INTERPOOL INC
Form 10-K
March 09, 2007

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, 2006
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER 1-11862

INTERPOOL, INC.
(Exact name of registrant as specified in the charter)

DELAWARE	**13-3467669**
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification Number)

211 COLLEGE ROAD EAST, PRINCETON, NEW JERSEY 08540
(Address of principal executive office) (Zip Code)

(609) 452-8900
(Registrant s telephone number including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name on Each Exchange on which Registered
COMMON STOCK, PAR VALUE $.001	**NEW YORK STOCK EXCHANGE**
9.25% CONVERTIBLE REDEEMABLE SUBORDINATED DEBENTURES	**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 |X|

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

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 |X| No |_|

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. |_|

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one).

Large accelerated filer |_| Accelerated filer |X| Non-accelerated filer |_|

Indicate by check mark if the registrant is a shell company, as defined in Rule 12b-2 of the Exchange Act. Yes |_| No |X|

The aggregate market value of the shares of the registrant s voting stock held by non-affiliates of the registrant was $230,506,258, based upon the closing price of $22.22 per common share, as quoted on the New York Stock Exchange, on June 30, 2006 (the last day of the registrant s most recently completed second quarter).

At March 1, 2007, there were 29,412,143 shares of the registrant s Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Interpool, Inc. Definitive Proxy Statement for its 2007 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

INTERPOOL, INC.

FORM 10-K

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PART I

ITEM 1. BUSINESS

General

Unless otherwise indicated, all fleet statistics, including the size of the fleet, utilization of the leasing equipment and the rental rates per day, that are set forth in this Annual Report on Form 10-K include all of our owned equipment, including that portion of our owned equipment managed for us by Container Applications International, Inc. (CAI), as well as the equipment which we are responsible to manage for third party investors. To the extent that our equipment is managed by CAI, the equipment is considered fully utilized since it is not available for us to put on hire regardless of whether all of the units are generating income. All equipment owned by CAI or managed by CAI (with the exception of equipment owned by us and managed by CAI) prior to the sale of our equity interest in CAI has been excluded from all statistics, unless otherwise indicated. In addition, all of our chassis assigned to chassis pools are considered fully utilized. The market share, ranking and other data contained in this Annual Report on Form 10-K are based either on our management s own estimates, independent industry publications, reports by market research firms or other published independent sources and, in each case, are believed by management to be reasonable estimates. However, market share data is subject to change and cannot always be verified with certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey of market shares. As a result, you should be aware that market share, ranking and other similar data set forth herein, and estimates and beliefs based on such data, might not be reliable.

The following two transactions completed during 2006 have had a significant effect on our business and financial results.

Sale of Equity Interest in CAI

On October 1, 2006, we sold to Container Applications International, Inc. (CAI) all shares of CAI s common stock owned by us, which shares had represented a 50% common equity interest in CAI, for total consideration of $77.5 million, consisting of a $40.0 million cash payment and the issuance by CAI of a $37.5 million convertible subordinated secured promissory note (the New CAI Note). We originally acquired our equity interest in CAI in 1998 for a purchase price of $12.5 million.

As a result of this transaction, CAI s assets and liabilities are no longer included in our Consolidated Balance Sheet at December 31, 2006. Due to the potential convertibility of the New CAI Note, under certain circumstances, we could, at some future date, hold an equity interest in CAI exceeding 20% if we elected to convert the New CAI Note. Accordingly, CAI s operating results through September 30, 2006 have been treated as results from continuing operations in our Consolidated Statements of Income for the year ended December 31, 2006, as well as our Consolidated Statements of Cash Flows for the year ended December 31, 2006. See Note 7 to the Consolidated Financial Statements.

March 2006 Sale of Containers

On March 29, 2006, our wholly-owned container leasing subsidiary, Interpool Containers Limited (ICL), sold approximately 273,300 standard dry marine cargo containers (the March 2006 Container Sale), together with an assignment of all rights of ICL under existing operating leases for these containers with our customers, to a newly formed subsidiary of an investor group based in Switzerland (the Purchaser), pursuant to a Sale Agreement dated March 14, 2006 (the Sale Agreement). The containers sold represented approximately 74% of the standard dry marine cargo containers in our operating lease fleet at December 31, 2005, including most of the containers managed for us by CAI. The sale did not include containers subject to existing direct financing leases with customers. In connection with the sale, we entered into a new management agreement with the Purchaser and CAI, pursuant to which we will manage the containers that are currently under long-term lease in exchange for management fees. See Note 6 to the Consolidated Financial Statements for further information.

Effective April 1, 2006, as a result of the March 2006 Container Sale, we no longer record leasing revenue and lease operating and administrative expense relating to the containers sold to the Purchaser, but we instead record management fee revenue earned under the management agreements entered into with the Purchaser.

Proposal Letter from Our Chairman and Chief Executive Officer

On January 16, 2007, our Board of Directors received a letter from Martin Tuchman, our Chairman and Chief Executive Officer, supported by other significant stockholders of ours and an investment fund affiliated with Fortis Merchant Banking, proposing an acquisition of all of our outstanding common stock (other than a portion of the shares held by Mr. Tuchman and the other supporting stockholders) for $24.00 per share in cash. Mr. Tuchman and the other stockholders supporting his letter to our Board, together with their families and investment affiliates, presently beneficially own more than 50% of our 29.3 million shares of common stock currently outstanding. Mr. Tuchman s proposal letter contemplated that Mr. Tuchman and the other stockholders supporting the proposal would reinvest approximately 6.2 million of their currently held shares in the proposed transaction and sell the balance of their holdings (approximately 12.3 million shares) at the same $24.00 per share price in cash as our non-affiliated public stockholders would receive for their 10.8 million shares currently outstanding.

Our Board of Directors formed a Special Committee of independent directors to review and evaluate the proposal set forth in Mr. Tuchman s letter, consistent with its fiduciary duties. The Special Committee has engaged independent legal counsel and an independent financial advisor to assist it with its work. The Special Committee, working with its advisors, is proceeding to evaluate the proposal and alternatives available to us to determine whether or not the proposal is in the best interests of our public stockholders. The Special Committee has instructed its financial advisor and our financial advisor to contact potentially interested parties. To date, no decisions have been made by the Special Committee or the Board of Directors with respect to any response to the proposal. There can be no assurance that any

definitive offer will be made, that any agreement will be executed or that this or any other transaction will be approved or consummated.

In the event that the transaction proposed by Mr. Tuchman were to proceed and were to be consummated on the terms that have been proposed, it would constitute a going private transaction. If the transaction were to be consummated, we would become a private company whose common stock may no longer be publicly traded, and we may no longer be subject to the periodic reporting requirements of the Securities Exchange Act of 1934. There can be no assurance that this or any other transaction will proceed or will be consummated.

General

We believe we are the largest lessor of intermodal chassis in North America and one of the world s leading lessors and managers of intermodal dry freight standard containers. At December 31, 2006, our chassis fleet totaled approximately 238,000 chassis (including equipment on both operating and direct financing leases). Our container equipment fleet, which totaled 756,000 twenty foot equivalent units (TEUs) at December 31, 2006, includes units owned by us and units which we manage on behalf of third parties. With respect to the owned portion of our fleet, which consisted of 482,000 TEUs at December 31, 2006, a majority of these units are subject to long-term direct financing leases with customers. From 2000 to 2005, we increased the size of our chassis fleet at a compound annual rate of approximately 5%. During 2006 our chassis fleet grew by 5%. During the period from 2000 to 2005, we increased our container fleet at a compound annual rate of 5%. During 2006, our combined owned and managed container fleet decreased by 9%, which was primarily impacted by the contractual runoff of the container direct financing lease portfolio.

We concentrate on the leasing of containers to shipping lines throughout the world and the leasing of chassis to transportation companies in North America. This equipment is either owned by us or, in the case of a large portion of our container fleet, managed on behalf of other third party equipment owners. All container equipment, whether owned or managed, is operated as a single fleet. We are responsible for providing marketing, billing and collection services as well as arranging for the repair of all equipment in the fleet. To the extent that equipment is managed for other third party investors, these investors take on the risks of equipment ownership. We remit the revenues earned by their equipment, net of any operating expenses and bad debts related to their equipment. In addition, they receive the proceeds from the sale of their equipment at the end of its useful life. In return for these management services, we earn management fees.

We concentrate on leasing our owned and managed equipment to customers on a long-term basis (leases for a term greater than one year) and substantially all new equipment is initially leased for a term of five to eight years. Approximately 72% of our chassis fleet and 91% of our owned and managed containers are currently on long-term lease. We believe our focus on long-term leasing has enabled us to:

- Maintain high utilization rates for our equipment;
- Achieve more stable and predictable operating results; and
- Concentrate on the expansion of the asset base through the purchase and lease of new equipment.

Approximately 3% of the chassis are currently leased on a short-term basis, representing long-term leases winding down or to satisfy customers seasonal requirements. Short-term leases are generally at higher rates than long-term leases. In addition, for customers who require daily or weekly chassis rentals, we operate chassis pools at major domestic shipping ports and rail terminals. The equipment in these pools comprises about 18% of the chassis fleet. Approximately 4% of the containers are currently leased on a short-term basis.

We have been involved in the business of leasing transportation equipment since 1968. We lease chassis and containers to a diversified customer base of over 500 shipping and transportation companies throughout the world, including nearly all of the world s 25 largest international container-shipping lines and major North American railroads. We provide customer service and we market to our customers through a worldwide network of offices and agents. We believe one of the key factors in our ability to compete effectively has been the long-standing relationships that we have established with most of the world s large shipping lines and major North American railroads. As a result of these relationships, 22 of our top 25 customers have been customers for at least 10 years.

Industry Overview

The fundamental components of intermodal transportation are the chassis and the container. When a container ship arrives in port, each marine container is removed from the ship and loaded onto a chassis or rail car. Most containers are constructed of steel in accordance with standards established by the International Standards Organization (ISO). The basic container type is the general-purpose dry freight standard container, which measures 20 or 40 feet long, 8 feet wide and 8½ or 9½ feet high. In general, 20-foot containers are used to carry heavy, dense cargo loads (such as industrial parts and certain food products) and can also operate in areas where transportation facilities are less developed, while 40-foot containers are used for lighter weight finished goods (such as apparel, electronic appliances and other consumer goods) in areas with better developed transportation facilities. A chassis is a rectangular, wheeled steel frame, generally 23½ or 40 feet in length, built specifically for the purpose of transporting a container. Longer sized chassis, designed solely to accommodate domestic containers, can be up to 53 feet in length. Once mounted, the chassis and container are the functional equivalent of a trailer. When mounted on a chassis, the container may be trucked either to its final destination or to a railroad terminal for loading onto a rail car. Similarly, a container shipped by rail may be transferred to a chassis to travel over-the-road to its final destination. As the use of containers has become a predominant factor in the intermodal movement of cargo, the chassis has become a prerequisite for the movement of containers over land. A chassis seldom travels permanently with a single container, but instead serves as a transport vehicle for containers that are loaded or unloaded at ports or railroad terminals. Because of differing international road regulations and non-uniformity of international standards for chassis, chassis used in North America are seldom used in other countries.

Containers provide a secure and cost-effective method of transporting finished goods and component parts because they are generally freely interchangeable between different modes of transport, making it possible to move cargo from a point of origin to a final destination without the repeated unpacking and repacking of the goods required by traditional shipping methods. The same container may be carried successively on a ship, rail car and chassis and across international borders with minimal customs formalities. Containerization is more efficient, more economical and safer in the transportation of cargo than break bulk transport in which the goods are unpacked and repacked at various intermediate points en route to their final destination. By eliminating manual repacking operations when differing modes of transportation are used, containerization reduces freight and labor costs. In addition, automated handling of containers permits faster loading and unloading and more efficient utilization of transportation equipment, thereby reducing transit time. The protection provided by sealed containers also reduces damage to goods and loss and theft of goods during shipment. Containers may also be picked up, dropped off, stored and repaired at independent common user depots located throughout the world.

In recent years, domestic railroads and trucking lines located in North America have begun actively marketing intermodal services for the domestic transportation of freight. We believe that this trend should serve to accelerate the growth of intermodal transportation resulting in increased chassis and container demand. In addition, due to the increased volume of cargo movement in and out of railroad terminals, the railroads are reconfiguring the patterns of container and chassis activity on the terminals. In a growing number of locations they are requiring empty containers to be moved off of the terminal, a process that requires additional chassis to service the additional container movements. Railroads are also increasing the use of chassis pools operated by leasing companies to aid efficiency.

From 2004 to 2005 worldwide container traffic at the world s major ports increased by approximately 9.0% according to *Containerisation International Yearbook* 2007.

The demand for containers is influenced primarily by the volume of international and domestic trade. In recent years, however, the rate of growth in the container industry has exceeded that of world trade as a whole due to several factors, including:

- The existence of geographical trade imbalances;
- The trend in outsourcing manufacturing to lower labor rate areas;
- The expansion of shipping lines including the increasing capacity of container vessels;
- The growing reliance by manufacturers on "just-in-time" delivery methods; and
- Increased exports by technologically advanced countries of component parts for assembly in other countries and the subsequent re-importation of finished products.

The Leasing Market

Leasing companies own a significant portion of North America s chassis and of the world s container fleet and we believe the balance is owned predominantly by shipping lines and railroads. Leasing companies have maintained this market position because container shipping lines and railroads receive both financial and operational benefits by leasing a portion of their equipment. The principal benefits of leasing are the following:

- To provide shipping lines and railroads with an alternative source of financing in a traditionally capital-intensive industry;
- To enable shipping lines and railroads to expand their routes and market shares at a relatively inexpensive cost without making a permanent commitment to support their new structure;
- To enable shipping lines and railroads to benefit from leasing companies' relationships with equipment manufacturers;
- To enable shipping lines and railroads to accommodate seasonal use and/or geographic concentration, thereby limiting their capital investment and storage costs;
- To enable shipping lines and railroads to maintain an optimal mix of equipment types in their fleets;
- To enable railroads and terminal facilities to operate more efficiently by the use of pools of equipment at selected locations for daily rental; and
- To enable shipping lines and trucking companies to have immediate access to a supply of chassis through daily rental from pools of equipment at selected locations.

Because of these benefits, container shipping lines and railroads generally obtain a significant portion of their container and chassis fleets from leasing companies, either on short-term or long-term leases. Short-term leases provide considerable operational flexibility in allowing a customer to pick up and drop off equipment at various locations at any time. However, customers pay for this flexibility in the form of substantially higher lease rates for

short-term leases and drop-off charges for the privilege of returning equipment to certain locations. Many short-term leases are master leases, under which a customer reserves the right to lease a certain number of containers or chassis as needed under a general agreement between the lessor and the lessee. Long-term leases provide the lessee with advantageous pricing structures, and can contain an early termination provision allowing the lessee to return equipment prior to expiration of the lease upon payment of an early termination fee or a retroactive increase in lease payments.

Business Strategy

Our objective is to continue to expand on our market position as a leading long-term lessor of intermodal transportation equipment. To achieve this objective, we intend to continue to:

Focus on our core business of North American chassis and international marine container leasing. Our strong market positions in the chassis and container leasing businesses provide us with economies of scale that benefit our customers. Our container equipment and operations are located worldwide to meet our international customers needs in a timely manner. Our chassis equipment and related operations are located throughout North America. In addition, we are able to focus our management and financial resources to compete effectively for equipment leasing requirements of all quantities.

Concentrate on long-term leasing (operating leases and direct financing leases) to achieve high utilization rates and to minimize the impact of economic cycles on earnings. We concentrate on long-term leases in order to minimize the impact of economic cycles on our equipment leasing revenues and to achieve high utilization and more stable and predictable earnings. The lower rate of turnover provided by long-term leases enables us to concentrate on the expansion of our asset base through the purchase and lease of new equipment, rather than on the repeated re-marketing of our existing fleet.

Make strategic acquisitions of complementary businesses as well as strategic acquisitions or dispositions of asset portfolios on an opportunistic and financially disciplined basis. We have acquired, and may continue to acquire, equipment portfolios from time to time when attractive opportunities arise to expand the fleet. At the same time, we consider opportunities to sell assets on favorable terms. We intend to continue to review both acquisition and disposition opportunities whenever asset prices and market conditions are favorable.

Manage containers for third party investors under existing agreements. We may also consider growing our managed container fleet when attractive opportunities become available.

Work with port terminals and railroads to offer attractive chassis pool management services and availability of equipment in our chassis pool fleet. We intend to continue to offer management services through PoolStat ® which will forge both short-term and long-term opportunities. The supply of chassis and management services involve both international chassis (20 foot, 40 foot, and 45 foot) and domestic chassis (48 foot and 53 foot) in their respective markets.

Acquire assets at the lowest possible cost through volume purchases and joint venture arrangements with manufacturers. In the last several years, China has emerged as the primary supplier of chassis for the U.S. market. We believe our position as a significant purchaser of Chinese produced chassis, as well as our 50% ownership in a limited liability company formed with a foreign chassis manufacturer, allows us the opportunity to create preferential pricing programs with all major foreign chassis suppliers.

Re-lease of equipment when returned by lessees. When long-term leases reach their expiration date, we make every effort to extend the lease with the customer that originally leased the equipment, or we may offer a lease term extension with a purchase option, resulting in the lease becoming a direct financing

lease. In addition, we may lease the equipment to another customer for an extended term or we may make containers available to CAI or other third parties for management in the short-term marketplace.

Sell used equipment. At the end of the economic life of an owned or managed container, it will be sold in the second hand marketplace for use in less developed trades or in the non-maritime sector for storage purposes. We maintain relationships with wholesalers, depot operators, mini storage operators, construction companies and others that are in the market to purchase used containers. We typically do not sell used chassis because a chassis usually can be re-manufactured to give it essentially a new useful life.

Operations

We offer our customers both operating leases and direct financing leases to satisfy customer preference and demand. In most cases, a direct financing lease provides the customer the opportunity to acquire ownership of the equipment.

Operating Leases. Lease rentals are typically calculated on a per diem basis, regardless of the term of the lease. Our leases generally provide for monthly billing and require payment by the lessee within 60 days after presentation of an invoice. Generally, the lessee is responsible for payment of all taxes and other charges arising out of use of the equipment and must carry specified amounts of insurance to cover physical damage to and loss of equipment, as well as bodily injury and property damage to third parties. In addition, our leases usually require lessees to repair any damage to the chassis and containers, other than normal wear and tear. Lessees are also required to indemnify the owner of the equipment against our losses arising from accidents and other occurrences involving the leased equipment. Our leases generally provide for lessees to pay handling charges. All of our operating leases, both short-term and long-term, generally set forth a list of locations where lessees may return equipment, along with any monthly quantity return limits.

Long-term leases provide the lessee with advantageous pricing structures, and can contain an early termination provision allowing the lessee to return equipment prior to expiration of the lease upon payment of an early termination fee or a retroactively applied increase in lease payments. We experience minimal early returns of our equipment under our long-term leases, primarily because of the penalties involved. Additionally, customers may bear substantial costs related to repositioning and repair upon return of the equipment.

Frequently, a lessee will desire to retain long-term leased equipment well beyond the initial lease term. In these cases, long-term leases will be renewed at the then-prevailing market rate, for one to five-year periods or as a direct financing lease.

Direct Financing Leases. In addition to providing our customers with operating leases, we also offer them the option of direct financing leases. These leases generally provide that, after a stated lease term, the lessee has the option to purchase the equipment, typically for amounts below the estimated fair market value of the equipment at the time the purchase option will become exercisable. Under the terms of these leases, the substantive risks and rewards of equipment ownership are passed to the lessee. The lease payments are segregated into principal and interest components similar to a loan. The interest component, calculated using the effective interest method over the term of the lease, is recognized by us as equipment leasing revenue. The principal component of the lease payment is reflected as a reduction to the net investment in the direct financing lease.

Marketing and Customers. We lease our chassis and containers to over 500 shipping and transportation companies throughout the world, including nearly all of the world s 25 largest international container-shipping lines and major North American railroads. The customers for our chassis include a large number of North American lessees, many of which are subsidiaries or branches of international shipping lines to which we also lease containers. With a network of offices and agents covering major ports in North America, Europe and the Far East, we have been able to supply containers in nearly all locations requested by our customers. In 2006, our top 25 customers represented

approximately 79% of our consolidated net billing, with no single customer accounting for more than 7.8%.

Chassis Pools. Chassis for international containers have been leased in pooled arrangements at marine ports since the mid 1980 s and at rail ramps since the late 1990 s. In the last year, we have also begun to provide chassis for domestic containers in pooled arrangements at major railroads. Chassis pools are locations where a lessor provides a group of chassis in a single port or railroad terminal location to be rented on a daily basis. A customer who signs our pool agreement and has appropriate credit strength is allowed to rent any chassis in the pool at any time. The industry term for this type of chassis pool is called a neutral pool, because the chassis are provided by a neutral third party rather than the shipping lines themselves. A shipping line notifies a trucker to pick up a chassis from the pool and then proceed to pick up the designated container for movement. The chassis is returned by the trucker to the pool when the move is complete. The shipping line or other customer pays only for the number of days it uses the chassis. Pool rental rates are higher than other lease rates because the customer pays only when the chassis is in use (and we may experience some idle, unpaid period between uses of the chassis) and because the customer generally does not pay for any maintenance and repair the costs being also bundled into the overall chassis pool rate.

Chassis Management Services. Our chassis customers are turning to outside service companies to help them manage chassis that they own and lease. We offer management services under the trademarked name PoolStat ®. PoolStat ® aggregates chassis activity data from over 500 locations around the country and reports on this activity, processing more than 3.1 million transactions monthly. Customers contract with us to track their chassis nationally and determine usage patterns, ongoing requirements, and overall fleet efficiencies. Reports are provided using a PoolStat ® proprietary Internet-based report generator. PoolStat ® services also include the use of field staff under contract where field management of chassis operations is involved.

A major chassis management service requested by our customers is assistance in the formation and running of cooperative chassis pools. Cooperative chassis pools consist of chassis contributed for common use by the shipping lines (or alliances or associations comprised of a group of shipping lines) to be pooled at marine terminals and railroad depots. These chassis pools are different from the neutral chassis pools in that the shipping lines themselves supply the chassis for their own shared usage rather than us supplying the chassis to the pool users on a rental basis. Typically, however, the chassis contributed by the shipping lines to a cooperative chassis pool are either owned by the shipping lines or leased from chassis leasing companies. Our PoolStat ® software compiles data from each location and reports on levels of chassis contribution as compared to the levels of chassis usage by each shipping line in the cooperative pool. Each participating line is required to supply a fair share of equipment relative to its usage. The management services we provide for cooperative chassis pools often involves field staff assisting in the repositioning of chassis as well as overseeing the maintenance and repair process. Benefits to the participants in this program include:

- More efficient use of chassis leading to lower overall inventory requirements at each location;
- Decreased maintenance, repair and other operating expenses;
- Improved equipment control capabilities;
- Reduced customer administrative time and expense of managing a chassis fleet; and
- The ability to participate in cooperative pool net revenues

By providing the PoolStat ® service, we are able to forge closer relationships with our customers for both short-term and long-term leasing opportunities. There are now approximately 287,000 chassis covered by various Trac Lease, Inc. (Trac Lease)/ PoolStat ® management contracts and we are continuing to seek opportunities to increase its level of business. We believe that Trac Lease is the leading provider of chassis management services in North America.

Depots. We operate in all major containerized transportation markets in North America and throughout the world. Depots are facilities owned by third parties at which containers, chassis and other items of transportation equipment are stored, maintained and repaired. For containers, we utilize independent agents/depots to handle and inspect equipment delivered to, or returned by lessees, as well as to store containers that are not leased and to perform maintenance and repairs. Some agents are paid a fixed monthly retainer to defray recurring operating expenses and some are paid a minimum level of commission income. In addition, we generally reimburse our agents for incidental expenses. For chassis, we have our own field staff which oversees the functions performed by depots.

Logistic Support. Our North American network of offices and relationships and our industry experience enables us to provide logistic services in order to facilitate the movement of chassis to meet our customers needs.

Repositioning and Other Operating Expenses. If lessees return a large number of units to a location with a larger supply than demand, the owner of equipment may incur expenses in repositioning the equipment to a more favorable location. In addition, there are other operating expenses associated with the chassis and containers, such as costs of maintenance and repairs not required to be made by lessees, agent fees, depot expenses for handling, inspection and storage, and insurance coverage in excess of that maintained by the lessee.

Maintenance, Repairs and Refurbishment. As chassis and containers age, the need for maintenance increases. Our customers are generally responsible for maintenance and repairs of equipment other than normal wear and tear. For containers, when normal wear and tear or other damage is extensive, the container is usually sold or scrapped since major repairs are typically not cost effective. For older chassis, refurbishing and remanufacturing involve substantial cost, but remanufacture or refurbishment costs are substantially less than the cost of purchasing a new chassis. Therefore, chassis are typically repaired or remanufactured and are not sold.

Redeployment and Disposition of Containers. Pursuant to our management agreement with CAI, owned and managed containers, including those that have come off long-term lease and have been designated for short-term leasing, may, under certain circumstances, be tendered to CAI for management as part of CAI s fleet. Under this management agreement, CAI seeks to redeploy the containers as part of its leased fleet and pays to us the revenues earned by this equipment, net of any operating expenses, bad debts and the management fee earned by CAI. Containers made available for short-term leasing under our agreements with CAI are reported by us as fully utilized. Containers that were previously leased are also sold to shipping or transportation companies for continued use in the intermodal transportation industry or to secondary market buyers, such as wholesalers, depot operators, mini storage operators, construction companies and others, for use as storage sheds and similar structures. The decision to sell depends on the equipment s condition, remaining useful life and suitability for continued leasing or for other uses, as well as prevailing local market resale prices and an assessment of the economic benefits of repairing and continuing to lease the equipment compared to the benefits of selling.

The selling price of a container will depend upon, among other factors, its mechanical or economic obsolescence, its physical condition and its location. While there have been no major technological advances in the history of containerization that have made active equipment obsolete, several changes in standards have decreased the demand for older equipment, such as the increase in the standard height of containers from 8 feet to 8½ feet in the early 1970 s and for 20 foot long containers, an increase in the gross weight rating to 30 tons from 24 tons. In addition, 40 foot long containers are manufactured to a standard height of 8½ feet as well as to a height of 9½ feet (also referred to as high cube). While containers of both heights continue to be manufactured, 40 foot long high cube containers have become more popular in recent years.

Sources of Supply. Over 90% of the world s container production occurs in China. Historically, most chassis used in North America have been manufactured in North America; however, China began producing ISO standard chassis for the U.S. market in 2003 and in 2006 accounted for approximately 60% of new chassis placed in service.

When manufacturing is complete, new chassis and containers are inspected to ensure that they conform to applicable standards of the International Standards Organization and other international self-regulatory bodies, as well as to our internal standards.

Credit Process

We maintain detailed customer credit records. Our credit policy sets different maximum exposure limits for each customer. Credit criteria may include, but are not limited to financial strength, customer trade route, country, social and political climate, assessments of net worth, asset ownership, bank and trade credit references, credit bureau reports, operational history and payment history with us.

We seek to reduce credit risk by maintaining insurance coverage against customer insolvency and related equipment losses. We maintain contingent physical damage, recovery and loss of revenue insurance, which provides coverage upon the occurrence of a customer s insolvency, bankruptcy or default giving rise to our demand for return of all of our equipment. The policy covers the cost of recovering our equipment from the customer, including repositioning cost, damage to the equipment and the value of equipment which could not be located or was uneconomical to recover. It also covers a portion of the equipment leasing revenues that we might lose as a result of the customer s default (i.e., up to 180 days of lease payments following an occurrence under the policy). Our current policy, which commenced April 30, 2006, and expires April 30, 2007, includes coverage of $18.0 million per occurrence with a $2.0 million deductible, per occurrence. There can be no assurance that this or similar coverage will be available in the future or that such insurance will cover the entirety of any loss.

We also maintain credit insurance which provides additional coverage upon the occurrence of a customer s insolvency, bankruptcy or default giving rise to our demand for return of all our equipment. The policy covers a portion of the equipment leasing revenues we might lose as a result of the customer s default (i.e., up to 90 days of lease payments that accrue prior to an occurrence under the policy). Our current policy includes coverage of $10.0 million with a $0.15 million deductible per year, in the aggregate with individual limits by customer as set forth in the policy. The policy has a two-year term which currently expires on January 31, 2009. There can be no assurance that this or similar coverage will be available in the future or that such insurance will cover the entirety of any loss.

These insurance policies provide coverage for both the equipment owned by us and the equipment we manage for third party investors. We are reimbursed for the premiums related to the portion of the coverage related to the managed equipment. Any losses related to managed equipment in excess of the amounts due from the insurance coverage are the responsibility of the third party investor.

Competition

There are many companies that own and manage intermodal transportation equipment with which we compete. Some of our competitors have greater financial resources than we do, or are affiliates of much larger companies. Historically, there has been consolidation in the container leasing business resulting from several acquisitions. During the past few years, several chassis lessors have sold their fleets. Accordingly, since late 2004 there has been only one other major chassis lessor, although a third smaller competitor entered the chassis leasing business in 2005.

In addition, the containerized shipping industry, which we service, competes with providers of alternative methods of transporting goods, such as non-containerized services by air, truck and rail. We believe that in most instances these alternative methods are not as cost-effective as the shipping of containerized cargo.

Because rental rates for chassis and containers are not subject to regulation by any government authority but are determined principally by the demand for and supply of equipment in each geographical area, price is one of the principal methods by which we compete. In times of low demand and excess supply, leasing companies tend to grant price concessions, such as free days or pick-up credits, in order to keep their equipment on lease and to avoid

incurring storage costs. We attempt to design lease packages tailored to the requirements of individual customers and consider our long-term relationships with customers to be important to our ability to compete effectively. We also compete on the basis of our ability to deliver equipment in a timely manner in accordance with customer requirements.

Sale of Equity Interest in CAI and Continuing Relationship

On October 1, 2006, we sold to CAI all shares of CAI s common stock owned by us, which shares had represented a 50% common equity interest in CAI, for total consideration of $77.5 million, consisting of a $40.0 million cash payment and the issuance to us by CAI of a convertible subordinated secured promissory note in the principal amount of $37.5 million. For further information regarding this promissory note see Note 7 to the Consolidated Financial Statements. Concurrently with this transaction, a subordinated note from CAI issued to us in 1998, the outstanding principal amount of which was $3.0 million, was repaid together with accrued interest. We originally acquired our equity interest in CAI in 1998 for a purchase price of $12.5 million.

Concurrently with the above transaction, we and CAI entered into a new non-exclusive long-term Management Agreement pursuant to which we will have the option, subject to certain conditions, to use CAI as manager for shipping containers in our fleet in return for payment of a management fee to CAI. Our right to tender containers to CAI for management is subject to the equipment meeting certain age, physical condition and other eligibility criteria. Under this new Management Agreement, we continue to have the right to sell groups of containers to investors and to use CAI as submanager of such containers on the same terms. For additional information regarding the sale of our equity interest in CAI, see Note 7 to the Consolidated Financial Statements.

Other Business Operations

On occasion, we have entered into joint ventures with shipping lines and other third parties, primarily for the purpose of funding the construction of facilities in Asia to manufacture chassis and other equipment. In general, we have agreed to make a specified financial contribution of capital to these joint ventures in return for a minority equity interest and the right to representation on the entity s board of directors. It is anticipated that we would be a major purchaser of equipment manufactured by these joint ventures. Through December 31, 2006, our equity commitments to such joint ventures have totaled $4.4 million. In certain cases, we have agreed to provide technical information and assistance in setting up the production lines and providing certain specified services in connection with the marketing of the equipment produced by the factories. We view our participation in these joint ventures as advantageous because they provide us with a stable source of equipment for lease to customers.

Employees

As of December 31, 2006, we had 285 employees, 260 of whom were based in the United States. None of our employees are covered by a collective bargaining agreement. We believe our employee relations are good.

Website Access

Our website address is www.interpool.com. You may obtain free electronic copies of our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports under the heading Financial Information. These reports are available on our website as soon as reasonably practicable after we electronically file them with the Securities and Exchange Commission (the SEC). You can also go to our website to obtain copies of our corporate governance guidelines, Code of Business Conduct and Ethics and charters for our Audit, Compensation and Corporate Governance Committees. Copies of all of these documents can also be obtained, free of charge, upon written request to the Secretary, Interpool, Inc., 211 College Road East, Princeton, NJ 08540.

ITEM 1A. RISK FACTORS

Investors in Interpool, Inc. should consider the following risk factors as well as the other information contained herein.

We are subject to the cyclicality and uncertainties of world trade which may impair demand for our chassis and containers.

The demand for our chassis and containers primarily depends upon levels of world trade of finished goods and component parts. Recessionary business cycles, political conditions, the status of trade agreements and international conflicts may have an impact on our operating results. The demand for leased chassis also depends upon United States economic conditions and volumes of exports to the United States which are likely to be adversely affected if the value of the United States dollar declines. When the volume of world trade decreases, our business of leasing chassis and containers may be adversely affected as the demand for chassis and containers is reduced. A substantial decline in world trade may also adversely affect our customers, leading to possible defaults and the return of equipment prior to the end of a lease term.

We operate in a highly competitive industry, which may adversely affect our results of operations or ability to expand our business.

The transportation equipment leasing industry is highly competitive. We compete with many domestic and foreign leasing companies, as well as container and chassis manufacturers, banks offering financing leases and promoters of equipment ownership and leasing as an investment in the United States and abroad. Some of these competitors have greater financial resources and access to capital than we do. From time to time, the industry may have large under-utilized inventories of chassis and containers, which could lead to significant downward pressure on pricing and margins. In addition, if the available supply of intermodal transportation equipment were to increase significantly as a result of, among other factors, new companies entering the business of leasing and selling intermodal transportation equipment, our competitive position could be adversely affected. New entrants attracted by the projected high rate of containerized trade growth, together with the already highly competitive nature of our business, could put significant downward pressure on lease rates and margins and adversely affect our ability to achieve our growth plans. The expansion of such competition has, at times, led to overproduction of new containers and overbuying by shipping lines and leasing competitors and could continue to impact lease rates and utilization in the future. Certain of our leasing industry competitors have shifted their strategies toward an increase in long-term leasing and direct financing leases of shipping containers which has also added to competitive pressures.

Potential customers may decide to buy rather than lease chassis and containers.

We, like other suppliers of leased chassis and containers, are dependent upon decisions by shipping lines and other transportation companies to lease rather than buy their equipment. Major shipping lines could elect to buy their own equipment, construct their own facilities to manufacture containers or chassis, or make investments in such facilities. In addition, our ability to achieve our strategy of expanding our business in response to customer demand for long-term leasing and direct financing leasing would be adversely affected if our customers shifted to more short-term leasing. Most of the factors affecting the decisions of our customers are outside our control. Operating costs such as storage and repair and maintenance costs and potential repositioning cost also increase as utilization decreases.

Pending governmental investigations may adversely affect us.

Following our announcement in July 2003 that our Audit Committee had commissioned an internal investigation by special counsel into our accounting, we were notified that the SEC had opened an informal investigation of us. As we anticipated, this investigation was converted to a formal investigation later in 2003. We have fully cooperated with this investigation. During 2003 and 2004, the New York office of the SEC received a copy of the written report of the

internal investigation and received documents and information from us, our Audit Committee and certain other parties pursuant to SEC subpoenas. During late 2003, we were also advised that the United States Attorney s office for the District of New Jersey received a copy of the written report of the internal investigation by our Audit Committee s Special Counsel and opened an investigation focusing on certain matters described in the report. We were neither a subject nor a target of the investigation by the U.S. Attorney s office. We have not had any communications with either the SEC or the U.S. Attorney s office relating to their respective investigations since 2004 and we do not have any information regarding the current status of either of these investigations. Therefore, we cannot predict the final outcome of either of these investigations and cannot be assured that they may not result in the taking of some action that may be adverse to us.

Sustained Asian economic instability could reduce demand for leasing.

A number of the shipping lines to which we lease containers are entities domiciled in several Asian countries. In addition, many of our customers are substantially dependent upon shipments of goods exported from Asia. From time to time, there have been economic disruptions, financial turmoil and political instability in this region. If similar events were to occur in the future, they could adversely affect these customers and lead to a reduced demand for leasing of our containers or otherwise adversely affect us.

Terrorist attacks or hostilities could adversely affect us.

Potential acts of terrorism or hostilities may affect the ports and depots at which we and our customers operate as well as our other facilities or those of our customers and suppliers. In addition, any such incident or similar act of violence could lead to a disruption to the worldwide ports system and flow of goods or contribute to economic instability in other respects. To the extent any such event were to result directly or indirectly in a reduction in the level of international trade and reduced demand for transportation equipment, our business would be adversely affected. In addition, if one of our owned or managed containers were to be involved in a terrorist attack, our customer agreements and insurance policies might not be adequate to fully protect us and the third party equipment owners from any liability. We also may be subject to domestic or international regulations designed to prevent the use of containers for international terrorism or other illegal activities. As such regulations develop and change, we may incur increased compliance or related competitive costs affecting existing inventories or future containers that are acquired which could have a material adverse effect on our financial condition and results of operations.

Environmental liability may adversely affect our business and financial situation.

Like other companies, we are subject to federal, state, local and foreign laws and regulations relating to the protection of the environment, including those regulating the use and disposal of hazardous substances. We and the third party equipment owners could incur substantial costs, including cleanup costs, fines and third-party claims for property damage and personal injury, as a result of violations of or liabilities under environmental laws and regulations in connection with our current or historical operations. Under some environmental laws in the United States and certain other countries, the owner of a leased container may be liable for environmental damage, cleanup or other costs in the event of a spill or discharge of material from a container without regard to the owner s fault. While we maintain insurance and require lessees to indemnify against certain losses, such insurance and indemnities may not cover or be sufficient to protect us and our third party equipment owners against losses arising from environmental damage.

Defaults by our customers could adversely affect our business by decreasing revenues and increasing storage, collection and recovery expenses.

We are dependent upon our lessees continuing to make lease payments for our equipment. A default by a lessee may cause us and our third party equipment owners to lose revenues for past services and incur expenses for storage, collection and recovery. Repossession from defaulting lessees may be difficult and more expensive in jurisdictions whose laws do not confer the same security interests and rights to creditors and lessors as those in the United States

and in jurisdictions where recovery of equipment from the defaulting lessees is more cumbersome.

If a lessee defaults, we may be unable to re-lease recovered equipment for comparable rates or terms.

Changes in market price, availability or transportation costs of equipment manufactured in China could adversely affect our ability to maintain our supply of containers.

Changes in the political, economic or financial condition of China, which would increase the market price, availability or transportation costs of containers or chassis, could adversely affect our ability to maintain our supply of equipment. China is currently the largest container producing nation in the world and a significant supplier of chassis. We currently purchase the vast majority of our containers and a majority of our chassis from manufacturers in China. In the event that it were to become more expensive for us to procure containers and chassis in China or to transport these containers or chassis at a low cost from China to the locations where they are needed, because of a shift in United States trade policy toward China, increased tariffs imposed by the United States or other governments, a significant downturn in the political, economic or financial condition of China, or for any other reason, we would have to seek alternative sources of supply. We may not be able to make alternative arrangements quickly enough to meet our equipment needs, and the alternative arrangements may increase our costs.

Proposed Federal roadability rules and regulations for intermodal equipment providers may impose additional obligations and costs on us.

The Federal Motor Carrier Safety Administration (FMCSA) of the United States Department of Transportation (USDOT) has proposed regulations for entities offering intermodal chassis to motor carriers for transportation of intermodal containers in interstate commerce (Roadability Regulations). Pursuant to authority delegated by the Safe, Accountable, Flexible, Efficient Transportation Act (SAFETEA) [49 U.S.C. 31151], this rulemaking, if adopted in its currently proposed form, would require each intermodal equipment provider (IEP) to register and file certain reports with the FMCSA, display a USDOT number on each chassis offered for interstate commerce, establish a systematic chassis inspection, repair and maintenance program (to the extent it did not already have one), maintain documentation with regard to such program and provide means for drivers and motor carriers to report on chassis deficiencies and defects. The FMCSA is also proposing additional inspection requirements for motor carriers and drivers operating intermodal equipment, including chassis. The proposed rulemaking would establish sanctions for chassis that fail to comply with the applicable Federal safety regulations. The FMCSA has requested the public to comment on the proposed rulemaking by March 21, 2007. As neither the comments nor the FMSCA reaction to them is known at this time, we are unable to predict when or whether any new rules and regulations will be implemented by the FMCSA, the final form of any such rules and regulations, their ultimate scope, whether and to what extent any material new obligations will be imposed on IEPs or whether and to what extent we will even be considered to be an IEP with respect to some or all of our chassis fleet. While we believe our current chassis safety practices and procedures are suitable and sound, at this stage we cannot predict whether we will incur additional substantive or reporting obligations as a result of any such new rules and regulations as may be adopted or whether and to what extent we will incur additional costs if any such rules and regulations are implemented.

We are controlled by a limited number of stockholders; this concentrated ownership could discourage acquisition bids for us that are not supported by our majority stockholders or limit the price investors will be willing to pay in the future for shares of our common stock.

As of March 1, 2007, approximately 62.7% of our common stock is beneficially owned, directly or indirectly, in the aggregate by Martin Tuchman, Warren L. Serenbetz, Jr., Raoul J. Witteveen and Arthur L. Burns, together with certain members of their immediate families and certain related entities. Each of Messrs. Tuchman, Serenbetz and Burns is a member of our Board of Directors and Mr. Tuchman and Mr. Burns are executive officers. Mr. Witteveen is a former director and executive officer. These individuals, either directly or indirectly, have the ability to elect all of the members of our Board of Directors and to control the outcome of all matters submitted to a vote of our

stockholders. Our concentrated ownership may discourage acquisition bids for us that are not supported by our majority stockholders. This concentration of ownership could limit the price that investors might be willing to pay in the future for shares of our common stock.

Our Chairman and Chief Executive Officer, on behalf of himself and certain other parties, has proposed the acquisition of all of our publicly traded common stock at $24.00 per share. There can be no assurance that the proposed transaction will proceed. If this transaction were to proceed and be consummated on the terms proposed, our public stockholders will not have any further opportunity to realize benefits of the ownership of our common stock.

On January 16, 2007, our Board of Directors received a letter from Martin Tuchman, our Chairman and Chief Executive Officer, supported by other significant stockholders of ours and an investment fund affiliated with Fortis Merchant Banking, proposing an acquisition of all of our outstanding common stock (other than a portion of the shares held by Mr. Tuchman and the other supporting stockholders) for $24.00 per share in cash. Mr. Tuchman and the other stockholders supporting his letter to our Board, together with their families and investment affiliates, presently beneficially own more than 50% of our 29.3 million shares of common stock currently outstanding. Mr. Tuchman s proposal letter contemplated that Mr. Tuchman and the other stockholders supporting the proposal would reinvest approximately 6.2 million of their currently held shares in the proposed transaction and sell the balance of their holdings (approximately 12.3 million shares) at the same $24.00 per share price in cash as our non-affiliated public stockholders would receive for their 10.8 million shares currently outstanding.

Our Board of Directors formed a Special Committee of independent directors to review and evaluate the proposal set forth in Mr. Tuchman s letter, consistent with its fiduciary duties. The Special Committee has engaged independent legal counsel and an independent financial advisor to assist it with its work. The Special Committee, working with its advisors, is proceeding to evaluate the proposal and alternatives available to us to determine whether or not the proposal is in the best interests of our public stockholders. The Special Committee has instructed its financial advisor and our financial advisor to contact potentially interested parties. To date, no decisions have been made by the Special Committee or the Board of Directors with respect to any response to the proposal. There can be no assurance that any definitive offer will be made, that any agreement will be executed or that this or any other transaction will be approved or consummated.

In the event that the transaction proposed by Mr. Tuchman were to proceed and were to be consummated on the terms that have been proposed, it would constitute a going private transaction. If the transaction were consummated, we would become a private company whose common stock would no longer be publicly traded, and we may no longer be subject to the periodic reporting requirements of the Securities Exchange Act of 1934. If this were to occur, our current public stockholders would be selling their shares for $24.00 per share and would no longer have the opportunity to benefit from any future appreciation in the value of our stock and would no longer receive cash dividends or any other benefits of ownership of our common stock.

If the proposed transaction does not proceed, stockholders may not have as beneficial an opportunity to sell their shares, and the additional costs incurred in negotiating the transaction may not produce any benefit.

If the acquisition transaction proposed by Mr. Tuchman does not proceed, or proceeds on less favorable terms than those proposed, we may not have other alternative transactions available to us or our stockholders that are as beneficial as the transaction that has been proposed. In addition, we are currently expending significant management attention and resources in connection with the potential transaction proposed by Mr. Tuchman, which may be of little or no value if an agreement cannot be consummated.

So long as the proposed acquisition transaction is pending, our debt ratings are likely to be adversely affected, thereby increasing our borrowing costs.

Following our announcement in January 2007 that Mr. Tuchman, supported by other significant stockholders of ours, and an investment fund affiliated with Fortis Merchant Banking, had made an offer to acquire all of our outstanding common stock (other than a portion of the shares held by Mr. Tuchman and the other supporting stockholders) for $24.00 per share in cash, the outlook for our credit ratings was changed by Standard & Poor s Ratings Services, Moody s Investors Service, and Fitch Ratings. All three rating agencies cited the possibility that the proposed transaction would result in an increase in our financial leverage. Standard & Poor s placed us on credit watch with negative implications, Moody s placed us on review for possible downgrade, and Fitch placed us on rating watch negative. So long as the proposed acquisition transaction remains pending, these determinations by the rating agencies are likely to continue in effect, and could potentially increase our financing costs.

We are subject to stockholder litigation relating to the potential acquisition proposed by Mr. Tuchman, which could adversely affect us and our ability to consummate the transaction if the Special Committee of our Board of Directors determines to proceed with the proposed transaction.

In January 2007, two purported class actions were filed against us and certain of our directors, along with Fortis Merchant Banking, in the Delaware Court of Chancery (the Pomeranz Action) and the Superior Court of New Jersey (the Lipsky Action). In February 2007, a third purported class action was filed, also in the Delaware Court of Chancery (the Martinez Action), which also names us, our directors, and Fortis Merchant Banking as defendants and which names as additional defendants various shareholders alleged to support the potential transaction proposed by Mr. Tuchman in his letter to our Board of Directors dated January 16, 2007, pursuant to which the shares owned by our public stockholders, and a portion of the shares owned by Mr. Tuchman and the other stockholders supporting his proposal, are proposed to be purchased. The complaints in the Pomeranz Action and the Lipsky Action allege breaches of fiduciary duty and conflicts of interest on the part of our directors, among other things, in connection with the potential transaction proposed by Mr. Tuchman and the events preceding that proposal. The actions seek declaratory, injunctive, and other relief preventing consummation of the potential transaction proposed in Mr. Tuchman s January 16, 2007 letter, together with an award of attorneys fees and litigation expenses. The complaint in the Martinez Action contains allegations that essentially overlap those in the Pomeranz and Lipsky Actions, but also alleges actual and/or anticipatory breaches by us and by Mr. Tuchman of a 2004 letter agreement in which Mr. Tuchman agreed not to sell or voluntarily transfer shares of our common stock unless our other shareholders are concurrently offered the opportunity to sell or otherwise transfer a comparable percentage of the shares beneficially owned by them for the same consideration. The complaint alleges that the proposal set forth in Mr. Tuchman s January 16, 2007 letter would violate the 2004 letter agreement, in that our other shareholders were not offered the same opportunity to sell shares and invest in the private company that would be formed to acquire us. The complaint in the Martinez Action further alleges that various corporate transactions entered into by us in late 2005 and 2006 were designed to facilitate the transaction proposed by Mr. Tuchman in his January 16, 2007 letter, including the purchase by us of approximately 1.5 million shares of stock from Mr. Tuchman in November 2006, in accordance with our 1993 Stock Option Plan, as payment of the exercise price of Mr. Tuchman s stock options, and as a result of which Mr. Tuchman received approximately 2.2 million shares. The Martinez Action seeks injunctive relief enjoining the transaction proposed in the January 16 Letter as well as rescission of our purchase of Mr. Tuchman s shares that were tendered in connection with his November 2006 option exercise, as well as an award of an unspecified amount as damages.

We have informed our insurance carrier of these actions and have retained outside counsel to assist in our defense. We intend to vigorously defend against this litigation. However, it is not possible at this time to predict the outcome of this litigation. Any adverse outcome could adversely affect the potential transaction proposed by Mr. Tuchman. As a result of the uncertainty regarding the outcome of this matter, no provision has been made in the consolidated financial statements with respect to this contingent liability.

We have relationships with and have entered into transactions with members of our management and affiliated entities that may involve inherent conflicts of interest.

Various relationships exist and various transactions have been entered into between or among us, on the one hand, and members of our management and affiliated entities, on the other hand. Some of these relationships and transactions may involve inherent conflicts of interest. See Note 10 to the Consolidated Financial Statements for more information.

We are dependent on the knowledge and experience of members of our senior management; loss of these members could adversely affect our ability to formulate and achieve our strategy and pursue new business initiatives.

Our growth and continued profitability are dependent upon, among other factors, the abilities, experience and continued service of certain members of our senior management, including Martin Tuchman, our Chairman and Chief Executive Officer. Mr. Tuchman holds, either directly or indirectly, a substantial equity interest in Interpool, Inc. (approximately 26% at March 1, 2007) and is also one of our directors. Additionally, other members of our senior management possess knowledge of, and extensive experience in, the intermodal transportation industry. We rely on this knowledge and experience in our strategic planning and in our day-to-day business operations. If one or more members of our senior management were to resign or otherwise be unavailable to serve us, the loss could adversely affect our ability to formulate and achieve our strategy and pursue new business initiatives. In addition, we do not currently have employment agreements with all of our executive officers.

The volatility of the residual value of chassis and containers upon expiration of their leases could adversely affect our operating results.

Although our operating results and those of our third party equipment owners primarily depend upon equipment leasing, profitability is also affected by the residual values (either for sale or re-leasing) of the chassis and containers upon expiration of their leases. These values, which can vary substantially, depend upon, among other factors,

- The maintenance standards observed by lessees;
- Expenses associated with off-hire, storage, repair, repositioning and re-marketing of returned equipment;
- Our ability to negotiate lease extensions and remarket equipment profitably, which can be substantially impacted by the timing and volume of off-hired equipment;
- The current cost of comparable new equipment;
- Changes in lessees' requirements;
- The availability of used equipment;
- Rates of inflation;
- Prevailing market conditions, including used equipment prices at the locations of equipment returns;
- The cost to remanufacture chassis;
- The costs of materials and labor; and
- The obsolescence of certain types of equipment in our fleet.

Most of these factors are outside of our control. Operating leases are subject to greater residual risk than direct financing leases.

A recharacterization of our repatriation plan by the IRS could increase our tax liability.

On December 27, 2005, our wholly-owned Barbados subsidiary, Interpool Limited, made a distribution to us of approximately $305.0 million (the Distribution), as part of a plan approved by Interpool, Inc. s Board of Directors to repatriate accumulated and current earnings and profits of Interpool Limited which previously had been considered permanently reinvested outside the United States. Pursuant to the American Jobs Creation Act of 2004 (the AJCA), the Distribution was subject to U.S. federal tax at a reduced rate of approximately 5.25%.

In connection with our repatriation plan, on December 14, 2005, effective as of close of business on November 30, 2005, Interpool Limited, which operated our international container leasing business, transferred substantially all of its operating assets and related liabilities to Interpool Containers Limited (ICL), a newly formed Barbados company which is a subsidiary of Interpool, Inc. ICL now operates our international container leasing business.

We received a tax opinion from outside tax counsel which concluded, based on certain assumptions and representations (including representations regarding the reinvestment of proceeds of the Distribution), that the Distribution should qualify for the special 5.25% federal tax rate as provided for in the AJCA. In addition, we received a second tax opinion from another law firm confirming their agreement with the overall conclusions reached in the original opinion. We expect to continue to fully recognize the tax benefits associated with this tax position pursuant to FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes.* In the event the IRS took a contrary view, and successfully challenged our tax positions pertaining to our repatriation plan, our tax liability could increase significantly.

Loss of our eligibility for tax benefits under the U.S.-Barbados tax treaty could increase our tax liability.

During 2006, we claimed tax benefits under an income tax convention between the United States and Barbados (the Tax Treaty), the jurisdiction in which our subsidiary ICL operates our international container leasing business. Specifically, under the Tax Treaty, any profits of ICL from leasing of containers used in international trade generally are taxable only in Barbados and not in the United States.

ICL is entitled to the benefits of the Tax Treaty for each year by satisfying the two-pronged test to the limitation of benefits provision: (1) more than 50% of the shares of ICL were owned, directly or indirectly, by any combination of individual United States residents or citizens (the 51% U.S. ownership test), and (2) its income was not used in substantial part, directly or indirectly, to meet liabilities to persons who were not residents or citizens of the United States (the base erosion test). We believe ICL passed both of these tests through December 31, 2006.

In addition to having to satisfy the 51% U.S. ownership and base erosion tests described above, ICL is only eligible for the Tax Treaty benefits with respect to its container rental and sales income if Interpool, Inc. is listed on a recognized stock exchange and Interpool, Inc. s stock is primarily and regularly traded on such exchange.

During April 2004 Interpool, Inc. was de-listed by the New York Stock Exchange. However, on January 13, 2005 Interpool, Inc. was again listed, and began trading, on the New York Stock Exchange. We believe this listing and the trading volume of our common stock during 2006 satisfied the primarily and regularly traded requirements of the Tax Treaty and that ICL qualified under the Tax Treaty through December 31, 2006.

There is no assurance we will continue to satisfy the primarily and regularly traded, 51% U.S. ownership or base erosion tests of the Tax Treaty. In addition, at some future date the Tax Treaty could be further modified in a manner adverse to us or repealed in its entirety, or we might not continue to be eligible for these tax benefits.

In addition to ICL, another subsidiary, Interpool Limited, also resides in Barbados. As companies resident in Barbados, Interpool Limited and ICL are required to file tax returns in Barbados and pay any tax liability to Barbados. All such returns have been filed.

A substantial portion of our future cash flows will be needed to service our indebtedness.

Historically, we have made, and continue to make, use of indebtedness to finance our equipment leasing activities and for other general corporate purposes. As of December 31, 2006, our total outstanding indebtedness was approximately $1.5 billion. In December 2006, at our request, Fortis Capital Corp. provided a commitment letter to us for up to $1.8 billion of debt financing, which could be used for various purposes, including to provide financing for a potential acquisition of our publicly traded common stock, which could include an acquisition of the type contemplated by Mr. Tuchman s January 16, 2007 proposal letter as described above, or to refinance any or all of our outstanding indebtedness. In addition, as of December 31, 2006, a total commitment of $107.5 million was available under the chassis facility we established in September 2005. We anticipate that we will incur additional indebtedness in the future. We are required to dedicate a substantial portion of our cash flow to payments on our indebtedness, thereby reducing the amount of cash flow available to fund working capital, capital expenditures, including fleet growth, and other corporate requirements. Should our cash flow become insufficient to service our debt obligations, we would be required to seek additional funds to meet our obligations. Additional funds, if needed, might not be available to us or, if available, might not be made available on terms acceptable to us.

Our business is highly dependent upon the availability of capital. In particular, the growth and replacement of our fleet through new equipment purchases or acquisitions, as well as the refinancing of our existing debt, will require further debt or equity financings. There is no assurance that interest rates and advance rates on any future financings will be as attractive as those experienced in the past. If we raise additional funds by issuing equity securities, further dilution to the existing stockholders may result.

Increases in interest rates may increase our debt service obligations and adversely affect our liquidity.

After considering borrowings payable under floating rate agreements which have been converted to fixed rate debt through the use of interest rate swap agreements, approximately 2% of our borrowings at December 31, 2006 were at variable rates of interest and expose us to interest rate risk. At December 31, 2006, we also had approximately $362.5 million of unrestricted cash and marketable securities on hand. As interest rates rise, our debt service obligations increase. A significant rise in interest rates or future financing using variable rate debt could have a material adverse effect on results of operations in future periods. For further discussion on interest rate risk see Item 7A.

The price of our common stock may fluctuate.

The market price for our common stock has fluctuated in the past, and several factors could cause the price to fluctuate substantially in the future. These factors include:

Announcements of developments related to our business;

Developments relating to the proposed acquisition of our publicly traded common stock set forth in the proposal letter submitted by our chairman, Mr. Tuchman, on January 16, 2007, as described above;

Announcements of strategic acquisitions or dispositions of assets;

Exercise of outstanding options or warrants;

Fluctuations in our quarterly results of operations;

Sales of substantial amounts of our shares into the marketplace;

General conditions in our industry or the worldwide economy;

A shortfall in revenues or earnings compared to securities analysts' expectations;

Changes in analysts' recommendations or projections; and

An outbreak of war or hostilities

Fluctuations in foreign exchange rates could affect our profitability.

The majority of leasing revenues and costs are billed in United States dollars. Most of our non-United States transactions are individually of small amounts and in various denominations and thus are not suitable for cost-effective hedging. In addition, almost all of the container and chassis purchases are paid in U.S. dollars. There can be no assurance that exchange rate fluctuations will not adversely affect our results of operations and financial position.

Our future business prospects could be adversely affected by consolidation within the container shipping industry.

Recently there have been several large shipping line acquisitions that have resulted in some consolidation within the container shipping industry. This has resulted in a reduction of the number of large shipping lines and also in an increase in concentration of business that we have with the combined groups. Our future business prospects could be adversely affected if there was a continued reduction in the number of shipping lines in the world. In addition, due to concentration risk, we might decide to limit the amount of business exposure we have with any single combined group if the exposure was deemed unacceptable.

Our charter documents and Delaware law may inhibit a takeover and limit our growth opportunities, which could cause the market price of our shares to decline.

Our Restated Certificate of Incorporation and Amended and Restated By-laws, as well as Delaware corporate law, contain provisions that could delay or prevent a change of control or changes in our management that a stockholder might consider favorable. These provisions apply even if the change may be considered beneficial by some stockholders. If a change of control or change in management is delayed or prevented, the market price of our shares could decline. In addition, our Restated Certificate of Incorporation and Amended and Restated By-laws contain provisions that may discourage acquisition bids for us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We purchased our main office building located at 211 College Road East, Princeton, NJ in 2002. We use approximately 80% of this 39,000 square foot building. We also own approximately 18,000 square feet of condominium office space located on the 27th floor at 633 Third Avenue, New York, NY that serves as our New York office. We use approximately 49% of this 18,000 square foot condominium. The remainder is leased to third parties. All of our other commercial office space is leased.

ITEM 3. LEGAL PROCEEDINGS

Pending Governmental Investigations

Following our announcement in July 2003 that our Audit Committee had commissioned an internal investigation by special counsel into our accounting, we were notified that the SEC had opened an informal investigation of us. As we anticipated, this investigation was converted to a formal investigation later in 2003. We have fully cooperated with this investigation. During 2003 and 2004, the New York office of the SEC received a copy of the written report of the internal investigation and received documents and information from us, our Audit Committee and certain other parties pursuant to SEC subpoenas. During late 2003, we were also advised that the United States Attorney s office for the District of New Jersey (the U.S. Attorney s office) received a copy of the written report of the internal investigation by our Audit Committee s special counsel and opened an investigation focusing on certain matters described in the report. We were neither a subject nor a target of the investigation by the U.S. Attorney s office. We have not had any communications with either the SEC or the U.S. Attorney s office relating to their respective investigations since 2004 and we do not have any information regarding the current status of either of these investigations. Therefore, we cannot predict the final outcome of either of these investigations and cannot be assured that they may not result in the taking of some action that may be adverse to us.

Stockholder Litigation

In January 2007, two purported class actions were filed against us and certain of our directors, along with Fortis Merchant Banking, in the Delaware Court of Chancery (the Pomeranz Action) and the Superior Court of New Jersey (the Lipsky Action). In February 2007, a third purported class action was filed, also in the Delaware Court of Chancery (the Martinez Action), which also names us, our directors, and Fortis Merchant Banking as defendants and which names as additional defendants various shareholders alleged to support the potential transaction proposed by Martin Tuchman, our Chairman and Chief Executive Officer, in his letter to our Board of Directors dated January 16, 2007 (the January 16 Letter), pursuant to which the shares owned by our public stockholders, and a portion of the shares owned by Mr. Tuchman and the other stockholders supporting his proposal, are proposed to be purchased. The complaints in the Pomeranz Action and the Lipsky Action allege breaches of fiduciary duty and conflicts of interest on the part of our directors, among other things, in connection with the potential transaction proposed in Mr. Tuchman s January 16 Letter and the events preceding that proposal. The actions seek declaratory, injunctive, and other relief preventing consummation of the potential transaction proposed in the January 16 Letter, together with an award of attorneys fees and litigation expenses. The complaint in the Martinez Action contains allegations that essentially overlap those in the Pomeranz and Lipsky Actions, but also alleges actual and/or anticipatory breaches by us and by Mr. Tuchman of a 2004 letter agreement in which Mr. Tuchman agreed not to sell or voluntarily transfer shares of our common stock unless our other shareholders are concurrently offered the opportunity to sell or otherwise transfer a comparable percentage of the shares beneficially owned by them for the same consideration. The complaint alleges that the proposal set forth in the January 16 Letter would violate the 2004 letter agreement, in that our other shareholders were not offered the same opportunity to sell shares and invest in the private company that would be formed to acquire us. The complaint in the Martinez Action further alleges that various corporate transactions entered into by us in late 2005 and 2006 were designed to facilitate the transaction proposed by Mr. Tuchman in the January 16 Letter, including the purchase by us of approximately 1.5 million shares of stock from Mr. Tuchman in November 2006, in accordance with our 1993 Stock Option Plan, as payment of the exercise price of Mr. Tuchman s stock options, and as a result of which Mr. Tuchman received approximately 2.2 million shares. The Martinez Action seeks injunctive relief enjoining the transaction proposed in the January 16 Letter as well as rescission of our purchase of Mr. Tuchman s shares that were tendered in connection with his November 2006 option exercise, as well as an award of an unspecified amount as damages.

We have informed our insurance carrier of these actions and have retained outside counsel to assist in our defense. We intend to vigorously defend against this litigation. However, it is not possible at this time to predict the outcome of this litigation. No provision has been made in the consolidated financial statements with respect to this contingent liability.

General

We are engaged in various other legal proceedings from time to time incidental to the conduct of our business. Such proceedings may relate to claims arising out of equipment accidents that occur from time to time which involve death and injury to persons and damage to property. Accordingly, we require all of our lessees to indemnify us against any losses arising out of such accidents and other occurrences while the equipment is on-hire to the lessees. In addition, such lessees are generally required to maintain a minimum of $2.0 million in general liability insurance coverage which is standard in the industry. In addition, we maintain a general liability policy of $255.0 million, in the event that the above lessee coverage is insufficient. While we believe that such coverage should be adequate to cover current claims, there can be no guarantee that future claims will not exceed such amounts. Nevertheless, we believe that no such current asserted or unasserted claims of which we are aware will have a material adverse effect on our financial condition or results of operations and that we are adequately insured against such claims.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders through solicitation of proxies during the fourth quarter of fiscal 2006.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the New York Stock Exchange under the symbol IPX . The following table sets forth for the periods indicated commencing on January 1, 2005, the high and low closing sale prices for our common stock. All share and per share data have been rounded to the nearest cent.

	HIGH	LOW
Fiscal Year 2005		
First Quarter	$24.00	$21.60
Second Quarter	22.23	18.60
Third Quarter	21.79	17.75
Fourth Quarter	20.25	17.70
Fiscal Year 2006		
First Quarter	$21.08	$18.36
Second Quarter	22.43	19.45
Third Quarter	22.98	19.42
Fourth Quarter	24.99	21.57

As of March 1, 2007 there were approximately 3,131 stockholders of record of our common stock. On March 1, 2007, the last reported sale price of our common stock on the New York Stock Exchange was $24.20 per share.

We paid a quarterly dividend of $0.08 per share on our common stock in January, April, July and October of 2006. In addition, a special dividend of $0.12 per share was paid on January 17, 2006.

On December 14, 2006, we announced that our Board of Directors had approved an increase in our quarterly cash dividend on our common stock to $0.25 per share, commencing with the fourth quarter 2006 dividend payable in January 2007.

We paid a quarterly dividend of $0.0625 per share on our common stock in January and April of 2005 and $0.075 per share in July and October of 2005. In addition, a special cash dividend of $1.00 per share was paid on November 10, 2005.

The Board of Directors has instituted a dividend reinvestment plan, which went into effect at the end of 2001. The plan is non-dilutive; shares required for the plan are acquired on the open market by an independent third party plan administrator and not through the issuance of additional shares by us.

The following table reflects our purchases of our outstanding equity securities during the quarter ended December 31, 2006:

Issuer Purchases of Equity Securities (1)
Fourth Quarter 2006

For the Month Ended	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maxim that under
October 31, 2006	None	----	----	
November 30, 2006	1,627,495 (1)	$24.78	----	
December 31, 2006	None	----	----	
	----	----	----	
TOTAL	1,627,495	$24.78	----	

(1) Represents shares of common stock (i) tendered to the Company to satisfy tax withholding requirements in connection with the exercise of stock options as permitted by the Company s 1993 Stock Option Plan or (ii) withheld by the Company to pay the aggregate exercise price, or to satisfy tax withholding requirements, in connection with the exercise of outstanding stock options as permitted by the Company s 1993 Stock Option Plan.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected historical consolidated financial data, for the periods and at the dates indicated. This information should be read in conjunction with our historical Consolidated Financial Statements included in this Annual Report on Form 10-K and the notes thereto.

SELECTED FINANCIAL DATA
(in thousands, except per share amounts)