CAI International, Inc.
Form 10-Q
May 06, 2015
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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 March 31, 2015

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	94-3109229
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Steuart Tower, 1 Market Plaza, Suite 900	
San Francisco, California	94105
(Address of principal executive offices)	(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 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	Accelerated filer
Non-accelerated filer	Smaller reporting company
(Do not check if a smaller reporting company)	

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

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

Common	April 30, 2015
Common Stock, $.0001 par value per share	21,142,521 shares

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

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, operations, growth strategy and service development efforts. The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for certain forward-looking statements so long as such information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. When used in this Quarterly Report on Form 10-Q, the words “may,” “might,” “should,” “estimate,” “project,” “plan,” “anticipate,” “expect,” “intend,” “outlook,” “believe” and other similar expressions are intended t 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, 2014 filed with the Securities and Exchange Commission (SEC) on February 27, 2015 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)

	March 31, 2015	December 31, 2014
Assets		
Current assets		
Cash	$ 23,078	$ 27,810
Cash held by variable interest entities	33,582	26,011
Accounts receivable (owned fleet), net of allowance for doubtful accounts of $902 and $680 at March 31, 2015 and December 31, 2014, respectively	43,053	49,524
Accounts receivable (managed fleet)	8,482	8,498
Current portion of direct finance leases	19,064	18,150
Prepaid expenses	15,335	14,396
Other current assets	407	410
Total current assets	143,001	144,799
Restricted cash	7,978	8,232
Rental equipment, net of accumulated depreciation of $292,356 and $274,333 at March 31, 2015 and December 31, 2014, respectively	1,654,834	1,564,777
Net investment in direct finance leases	76,104	76,814
Furniture, fixtures and equipment, net of accumulated depreciation of $2,115 and $2,019 at March 31, 2015 and December 31, 2014, respectively	852	945
Intangible assets, net of accumulated amortization of $4,726 and $4,817 at March 31, 2015 and December 31, 2014, respectively	183	273
Total assets (1)	$ 1,882,952	$ 1,795,840
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 6,235	$ 8,414

Accrued expenses and other current liabilities	5,320	9,029
Due to container investors	10,031	12,984
Unearned revenue	7,596	7,172
Current portion of debt	224,088	203,199
Current portion of capital lease obligations	239	1,015
Rental equipment payable	51,286	7,381
Total current liabilities	304,795	249,194
Debt	1,074,661	1,058,754
Deferred income tax liability	43,744	43,419
Capital lease obligations	-	1,568
Total liabilities (2)	1,423,200	1,352,935
Stockholders' equity		
Common stock: par value $.0001 per share; authorized 84,000,000 shares; issued and outstanding 21,142,521 and 20,788,277 shares at March 31, 2015 and December 31, 2014, respectively	2	2
Additional paid-in capital	160,589	154,894
Accumulated other comprehensive loss	(8,096)	(5,677)
Retained earnings	306,439	292,897
Total CAI stockholders' equity	458,934	442,116
Non-controlling interest	818	789
Total stockholders' equity	459,752	442,905
Total liabilities and stockholders' equity	$ 1,882,952	$ 1,795,840

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(1) Total assets at March 31, 2015 and December 31, 2014 include the following assets of certain variable interest entities (VIEs) that can only be used to settle the liabilities of those VIEs: Cash, $33,582 and $26,011; Net investment in direct finance leases, $282 and $156; and Rental equipment, net of accumulated depreciation, $98,566 and $102,100, respectively.

(2) Total liabilities at March 31, 2015 and December 31, 2014 include the following VIE liabilities for which the VIE creditors do not have recourse to CAI International, Inc.: Current portion of debt, $80,108 and none; Debt, $57,431 and $132,419, respectively.

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 March 31,	
	2015	2014
Revenue		
Rental revenue	$ 54,883	$ 50,684
Management fee revenue	1,257	1,525
Finance lease income	2,352	2,055
Total revenue	58,492	54,264
Operating expenses		
Depreciation of rental equipment	21,223	18,663
Amortization of intangible assets	84	99
Gain on disposition of used rental equipment	(357)	(1,790)
Storage, handling and other expenses	6,765	5,993
Marketing, general and administrative expenses	7,127	6,706
(Gain) loss on foreign exchange	(41)	164
Total operating expenses	34,801	29,835
Operating income	23,691	24,429
Interest expense	8,781	8,795
Interest income	(3)	(4)
Net interest expense	8,778	8,791
Net income before income taxes and non-controlling interest	14,913	15,638
Income tax expense	1,342	1,407
Net income	13,571	14,231
Net (income) loss attributable to non-controlling interest	(29)	40
Net income attributable to CAI common stockholders	$ 13,542	$ 14,271
Net income per share attributable to CAI common stockholders		
Basic	$ 0.65	$ 0.64
Diluted	$ 0.64	$ 0.63

Weighted average shares outstanding		
Basic	20,903	22,213
Diluted	21,295	22,658

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 March 31,	
	2015	2014
Net income	$ 13,571	$ 14,231
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	(2,419)	65
Comprehensive income	11,152	14,296
Comprehensive (income) loss attributable to non-controlling interest	(29)	40
Comprehensive income attributable to CAI common stockholders	$ 11,123	$ 14,336

See accompanying notes to unaudited consolidated financial statements.

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CAI INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(UNAUDITED)

	Three Months Ended March 31,			
	2015		2014	
Cash flows from operating activities				
Net income	$	13,571	$	14,231
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation		21,330		18,790
Amortization of debt issuance costs		692		687
Amortization of intangible assets		84		99
Stock-based compensation expense		512		409
Unrealized loss on foreign exchange		114		100
Gain on disposition of used rental equipment		(357)		(1,790)
Deferred income taxes		325		(2)
Bad debt expense		104		-
Changes in other operating assets and liabilities:				
Accounts receivable		6,219		(3,418)
Prepaid expenses and other assets		25		(29)
Accounts payable, accrued expenses and other current liabilities		(5,928)		(2,119)
Due to container investors		(2,953)		(1,458)
Unearned revenue		466		125
		34,204		25,625

Net cash provided by operating activities				
Cash flows from investing activities				
Purchase of rental equipment		(88,332)		(73,202)
Net proceeds from disposition of used rental equipment		13,884		11,070
Purchase of furniture, fixtures and equipment		(15)		(11)
Receipt of principal payments from direct financing leases		5,154		3,346
Net cash used in investing activities		(69,309)		(58,797)
Cash flows from financing activities				
Proceeds from debt		94,581		66,700
Principal payments on debt		(59,952)		(39,592)
Debt issuance costs		(1,654)		-
Decrease in restricted cash		254		255
Exercise of stock options		4,374		28
Excess tax benefit from share-based compensation awards		810		-
Net cash provided by financing activities		38,413		27,391
Effect on cash of foreign currency translation		(469)		95
Net increase (decrease) in cash		2,839		(5,686)
Cash at beginning of the period		53,821		45,741
Cash at end of the period	$	56,660	$	40,055
Supplemental disclosure of cash flow information				
Cash paid during the period for:				
Income taxes	$	1,665	$	315
Interest		8,909		9,333
Supplemental disclosure of non-cash investing and financing activity				

Transfer of rental equipment to direct finance lease	$	5,448	$	16,669

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. and its subsidiaries (collectively, CAI or the Company) is a transportation finance and logistics company. The Company purchases equipment, which it leases primarily to container shipping lines, freight forwarders and other transportation companies. The Company also manages equipment for third-party investors. In operating its fleet, the Company leases, re-leases and disposes of equipment and contracts for the repair, repositioning and storage of equipment. The Company's equipment fleet consists primarily of intermodal marine containers. The Company also owns a small fleet of railcars, which it leases in North America.

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, its wholly-owned subsidiaries, and its 80%-owned subsidiary, CAIJ, Inc. (CAIJ). The equity attributable to the minority interest in CAIJ is shown as a non-controlling interest on the Company's consolidated balance sheets, and the related net income is presented as net income attributable to non-controlling interest on the Company's consolidated statements of income. All significant intercompany balances and 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 March 31, 2015 and December 31, 2014, the Company's results of operations for the three months ended March 31, 2015 and 2014, and the Company's cash flows for the three months ended March 31, 2015 and 2014. 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 2015 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 (U.S. GAAP) have been condensed or omitted. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2014, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 27, 2015.

(2)Accounting Policies and Recent Accounting Pronouncements

(a)Accounting Policies

There were no changes to the Company's accounting policies during the three months ended March 31, 2015. See Note 2 to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on February 27, 2015, for a description of the Company's significant accounting policies.

(b)Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU No. 2014-09). This new standard will replace all current U.S. GAAP guidance on this topic and eliminates industry-specific guidance. Leasing revenue recognition is specifically excluded from this ASU, and therefore, the new standard will only apply to management fee revenue, sales of equipment portfolios and dispositions of used equipment. The guidance is effective for interim and annual periods beginning after December 15, 2016, with early application prohibited. Adoption of the guidance is not expected to have a material impact on the Company's consolidated financial statements.

In February 2015, the FASB issued Accounting Standards Update No. 2015-02, Consolidation (Topic 810): Amendment to the Consolidation Analysis (ASU No. 2015-02). The new guidance will change (1) the identification of variable interests (fees paid to a decision maker or service provider), (2) the variable interest entity (VIE) characteristics for a limited partnership or similar entity and (3) the primary beneficiary determination. The guidance is effective for annual and interim periods beginning after December 15, 2015, with early adoption permitted. The new guidance will be applied on a retrospective basis and is not expected to have a material impact on the Company's consolidated financial statements.

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CAI INTERNATIONAL, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs (ASU No. 2015-03). The new guidance will require debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. The guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. The new guidance will be applied on a retrospective basis and is not expected to have a material impact 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 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 FASB Accounting Standard Codification (ASC) Topic 810, Consolidation. If the fund is determined to be a VIE, 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 Topic 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 Topic 810, Consolidation. The equity attributable to the VIE is shown as a non-controlling interest on the Company’s consolidated balance sheets 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 statements of income.

The Company currently enters into two types of container fund arrangements with investors which are reviewed under ASC Topic 810, Consolidation. These arrangements include container funds that the Company manages for investors and container funds that have entered into financing arrangements with investors. 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.

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 of containers owned by the funds. 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. The Company recognizes gain on sale of containers to the unconsolidated VIEs as sales in the ordinary course of business. For the three months ended March 31, 2015 and 2014, the Company sold no container portfolios to the

VIEs.

Collateralized Financing Obligations

As of March 31, 2015, the Company has transferred containers with a total net book value of $142.1 million at the time of transfer to Japanese investor funds while concurrently entering into lease agreements for the same containers, under which the Company leases the containers back from the Japanese investors. In accordance with ASC Topic 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 Topic 810, Consolidation because as lessee of the funds, the Company has the power to direct the activities that most significantly impact each entity's economic performance including the leasing and managing of 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 March 31, 2015 and December 31, 2014, and the results of the VIEs' operations and cash flows for the three months ended March 31, 2015 and 2014 in the Company's consolidated financial statements.

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CAI INTERNATIONAL, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The containers that were transferred to the Japanese investor funds had a net book value of $98.8 million as of March 31, 2015. The container equipment, together with $33.6 million of cash held by the investor funds, has been included on the Company's consolidated balance sheets with the offsetting liability related to the funds presented in the debt section of the Company's consolidated balance sheets as collateralized financing obligations of $128.2 million and term loans held by VIE of $9.4 million. See Note 6(e) and 6(f) for additional information. No gain or loss was recognized by the Company on the initial consolidation of the VIEs.

(4)Net Investment in Direct Finance Leases

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

	March 31, 2015	December 31, 2014
Gross finance lease receivables (1)	$ 116,420	$ 116,992
Unearned income (2)	(21,252)	(22,028)
Net investment in direct finance leases	$ 95,168	$ 94,964

(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 receivables are reduced as customer payments are received. There was no unguaranteed residual value at March 31, 2015 and December 31, 2014 included in gross finance lease receivables. There were no executory costs included in gross finance lease receivables as of March 31, 2015 and December 31, 2014.

(2) The difference between the gross finance lease receivables 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 March 31, 2015 and December 31, 2014.

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 moderate.

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.

Tier 3— Customers in this category exhibit volatility in payments on a regular basis.

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

	March 31, 2015	December 31, 2014
Tier 1	$ 85,583	$ 89,960
Tier 2	30,837	27,032
Tier 3	-	-
	$ 116,420	$ 116,992

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CAI INTERNATIONAL, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Contractual maturities of the Company's gross finance lease receivables subsequent to and as of March 31, 2015 for the years ending March 31 were as follows (in thousands):

2016	$ 26,966
2017	23,009
2018	27,922
2019	25,154
2020	6,123
2021 and thereafter	7,246
	$ 116,420

(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 – owned equipment	5-7 years

Total amortization expense was $0.1 million for both the three months ended March 31, 2015 and 2014.

Intangible assets as of March 31, 2015 and December 31, 2014 were as follows (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
March 31, 2015			
Trademarks	$ 1,272	$ (1,107)	$ 165
Contracts- owned equipment	3,637	(3,619)	18
	$ 4,909	$ (4,726)	$ 183
December 31, 2014			
Trademarks	$ 1,278	$ (1,084)	$ 194
Contracts- owned equipment	3,812	(3,733)	79
	$ 5,090	$ (4,817)	$ 273

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CAI INTERNATIONAL, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(6) Debt and Capital Lease Obligations

Debt

Details of the Company’s debt as of March 31, 2015 and December 31, 2014 were as follows (dollars in thousands):

		March 31, 2015			December 31, 2014			
		Outstanding		Average	Outstanding		Average	Agreement
Reference		Current	Long-term	Interest	Current	Long-term	Interest	Terminates
(a)(i)	Revolving credit facility	$ -	$ 327,000	1.9%	$ -	$ 289,000	1.9%	March 2020
(a)(ii)	Revolving credit facility - Rail	-	74,750	1.9%	-	61,769	1.9%	July 2019
(b)(i)	Term loan	1,800	25,050	2.3%	1,800	25,500	2.2%	April 2018
(b)(ii)	Term loan	9,000	136,500	1.9%	9,000	138,750	1.8%	October 2019
(b)(iii)	Term loan	9,940	106,895	1.9%	9,940	109,380	1.9%	April 2017
(c)	Senior secured notes	8,240	74,160	4.9%	8,240	78,280	4.9%	September 2022
(d)	Asset backed notes	40,000	272,875	3.4%	40,000	282,875	3.4%	March 2028
(e)	Collateralized financing obligations	78,279	49,872	0.8%	57,390	65,184	0.8%	June 2019
(f)	Term loans held by VIE	1,829	7,559	2.6%	1,829	8,016	2.6%	June 2019
(g)	Short term line of credit	75,000	-	1.5%	75,000	-	1.5%	May 2016
	Total Debt	$ 224,088	$ 1,074,661		$ 203,199	$ 1,058,754		

(a)Revolving Credit Facilities

Revolving credit facilities consist of the following:

(i) On March 15, 2013, the Company entered into the Third Amended and Restated Revolving Credit Agreement, as amended, with a consortium of banks to finance the acquisition of container rental equipment and for general working capital purposes. On January 30, 2015, the Company entered into an amendment to the Third Amended and Restated Revolving Credit Agreement with a consortium of banks, pursuant to which the prior revolving credit facility was refinanced. The agreement was amended to extend the maturity date to March 15, 2020, reduce the interest rate, increase the commitment level from $760.0 million to $775.0 million, and revise certain of the covenants and restrictions under the prior facility to provide the Company with additional flexibility.

As of March 31, 2015, the maximum commitment under the revolving credit facility was $775.0 million. The revolving credit facility may be increased up to a maximum of $960.0 million, in accordance with the terms of the agreement, so long as no default or event of default exists either before or immediately after giving effect to the increase. There is a commitment fee on the unused amount of the total commitment, payable quarterly in arrears. The revolving credit facility 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 revolving credit facility. 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. Interest rates are based on LIBOR for Eurodollar loans and Base Rate for Base Rate loans. In addition to various financial and other covenants, the Company’s revolving credit facility also includes certain restrictions on the Company’s ability to incur other indebtedness or pay dividends to stockholders. As of March 31, 2015, the Company was in compliance with the terms of the revolving credit facility.

As of March 31, 2015, the Company had $447.9 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 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 equipment owned by the Company, which had a net book value of $619.9 million as of March 31, 2015, the underlying leases thereon and the Company’s interest in any money received under such contracts.

CAI INTERNATIONAL, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(ii) On July 25, 2014, the Company and CAI Rail Inc. (CAI Rail), a wholly-owned subsidiary of the Company, entered into an Amended and Restated Revolving Credit Agreement, as amended, with a consortium of banks to finance the acquisition of railcars. As of March 31, 2015, the maximum credit commitment under the revolving credit facility was $250.0 million. CAI Rail's revolving credit facility may be increased up to a maximum of $325.0 million, in accordance with the terms of the agreement, subject to certain conditions.

Borrowings under this revolving 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. Interest rates are based on LIBOR for Eurodollar loans and Base Rate for Base Rate loans.

As of March 31, 2015, CAI Rail had $175.2 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 governing CAI Rail's revolving credit facility contains various financial and other covenants. As of March 31, 2015, CAI Rail was in compliance with the terms of the revolving credit facility. CAI Rail's revolving credit facility, including any amounts drawn on the facility, is secured by all of the assets of CAI Rail, which had a net book value of $96.4 million as of March 31, 2015, and is guaranteed by the Company.

(b)Term Loans

Term loans consist of the following:

(i) On March 22, 2013, the Company entered into a $30.0 million five-year loan agreement with Development Bank of Japan (DBJ). The loan is payable in 19 quarterly installments of $0.5 million starting July 31, 2013 and a final payment of $21.5 million on April 30, 2018. The loan bears interest at a variable rate based on LIBOR. As of March 31, 2015, the loan had a balance of $26.9 million.

(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. 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.

On March 28, 2013, the term loan was amended which reduced the principal balance of the loan from $249.4 million to $125.0 million through payment of $124.4 million from the proceeds of the $229.0 million fixed-rate asset-backed notes issued by the Company's indirect wholly-owned subsidiary, CAL Funding II Limited (see Note 6(d) below).

On October 1, 2014, the Company entered into an amended and restated term loan agreement with a consortium of banks, pursuant to which the prior loan agreement was refinanced. The amended and restated term loan agreement, which contains similar terms to the prior loan agreement, was amended to, among other things: (a) reduce the borrowing rates from LIBOR plus 2.25% to LIBOR plus 1.6% (per annum) for Eurodollar loans, (b) increase the outstanding loan commitment from $115.0 million to $150.0 million, (c) extend the maturity date to October 1, 2019, and (d) revise certain of the covenants and restrictions under the prior loan agreement to provide the Company with additional flexibility. As of March 31, 2015, the term loan had a balance of $145.5 million.

(iii) On April 11, 2012, the Company entered into a term loan agreement with a consortium of banks. The agreement, as amended, provides for a five year term loan of up to $142.0 million, subject to certain borrowing conditions, which amount is secured by certain assets of the Company. The commitment under the loan may be increased to a maximum of $200.0 million under certain conditions described in the agreement. The outstanding principal amounts under the term loan bear interest based on LIBOR, amortized quarterly, and require quarterly payments equal to 1.75% multiplied by the outstanding principal amount at such time. The facility contains various financial and other covenants. The full $142.0 million has been drawn and was primarily used to repay outstanding amounts under the Company’s senior revolving credit facility. All unpaid amounts then outstanding are due and payable on April 11, 2017. As of March 31, 2015, the loan had a balance of $116.8 million.

The Company’s term loans are secured by rental equipment owned by the Company, which had a net book value of $350.8 million as of March 31, 2015.

CAI INTERNATIONAL, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(c)Senior Secured Notes

On September 13, 2012, Container Applications Limited (CAL), a wholly-owned subsidiary of the Company, entered into a Note Purchase Agreement with certain institutional investors, pursuant to which CAL issued $103.0 million of its 4.90% Senior Secured Notes due September 13, 2022 (the Notes) to the investors. The Notes are guaranteed by the Company and secured by certain assets of CAL and the Company.

The Notes bear interest at 4.9% per annum, due and payable semiannually on March 13 and September 13 of each year, commencing on March 13, 2013. In addition, CAL is required to make certain principal payments on March 13 and September 13 of each year, commencing on March 13, 2013. Any unpaid principal and interest is due and payable on September 13, 2022. The Note Purchase Agreement provides that CAL may prepay at any time all or any part of the Notes in an amount not less than 10% of the aggregate principal amount of the Notes then outstanding. As of March 31, 2015, the Notes had a balance of $82.4 million.

The Notes are secured by certain rental equipment owned by the Company, which had a net book value of $107.2 million as of March 31, 2015.

(d)Asset-Backed Notes

On October 18, 2012, CAL Funding II Limited (CAL II), a wholly-owned indirect subsidiary of CAI, issued $171.0 million of 3.47% fixed rate asset-backed notes (Series 2012-1 Asset-Backed Notes). Principal and interest on the Series 2012-1 Asset-Backed Notes is payable monthly commencing on November 26, 2012, and the Series 2012-1 Asset-Backed Notes mature in October 2027. The proceeds from the Series 2012-1 Asset-Backed Notes were used to repay part of the Company's borrowings under its senior revolving credit facility. As of March 31, 2015, the Series 2012-1 Asset-Backed Notes had a balance of $129.7 million.