

INTERPOOL INC
Form 10-Q
February 27, 2004

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

For The Quarterly Period Ended March 31, 2003

or

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

For the Transition Period from _____ to _____

Commission file number 1-11862

INTERPOOL, INC.

(Exact name of registrant as specified in the charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-3467669

(I.R.S. Employer
Identification Number)

**211 College Road East, Princeton, New
Jersey**

(Address of principal executive office)

08540

(Zip Code)

(609) 452-8900

(Registrant's telephone number including area code)

Indicate by check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days. Yes No

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

As of February 11, 2004, there were 27,378,846 shares of common stock, \$.001 par value outstanding.

INTERPOOL, INC. AND SUBSIDIARIES

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

ITEM 1: FINANCIAL STATEMENTS

The Condensed Consolidated Financial Statements as of March 31, 2003 (unaudited) and December 31, 2002 and for the three months ended March 31, 2003 (unaudited) and 2002 (unaudited) (the "Condensed Consolidated Financial Statements") of Interpool, Inc. and Subsidiaries (the "Company" or the "Registrant") included herein have

been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Registrant believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these Condensed Consolidated Financial Statements be read in conjunction with the financial statements and the notes thereto included in the Company's December 31, 2002 Annual Report on Form 10-K (the "2002 Form 10-K"). These Condensed Consolidated Financial Statements reflect, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the results for the interim periods. The results of operations for such interim periods are not necessarily indicative of the results for the full year.

As discussed in the Company's 2002 Form 10-K, the Company has restated its financial statements for the years ended December 31, 2000 and 2001 and the first three quarters of 2002. The Company concluded that this restatement would be necessary while preparing for its 2002 annual audit in March 2003, when the Company determined that several direct finance lease transactions with customers in 2001 and 2000 had been accounted for incorrectly in its prior financial statements. In addition, it also determined that the Company's former computer leasing segment, which had been classified as a discontinued operation in its financial statements for the first three quarters of 2002 and for 2001 and 2000, should have been classified as part of continuing operations because the requirements of discontinued operation accounting treatment were not satisfied. The Company subsequently identified additional items in its prior financial statements that also required restatement. The Company's financial statements for the years ended December 31, 2000, 2001 and 2002 included in its 2002 Form 10-K, which was filed with the Securities and Exchange Commission on January 9, 2004, give effect to this restatement. The 2002 Form 10-K contains a description of each of the adjustments resulting from the restatement and describes the aggregate impact of these adjustments on the Company's previously issued financial statements.

All financial information for the three months ended March 31, 2002 included in this Quarterly Report on Form 10-Q gives effect to the restatement.

In connection with the restatement, the Audit Committee of the Company's Board of Directors engaged as special counsel a law firm, that had not previously represented the Company, to conduct an internal investigation into the accounting errors and circumstances requiring restatement of the Company's previously issued 2001 and 2000 financial statements. Special counsel, working with forensic accountants, conducted an extensive investigation, which was not completed until the fourth quarter of 2003. The findings and recommendations of this investigation, and the measures the Company has taken and is taking to implement these recommendations, were discussed in detail in the 2002 Form 10-K.

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

Following the Company's announcement in July 2003 that the Audit Committee had commissioned an internal investigation by special counsel into the Company's accounting, the Company was notified that the SEC had opened an informal investigation of the Company. This investigation was subsequently converted to a formal investigation and remains pending as of the date this report was filed with the SEC. The New York office of the SEC has received a copy of the written report of the internal investigation and has issued subpoenas requesting documents and information from the Company, the Audit Committee and certain other parties. The Company has also been advised that the United States Attorney's office for the District of New Jersey has received a copy of the written report of the internal investigation and has opened a parallel investigation focusing on certain matters described in the report by the Audit Committee's special counsel. The Company has been informed that the Company is neither a subject nor a target of the investigation by the U.S. Attorney's office. The Company is cooperating fully with both of these investigations.

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The information in this Quarterly Report on Form 10-Q contains certain "forward-looking statements" within the meaning of the securities laws. These forward-looking statements reflect the current view of the Company with respect to future events and financial performance and are subject to a number of risks and uncertainties, many of which are beyond the Company's control. All statements, other than statements of historical facts included in this report, regarding the Company's strategy, future operations, financial position, estimated revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this report, the words "will," "believe," "anticipate," "intend," "estimate," "expect," "project" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. All forward-looking statements speak only as of the date of this report. The Company does not undertake any obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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

	March 31,	December
	2003	2002
	----	----
	Unaudited	

ASSETS		
CASH AND SHORT-TERM INVESTMENTS	\$125,812	\$170,61
MARKETABLE SECURITIES, available for sale at fair value	19	1,46
ACCOUNTS AND NOTES RECEIVABLE, less allowance of \$15,483 and \$14,033, respectively	65,428	63,95
NET INVESTMENT IN DIRECT FINANCING LEASES	407,879	334,12
OTHER RECEIVABLES, net	25,120	26,69
LEASING EQUIPMENT, net of accumulated depreciation and amortization of \$472,383 and \$463,809, respectively	1,559,014	1,556,81
OTHER INVESTMENT SECURITIES, available for sale at fair value	7,288	10,31
OTHER ASSETS	80,536	75,23
ASSETS OF BUSINESS TRANSFERRED UNDER CONTRACTUAL AGREEMENT	374	1,90
	---	---
TOTAL ASSETS	\$2,271,470	\$2,241,12
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$171,452	\$160,01
INCOME TAXES	33,639	31,65
DEFERRED INCOME	3,503	3,68
DEBT AND CAPITAL LEASE OBLIGATIONS		
Due within one year	167,625	161,40
Due after one year	1,437,684	1,435,80
	-----	-----
TOTAL DEBT AND CAPITAL LEASE OBLIGATIONS	1,605,309	1,597,21
LIABILITIES OF BUSINESS TRANSFERRED UNDER CONTRACTUAL AGREEMENT	374	1,90
COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES	75,000	75,00
IN SUBSIDIARY GRANTOR TRUSTS (holding solely junior Subordinated Deferrable interest debentures of the Company) (75,000 shares 9-7/8% Capital Securities outstanding, liquidation preference \$75,000)		
MINORITY INTEREST IN EQUITY OF SUBSIDIARIES	35,321	35,46
STOCKHOLDERS' EQUITY:		
Preferred stock, par value \$.001 per share; 1,000,000 authorized, none issued	---	--
Common stock, par value \$.001 per share; 100,000,000 shares authorized, 27,579,952 issued at March 31, 2003 and December 31, 2002	28	2
Additional paid-in capital	129,205	126,16
Unamortized deferred compensation-stock grants	(2,282)	--

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Treasury stock, at cost, 225,900 shares at March 31, 2003 and December 31, 2002	(2,229)	(2,229)
Retained earnings	246,391	237,229
Accumulated other comprehensive loss	(24,241)	(24,999)
	-----	-----
Total stockholders' equity	346,872	336,199
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$2,271,470	\$2,241,129
	=====	=====

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

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

	Three Months Ended	
	March 31,	
	2003	2002
	----	----
		(Restated)

REVENUES, including income recognized on direct financing leases of \$10,080 and \$8,214, respectively	\$89,167	\$74,489
	-----	-----
COSTS AND EXPENSES:		
Lease operating and administrative expenses	28,038	22,129
Provision for doubtful accounts	1,779	2,189
Fair value adjustment for derivative instruments	(150)	(1,500)
Depreciation and amortization of leasing equipment	23,197	27,549
Losses for investments accounted for under the equity method	52	1,029
Other (income)/expense, net	(1,215)	(5,599)
Interest expense	25,388	23,659
Interest income	(1,029)	(2,079)
	-----	-----
	76,060	67,359
	-----	-----
Income before minority interest expense and provision for income taxes	13,107	7,139
MINORITY INTEREST EXPENSE, NET	(396)	(809)
	-----	-----
Income before provision for income taxes	12,711	6,339
PROVISION FOR INCOME TAXES	1,835	149
	-----	-----
NET INCOME	\$10,876	\$6,199
	=====	=====
NET INCOME PER SHARE:		
Basic	\$0.40	\$0.29
	=====	=====
Diluted	\$0.38	\$0.29
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING (in thousands):		
Basic	27,354	27,369
	=====	=====
Diluted	30,087	29,249
	=====	=====

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

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

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	Three Months Ended March 31,	
	2003 ----	2002 ----
		(Restate -----)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$10,876	\$6,19
Adjustments to reconcile net income to net cash provided by operating activities --		
Depreciation and amortization	24,116	28,40
Restricted stock grant expense	60	--
Accrued losses on business transferred under contractual agreement	---	2,33
(Gain)/loss on sale of leasing equipment	(921)	88
Loss on sale of marketable securities	26	1
Provision for doubtful accounts	1,779	2,18
Fair value adjustment for derivative instruments	(150)	(1,50
Losses on investments accounted for under the equity method	52	1,02
Other, net	(12,175)	(20,30
	-----	-----
Net cash provided by operating activities	23,663	19,22
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of leasing equipment	(36,983)	(74,88
Proceeds from dispositions of leasing equipment	12,388	3,18
Investment in direct financing leases	(66,652)	(6,96
Cash collections on direct financing leases, net of income recognized of \$10,080 and \$8,214, respectively	19,115	13,12
Purchase of marketable securities	(10)	(25
Sales and matured marketable securities and other investing activities	1,472	12
	-----	--
Net cash used for investing activities	(70,670)	(65,67
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of debt	5,064	510,05
Payment of long-term debt and capital lease obligations	(43,263)	(392,74
Borrowings of revolving credit lines	46,500	--
Repayment of revolving credit lines	(4,600)	(1,15
Purchase of treasury stock	---	(4
Dividends paid	(1,495)	(1,50
	-----	-----
Net cash provided by financing activities	2,206	114,61
	-----	-----
Net increase (decrease) in cash and short-term investments	(44,801)	68,16
CASH AND SHORT-TERM INVESTMENTS, beginning of period	170,613	103,76
	-----	-----
CASH AND SHORT-TERM INVESTMENTS, end of period	\$125,812	\$171,92
	=====	=====
Cash paid for interest	\$31,343	\$29,43
	=====	=====
Cash paid for taxes	\$30	\$62
	===	===
Supplemental disclosure of non-cash investing activities:		
Direct finance leases financed through capital lease obligations	\$10,948	\$5,93
	=====	=====
Used equipment refinanced under direct finance lease	\$4,397	--
	=====	==

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

INTERPOOL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2002 AND THE THREE MONTHS ENDED MARCH 31, 2003
(dollars and shares in thousands)
(unaudited)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Unamortized Deferred Compensation	Treasury Stock	Retained Earnings
	Shares	Par Value	Shares	Par Value				
BALANCE, December 31, 2001 (Restated)	---	\$---	27,580	\$28	\$124,182	\$---	\$(2,099)	\$239,065
Net income	---	---	---	---	---	---	---	\$4,389
Other comprehensive loss	---	---	---	---	---	---	---	---
Comprehensive loss	---	---	---	---	---	---	---	---
Purchase of 9,300 shares of treasury stock	---	---	---	---	---	---	(130)	---
Capital contribution by officers and directors	---	---	---	---	1,983	---	---	---
Cash dividends declared:								
Common stock, \$.2275 per share	---	---	---	---	---	---	---	(6,227)
BALANCE, December 31, 2002	---	---	27,580	28	126,165	---	(2,229)	237,227
Net income	---	---	---	---	---	---	---	10,876
Other comprehensive income	---	---	---	---	---	---	---	---
Comprehensive income	---	---	---	---	---	---	---	---
Capital contribution by officers and directors	---	---	---	---	698	---	---	---
Restricted stock award	---	---	---	---	2,342	(2,342)	---	---
Amortization of restricted stock award	---	---	---	---	---	60	---	---
Cash dividends declared:								
Common stock, \$.0625 per share	---	---	---	---	---	---	---	(1,712)
BALANCE, March 31, 2003	---	\$---	27,580	\$28	\$129,205	\$(2,282)	\$(2,229)	\$246,391

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

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

Note 1 - Nature of Operations and Accounting Policies

A. Basis of Presentation

The Condensed Consolidated Financial Statements of Interpool, Inc. and Subsidiaries (the "Company") as of March 31, 2003 and December 31, 2002 and for the three months ended March 31, 2003 and 2002 (the "Condensed Consolidated Financial Statements") included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principals have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. The Company has made certain reclassifications to prior balances to conform to the current year presentation. It is suggested that these Condensed Consolidated Financial Statements be read in conjunction with the financial statements and the notes thereto included in the Company's December 31, 2002 Annual Report on Form 10-K (the "2002 Form 10-K"). These Condensed Consolidated Financial Statements reflect, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the results for the interim periods. The results of operations for such interim periods are not necessarily indicative of the results for the full year.

As discussed in the Company's 2002 Form 10-K, the Company has restated its financial statements for the years ended December 31, 2000 and 2001 and the first three quarters of 2002. The Company concluded that this restatement would be necessary while preparing for its 2002 annual audit in March 2003, when the Company determined that several direct finance lease transactions with customers in 2001 and 2000 had been accounted for incorrectly in its prior financial statements. In addition, it also determined that the Company's former computer leasing segment, which had been classified as a discontinued operation in its financial statements for the first three quarters of 2002 and for 2001 and 2000, should have been classified as part of continuing operations because the requirements of discontinued operation accounting treatment were not satisfied. The Company subsequently identified additional items in its prior financial statements that also required restatement. The Company's financial statements for the years ended December 31, 2000, 2001 and 2002 included in its 2002 Form 10-K, which was filed with the Securities and Exchange Commission on January 9, 2004, give effect to this restatement. The 2002 Form 10-K contains a description of each of the adjustments resulting from the restatement and describes the aggregate impact of these adjustments on the Company's previously issued financial statements.

All financial information for the three months ended March 31, 2002 included in this Quarterly Report on Form 10-Q gives effect to the restatement.

B. Nature of Operations

The Company and its subsidiaries conduct business principally in a single industry segment, the leasing of intermodal dry freight standard containers, chassis and other transportation related equipment. Within this single industry segment, the Company has two reportable segments: container leasing and domestic intermodal equipment leasing. The container-leasing segment specializes in the leasing of intermodal dry freight standard containers, while the domestic intermodal equipment segment specializes in the leasing of intermodal container chassis and freight rail cars. The Company leases its containers principally to international container shipping lines located throughout the world. The customers for the Company's chassis are a large number of domestic companies, many of which are domestic subsidiaries or branches of international shipping lines, as well as major U.S. railroads. Equipment is purchased directly or acquired through conditional sales contracts and lease agreements, many of which qualify as capital leases.

The Company's container leasing operations are conducted through its subsidiary, Interpool Limited, a Barbados corporation. Profits of Interpool Limited from container leasing operations are exempt from federal taxation in the United States. These profits are subject to Barbados tax at rates that are substantially lower than the applicable

rates in the United States.

The Company also has limited operations in a third reportable segment that specializes in leasing microcomputers and related equipment. The computer leasing segment consisted of two majority owned subsidiaries, Microtech Leasing Corporation ("Microtech") and Personal Computer Rental Corporation ("PCR"). During the third quarter of 2001, the Company adopted a plan to exit this segment that included i) acquiring the remaining ownership interest in Microtech and terminating its operations, and ii) selling the Company's ownership interest in PCR. As of March 31, 2003, the Company is continuing to liquidate the assets of Microtech. PCR's financial results deteriorated throughout 2002 and PCR ceased active operations and began to liquidate in 2003. Notwithstanding its plan to discontinue the operations of Microtech, such operations are reported on a continuing basis in the Company's Condensed Consolidated Financial Statements.

Beginning June 27, 2002, the Company's Consolidated Financial Statements include Container Applications International, Inc. ("CAI"), which was previously accounted for under the equity method of accounting. The Company owns a 50% common equity interest in CAI.

C. Basis of Consolidation

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

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

D. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of shares outstanding during the period (which is net of treasury shares). Diluted income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The dilutive effect of stock options and the un-vested portion of restricted stock grants is computed using the treasury stock method, which assumes the repurchase of common shares at the average market price for the period. Stock options that do not have a dilutive effect (because the exercise price is above the market price) are not included in the diluted income per share and amounted to options to purchase 22,500 shares for the quarter ended March 31, 2003. For the quarter ended March 31, 2002, all stock options to acquire common shares are dilutive. Unvested restricted stock grants did not have a dilutive effect to earnings per share ("EPS") for the quarter ended March 31, 2003. There were no unvested restricted stock grants outstanding during the quarter ended March 31, 2002.

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

Three Months Ended March 31,	
2003	2002
	(Restated)

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Numerator		
Net Income - Basic EPS	\$10,876	\$6,190
Interest expense on convertible debentures, net of tax of \$301	451	---
	---	---
Net Income - Diluted EPS	\$11,327	\$6,190
	=====	=====
Denominator		
Weighted average common shares outstanding-Basic	27,354	27,361
Dilutive stock options	1,355	1,886
Dilutive convertible debentures	1,378	---
	----	----
Weighted average common shares outstanding-Diluted	30,087	29,247
	=====	=====
Earnings per common share		
Basic	\$0.40	\$0.23
	=====	=====
Diluted	\$0.38	\$0.21
	=====	=====

E. Comprehensive Income

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

The tax effect of other comprehensive income is as follows:

Three Months Ended March 31, 2003	Before Tax Amount	Tax Effect	Net of Tax Amount
	-----	-----	-----
Unrealized holding gains arising during the period:			
Marketable securities (1)	\$32	\$ (11)	\$21
Cumulative foreign currency translation adjustment	3	(1)	2
Swap agreements	1,160	(426)	734
	-----	---	---
	\$1,195	\$ (438)	\$757
	=====	=====	=====

(1) Amounts are net of losses on sales of marketable securities of \$26 (before income tax effect of \$1) recognized in the income statement.

Three Months Ended March 31, 2002 (Restated)	Before Tax Amount	Tax Effect	Net of Tax Amount
	-----	-----	-----
Unrealized holding gains arising during the period:			
Marketable securities (1)	\$20	\$ (7)	\$13
Other investment securities	54	(3)	51
Swap agreements	3,029	(367)	2,662
	-----	---	-----
	\$3,103	\$ (377)	\$2,726
	=====	=====	=====

(1) Amounts are net of losses on sales of marketable securities of \$19 (before income tax effect of \$8) recognized in the income statement.

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

March 31, 2003 December 31, 2002

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Marketable securities	\$ (33)	\$ (54)
Cumulative foreign currency translation adjustment	(41)	(43)
Swap agreements	(24,167)	(24,901)
	-----	-----
	\$ (24,241)	\$ (24,998)
	=====	=====

F. Stock-Based Compensation