

CAI International, Inc.
Form 10-K
February 28, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For The Fiscal Year Ended December 31, 2013

or

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

For the Transition Period from to

Commission file number-001-33388

CAI International, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

94-3109229
(I.R.S. Employer Identification Number)

Steuart Tower

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1 Market Plaza, Suite 900 San Francisco, California
(Address of principal executive office)

94105
(Zip Code)

(415) 788-0100

(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, par value \$0.0001 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 requirement 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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 smaller reporting company)

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

As of June 28, 2013, the last business day of the registrant’s most recently completed second fiscal quarter, the aggregate market value of common stock held by non-affiliates of the registrant (based upon the closing sale price of such shares on the New York Stock Exchange on June 28, 2013) was approximately \$405.7 million. Shares of registrant’s common stock held by each executive officer and director have been excluded in that such persons may be deemed to be affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of January 31, 2014, there were 22,240,673 shares of the registrant’s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement relating to the registrant’s 2014 Annual Meeting of Stockholders, which will be filed no later than 120 days after the close of the registrant’s fiscal year ended December 31, 2013, are incorporated by reference into Part III hereof.

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain forward-looking statements, including, without limitation, statements concerning the conditions in our industry, our operations, our economic performance and financial condition, including, in particular, statements relating to our business and growth strategy and service development efforts. The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for certain forward-looking statements so long as such information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. When used in this Annual Report on Form 10-K, the words “may,” “might,” “should,” “estimate,” “project,” “plan,” “anticipate,” “expect,” “intend,” “outlook,” “believe” and other similar expressions are intended to identify forward-looking statements and information. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. These forward-looking statements are based on estimates and assumptions by our management that, although we believe to be reasonable, are inherently uncertain and subject to a number of risks and uncertainties. These risks and uncertainties include, without limitation, those identified under the caption Item 1A. “Risk Factors” in this Annual Report on Form 10-K and in all our other filings filed with the Securities and Exchange Commission (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 filings with the SEC.

PART I

ITEM 1. BUSINESS

Our Company

We are one of the world's leading equipment leasing and management companies. We operate our business through two segments: equipment leasing and equipment management. We purchase new and used equipment, which we lease primarily to container shipping lines, freight forwarders and other transportation companies and either retain as part of our owned fleet or sell to third-party investors for whom we then provide management services. In operating our fleet, we lease, re-lease and dispose of equipment and contract for the repair, repositioning and storage of equipment. The following table shows the composition of our container fleet as of December 31, 2013 and our average fleet utilization for the year ended December 31, 2013:

	As of December 31, 2013	Percent of Total Fleet
Owned container fleet in TEUs	860,729	75 %
Managed container fleet in TEUs	283,725	25 %
Total container fleet in TEUs	1,144,454	100 %
Owned container fleet in CEUs	903,713	78 %
Managed container fleet in CEUs	262,071	22 %
Total container fleet in CEUs	1,165,784	100 %

Year
Ended
December
31,
2013

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Average container fleet utilization in TEUs	91.8 %
Average container fleet utilization in CEUs	92.7 %

The industry-standard measurement unit is the 20-foot equivalent unit, or TEU, which compares the size of a container to a standard 20-foot container. For example, a 20-foot container is equivalent to one TEU and a 40-foot container is equivalent to two TEUs. Containers can also be measured in cost equivalent units (CEUs), utilizing a ratio to convert the number of container units to their relative purchase price compared to a standard 20-foot dry van container. For example, the CEU ratio for a standard 40-foot dry van container is 1.6, and a 40-foot high cube container is 1.7.

We lease our equipment to lessees under long-term leases, short-term leases and finance leases. Long-term leases cover a specified number of equipment units that will be on lease for one year or more. Short-term leases provide lessees with the ability to lease equipment either for a fixed term of less than one year or without a fixed term on an as-needed basis, with flexible pick-up and drop-off of equipment at depots worldwide, subject to certain restrictions. Finance leases are long-term lease contracts that generally grant the lessee the right to purchase the equipment at the end of the term for a nominal amount. The following table provides a summary of our container fleet by lease type as of December 31, 2013:

	As of December 31, 2013			
	TEUs		CEUs	
Long-term leases	75 %	76 %		
Short-term leases	20 %	19 %		
Finance leases	5 %	5 %		
Total	100 %	100 %		

We also own a fleet of 1,804 railcars, which we lease within North America. The utilization of our railcar fleet at December 31, 2013 was 97.1%.

We manage equipment for third-party investors under management agreements that cover portfolios of equipment. Our management agreements have multiple year terms and provide that we receive a management fee based upon the actual rental revenue for each unit less the actual operating expenses directly attributable to that unit. We also receive fees for selling used equipment on behalf of third-party investors.

Our equipment leasing segment revenue comprises rental revenue and finance lease income from our owned fleet, and our equipment management segment revenue comprises gain on sale of equipment portfolios and management fee revenue for managing equipment for third-party investors. The operating results of each segment and details of our revenues for the years ended December 31, 2013, 2012 and 2011 and information regarding the geographic areas in which we do business are summarized in Note 15 to our consolidated financial statements included in this filing. For the year ended December 31, 2013, we recorded total revenue of \$212.4 million, net income attributable to CAI common stockholders of \$63.9 million and adjusted EBITDA of \$188.8 million. A comparison of our 2013 financial results with those of the prior years and a definition of adjusted EBITDA, as well as a reconciliation to the nearest GAAP measure, can be found in Item 6 “Selected Financial Data” of this Annual Report on Form 10-K.

Our container lessees use containers for their global trade utilizing many worldwide trade routes. We earn our revenue from international carriers when the equipment is in use and carrying cargo around the world. Most of our leasing related revenue is denominated in U.S. dollars. All of our containers are used internationally and no one unit is domiciled in one particular place for a prolonged period of time. As such, all of our containers are considered to be international with no single country of use.

We commenced our railcar leasing business in January 2012. Our railcars are used by lessees on railroads in North America. For the year ended December 31, 2013, the revenue derived from our railcar leasing business is included in our equipment leasing segment.

History

We were founded in 1989 by our Chairman, Hiromitsu Ogawa, as a traditional container leasing company that leased containers owned by us to container shipping lines. We were originally incorporated under the name Container Applications International, Inc. in the State of Nevada on August 3, 1989. On February 2, 2007, we were reincorporated under our present name in the State of Delaware.

On May 16, 2007, we completed an initial public offering of our common stock and listed our common stock on the New York Stock Exchange (NYSE) under the symbol “CAP”. On April 30, 2008, we acquired CAI Consent Sweden AB (Consent), formerly named Consent Equipment AB, a European container and intermodal equipment leasing company, for \$14.6 million in cash (net of \$1.3 million cash acquired) and the assumption of approximately \$25.7 million in debt. Consent was headquartered in Gothenburg, Sweden at the time of its acquisition. In February 2010, Consent’s headquarters were transferred to the United Kingdom. Consent also has an office in Delmenhorst, Germany, which has remained open.

On December 20, 2011, we formed CAI Rail Inc. (CAI Rail), as a wholly owned subsidiary of CAI International, Inc. CAI Rail was formed to purchase and lease-out a fleet of railcars in North America.

Corporate Information

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Our corporate headquarters and principal executive offices are located at Steuart Tower, 1 Market Plaza, Suite 900, San Francisco, California 94105. Our telephone number is (415) 788-0100 and our Web Site is located at <http://www.capps.com>. We have a branch office located in Charleston, South Carolina. We operate our business in 16 offices in 12 countries including the United States, and have agents in Asia, Europe, South Africa, Australia and South America. Our wholly owned international subsidiaries are located in the United Kingdom, Japan, Malaysia, Sweden, Germany, Singapore, Luxembourg, Barbados and Bermuda. We also own 80% of CAIJ, Inc., which is an investment manager for third-party investors in Japan.

Industry Overview

We operate in the worldwide intermodal freight container leasing industry. Intermodal freight containers, or containers, are large, standardized steel boxes used to transport cargo by a number of means, including ship, truck and rail. Container shipping lines use containers as the primary means for packaging and transporting freight internationally, principally from export-oriented economies in Asia to other Asian countries, North America and Western Europe.

Containers are built in accordance with standard dimensions and weight specifications established by the International Standards Organization (ISO). Standard dry van containers are eight feet wide, either 20 or 40 feet long and are either 8 feet 6 inches or 9 feet 6 inches tall.

The two principal types of containers are described as follows:

- Dry van containers. A dry van container is constructed of steel sides, roof and end panel with a set of doors on the other end, a wooden floor and a steel undercarriage. Dry van containers are the least expensive and most commonly used type of container. According to Container Census, 2013- Survey and Forecast of Global Container Units, published by Drewry Maritime Research, dry van containers comprised approximately 89.2% of the worldwide container fleet, as measured in TEUs, as of the end of 2012. They are used to carry general cargo, such as manufactured component parts, consumer staples, electronics and apparel.
- Specialized equipment. Specialized equipment consists of open-top, flat-racks, palletwide containers, swapbodies, roll trailers, refrigerated containers and generator sets. An open-top container is similar in construction to a dry van container except that the roof is replaced with a tarpaulin supported by removable roof bows. A flat-rack container is a heavily reinforced steel platform with a wood deck and steel end panels. Open-top and flat-rack containers are generally used to move heavy or oversized cargo, such as marble slabs, building products or machinery. Palletwide containers are a type of dry-van container externally similar to ISO standard containers, but internally about two inches wider so as to accommodate two European-sized pallets side-by-side. Swapbodies are a type of dry van container designed to be easily transferred between rail, truck, and barge and are equipped with legs under their frames. Roll trailers are a type of flat-bed trailer equipped with rubber wheels underneath for terminal haulage and stowage on board roll-on/roll-off vessels. A refrigerated container has an integrated refrigeration unit on one end which plugs into a generator set or other outside power source and is used to transport perishable goods. According to Container Census, 2013- Survey and Forecast of Global Container Units, published by Drewry Maritime Research, specialized containers comprised approximately 10.8% of the worldwide container fleet, as measured in TEUs, as of the end of 2012.

Containers provide a secure and cost-effective method of transportation because they can be used in multiple modes of transportation, making it possible to move cargo from a point of origin to a final destination without repeated unpacking and repacking. As a result, containers reduce transit time and freight and labor costs as they permit faster loading and unloading of shipping vessels and more efficient utilization of transportation containers than traditional bulk shipping methods. The protection provided by containers also reduces damage, loss and theft of cargo during shipment. While the useful economic life of containers varies based upon the damage and normal wear and tear suffered by the container, we estimate that the useful economic life of a dry van container used in intermodal transportation is 13.0 years.

Container shipping lines own and lease containers for their use. The Container Census, 2013- Survey and Forecast of Global Container Units, published by Drewry Maritime Research, estimates that as of the end of 2012, transportation companies (including container shipping lines and freight forwarders), owned approximately 55.0% of the total worldwide container fleet and container leasing companies owned approximately 45.0% of the total worldwide container fleet based on TEUs. Given the uncertainty and variability of export volumes and the fact that container shipping lines have difficulty in accurately forecasting their container requirements at different ports, the availability of containers for lease significantly reduces a container shipping line's need to purchase and maintain excess container inventory. In addition, container leases allow the container shipping lines to adjust their container fleets both seasonally and over time and help to balance trade flows. The flexibility offered by container leasing helps container shipping lines improve their overall fleet management and provides the container shipping lines with an alternative

source of financing.

We also operate a fleet of railcars that are used to transport industrial goods, materials and other products on railroad tracks throughout North America.

Our Operations

Our container fleet represented 95% of the book value of our rental equipment as of December 31, 2013 and accounted for 96% of equipment rental revenue for the year ended December 31, 2013. Our railcar fleet represented 5% of the book value of our rental equipment as of December 31, 2013 and accounted for 4% of equipment rental revenue for the year ended December 31, 2013.

Container Operations

Fleet Overview. The table below summarizes the composition of our container fleet as of December 31, 2013 by type of equipment:

	Dry Van Containers	Percent of Total Fleet	Specialized Equipment	Percent of Total Fleet	Total	Percent of Total Fleet
Owned container fleet in TEUs	792,193	69 %	68,536	6 %	860,729	75 %
Managed container fleet in TEUs	276,709	24 %	7,016	1 %	283,725	25 %
Total container fleet in TEUs	1,068,902	93 %	75,552	7 %	1,144,454	100 %
	Dry Van Containers	Percent of Total Fleet	Specialized Equipment	Percent of Total Fleet	Total	Percent of Total Fleet
Owned container fleet in CEUs	705,781	61 %	197,932	17 %	903,713	78 %
Managed container fleet in CEUs	246,668	21 %	15,403	1 %	262,071	22 %
Total container fleet in CEUs	952,449	82 %	213,335	18 %	1,165,784	100 %

Overview of Management Services. We lease, re-lease and dispose of containers and contract for the repair, repositioning and storage of our managed fleet. Our management agreements have multiple year terms and provide that we receive a management fee based upon the actual net operating income for each container, which is equal to the actual rental revenue for a container less the actual operating expenses directly attributable to that container. Management fees are collected monthly or quarterly, depending upon the agreement, and generally are not paid if net operating revenue is zero or less for a particular period. If operating expenses exceed revenue, third-party investors are required to pay the excess or we may deduct the excess, including our management fee, from future net operating revenue. Under these agreements, we typically receive a commission for selling or otherwise disposing of containers for the third-party investor. Our management agreements generally require us to indemnify the third-party investor for liabilities or losses arising out of our breach of our obligations. In return, the third-party investor typically indemnifies

us in our capacity as the manager of the container against breach by the third-party investor, sales taxes on commencement of the arrangement, withholding taxes on payments to the third-party investor under the management agreement and any other taxes, other than our income taxes, incurred with respect to the containers that are not otherwise included as operating expenses deductible from revenue.

Marketing and Operations. Our marketing and operations personnel are responsible for developing and maintaining relationships with our lessees, facilitating lease contracts and maintaining day-to-day coordination of operational issues. This coordination allows us to negotiate lease contracts that satisfy both our financial return requirements and our lessees' operating needs. It also facilitates our awareness of lessees' potential equipment shortages and their awareness of our available equipment inventories. We have marketing and operations employees in eight countries, supported by independent agents in a further nine countries.

Overview of Our Leases. To meet the needs of our lessees and achieve a favorable utilization rate, we lease containers under three main types of leases:

- **Long-Term Leases.** Our long-term leases specify the number of containers to be leased, the pick-up and drop-off locations, the applicable per diem rate and the contractual term. We typically enter into long-term leases for a fixed term ranging from three to eight years, with five-year term leases being most common. Our long-term leases generally require our lessees to maintain all units on lease for the duration of the lease, which provides us with scheduled lease payments. Some of our long-term leases contain an early termination option and afford the lessee continuing supply and total interchangeability of containers, with the ability to redeliver containers if the lessee's fleet requirements change. As of December 31, 2013, approximately 74.9% of our on-lease container fleet, as measured in TEUs, were under long-term leases.
-

- **Short-Term Leases.** Short-term leases include both master interchange leases and customized short-term leases. Master interchange leases provide a master framework pursuant to which lessees can lease containers on an as-needed basis, and thus command a higher per diem rate than long-term leases. The terms of master interchange leases are typically negotiated on an annual basis. Under our master interchange leases, lessees know in advance their per diem rates and drop-off locations, subject to monthly port limits. We also enter into other short-term leases that typically have a term of less than one year and are generally used for one-way leasing, typically for small quantities of containers. The terms of short-term leases are customized for the specific requirements of the lessee. Short-term leases are sometimes used to reposition containers to high-demand locations and accordingly may contain terms that provide incentives to lessees. As of December 31, 2013, approximately 20.3% of our on-lease container fleet, as measured in TEUs, was under short-term leases.
- **Finance Leases.** Finance leases provide our lessees with an alternative method to finance their container acquisitions. Finance leases are long-term in nature and require relatively little customer service attention. They ordinarily require fixed payments over a defined period and generally provide lessees with a right to purchase the leased containers for a nominal amount at the end of the lease term. Per diem rates under finance leases include an element of repayment of capital and, therefore, typically are higher than per diem rates charged under long-term leases. Finance leases require the container lessee to keep the container on lease for the entire term of the lease. As of December 31, 2013, approximately 4.8% of our on-lease container fleet, as measured in TEUs, was under finance leases.

Our lease agreements contain general terms and conditions detailing standard rights and obligations, including requirements that lessees pay a per diem rate, depot charges, taxes and other charges when due, maintain equipment in good condition, return equipment in good condition in accordance with return conditions set forth in the lease agreement, use equipment in compliance with all applicable laws, and pay us for the value of the equipment as determined by the lease agreement if the equipment is lost or destroyed. A default clause in our lease agreements gives us certain legal remedies in the event that an equipment lessee is in breach of lease terms.

Our lease agreements contain an exclusion of warranties clause and require lessees to defend and indemnify us in most instances from third-party claims arising out of the lessee's use, operation, possession or lease of the equipment. Lessees are required to maintain physical damage and comprehensive general liability insurance and to indemnify us against loss with respect to the equipment. We also maintain our own contingent physical damage and third-party liability insurance that covers our equipment during both on-lease and off-lease periods. All of our insurance coverage is subject to annual deductible provisions and per occurrence and aggregate limits.

Re-leasing, Logistics Management and Depot Management. We believe that managing the period after lease termination, in particular of our containers' first lease, is one of the most important aspects of our business. Successful management of this period requires disciplined re-leasing capabilities, logistics management and depot management.

- **Re-leasing.** Since our leases allow our lessees to return their containers, we typically lease a container several times during the time we manage it as part of our fleet. New containers can usually be leased with a limited sales and customer service infrastructure because initial leases for new

containers typically cover large volumes of units and are fairly standardized transactions. Used containers, on the other hand, are typically leased in smaller transactions that are structured to accommodate pick-ups and returns in a variety of locations. Our utilization rates depend on our re-leasing abilities. Factors that affect our ability to re-lease used containers include the size of our lessee base, ability to anticipate lessee needs, our presence in relevant geographic locations and the level of service we provide our lessees. We believe that our global presence and long-standing relationships with more than 300 container lessees as of December 31, 2013 provide us an advantage over our smaller competitors in re-leasing our containers.

- Logistics Management. The shipping industry is characterized by large regional trade imbalances, with loaded containers generally flowing from export-oriented economies in Asia to other Asian countries, North America and Western Europe. Because of these trade imbalances, container shipping lines have an incentive to return leased containers in relatively low export areas to reduce the cost of shipping empty containers. We have managed this structural imbalance of inventories with the following approach:
 - Limiting or prohibiting container returns to low-demand areas. In order to minimize our repositioning costs, our leases typically include a list of the specific locations to which containers may be returned, limitations on the number of containers that may be returned to low-demand locations, high drop-off charges for returning containers to low-demand locations or a combination of these provisions;
 - Taking advantage of the secondary resale market. In order to maintain a younger fleet age profile, we have aggressively sold older containers when they are returned to low demand areas;
-

- Developing country-specific leasing markets to utilize older containers in the portable storage market. In North America and Western Europe, we lease on a limited basis older containers for use as portable storage;
- Seeking one-way lease opportunities to move containers from lower demand locations to higher demand locations. One-way leases may include incentives, such as free days, credits and damage waivers. The cost of offering these incentives is considerably less than the cost we would incur if we paid to reposition the containers; and
- Paying to reposition our containers to higher demand locations. At locations where our inventories remain high, despite the efforts described above, we will selectively choose to ship excess containers to locations with higher demand.
- Depot Management. As of December 31, 2013, we managed our equipment fleet through 273 independent equipment depot facilities located in 46 countries. Depot facilities are generally responsible for repairing containers when they are returned by lessees and for storing the containers while they are off-hire. Our operations group is responsible for managing our depot contracts and periodically visiting depot facilities to conduct inventory and repair audits. We also supplement our internal operations group with the use of independent inspection agents. As of December 31, 2013 a large majority of our off-lease inventory was located at depots that are able to report notice of container activity and damage detail via electronic data interchange, or EDI.

Most of the depot agency agreements follow a standard form and generally provide that the depot will be liable for loss or damage of containers and, in the event of loss or damage, will pay us the previously agreed loss value of the applicable containers. The agreements require the depots to maintain insurance against container loss or damage and we carry insurance to cover the risk when a depot's insurance proves insufficient.

Our container repair standards and processes are generally managed in accordance with standards and procedures specified by the Institute of International Container Lessors, or the IICL. The IICL establishes and documents the acceptable interchange condition for containers and the repair procedures required to return damaged containers in acceptable interchange condition. When containers are returned by lessees, the depot arranges an inspection of the containers to assess the repairs required to return the containers to acceptable IICL condition. As part of the inspection process, damages are categorized either as lessee damage or normal wear and tear. Items typically designated as lessee damage include dents in the container, while items such as rust are typically designated as normal wear and tear. In general, lessees are responsible for the lessee damage portion of repair costs and we are responsible for normal wear and tear.

Investors. We have historically sold portfolios of leased containers to various overseas investment entities. The investment entities that typically have purchased containers from us are funds formed by investment arrangers who act as financial intermediaries between third-party investors and lessors of containers and other shipping assets. These independent investment arrangers will either seek out investments in leased assets on behalf of an investment fund or a group of third-party investors or will work with us to identify an investor or group of third-party investors to invest in a pool of leased assets. Our 80%-owned subsidiary, CAIJ, Inc., acts as investment arranger for sales of containers by us in Japan and manages containers leases for investors in Japan.

Customer Concentration. Our customers include container lessees and third-party investors to whom we have sold container portfolios and for whom we manage containers.

- Container Leasing Concentration. Revenue from our ten largest container lessees represented 60.9% of lease related revenue for the year ended December 31, 2013, with revenue from our single largest container lessee, CMA CGM, accounting for 12.1% of lease related revenue, or \$23.8 million. This \$23.8 million of revenue represented 11.2% of our total revenue for this period. The largest lessees of our owned fleet are often among the largest lessees of our managed fleet. The largest lessees of our managed fleet are responsible for a significant portion of the billings that generate our management fee revenue.

 - Container Management Concentration. A substantial majority of our container management segment revenue is derived from third-party investors associated with five different investment funds located in Germany and Japan. Third-party investors associated with the five investment funds represented 76.3% of our management fee revenue for the year ended December 31, 2013. Revenue of \$4.0 million from the two largest third-party investors represented 51.5% of management fee revenue, or 1.9% of our total revenue for the year ended December 31, 2013.
-

Proprietary Real-time Information Technology System. Our proprietary real-time information technology system tracks all of our containers individually by container number, provides design specifications for the containers, tracks on-lease and off-lease transactions, matches each on-lease unit to a lease contract and each off-lease unit to a depot contract, maintains the major terms for each lease contract, tracks accumulated depreciation, calculates the monthly bill for each container lessee and tracks and bills for container repairs. Most of our depot activity is reported electronically, which enables us to prepare container lessee bills and calculate financial reporting information more efficiently.

In addition, our system allows our lessees to conduct business with us through the Internet. This allows our lessees to review our container inventories, monitor their on-lease information, view design specifications and receive information on maintenance and repair. Many of our lessees receive billing and on- and off- lease information from us electronically.

Our Suppliers. We purchase most of our containers in China from manufacturers that have met our qualification requirements. We are currently not dependent on any single manufacturer. We have long-standing relationships with all of our major container suppliers. Our technical services personnel review the designs for our containers and periodically audit the production facilities of our suppliers. In addition, we contract with independent third-party inspectors to monitor production at factories while our containers are being produced. This provides an additional layer of quality control and helps ensure that our containers are produced in accordance with our specifications.

Our Competition. We compete primarily with other container leasing companies, including both larger and smaller lessors. We also compete with bank leasing companies offering long-term operating leases and finance leases, and container shipping lines, which sometimes lease their excess container inventory. Other participants in the shipping industry, such as container manufacturers, may also decide to enter the container leasing business. It is common for container shipping lines to utilize several leasing companies to meet their container needs and to minimize reliance on individual leasing companies.

Our competitors compete with us in many ways, including pricing, lease flexibility, supply reliability, customer service and the quality and condition of containers. Some of our competitors have greater financial resources than we do, or are affiliates of larger companies. We emphasize the quality of our fleet, supply reliability and high level of customer service to our container lessees. We focus on ensuring adequate container availability in high-demand locations, dedicate large portions of our organization to building relationships with lessees, maintain close day-to-day coordination with lessees and have developed a proprietary information technology system that allows our lessees to access real-time information about their containers.

Seasonality. We experience seasonal increased demand for containers in the several months leading up to the holiday season in the United States and Europe, and higher demand for purchasing containers by third-party investors toward the end of the calendar year. By comparison, our equipment rental revenue and management fee revenue have historically fluctuated much less than our sales of equipment portfolios, although equipment rental revenue and

management revenue may also fluctuate significantly in future periods based upon the level of demand by container shipping lines for leased containers, our ability to maintain a high utilization rate of containers in our total fleet, changes in per diem rates for leases and fluctuations in operating expenses.

Rail Operations

Fleet Overview. We own a fleet of railcars of various types including: 50ft and 60ft box cars for paper and forest products; covered hoppers for grain, cement, sand, plastic pallets and many other industrial products; general purpose tank cars that are used to transport non-hazardous commodities; gondolas for coal; and general service flat cars. We owned 1,804 railcars as of December 31, 2013.

Overview of Our Leases. We offer multiple lease options to our railcar customers, including full service and net operating leases, per diem leases, sale/leasebacks and asset based financings. Our full service leases provide our customers with comprehensive management services including the cost of maintenance and taxes. Net operating leases allow the customer the flexibility to manage the railcars themselves. Our per diem lease product enables the customer to pay through a settlement process on an hourly and mileage basis.

Customer Concentration. Our railcar customers are typically industrial companies who ship their products or raw materials by rail. We lease to a number of different industries and no customer generates more than 15% of our total monthly revenue. Our industrial customers include Exxon, Proctor and Gamble, BASF, Halliburton and Mead Westvaco. Additionally, we work with a number of North American Class I Railroads, such as CSX, Norfolk Southern, Union Pacific, BNSF and Canadian National, and regional carriers including Genessee & Wyoming.

Our Competition. We function in a highly competitive marketplace that includes large and small operating lessors, financial institutions with passive leasing enterprises, captive leasing companies owned by manufacturers and at times with shippers holding large and diverse fleets of railcars.

Credit Control

We lease to container shipping lines, freight forwarders and other transportation companies that meet our credit criteria. Our credit policy sets different maximum exposure limits depending on our relationship and previous experience with each equipment lessee. Credit criteria may include, but are not limited to, trade route, country, social and political climate, assessments of net worth, asset ownership, bank and trade credit references, credit bureau reports, including those from Dynamar, operational history and financial strength. We monitor our lessees' performance and our lease exposures on an ongoing basis. Our credit control processes are aided by the long payment experience we have with most of our lessees, our broad network of relationships in the shipping industry that provide current information about our lessees' market reputations and our focus on collections.

Environmental Matters

We are subject to federal, state, local and foreign laws and regulations relating to the protection of the environment, including those governing the discharge of pollutants to air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. We could incur substantial costs, including cleanup costs, fines and third-party claims for property or natural resource damage and personal injury, as a result of violations of environmental laws and regulations in connection with our or our lessees' current or historical operations. Under some environmental laws in the United States and certain other countries, the owner or operator of equipment may be liable for environmental damage, cleanup or other costs in the event of a spill or discharge of material from the equipment without regard to the fault of the owner or operator. While we typically maintain liability insurance coverage and typically require our lessees to provide us with indemnity against certain losses, the insurance coverage is subject to large deductibles, limits on maximum coverage and significant exclusions and may not be sufficient or available to protect against any or all liabilities and such indemnities may not cover or be sufficient to protect us against losses arising from environmental damage.

Regulation

We are subject to regulations promulgated in various countries, including the United States, seeking to protect the integrity of international commerce and prevent the use of equipment for international terrorism or other illicit activities. For example, the Container Security Initiative, the Customs-Trade Partnership Against Terrorism and Operation Safe Commerce are among the programs administered by the U.S. Department of Homeland Security that are designed to enhance security for cargo moving throughout the international transportation system by identifying existing vulnerabilities in the supply chain and developing improved methods for ensuring the security of containerized cargo entering and leaving the United States. Moreover, the International Convention for Safe Containers, 1972, as amended, adopted by the International Maritime Organization, applies to new and existing containers and seeks to maintain a high level of safety of human life in the transport and handling of containers by providing uniform international safety regulations. As these regulations develop and change, we may incur increased compliance costs due to the acquisition of new, compliant equipment and/or the adaptation of existing equipment to meet new requirements imposed by such regulations.

Employees

As of December 31, 2013, we had 85 employees worldwide. We are not a party to any collective bargaining agreements. We believe that relations with our employees are good.

Available Information

Our Internet website address is <http://www.capps.com>. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act) are available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. Also, copies of our filings with the SEC will be made available, free of charge, upon written request to the Company.

ITEM 1A.RISK FACTORS

In addition to the other information contained in this Annual Report on Form 10-K, we have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition, results of operations and cash flows. Investors should carefully consider the risks described below before making an investment decision. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently believe are immaterial may also impair our business operations. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks and investors may lose all or part of their investment. This section should be read in conjunction with our audited consolidated financial statements and related notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Annual Report on Form 10-K.

Risks Related to Our Business and the Equipment Leasing Industry

The demand for leased containers depends on many political, economic and other factors beyond our control.

Substantially all of our revenue comes from activities related to the leasing of containers. Our ability to continue successfully leasing containers to container shipping lines, earning management fees on leased containers and attracting third-party investors to purchase container portfolios from us depends in part upon the continued demand for leased containers. The demand for containers is affected by numerous factors.

Demand for containers depends largely on the rate of world trade and economic growth, with consumer demand being one of the most critical factors affecting this growth. Economic downturns in one or more countries or regions, particularly in the United States, China, Europe and other consumer-oriented economies, could result in a reduction in world containerized trade growth or in demand by container shipping lines for leased containers. Most of the third-party investor programs into which we sell container portfolios employ a certain amount of debt in order to increase investor equity returns. Tighter credit markets make it more difficult for third-party investors to access debt for future investment programs, which increases the potential that we may not be able to sell containers to investor programs in the future. In such case, our revenue, net income and cash flow will be lower, which will limit the level of growth in our operating fleet that we might otherwise be able to attain.

In Europe, the ongoing sovereign debt crisis, the loss of value by the Euro and related effects on the European banking system have contributed to growing instability in the European currency and credit markets. Further deterioration of European economic conditions, the dissolution of the European Union or the Euro, or a significant loss of value by the Euro could reduce demand for the Company's containers globally and impact the ability of our third-party investors to access debt for future investments.

Economic recessions may result in a decline in the future demand for containers by our customers and could lead to an increase in the number of containers returned to us, reduce our equipment rental revenue, reduce utilization of our fleet, increase our operating expenses (such as storage, bad debt and repositioning costs) and have an adverse effect on our future financial performance. Much of our leasing business involves shipments of goods exported from Asia. From time to time, there have been economic disruptions, health scares, financial turmoil, natural disasters and political instability in Asia and in the Middle East. If these events were to occur in the future, they could adversely

affect our container lessees and the general demand for shipping and lead to reduced demand for leased containers or otherwise adversely affect us. Other general factors affecting demand for leased containers, utilization and per diem rates include the following:

- available supply and prices of new and used containers;
 - economic conditions and competitive pressures in the shipping industry;
 - shifting trends and patterns of cargo traffic;
 - the availability and terms of container financing;
 - fluctuations in interest rates and foreign currency values;
 - overcapacity or undercapacity of the container manufacturers;
 - the lead times required to purchase containers;
 - the number of containers purchased by competitors and container lessees;
 - container ship fleet overcapacity or undercapacity;
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- increased repositioning by container shipping lines of their own empty containers to higher-demand locations in lieu of leasing containers from us;
- consolidation or withdrawal of individual container lessees in the container shipping industry;
- import/export tariffs and restrictions;
- customs procedures, foreign exchange controls and other governmental regulations;
- natural disasters that are severe enough to affect local and global economies;
- political and economic factors;
- currency exchange rates; and
- future regulations which could restrict our current business practices and increase our cost of doing business.

All of these factors are inherently unpredictable and beyond our control. These factors will vary over time, often quickly and unpredictably, and any change in one or more of these factors may have a material adverse effect on our business, financial condition, results of operations and cash flows. Many of these factors also influence the decision by our customers to lease or buy containers. Should one or more of these factors influence our customers to buy a larger percentage of the containers they operate, our utilization rate would decrease, resulting in decreased revenue and increased storage and repositioning costs.

Continuing turmoil in the Middle East and North Africa could cause increases in oil prices or disruptions in oil supplies which could substantially affect global trade and our business.

Recent protests, violence and political instability in certain Middle East and North African countries have increased the risk of political turmoil spreading through the region. Such events could cause the price of oil to increase or disrupt world oil supplies. Our business is dependent on the volume of global trade. Such events could cause substantial volatility in the U.S. and world financial markets and global trade, which could harm our business.

Our results of operations could be affected by natural events in the locations in which we or our customers or suppliers operate.

We have operations in locations subject to natural disasters such as severe weather and geological events that could disrupt our operations. In addition, our suppliers and customers also have operations in such locations. For example, on March 11, 2011, the northern region of Japan experienced a severe earthquake followed by a series of tsunamis resulting in negative direct economic effects to the Japanese economy and potentially a regional or global downturn in economic activity. Although the earthquake in Japan did not cause a disruption in our operations in the region, any future natural disasters in Japan or elsewhere in the world where we have business operations could lead to disruption of the regional and global economies, which could result in a decrease in demand for leased equipment, adversely impacting our business, financial condition, results of operations and cash flows.

Our container portfolio sale activities may result in lower gains or losses on sales of containers to investors.

Our revenue from gain on sale of equipment portfolios depends on our ability to make a profit on containers that we purchase and then resell to third-party investors. We typically enter into firm purchase orders for containers before we begin finding lessees for the containers, and the time necessary to lease the containers may be much longer than we anticipate. The price that a third-party investor is willing to pay for a portfolio of containers depends on a number of factors, including the historical and future expected cash flows from the portfolio to the third-party investor, the credit ratings of the lessees, the mix of short-term and long-term leases, the number of units in the portfolio, the timing of the sale and alternative investment opportunities available to the third-party investor. If any of these factors changes unexpectedly during the period between the date of our purchase order to the date a third-party investor purchases the containers from us, we may recognize a lower gain on sale of the containers to investors, sell them to third-party investors at a loss or retain them as part of our owned fleet.

Per diem rates for our leased containers may decrease, which would have a negative effect on our business and results of operations.

Per diem rates for our leased containers depend on a large number of factors, including the following:

- the type and length of the lease;
 - embedded residual assumptions;
 - the type and age of the containers;
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- the number of new units available for lease by our competitors;
- the location of the containers being leased;
- the price of new containers; and
- interest rates.

Because steel is the major component used in the construction of new containers, the price of new containers and per diem rates on new containers are highly correlated with the price of raw steel. For example, container prices increased in the first half of 2012, however, customer demand softened in the second half of 2012 leading to a decrease in container prices and lease rates. Customer demand and steel prices continued to decrease through most of 2013 with a corresponding decrease in container prices. We cannot predict container prices in the future. If newly manufactured container prices decline, we may need to lease the containers at low return rates or at a loss.

Per diem rates may be negatively impacted by the entrance of new leasing companies, overproduction of new containers by manufacturers and over-buying of containers by container shipping lines and leasing competitors. In the event that the container shipping industry were to be characterized by overcapacity in the future, or if available supply of containers were to increase significantly as a result of, among other factors, new companies entering the business of leasing and selling containers, both utilization and per diem rates may decrease, adversely affecting our business, financial condition, results of operations and cash flows.

We face risks associated with re-leasing containers after their initial long term lease.

Containers have a useful economic life that is generally between 12 and 15 years. When we purchase newly manufactured containers, we typically lease them out under long-term leases with terms of 3 to 8 years at a lease rate that is correlated to the price paid for the container. As containers leased under term leases are not leased out for their full economic life, we face risks associated with re-leasing containers after their initial long term lease at a rate that continues to provide a reasonable economic return based on the initial purchase price of the container. If prevailing container lease rates decline significantly between the time a container is initially leased out and when its initial long term lease expires, or if overall demand for containers declines, we may be unable to earn a sufficient lease rate from the re-leasing of containers when their initial term leases expire. This could adversely affect our business, financial condition, results of operations and cash flows.