of the Company's Stock at Grant Date. Options issued with an exercise price below the fair value of the Company's common stock on the date of grant will be accounted for as compensatory options. For compensatory options, the difference between the exercise price and the fair value of the Company's common stock will be charged to expense over the shorter of the vesting or service period. Options issued at fair value are non-compensatory.

The following table illustrates the effect on net income and earnings per share had the fair value method of accounting been applied to the Company's stock compensation plans.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003 Restated	2004	2003 Restated
Net income, as reported	\$19,624	\$12,336	\$30,748	\$24,1
Add: Stock based employee compensation expense included in net income, net of related tax effects	13	46	27	
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(21)	(72)	(43)	(1
Pro forma net income	\$19,616	\$12,310	\$30,732	\$24,0
Earnings per share:				
Basic-as reported	\$0.72	\$0.45	\$1.12	\$0.
Basic-pro forma	\$0.72	\$0.45	\$1.12	\$0.
Diluted-as reported	\$0.66	\$0.42	\$1.04	\$0.
Diluted-pro forma	\$0.66	\$0.42	\$1.04	\$0.

This pro forma impact takes into account all options granted under the plan. No options were granted by the

Company in 2004 or 2003.

On January 2, 2004, under the Company's Deferred Bonus Plan, the Company granted to eligible employees 27,259 shares of restricted stock that had a fair value of \$13.60 per share at the grant date. The number of shares of restricted stock awarded was calculated by dividing the dollar value of the stock portion of the bonus by the average stock price for the last 10 trading days ending on December 31 of the grant year. Additional restricted stock was awarded based on the vesting period selected by the employee. If the five-year vesting period was selected, the shares awarded were increased by 10%. If the ten-year vesting period was selected, the shares awarded were increased by 30%. These grants cliff vest in equal installments upon continued service over either the five or ten year period elected by the employee. At the date of grant, \$371 of deferred compensation was credited to paid-in capital with an offset to unamortized deferred compensation stock grant in the equity section of the Condensed Consolidated Balance Sheet. Compensation cost is recognized ratably over the vesting periods during which the related employee service is rendered. During the first quarter of 2004, our Chief Executive Officer elected to voluntarily relinquish his entire 2002 bonus. This resulted in the forfeiture of 60,407 unvested shares of restricted stock valued at \$1,017. This forfeiture resulted in the reversal of \$916 of previously recorded unamortized deferred compensation expense, as well as the reversal of previously recorded compensation expense of \$101. Excluding the reversal of previously recorded compensation expense related to this forfeiture, compensation expense for the three and six months ended June 30, 2004 was \$21 and \$43, respectively. Compensation expense for the three and six months ended June 30, 2003 was \$60 and \$121, respectively. The unamortized deferred compensation remaining in stockholders equity was \$597 at June 30, 2004. In September 2004, the Board of Directors terminated the Deferred Bonus Plan. All stock previously issued under this Plan will continue to be subject to the terms of the Plan. However, future bonuses will not be subject to the terms of the Deferred Bonus Plan.

G. Credit Risk

At June 30, 2004, approximately 48% (47% at December 31, 2003) of accounts receivable and 71% (71% at December 31, 2003) of the net investment in direct financing leases were from customers outside of the United States.

During the six months ended June 30, 2004, the Company's top 25 customers represented approximately 75% of its consolidated billings, with no single customer accounting for more than 7.7%. For the same period in the prior year, the Company's top 25 customers represented approximately 73% of its consolidated billings with no single customer accounting for more than 8.0%.

H. Adoption of New Accounting Standards

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. This pronouncement requires the Company to display its outstanding Preferred Capital Securities issued in 1997 (previously described as Company-Obligated Mandatorily Redeemable Preferred Securities in Subsidiary Grantor Trusts) within the debt section on the face of the Condensed Consolidated Balance Sheets and show the related expense with interest expense on a pre-tax basis. There was no modification of the terms of the Capital Securities and no impact on net income upon adoption. This pronouncement 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 certain mandatorily redeemable non-controlling interest, were deferred indefinitely. The adoption of these delayed provisions is not expected to materially affect the Company's consolidated financial statements.

In December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* (FIN 46R) which addresses how a business should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity.

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FIN 46R replaces FASB Interpretation No. 46 which was issued in January 2003. The Company adopted FIN 46R as of December 31, 2003. There was no impact on the Company's financial condition or results of operations.

Note 2 - Restatement of Previously Issued Financial Statements

During its 2003 year-end closing procedures, the Company identified a number of deficiencies in the internal controls over accounting and reporting for certain transactions. As a result, the Company restated the Condensed Consolidated Financial Statements for the unaudited interim periods for the first three quarters in 2003. The Company determined that the effect of these deficiencies in internal controls on years ended prior to January 1, 2003 was not material. The restated financial statements for the three and six months ended June 30, 2003 are included in these Condensed Consolidated Financial Statements.

The following tables set forth the effects of the restatement adjustments on income before taxes, net income and the basic and diluted earnings per share for the three and six months ended June 30, 2003. The restatement adjustments are discussed in the "Description of Restatement Items" section following the tables below.

Three Months Ended June 30, 2003 (unaudited)

	<u>Income before taxes</u>	<u>Net Income</u>	<u>Net Income Per Share (Basic)</u>	<u>Net Inc Share (D</u>
Previously Reported	\$12,508	\$11,172	\$0.41	\$
Rebill equipment repairs	1,560	936	0.03	
Chassis impairment	(40)	(24)	---	
Lease accounting	231	223	0.01	
Other	48	29	---	
Net restatements	1,799	1,164	0.04	
As restated	\$14,307	\$12,336	\$0.45	\$

Three Months Ended June 30, 2003 (unaudited)

	<u>Income before taxes</u>	<u>Net Income</u>	<u>Net Income Per Share (Basic)</u>	<u>Net Inc Share (D</u>
Previously Reported	\$25,219	\$22,048	\$0.81	\$
Rebill equipment repairs	2,686	1,612	0.06	
Chassis impairment	(1,012)	(607)	(0.02)	
Lease accounting	1,029	993	0.03	
Other	99	59	---	
Net restatements	2,802	2,057	0.07	
As restated	\$28,021	\$24,105	\$0.88	\$

Description of Restatement Items***Rebill Equipment Repairs***

In certain instances, the accounting for damaged equipment at the end of an operating lease was not performed properly. The amounts due from customers for these damages are not recorded in revenue when invoiced; rather, they are used to establish a liability to cover the repair of the equipment. In many cases, these liabilities were not being reversed when payment was made for the repaired equipment. In addition, in some cases, the liability was not being reversed when the equipment was sold or remanufactured.

Chassis Impairment

The Company has a program of remanufacturing chassis when they near the end of their useful life or if the equipment is impaired in its present condition. In certain cases, the impairment of these chassis was not recognized on a timely basis.

Lease Accounting

As noted in the Company's Form 10-K for the year ended December 31, 2003, the lease accounting system used to account for direct financing leases was inadequate in providing the necessary data for the amortization of the leases and the recognition of revenue. As a result, the Company continues to perform manual calculations for all financing leases until the new finance lease system is implemented. A number of these manual calculations were not initially performed correctly during the nine months ended September 30, 2003, and were subsequently corrected during the fourth quarter of 2003. The Company has purchased and is in the process of implementing its new finance lease system to handle the accounting for these leases.

Other

The Company made other adjustments to previously recorded estimates. These adjustments were individually not material and increased pretax income by \$48 and \$99 for the three and six months ended June 30, 2003.

Income Tax Expense

The change in the provision for income taxes due to the correction of the errors described above increased the provision for income taxes by \$635 and \$745 for the three and six months ended June 30, 2003.

Note 3 - Debt and Capital Lease Obligations

The following table summarizes the Company's debt and capital lease obligations as of June 30, 2004 and December 31, 2003:

	<u>June 30, 2004</u>	<u>December 31,</u>
Capital lease obligations payable in varying amounts through 2018 Chassis Securitization Facility, interest at 5.47% and 5.59% at June 30, 2004 and December 31, 2003, respectively	\$279,082	\$325,258
Warehouse facility	25,490	25,490
Debt obligation	69,718	86,413
Capital lease obligation	401,654	404,674
Revolving credit facility, interest rate at 3.38% and 3.09% at June 30, 2004 and December 31, 2003, respectively	174,638	193,495
Revolving credit facility CAI, interest rate at 3.36% and 3.37% at June 30, 2004 and December 31, 2003, respectively	84,000	87,000

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Container securitization facility, interest at 6.36% and 6.5% at June 30, 2004 and December 31, 2003, respectively	49,441	76,564
7.35% Notes due 2007 (unsecured)	147,000	147,000
7.20% Notes due 2007 (unsecured)	62,825	62,825
9.25% Convertible redeemable subordinated debentures, mandatory redemption 2022 (unsecured)	37,182	37,182
9.875% Preferred capital securities due 2027 (unsecured)	75,000	75,000
Notes and loans payable with various rates ranging from 3.11% to 9.77% and maturities from 2004 to 2010	264,270	194,786
	-----	-----
Total Debt and Capital Lease Obligations	1,670,300	1,715,687
	-----	-----
Less Current Maturities	225,636	219,192
Total Non-Current Debt and Capital Lease Obligations	\$1,444,664	\$1,496,495
	=====	=====

Debt Modifications: In January and February 2004, in connection with obtaining necessary amendments under the revolving credit facility due to the late filing of the Company's periodic reports with the SEC and the restatement of its past financial statements, the Company agreed, among other things, to reduce advance rates under this revolving facility, to add several events of default, to increase the interest rate margin, and to maintain specified levels of unrestricted cash and cash equivalents until delinquent SEC filings are made. Subsequent to January 9, 2004 (the date the Company filed its 2002 Form 10-K), the Company was obligated to maintain unrestricted cash and cash equivalents of at least \$60,000 at all times and at least \$67,500 as of the last business day of the month until completion and filing of all delayed financial statements for 2003 and 2004. This minimum cash requirement was also adopted in the waivers of the container securitization and one other loan agreement. In conjunction with the waiver received during February 2004, the Company replaced its annual amortization payment with monthly amortization payments under its revolving credit facility beginning in March 2004. The related minimum cash requirement was subsequently reduced dollar-for-dollar with the amortization payments. At June 30, 2004 the minimum cash requirement was \$50,000. The revolving credit facility was repaid in full on November 1, 2004 and replaced by a facility with another lender. See Note 7 Subsequent Events Financing Activities. The requirement to maintain certain levels of unrestricted cash was eliminated for all facilities when the revolving credit facility and one other facility were repaid in full during November, 2004.

As a result of adopting SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*, the Company is required in 2004 to classify its outstanding Preferred Capital Securities issued in 1997 within the debt section on the face of the Condensed Consolidated Balance Sheet. Previously, these instruments were classified separately with the caption Company-Obligated Mandatorily Redeemable Preferred Securities in Subsidiary Grantor Trusts. There was no modification of the terms of the Preferred Capital Securities and no impact on net income upon adoption. In connection with this change, the Company has negotiated amendments to its debt agreements that allow these securities to be treated as they have been in the past for purposes of calculating compliance with loan covenants. At the date of this report, the Company has received all necessary amendments to be in full compliance with its loan covenants.

In connection with waivers previously received from its lenders, the Company has agreed to complete its 2004 periodic Form 10-Q filings with the SEC on or before December 31, 2004. The Company has also received permanent waivers from certain of its financial institutions with respect to key-man and certain other provisions.

New Financings: During the six months ended June 30, 2004, the Company entered into new financing arrangements totaling \$120,218 of which \$95,218 was utilized. The new debt utilized during the six months ended June 30, 2004 consisted of notes and loans with installments payable in varying amounts through 2008 and various interest rates ranging from 3.78% to 7.53%. One commitment for \$25,000 was not utilized at June 30, 2004. This commitment will be open until March 31, 2005, after which any unfunded amount will expire. Amounts funded under this facility will be amortized over sixty months to a final balloon payment of 20%. The interest rate is LIBOR plus 250 basis points.

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Covenants: Under the Company's revolving credit facility (paid in full November 1, 2004) and most of its other debt instruments in effect at June 30, 2004, the Company was required to maintain covenants (as defined) for tangible net worth (a maximum of \$250,000), a fixed charge coverage ratio of 1.5 to 1 and a funded debt to net worth ratio (as defined in the agreement, which is stockholders' equity plus preferred capital securities, less goodwill) of 4.0 to 1. A financing facility entered into in March 2004, and subsequently amended and expanded on November 1, 2004, includes a requirement that the Company maintain a tangible net worth of at least \$300,000 (as defined in the agreement). This facility also has a fixed charge coverage ratio of 1.5 to 1 and a funded debt to tangible net worth ratio of 4.0 to 1. At June 30, 2004 the Company was in compliance with these covenants as amended.

Deferral of Dividend Payment to Board Members: In connection with the Company's delayed SEC filings and the receipt of waivers from its lenders necessitated by the delayed filings beginning in January 2004, the members of the Company's Board of Directors and certain of its affiliates who own shares of the Company's common stock have agreed to defer their receipt of any dividend payments, including those the Company may declare in the future, until the Company is in compliance with all SEC filing requirements. As of June 30, 2004 recorded dividend payments in the amount of \$2,616 have been deferred and are included in accounts payable and accrued expenses on the Condensed Consolidated Balance Sheet. As of November 1, 2004 the amount of this deferral is \$3,488.

Note 4 - Segment and Geographic Data

The Company and its subsidiaries conduct business principally in a single industry segment, the leasing of intermodal dry freight standard containers, chassis and other transportation related equipment. Within this single industry segment, the majority of the Company's operations come from two reportable segments: container leasing and domestic intermodal equipment leasing. The container-leasing segment specializes primarily in the leasing of dry freight standard containers, while the domestic intermodal equipment segment specializes primarily in the leasing of intermodal container chassis.

The Company previously had operations in a third reportable segment that specialized in leasing microcomputers and related equipment. The computer leasing segment consisted of two subsidiaries, Microtech and PCR. During the third quarter of 2001, the Company adopted a plan to exit this segment. The Company liquidated the assets of Microtech as of March 31, 2004. PCR ceased active operations and began to liquidate in the first quarter of 2003. At March 31, 2004, all of the assets of PCR were liquidated.

The accounting policies of the segments are the same as those described in Note 1. The Company evaluates performance based on profit or loss before income taxes. The Company's reportable segments are strategic business units that offer different products and services.

Segment Information

Six Months Ended June 30, 2004:	Container Leasing	Domestic Intermodal Equipment	Computer Leasing Equipment	T
Revenues	\$89,759	\$101,869	\$---	\$1
Lease operating, administrative and other expenses	20,411	39,597	---	
Depreciation and amortization	29,206	16,345	---	
Impairment of leasing equipment	1,266	2,147	---	
Gain on settled insurance litigation	(3,781)	(2,486)	---	
Other (income)/expense, net and minority interest	(2,547)	689	---	
Income for investments under equity method	---	(384)	---	
Interest income	(714)	(472)	(3)	
Interest expense	17,773	36,898	---	
Income before taxes	28,145	9,535	3	
Net investment in DFL's	294,840	88,020	---	3
Leasing equipment, net	728,623	885,005	---	1,6

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Equipment purchases	71,464	18,860	---	
Total segment assets	\$1,186,958	\$1,114,520	\$35	\$2,3

Six Months Ended June 30, 2003 (Restated):	Container Leasing	Domestic Intermodal Equipment	Computer Leasing Equipment	
Revenues	\$83,830	\$97,222	\$312	\$1
Lease operating, administrative and other expenses	19,866	35,188	(171)	
Depreciation and amortization	28,722	15,758	---	
Impairment of leasing equipment	996	4,367	---	
Other (income)/expense, net and minority interest	(1,670)	527	(38)	
Loss for investments under equity method	---	610	---	
Interest income	(1,535)	(715)	---	
Interest expense	15,265	36,172	1	
Income before taxes	22,186	5,315	520	
Net investment in DFL's	317,252	95,962	123	4
Leasing equipment, net	712,501	893,120	---	1,6
Equipment purchases	111,235	44,410	---	1
Total segment assets	\$1,244,666	\$1,170,711	\$1,913	\$2,4

The Company's shipping line customers utilize international containers in world trade over many varied and changing trade routes. In addition, most large shipping lines have many offices in various countries involved in container operations. The Company's revenue from international containers is earned while the containers are used in service carrying cargo around the world, while certain other equipment is utilized in the United States. Accordingly, the international information presented below represents our international container leasing operation conducted through Interpool Limited, a Barbados corporation, while the United States information presented below represents our domestic intermodal equipment leasing segment, as well as those revenues and assets relative to our 50% owned consolidated subsidiary, Container Applications International, Inc. (CAI) which is headquartered in the United States of America. Such presentation is consistent with industry practice.

Geographic Information

	Six Months Ended June 30,	
	2004	2003
	----	-----
		(Restated)

REVENUES:		
United States	\$122,330	\$114,271
International	69,298	67,093
	-----	-----
	\$191,628	\$181,364
	=====	=====
ASSETS:		
United States	\$1,307,088	\$1,335,021
International	994,425	1,082,269
	-----	-----
	\$2,301,513	\$2,417,290
	=====	=====

Note 5 - Derivative Instruments

The Company's assets are primarily fixed rate in nature while its debt instruments are primarily floating rate. The Company employs derivative financial instruments (interest rate swap agreements) to effectively convert certain

floating rate debt instruments into fixed rate instruments and thereby manage its exposure to fluctuations in interest rates.

As of June 30, 2004 and December 31, 2003, included in accounts payable and accrued expenses in the accompanying Condensed Consolidated Balance Sheets is a liability of \$19,713 and \$34,026, respectively, representing the market value of the Company's interest rate swap contracts.

The unrealized pre-tax income on cash flow hedges for the six months ended June 30, 2004 of \$15,291 and the related income tax provision of \$6,155 have been recorded by the Company as a component of accumulated other comprehensive loss on the Condensed Consolidated Balance Sheets.

The unrealized pre-tax income on cash flow hedges for the year ended December 31, 2003 of \$15,270 and the related income tax provision of \$4,700 have been recorded by the Company as a component of accumulated other comprehensive loss on the Condensed Consolidated Balance Sheets.

Amounts recorded in accumulated other comprehensive income/(loss) would be reclassified into earnings upon termination of these interest rate swap agreements and related debt instruments prior to their contractual maturity. The Company may at its discretion terminate or redesignate any such interest rate swap agreements prior to maturity. At that time any gains or losses on termination would continue to amortize into interest expense or interest income to correspond to the recognition of interest expense or interest income on the hedged debt. If such debt instrument was also terminated, the gain or loss associated with the terminated derivative included in accumulated other comprehensive loss at the time of termination of the debt would be recognized in the Condensed Consolidated Income Statement at that time.

The Company has recorded in the Condensed Consolidated Statements of Income as fair value adjustment for derivative instruments, pre-tax income of \$812 and \$1,034 for the three and six month period ended June 30, 2004 resulting from the change in fair value of interest rate swap agreements held which do not qualify as cash flow hedges under SFAS 133. This compares to pre-tax income of \$175 and \$329 for the three and six month period ended June 30, 2003. Interest rate swap agreements, which qualify as perfect cash flow hedges, have no ineffectiveness and therefore are not reflected in the Condensed Consolidated Statements of Income. Pre-tax income of \$37 and \$1 for the three and six month period ended June 30, 2004 resulting from interest rate swap agreements which qualify as cash flow hedges, but are not perfectly correlated have associated ineffectiveness and have been recorded in the Condensed Consolidated Statements of Income as fair value adjustment for derivative instruments. This compares to \$56 and \$52 of pre-tax income for the three and six month period ended June 30, 2003.

As of June 30, 2004, the Company held 13 interest rate swap agreements with various financial institutions. The aggregate notional balance of the swaps was \$494,208 as of June 30, 2004.

Note 6 - Contingencies and Commitments

At June 30, 2004 commitments for capital expenditures totaled approximately \$107,689 with approximately \$44,680 committed for 2004. Approximately \$21,003 per year is committed for years 2005, 2006 and 2007, respectively.

The Company is engaged in various legal proceedings from time to time incidental to the conduct of its 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, the Company requires all of its lessees to indemnify the Company 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 \$2,000 in general liability insurance coverage, which is standard in the industry. In addition, the Company maintains a back-up general liability policy of \$200,000, in the event that the above lessee coverage is insufficient. While the Company believes that such coverage should be

adequate to cover current claims, there can be no guarantee that future claims will never exceed such amounts. Nevertheless, the Company believes that no current or potential claims of which it is aware will have a material adverse effect on its financial condition or results of operations and that the Company is adequately insured against such claims.

In February and March 2004, several lawsuits were filed in the United States District Court for the District of New Jersey, by purchasers of the Company's common stock naming the Company and certain of its present and former executive officers and directors as defendants. The complaints alleged violations of the federal securities laws relating to the Company's reported Consolidated Financial Statements for the years ended December 31, 2000 and 2001 and the nine months ended September 30, 2002, which the Company announced in March 2003 would require restatement. Each of the complaints purported to be a class action brought on behalf of persons who purchased the Company's securities during a specified period. On September 7, 2004, the lawsuits, which seek unspecified amounts of compensatory damages and costs and expenses, including legal fees, were consolidated into a single action with lead plaintiffs and lead counsel having been appointed. The Company intends to vigorously defend this lawsuit but is unable at this time to ascertain the impact this litigation may have on our financial position or results of operations.

At June 30, 2004, the following guarantees were issued and outstanding:

Indemnifications

In the ordinary course of business, the Company executes contracts involving indemnifications standard in the industry and indemnifications specific to a transaction such as an assignment and assumption agreement. These indemnifications might include claims related to any of the following: tax matters and governmental regulations, and contractual relationships. Performance under these indemnities would generally be triggered by a breach of terms of the contract or by a third party claim. The Company regularly evaluates the probability of having to incur costs associated with these indemnifications and have accrued for any expected losses that are probable. The types of indemnifications for which payment are possible are as follows:

Taxes

In the ordinary course of business, the Company provides various tax-related indemnifications as part of transactions. The indemnified party typically is protected from certain events that result in a tax treatment different from that originally anticipated. The Company's liability typically is fixed when a final determination of the indemnified party's tax liability is made. In some cases, a payment under a tax indemnification may be offset in whole or in part by refunds from the applicable governmental taxing authority. The Company is party to numerous tax indemnifications and many of these indemnities do not limit potential payment; therefore, it is unable to estimate a maximum amount of potential future payments that could result from claims made under these indemnities.

Contractual Relationships

The Company entered into a number of operating leases as lessee during 2000 and 2002 in which it guaranteed a portion of the residual value of the leased equipment to the lessor. These leases have terms that expire between 7 and 10 years. If at the end of the lease term the fair market value of the equipment is below the guaranteed residual value in the agreement, the Company is liable for a percentage of the deficiency. The total of these guarantees is \$12,405 of which \$8,011 could be due in 4 to 5 years, with the remaining \$4,394 potentially due in greater than 5 years. As of June 30, 2004 and December 31, 2003, included in accounts payable and accrued expenses in the accompanying Condensed Consolidated Balance Sheets are liabilities of \$166 and \$144, respectively, representing the accrual for the estimated exposure under these guarantees.

During the second quarter of 2003, the Company arranged a leasing transaction between one of its major customers and a financial institution for up to 3,000 containers. As part of this transaction, the Company agreed to

provide certain guarantees related to the fair value of the equipment if the lessee terminated the lease or if the lessee was unable to meet its obligations under the terms of the lease. In addition, if the lessee agreed to extend the lease, the Company agreed to purchase the equipment from the financial institution at a stated value and lease it to the lessee for this additional period at a stated lease rate. The Company further agreed to provide the lessee with a purchase option at the end of the extended lease period that would be less than the fair market value of the equipment at the date the lessee could exercise its option (the Bargain Purchase Option).

In return for the arrangement of the transaction on behalf of the financial institution and the guarantees discussed above, the Company was paid an arrangement fee and a portion of the initial rent for each container included in the lease. During the year ended December 31, 2003, 2,076 containers were delivered to the lessee and the Company received payments amounting to \$1,240. The remaining 924 containers were purchased by the Company and leased to the customer under the terms of a direct financing lease.

The estimated fair value of these containers at the end of the lease term guaranteed by the Company amounts to approximately \$4,360. The Company has estimated that its potential liability related to these guarantees is less than the estimated potential liability related to the Bargain Purchase Option granted to the lessee. As such, the Company has accrued for the estimated value of its liability for this Bargain Purchase Option amounting to \$1,017 that could be due in greater than 5 years. All fees collected from the lessor have been deferred by the Company and included in accounts payable and accrued liabilities on the accompanying Consolidated Balance Sheets. The fees received from the lessor, net of the estimated liability for the Bargain Purchase Option, are being recognized by the Company over the term of the residual guarantee.

Standby Letters of Credit

As of June 30, 2004, CAI, a consolidated subsidiary, had two outstanding letters of credit totaling \$6,000, which guarantee its obligations under certain operating lease agreements. These letters of credit expire in May, 2005.

Guarantee of Unconsolidated Affiliate Debt

Since 2000, the Company has guaranteed PCR debts due to third parties totaling \$5,000. At December 31, 2002, with PCR in liquidation, a determination was made that it was probable that the Company would incur costs related to this guarantee. As a result, the Company recorded a liability for \$4,429 representing its guarantee of PCR debts, net of amounts collected related to PCR's liquidation. This amount is included in accounts payable and accrued expenses in the June 30, 2004 and December 31, 2003 Consolidated Balance Sheets. The \$5,000 guarantee was subsequently paid off through a secured financing arrangement completed by the Company in July 2004. For information regarding the satisfaction of this guarantee in July 2004, see Note 7 (Subsequent Events - Financing Activities) to the Condensed Consolidated Financial Statements.

Settled Insurance Litigation

In connection with an insurance claim related to the default of a South Korean customer and a subsequent lawsuit filed by the insurance carriers against the Company, on June 17, 2004 the Company signed an agreement settling the lawsuit and our claims under the policy. Under the terms of the settlement agreement, the insurance carriers agreed to pay the Company a total of \$26,400 of which \$17,390 was received in June 2004 and \$9,010 was received in July 2004. In addition, the Company received the right to retain any of the equipment it had recovered since the date of the claim. As of June 30, 2004, the remaining outstanding receivable from the insurance carriers was \$9,010 and is included in other receivables, net on the Condensed Consolidated Balance Sheets. In addition, the Company has recognized a pre-tax gain of \$6,267 related to the \$26,400 settlement of the claim during the three months ended June 30, 2004.

Note 7 - Subsequent Events

July 2004 Protocol to the United States and Barbados Tax Treaty

Interpool Limited currently claims treaty benefits under the United States and Barbados income tax treaty (the Treaty). The Treaty contains a limitation on benefits provision which denies treaty benefits under certain circumstances. However, Interpool Limited currently does not fall within the Treaty s limitation on benefits provision.

On July 14, 2004, the United States and Barbados signed a protocol to the Treaty (the Protocol) that contains a more restrictive limitation on benefits provision than the current Treaty does. If it becomes effective, the Protocol would result in Interpool Limited losing its ability to rely on the Treaty to eliminate current U.S. income tax on its container rental and container sales income until such time as it is able to satisfy the new eligibility requirements as discussed below. On October 10, 2004, the United States Senate ratified the Protocol. To bring the Protocol into effect requires now that the government of Barbados prepare an instrument of ratification, publish it in the Barbados Official Gazette, exchange the instrument with the United States, and have it signed by the President of the United States (Enactment). With Enactment, the Protocol will generally be effective for taxable years commencing on or after the first of January in the year following the Enactment. The Company expects Enactment will occur before December 31, 2004 and, thus, the Protocol will likely become effective January 1, 2005.

Under the Protocol, Interpool Limited would only be eligible for Treaty benefits with respect to its container rental and sales income if, among other things, Interpool, Inc. is listed on a recognized stock exchange (generally, the NASDAQ system or an SEC registered exchange such as the New York Stock Exchange), and Interpool, Inc. s stock is primarily and regularly traded on such exchange.

As described elsewhere in this report, the Company s common stock is currently not listed on a recognized stock exchange within the meaning of the Protocol. Management anticipates that Interpool, Inc. will examine all of its options with regard to listing on a recognized stock exchange and, while there is no assurance that such listing will occur, management will attempt to arrange such a listing not later than the second quarter of 2005. Even in the event, however, that Interpool, Inc. is listed on a recognized stock exchange at any time after the Protocol comes into effect, it is not clear whether Interpool, Inc. would satisfy the primarily and regularly traded requirement as defined within the Protocol, although based upon the Company s historic trading levels, management is hopeful that such requirement would be satisfied.

Pursuant to Statement of Financial Accounting Standards 109 Accounting for Income Taxes, upon Enactment, which is likely to occur before December 31, 2004, the Company s existing net deferred tax liability as of the Enactment date will need to be immediately recorded at a tax rate higher than the approximate 3% tax rate currently used. Accordingly, it is likely that the Company will be required to record an increase in its net deferred tax liability during the fourth quarter of 2004. While there is no current cash impact associated with the increase in net deferred taxes, the effect of recognizing this increased net deferred tax liability will result in a deferred tax expense accrual which will reduce net income. Upon Enactment this deferred tax expense accrual will have a material impact on the Company s net income during the period the adjustment takes place.

If the Company s common stock is subsequently listed on a recognized stock exchange and it otherwise qualifies for benefits under the Treaty, the net deferred tax liability would be reduced at that time to reflect the lower tax rate of approximately 3%. This deferred tax benefit would result in additional net income at that time in an amount comparable to the previous reduction in net income adjusted for any change in the net deferred tax balance during the interim period. However, it is uncertain when, or if the Company will meet the requirements of the Treaty. Following Enactment, the Company will accrue taxes at the higher rate until such time as it may again become eligible for Treaty benefits. The effect of such accrual on the future net income of the Company will be largely dependent upon the duration of the period between Enactment and any future listing of its common stock.

If, at any time, management determines that the Company is not likely to qualify for the Barbados treaty within a reasonable period of time, they will promptly investigate alternatives (such as other jurisdictions) that could entitle

Interpool Limited to treaty benefits under another tax treaty with the U.S., but there can not be any assurance that such an alternative will be feasible. Any such alternative would likely result in Interpool Limited being subject to a higher non-U.S. tax than the approximate 3% tax rate in Barbados.

Financing Activities

The Company funds a significant portion of the purchase price for new containers and chassis through borrowings under its revolving credit agreement and other lines of credit or through secured financings with financial institutions. The Company successfully completed a secured financing of \$15,000 during July of 2004 with installments payable through 2005 and an interest rate of LIBOR plus 2.5%. A portion of the proceeds was used to satisfy a note payable from PCR to an unrelated financial institution, which was guaranteed by the Company for PCR. The remaining proceeds were used to pay amounts due to equipment manufacturers and for general corporate purposes.

During August 2004, the Company entered into a lease arrangement with a Japanese lessor involving \$21,093 of equipment previously financed with a financial institution during December 2003 and May 2004. The lease advance rate against this equipment was 107% (\$22,510 total advance), increasing the cash proceeds received by the Company by \$5,807 from the level of the previous financings. The lease expires in December 2008, and the Company has a fixed purchase option at that time for \$14,631 that it expects to exercise. The aggregate fixed interest rate is 7.44%.

Additionally, on September 14, 2004, the Company entered into a Securities Purchase Agreement pursuant to which it sold \$150,000 total principal amount of a new series of 6% notes due 2014 (the Notes) in a private transaction with four investors. In connection with the sale of the Notes, the Company also issued to the investors two series of Warrants exercisable for a total of 8,333,333 shares of the Company's common stock at an exercise price of \$18.00 per share (the Warrants). The Warrants were valued at \$22,500, with the offset recorded as a discount on the Notes. This discount will be amortized as interest expense using the effective interest method over the ten-year life of the Notes. The Warrant value will be reviewed during each accounting period, and adjusted if required. The first series of Warrants is exercisable at any time for a total of 5,475,768 shares. The second series will become exercisable at any time for a total of 2,857,565 shares, following stockholder approval of such exercise at the next meeting of the Company's stockholders. The Company also entered into agreements with the investors to file registration statements with the Securities and Exchange Commission, for the benefit of the investors, with respect to the Notes and the Warrants. The Warrants provide that the exercise price will be paid solely in cash, except that after the Company has filed a registration statement with the Securities and Exchange Commission relating to the Warrants and underlying common stock, in the event such registration statement has not become effective or is otherwise not available to the Warrant holders, if the exercise of the Warrants for cash would not be permitted under the federal securities laws, the exercise price may be paid by tendering a principal amount of 6% Notes equal to the exercise price of the Warrants then being exercised. The sale of the Notes and Warrants pursuant to the Securities Purchase Agreement was made in reliance on the exemption from the registration requirements of the Securities Act of 1933 (the Act), pursuant to Section 4(2) of the Act. The value assigned to the Warrants will result in an offset recorded as a discount on the Notes which will be amortized as interest expense using the effective interest method over the ten-year life of the Notes. The Warrant value will be reviewed during each accounting period, and adjusted if required.

Of the \$150,000 in proceeds from the sale of the Notes and Warrants, the Company repurchased, at face value, a portion of its outstanding 7.35% notes due 2007 (\$31,605) and 7.20% notes due 2007 (\$17,490) which were held by the investors. The remaining proceeds will be used for general corporate purposes, including, but not limited to, the purchase of equipment, retirement of debt, potential acquisitions and/or working capital.

The Notes mature on September 1, 2014, with interest payable semi-annually at a rate of 6% per annum. The Company has the right to redeem the Notes at any time after September 1, 2009 with a declining premium. The maturity of the Notes can be accelerated upon the occurrence of an Event of Default as such term is defined in the

indenture governing the Notes (the Indenture). The Indenture also contains various restrictive covenants, including limitations on the payment of dividends and other restricted payments, limitations on incurrence of indebtedness, and limitations on asset sales, the violation of which by the Company would result in an Event of Default.

The Warrants expire on September 1, 2014, although the Company has the right under certain conditions to require that they be exercised at any time after its common stock trades at \$30.00 per share or more for five consecutive trading days.

The Company intends to hold an Annual Meeting of the Stockholders in the fourth quarter of 2004 and at that meeting will seek stockholder approval for the exercise of the second series of Warrants. In connection with the sale of the Notes and Warrants, certain of the Company s significant stockholders, whose combined interest in the Company represents more than 50% of the issued and outstanding shares of the Company s Common Stock, entered into a voting agreement pursuant to which they have agreed to vote to approve the exercise of the second series of Warrants by the investors. In addition, Martin Tuchman, the Company s Chairman and Chief Executive Officer, Warren Serenbetz, a member of the Company s Board of Directors, and an entity controlled by members of Mr. Serenbetz s family agreed to certain restrictions on their ability to transfer shares of the Company s common stock in private transactions.

Copies of the Securities Purchase Agreement, the Indenture, the Warrant Agreement, the Notes Registration Rights Agreement and the Investor Rights Agreement were filed as exhibits to the Company s report on Form 8-K issued September 15, 2004.

On November 1, 2004, the Company consummated a secured equipment financing with one of its existing lenders. The financing is secured by shipping containers and related leases owned by a special purpose subsidiary of the Company and leased to various third parties. The financing allows for advances from time to time up to the amount of available collateral under the facility, subject to a maximum principal amount that may be outstanding under the facility of \$252,000. Of the \$243,000 drawn down on November 1, 2004, the Company used \$224,406 to refinance outstanding indebtedness, which includes the entire \$154,757 of outstanding borrowings under its revolving credit facility, which has now been terminated, as well as an existing \$69,649 loan from this lender. The remaining balance of \$18,594 was used for transaction fees and working capital purposes. The interest rate under this new facility is LIBOR plus 200 basis points, with reductions to LIBOR plus 175 basis points and LIBOR plus 150 basis points possible as the Company s credit rating or debt to equity ratio improve. This agreement requires that the Company enter into interest rate swap contracts in order to effectively convert at least seventy percent of the debt associated with operating lease equipment and ninety percent of the debt associated with direct financing leases from floating rate debt to fixed rate debt within 90 days of closing. The facility has a two-year term, after which the outstanding balance will be paid out in full over 66 months if it is not refinanced.

This agreement requires that the Company maintain a tangible net worth of at least \$300,000 (as defined in the Agreement). The facility also requires the Company to maintain a fixed charge coverage ratio of 1.5 to 1 and a funded debt to tangible net worth ratio of 4.0 to 1.0 and contains other customary restrictive covenants.

Rating Agency Downgrades

On January 27, 2004, Moody s downgraded the Company s debt securities citing continued uncertainty associated with the delayed release of the Company s financial information for 2003. The Company was advised that Moody s also reduced the shadow rating of the Company s chassis securitization. The Company was advised by the provider of the insurance wrap portion of the chassis securitization that, as a result of the downgrade of the shadow rating, it is liable to indemnify such provider for certain of the provider s increased capital charge costs. The Company disputed whether any such indemnification obligation exists under the terms of its agreement with the wrap provider. During October 2004, the Company reached an agreement with such provider, pursuant to which the Company will pay approximately \$220 per month in additional premium, declining as the loan is paid down. Such additional

premium will be further adjusted downward after eighteen months if the shadow rating improves, potentially going away entirely. In addition, as part of this agreement, the Company has received permanent waivers from the wrap provider for issues that were previously waived on a periodic basis. The other participants in the chassis securitization have also permanently waived any early amortization event or default associated with the downgrade of the shadow rating. Such downgrades may also have a negative effect on the Company's ability to access the capital markets in the future, as well as on the Company's interest cost. During July 2004, Fitch Ratings affirmed the Company's ratings, removed the Company from rating watch negative status, and changed their rating outlook for the Company to positive. Fitch Ratings reaffirmed their positive outlook in a press release that followed the Company's \$150,000 issuance of notes during September 2004. (See Ongoing Debt Waivers section below for further discussion.)

Ongoing Debt Waivers

The Company may be required to obtain additional waivers in the future from certain of its financial institutions. In the event that (i) any such required waiver could not be obtained before the applicable deadline; or (ii) any of the Company's existing waivers ceased to be effective in accordance with their terms based upon future developments, the Company might be in violation of the terms of its indebtedness, and the lenders could exercise their right to declare the Company in default, accelerate the indebtedness owed to such lenders, and take other action against the Company. Moreover, the taking of such action, or the possibility that such action could be taken, could cause one or more of the Company's other financial institutions to take action against the Company, such as declaring the Company in default, accelerating the indebtedness owed to such lender, and/or attempting to exercise rights as a secured creditor with respect to any collateral.

Employment Agreements

As described in the Company's 2003 Form 10-K, in July 2004, the Company entered into Employment Agreements with certain executive officers with various expiration dates up to 28 months. Under the terms of the Employment Agreements, each Executive is paid a base salary, a target bonus, participates in fringe benefit programs and may receive additional bonuses at the sole discretion of the Compensation Committee. The minimum obligation related to these agreements is approximately \$2,606. In addition, the Employment Agreements obligate the Company to pay severance payments in the event of termination or change of control and include non-compete clauses.

In connection with these employment agreements, because the Company's stock option plan had expired, the Company instead agreed to grant common stock appreciation rights that provide for the grantees to receive cash payments measured by any appreciation in the market price of the common stock over a specified base price. The Company granted such stock appreciation rights with respect to a total of 275,000 share units at a base price of \$14.05. The \$14.05 base price reflected the price on the over-the-counter market on February 20, 2004, the business day before the date on which the terms of the stock appreciation rights were fixed. The grant of stock appreciation rights was subsequently ratified by the Board of Directors on March 30, 2004, by which time the closing price of the Company's common stock had increased to \$15.00. At July 1, 2004, the date the employment agreements became effective, the most recent closing stock price of the Company's common stock was \$16.55. Under the terms of the employment agreements, a total of 260,000 of these stock appreciation rights will vest in 2005 (or earlier upon a change in control) with the remaining 15,000 rights vesting in three equal installments on December 31, 2006, 2007 and 2008. Upon vesting, these stock appreciation rights may be exercisable at any time prior to the expiration of the earlier of 10 days following the termination of the employee or June 30, 2014. The Company has reserved the right to substitute common stock options under the same terms and conditions of the stock appreciation rights upon approval by the Company's stockholders of a Stock Option Plan for key employees and directors of the Company.

Termination of Deferred Bonus Plan

In September 2004, the Board of Directors terminated the Deferred Bonus Plan. All stock previously issued under this Plan will continue to be subject to the terms of the Plan. However, future bonuses will not be subject to the

terms of the Deferred Bonus Plan.

Sale of Specialized Assets

Effective September 30, 2004, the Company agreed to sell the assets of CTC Container Trading (U.K.) Limited, a wholly-owned subsidiary which leased specialized containers and other equipment for use by companies operating in the North Sea. Under the terms of the agreement, the Company sold 1,474 cargo carrying units for approximately \$2,965 (1,666 British Pounds) which will result in a pre-tax profit of approximately \$950 before expenses.

ITEM 2: 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. *(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 Quarterly Report on Form 10-Q exclude the information of our 50%-owned consolidated subsidiary CAI. This exclusion of information relative to CAI, unless indicated otherwise, provides a focus on the drivers which are critical to our core business.)*

The information in this Quarterly Report on Form 10-Q 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.

We suggest that this quarterly report be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2003 Form 10-K.

Restatement of Prior Condensed Consolidated Financial Statements

During its 2003 year-end closing procedures, we identified a number of deficiencies in the internal controls over accounting and reporting for certain transactions. As a result, we restated the Condensed Consolidated Financial Statements for the unaudited interim periods for the first three quarters in 2003. We determined that the effect of these deficiencies in internal controls on years ended prior to January 1, 2003 was not material. The restated financial statements for the three and six months ended June 30, 2003 are included in these Condensed Consolidated Financial Statements.

The nature of the errors and the restatement adjustments that we have made to our Condensed Consolidated Financial Statements for the three and six months ended June 30, 2003 are set forth in Note 2-Restatement of

Previously Issued Financial Statements.

For additional information regarding this restatement see Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2003 Form 10-K.

General

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

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

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

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