TRAC INTERMODAL

2014 ANNUAL REPORT



www.tracintermodal.com

TRAC Intermodal Key Financial Highlights

Revenues: in $ millions

	2014	2013	2012
Total	627.0	515.2	414.6
Marine Market Segment	441.2	345.2	255.1
Domestic Market Segment	178.6	160.2	146.1
Other	7.2	9.8	13.4

Adjusted EBITDA: in $ millions

	2014	2013	2012
Total	200.9	163.0	159.9
Marine Market Segment	127.8	96.7	106.3
Domestic Market Segment	99.3	79.4	66.8
Other	-26.2	-13.1	-13.2

Active Chassis Fleet Composition

2014 was a year of strong growth in both our Marine and Domestic Market segments. In the Marine Market segment, shipping lines continued to divest their chassis fleets and move away from providing chassis as part of their core services. The Domestic Market segment continued to see above average growth in large part due to shippers shifting cargo from the roadways to the railways. The railroads have enabled this 'Mode Shift' by their continued investment in intermodal infrastructure and improvement in on-time service levels in 2014.

Our Marine Market segment revenues grew by 28% in 2014 compared to the prior year. This growth was primarily driven by the execution of our strategy to enable shipping lines to exit chassis provisioning by purchasing their chassis fleets and then migrating them to the transactional based Motor Carrier model. In 2014, we purchased 17,934 chassis from shipping lines primarily in West Coast port locations. The transition from the shipping lines providing chassis to that of the Motor Carrier model has resulted in motor carriers now representing 51% of our total Marine pool revenue in 2014 versus 44% the prior year.

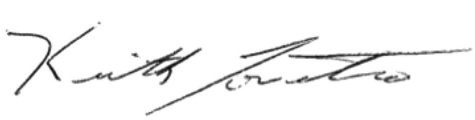
Our Domestic Market segment revenues grew by 11% in 2014 compared to the prior year. This growth was in large part driven by an increase in our daily transaction volumes and in part by negotiated rate increases with select customers.

In 2014, we initiated several cost control programs and in-sourced certain operational activities. These cost control programs helped to reduce direct operating expenses as a percentage of revenues from 56% in 2013 down to 53% in 2014. Adjusted EBITDA increased to $200.9 million in 2014, an increase of 23% versus the prior year.

2015 will be a year in which our Marine Market segment continues to evolve and grow as the shipping lines increase the percent of their business directed to the Motor Carrier model. We anticipate that we will continue to acquire additional marine chassis from shipping lines in 2015, albeit at a slower pace than in previous years. In our Domestic Market segment, we expect strong organic growth as a result of the improvements the railroads have made to their intermodal networks and the shift of freight off the highways and onto the railways.

Across both our Marine and Domestic Market segments, we will continue our focus on service quality, safety and strict cost controls. Our dedicated and experienced team is committed to maintaining and enhancing TRAC Intermodal's current position as the industry leader in chassis provisioning for the intermodal industry.

Sincerely,



Keith Lovetro,
President and Chief Executive Officer

TRAC Intermodal LLC and Subsidiaries

Consolidated Balance Sheets

At December 31, 2014 and 2013

(Dollars in Thousands)

	December 31	
	2014	**2013**
Assets		
Cash and cash equivalents	$ 4,256	$ 11,843
Accounts receivable, net of allowances of $ 19,030 and $12,475, respectively	135,076	113,138
Net investment in direct finance leases	16,215	25,026
Leasing equipment, net of accumulated depreciation of $ 400,408 and $365,429, respectively	1,436,909	1,394,088
Goodwill	251,907	251,907
Other assets	41,954	45,908
Total assets	$ 1,886,317	$ 1,841,910
Liabilities and member's interest		
Accounts payable	$ 14,781	$ 12,092
Accrued expenses and other liabilities	74,449	42,692
Deferred income taxes, net	102,467	99,331
Debt and capital lease obligations:		
Due within one year	30,546	34,029
Due after one year	1,133,676	1,130,108
Total debt and capital lease obligations	1,164,222	1,164,137
Total liabilities	1,355,919	1,318,252
Commitments and contingencies *(Note 8)*	—	—
Member's interest:		
Member's interest	559,015	562,006
Accumulated other comprehensive loss	(28,617)	(38,348)
Total member's interest	530,398	523,658
Total liabilities and member's interest	$ 1,886,317	$ 1,841,910

See accompanying notes to the Consolidated Financial Statements.

TRAC Intermodal LLC and Subsidiaries

Consolidated Statements of Operations

For the Years Ended December 31, 2014, 2013 and 2012

(Dollars in Thousands)

	Year ended December 31		
Revenues:	**2014**	**2013**	**2012**
Equipment leasing revenue	$ 588,287	$ 472,571	$ 373,060
Finance revenue	2,111	3,254	5,116
Other revenue	36,590	39,419	36,417
Total revenues	626,988	515,244	414,593
Expenses:			
Direct operating expenses	333,135	289,767	214,125
Selling, general and administrative expenses	84,346	58,031	46,038
Depreciation expense	72,114	71,791	66,052
Provision for doubtful accounts	14,007	11,369	4,137
Impairment of leasing equipment	5,855	5,857	6,506
Early retirement of leasing equipment	37,766	—	—
Loss on modification and extinguishment of debt and capital lease obligations	315	904	8,850
Interest expense	86,837	91,085	75,102
Interest income	(61)	(287)	(143)
Other income, net	(925)	(2,074)	(809)
Total expenses	633,389	526,443	419,858
Loss before (benefit) provision for income taxes	(6,401)	(11,199)	(5,265)
(Benefit) provision for income taxes	(3,445)	18,154	(2,175)
Net loss	$ (2,956)	$ (29,353)	$ (3,090)

See accompanying notes to the Consolidated Financial Statements.

TRAC Intermodal LLC and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

For the Years Ended December 31, 2014, 2013 and 2012

(Dollars in Thousands)

	December 31		
	2014	**2013**	**2012**
Net loss	$ (2,956)	$ (29,353)	$ (3,090)
Unrealized (loss) gain on derivative instruments, net of tax of $ 585 , $(1,313) and $4,462, respectively	(899)	2,020	(6,772)
Derivative loss reclassified into earnings, net of tax of $ (7,265), $(7,774) and $(4,757), respectively	11,025	12,204	6,261
Foreign currency translation (loss) gain, net of tax of $ 364 , $398 and $(195), respectively	(395)	(596)	158
Total other comprehensive income (loss), net of tax	9,731	13,628	(353)
Total comprehensive income (loss)	$ 6,775	$ (15,725)	$ (3,443)

See accompanying notes to the Consolidated Financial Statements.

TRAC Intermodal LLC and Subsidiaries

Consolidated Statements of Member's Interest

For the Years Ended December 31, 2014, 2013 and 2012

(Dollars in Thousands)

	Member's Interest	Accumulated Other Comprehensive Loss	Total Member's Interest
Balance, December 31, 2011	$ 592,266	$ (51,623)	$ 540,643
Capital contribution from member	3,616	—	3,616
Investment in indirect parent	(3,616)	—	(3,616)
Repurchase of shares from employees	(307)	—	(307)
Share exchange	217	—	217
Share-based compensation	1,797	—	1,797
Net loss	(3,090)	—	(3,090)
Other comprehensive loss	—	(353)	(353)
Balance, December 31, 2012	$ 590,883	$ (51,976)	$ 538,907
Repurchase of shares from employees	(820)	—	(820)
Share-based compensation	1,181	—	1,181
Contribution from affiliate	42	—	42
Excess tax benefits restricted shares	73	—	73
Net loss	(29,353)	—	(29,353)
Other comprehensive income	—	13,628	13,628
Balance, December 31, 2013	$ 562,006	$ (38,348)	$ 523,658
Repurchase of shares from employees	(858)	—	(858)
Share-based compensation	810	—	810
Contribution from affiliate	13	—	13
Net loss	(2,956)	—	(2,956)
Other comprehensive income	—	9,731	9,731
Balance, December 31, 2014	$ 559,015	$ (28,617)	$ 530,398

See accompanying notes to the Consolidated Financial Statements.

TRAC Intermodal LLC and Subsidiaries

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2014, 2013 and 2012

(Dollars in Thousands)

	Year ended December 31		
	2014	2013	2012
Cash flows from operating activities			
Net loss	$ (2,956)	$ (29,353)	$ (3,090)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	72,365	72,026	66,471
Provision for doubtful accounts	14,007	11,369	4,137
Amortization of deferred financing fees	6,763	6,183	4,001
Loss on modification and extinguishment of debt and capital lease obligations	315	904	8,850
Derivative loss reclassified into earnings	18,290	19,978	11,018
Ineffective portion of cash flow hedges	(84)	(82)	53
Payments to terminate derivative instruments	—	—	(90,370)
Impairment of leasing equipment	5,855	5,857	6,506
Early retirement of leasing equipment	37,766	—	—
Share-based compensation	810	1,181	1,765
Deferred income taxes, net	(4,351)	18,080	(5,028)
Other, net	(928)	(1,340)	(217)
Changes in assets and liabilities:			
Accounts receivable	(35,264)	(43,888)	(27,110)
Other assets	(1,013)	(36)	848
Accounts payable	2,689	1,822	1,546
Accrued expenses and other liabilities	24,285	4,055	12,349
Net cash provided by (used in) operating activities	138,549	66,756	(8,271)
Cash flows from investing activities			
Proceeds from sale of leasing equipment	8,265	7,066	2,689
Collections on net investment in direct finance leases, net of interest earned	4,622	5,706	7,836
Purchase of leasing equipment	(149,376)	(141,113)	(102,989)
Purchase of fixed assets	(4,999)	(4,225)	(588)
Net cash used in investing activities	(141,488)	(132,566)	(93,052)
Cash flows from financing activities			
Proceeds from long-term debt	148,000	142,000	932,397
Repayments of long-term debt	(148,292)	(87,290)	(800,738)
Cash paid for debt issuance fees	(3,156)	(2,267)	(32,588)
Capital contribution from member	—	—	3,616
Investment in indirect parent	—	—	(3,616)
Excess tax benefits restricted shares	—	73	—
Repurchase of shares from employees	(858)	(820)	(307)
Net cash (used in) provided by financing activities	(4,306)	51,696	98,764
Effect of changes in exchange rates on cash and cash equivalents	(342)	(599)	110
Net decrease in cash and cash equivalents	(7,587)	(14,713)	(2,449)
Cash and cash equivalents, beginning of year	11,843	26,556	29,005
Cash and cash equivalents, end of year	$ 4,256	$ 11,843	$ 26,556
Supplemental disclosures of cash flow information			
Cash paid for interest	$ 61,609	$ 65,957	$ 53,552
Cash paid (refunded) for taxes, net	$ 1,136	$ 763	$ (415)

See accompanying notes to the Consolidated Financial Statements.

1. Description of the Business and Basis of Presentation

TRAC Intermodal LLC (the "Company" or "TRAC") is an intermodal chassis solutions provider for domestic and international transportation companies in North America. Its principal business is providing marine and domestic chassis on both long and short-term leases or rental agreements to a diversified customer base including the world's leading shipping lines, Class I railroads, major U.S. intermodal transportation companies and motor carriers.

The Company's fleet of equipment consists of marine and domestic chassis. These assets are owned, leased-in or managed by TRAC on behalf of third-party owners in pooling arrangements. As of December 31, 2014, the Company owned, leased-in or managed a fleet of approximately 309,700 chassis and units available for remanufacture. The net book value of the Company's owned equipment was approximately $1.45 billion.

TRAC is a Delaware limited liability company and TRAC Intermodal Corp. is a Delaware corporation, both of which were formed on July 12, 2012 to facilitate the issuance of $300,000 aggregate principle amount of 11% Senior Secured Notes (the "Original Notes"). The Company conducts its business through its 100% owned subsidiary, Interpool, Inc. ("Interpool") and its consolidated subsidiaries. To date, neither the Company nor TRAC Intermodal Corp. have conducted any activities other than those incidental to their formation and the preparation of the offering memorandum relating to the Original Notes and a prospectus relating to the exchange of the Original Notes for notes which have been registered under the Securities Act of 1933, as amended (the "Securities Act") pursuant to the terms set forth in the prospectus (the "Exchange Notes" and together with the Original Notes, the "notes"). The Company has no operations of its own so it is dependent upon the cash flows of its subsidiaries to meet its obligations under the notes. Since the proceeds from the Original Notes were used to repay debt owed by Interpool, an intercompany note was entered into between TRAC and Interpool with terms identical to the notes. The proceeds from the intercompany note arrangement with Interpool will provide the funds for TRAC to service the interest and debt payments due under the notes.

The exchange offer to exchange the Original Notes for notes which have been registered under the Securities Act commenced on June 6, 2013 and expired on July 5, 2013. Based on information provided by Wells Fargo Bank, N.A., the exchange agent for the exchange offer, as of the expiration date, $300,000 aggregate principal amount of the Original Notes were validly tendered for exchange, representing 100% of the principal amount of the outstanding Original Notes.

Interpool, headquartered in Princeton, New Jersey, is a private company wholly owned by TRAC, which is ultimately owned by Seacastle Inc. ("Seacastle"). Seacastle is owned by private equity funds that are managed by an affiliate of Fortress Investment Group LLC ("Fortress") and by employees of affiliates of Seacastle. Interpool was founded in 1968 as an operating lessor servicing the intermodal transportation equipment industry. Interpool was listed on The New York Stock Exchange as a public company in 1993 and was acquired and taken private by Seacastle in July 2007.

1. Description of the Business and Basis of Presentation (continued)

The accompanying Consolidated Financial Statements of TRAC and subsidiaries (the "Consolidated Financial Statements") have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The Company and its subsidiaries conduct business principally in one industry, the leasing of intermodal transportation equipment. The Company has two reportable segments, the Marine Market segment and the Domestic Market segment. The Marine Market and Domestic Market segments provide marine and domestic chassis to the world's leading shipping lines, motor carriers, major U.S. intermodal transportation companies and Class 1 railroads. The Company purchases equipment directly from manufacturers and shipping lines as well as through lease agreements, some of which qualify as capital leases. Primarily all of the Company's revenues and long-lived assets are attributable to the United States.

For the years ended December 31, 2014, 2013 and 2012, approximately 62%, 70% and 78%, respectively, of the Company's total revenues were earned from its top 25 customers. Beginning in 2011 and continuing to the present, certain of the Company's shipping line customers changed to a business model in which they no longer provide chassis to motor carriers. Therefore, the Company is leasing marine chassis directly to over 4,500 motor carriers whose per diem billing rates are generally higher than that of shipping lines and railroad customers. Motor carrier billings represented approximately 48%, 25% and 12% of the Company's total revenues for the years ended December 31, 2014, 2013 and 2012, respectively. As more shipping lines adopt this new business model, the Company anticipates growth in both the number of motor carrier customers and related billings.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Company's Consolidated Financial Statements include the accounts of the Company and its subsidiaries, all of which are 100% owned. All significant intercompany transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and classification of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results may differ materially from those estimates.

2. Summary of Significant Accounting Policies (continued)

Risk and Uncertainties

In the normal course of business, the Company encounters two significant types of economic risk: credit and market.

Credit risk is the risk of a lessee's inability or unwillingness to make contractually required payments. The Company is subject to concentrations of credit risk with respect to amounts due from customers. The Company attempts to limit its credit risk by performing ongoing credit evaluations and, when deemed necessary, requires letters of credit, guarantees or collateral.

For the years ended December 31, 2014, 2013 and 2012, the Company earned approximately 45%, 52% and 58% of revenues from its top ten customers, respectively. The Company's largest customer accounted for approximately 6%, 7% and 10% of total revenues in 2014, 2013 and 2012, respectively. These revenues are included in the Marine Market segment. Based on balances due at December 31, 2014, the maximum amount of loss the Company would incur if this customer failed completely to perform according to the terms of their contracts would be $4,301. While the Company believes that it has properly reserved for uncollectible accounts receivable, it is possible that the Company may experience longer collection cycles. Although the Company is not dependent on any one customer for more than 6% of its revenue, deterioration in credit quality of several of the Company's major customers could have an adverse effect on its consolidated financial position and operating results. Management does not believe significant risk exists in connection with the Company's concentrations of credit as of December 31, 2014.

The Company also has a concentration of credit within its direct finance lease portfolio. The Company's top three customers account for $14,592, $21,893 and $35,822 of the outstanding principal at December 31, 2014, 2013 and 2012, respectively which represents approximately 90%, 87% and 88% of the outstanding principal in those years. The Company does not record an allowance for credit losses associated with direct finance leases. If any of these customers were to default, the Company would seek to recover the equipment securing the lease, often at fair market values in excess of the remaining receivable, and present certain claims to its insurers of default losses. Historically, the Company has not experienced losses related to direct finance leases and does not project future uncollectible amounts related to the principal balances receivable.

Market risk reflects the change in the value of derivatives and financings due to changes in interest rate spreads or other market factors, including the value of collateral underlying debt investments and financings. The Company believes that the carrying values of its investments and derivative obligations are reasonable taking into consideration these risks, along with estimated collateral values, payment histories and other relevant financial information.

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments having original maturities of three months or less at the time of purchase. These instruments are stated at cost, which approximates market value because of the short-term nature of the instruments.

Direct Finance Leases

Direct finance leases are recorded at the aggregated future minimum lease payments, including any bargain or economically compelled purchase options granted to the customer, less unearned income. The Company generally bears greater risk in operating lease transactions (versus direct finance lease transactions) due to redeployment costs and related risks that are shifted to the lessee under a direct finance lease. Management performs annual reviews of the estimated residual values which can vary depending on a number of factors.

Leasing Equipment

Leasing equipment is primarily comprised of marine and domestic chassis. All equipment is recorded at cost and depreciated to an estimated residual value on a straight-line basis over the estimated useful life of the equipment.

Estimated useful lives and residual values have been principally determined based on the Company's historical disposal and utilization experience. The estimated useful lives and average residual values for the Company's Leasing equipment from the date of manufacture are as follows:

	Useful Lives (Years)	Residual Values (in Dollars)
Chassis	20.0-22.5	$2,600

The Company will continue to review its depreciation policies on a regular basis to determine whether changes have taken place that would suggest that a change in its depreciation policies, useful lives of its equipment or the assigned residual values is warranted.

The Company recognizes repair and maintenance costs that do not extend the lives of the assets as incurred and includes such costs in Direct operating expenses in the Consolidated Statements of Operations. Also included in Depreciation of leasing equipment is the depreciation on assets recorded under capital leases.

2. Summary of Significant Accounting Policies (continued)

Impairment of Leasing Equipment

In accordance with the *Property, Plant and Equipment* Topic of the Financial Accounting Standards Board, *Accounting Standards Codification*, (the "FASB ASC"), the Company reviews its leasing assets for impairment when events or changes in circumstances indicate that the carrying amount of the asset group as a whole may not be recoverable. If indicators of impairment are present, a determination is made as to whether the carrying value of the Company's fleet exceeds its estimated future undiscounted cash flows. Impairment exists when the carrying value of leasing assets taken as a whole exceeds the sum of the related undiscounted cash flows. The Company's review for impairment includes considering the existence of impairment indicators including third-party appraisals of its equipment, adverse changes in market conditions or the future utility of specific long-lived assets, shrinkage and the occurrence of significant adverse changes in general industry and market conditions that could affect the fair value of its equipment.

When indicators of impairment suggest that the carrying value of its leasing assets may not be recoverable, the Company determines whether the impairment recognition criteria have been met by evaluating whether the carrying value of the leasing assets taken as a whole exceeds the related undiscounted future cash flows expected to result from the use and eventual disposition of the asset group. The preparation of the related undiscounted cash flows requires the use of assumptions and estimates, including the level of future rents, and the residual value expected to be realized upon disposition of the assets, estimated downtime between re-leasing events and the amount of re-leasing costs.

If the Company determines that the carrying value may not be recoverable, it will assess the fair value of the assets. In determining the fair value of the assets, the Company considers market trends, published values for similar assets, recent transactions of similar assets and quotes from third-party appraisers. If the carrying amount of an asset group exceeds its fair value, an impairment charge is recognized in the amount by which the carrying amount of the asset group exceeds the fair value of the asset group.

Property and Equipment

Property and equipment is recorded at cost less accumulated depreciation. In accordance with the *Property, Plant and Equipment* Topic of the FASB ASC, the Company reduces the carrying amount for property and equipment that has been impaired to the estimated fair value at the impairment date. Property and equipment is included in Other assets in the Consolidated Balance Sheets. The Company capitalizes significant improvements and the Company charges repairs and maintenance costs that do not extend the lives of the assets to expense as incurred. The Company removes the cost and accumulated depreciation of assets sold or otherwise disposed of from the accounts and recognizes any resulting gain or loss upon the disposition of the assets.

The Company depreciates the cost of property and equipment over their estimated useful lives on a straight-line basis as follows: buildings—40 years; furniture and fixtures—3 to 7 years; computers and office equipment—3 to 5 years; capitalized development costs for internal use software—7 years; and other property and equipment—3 to 10 years.

2. Summary of Significant Accounting Policies (continued)

Goodwill

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. In accordance with the *Intangibles—Goodwill and Other* Topic of the FASB ASC, goodwill is not amortized, but instead is tested for impairment at the reporting unit level annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Management has determined that there are two reporting units, the Marine Market segment and the Domestic Market segment. For the purpose of testing goodwill for impairment, the goodwill balance has been assigned to these two reporting units using a relative fair value allocation approach.

The Company evaluates the recoverability of goodwill using a two-step impairment test approach. In the first step, the reporting units' fair value is compared to its carrying value including goodwill. Fair value of the reporting unit is estimated using a discounted cash flow analysis which is based on current operating budgets and long-range projections. The assumptions for the projections are based on management's historical experience, as well as their future expectations of market conditions. Estimated cash flows are discounted based on market comparable weighted-average cost of capital rates derived from the capital asset pricing model. The inputs to the model were primarily derived from publicly available market data. Although management uses the best estimates available, if actual results fall below the estimated budgets and long range projections used for the fair value calculation or cost of capital rates differ from the inputs used to calculate discounted cash flow, a different outcome could result.

If the fair value of the reporting unit is less than the carrying value, a second step is performed which compares the implied fair value of the reporting units' goodwill to the carrying value of the goodwill. The implied fair value of the goodwill is determined based on the difference between the fair value of the reporting unit and the net fair value of the identifiable assets and liabilities. If the implied fair value of the goodwill is less than the carrying value, the difference is recognized as an impairment charge.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other gains and losses, net of tax, if any, affecting Member's interest that, under U.S. GAAP, are excluded from net income. Such amounts include the changes in the fair value of derivative instruments, reclassification into earnings of amounts previously deferred relating to derivative instruments and foreign currency translation gains and losses primarily relating to the Company's Canadian and Mexican operations.

2. Summary of Significant Accounting Policies (continued)

Share-Based Compensation

Certain key employees are the recipients of employment agreements that have restricted stock benefits. The Company has recognized compensation expense relating to these share-based awards in the Consolidated Statements of Operations based upon the fair value of the equity instruments at the time they were issued. The Company uses a straight-line method of accounting for the compensation expense on share-based payment awards that contain pro rata vesting provisions with the compensation expense recognized as of any date being at least equal to the portion of the grant-date fair value that is vested at that date. The Company expects to settle with affiliates all management fees, including these awards, in cash.

Such employment agreements also provide for additional grants of restricted stock upon the achievement by the Company of certain performance conditions or a certain market condition following a liquidity event. The grant-date fair value of these awards would be recognized as compensation expense over the implicit service period once it is probable that the performance conditions will be achieved.

Foreign Currency Translation

The net assets and results of operations of the Company's foreign operations (primarily Canada) have been translated at the rates of exchange in effect at the respective period end for the Consolidated Balance Sheets and at a weighted-average of the exchange rates for the respective period for the Consolidated Statements of Operations. The effects of changes in exchange rates in translating the financial statements of foreign subsidiaries are included in the Consolidated Statements of Comprehensive Income and in Accumulated other comprehensive loss ("AOCI") on the Consolidated Balance Sheets. The Company has determined that the U.S. dollar is its functional currency; therefore, all gains and losses resulting from translating foreign currency transactions into the functional currency are included in income.

Management Services

In addition to leasing equipment, which the Company owns or finances through capital lease obligations, the Company's customers are turning to outside service companies to help them manage chassis that they own and lease. The Company offers management services through an internally developed proprietary software system, known as "PoolStat®". During the period that the Company is managing the equipment for its customers, the Company earns a management fee. This fee income is recognized as services are rendered and is included in Other revenue in the Consolidated Statements of Operations.

2. Summary of Significant Accounting Policies (continued)

Derivative Instruments and Hedging Activities

The Company accounted for derivative instruments in accordance with the *Derivatives and Hedging* Topic of the FASB ASC. The FASB ASC requires that all derivative instruments be recorded on the balance sheet at their fair value and establishes criteria for both the designation and effectiveness of hedging activities.

The Company had entered into derivative instruments in the form of interest rate swaps, which were used to reduce its interest rate risk. Through these interest rate swaps, the Company received floating rate payments in exchange for fixed rate payments, effectively converting its floating rate debt to a fixed rate. As a matter of policy, the Company does not enter into derivative instruments for speculative purposes.

The manner in which a derivative instrument is recorded depends on whether it qualifies for hedge accounting. The Company applied hedge accounting and designated and accounted for its interest rate swap contracts as cash flow hedges. For effective cash flow hedges, changes in fair value were deferred and recorded in AOCI in the Consolidated Balance Sheets. The ineffective portion of cash flow hedges was recognized in earnings immediately and recorded in Interest expense in the Consolidated Statements of Operations. On August 9, 2012, in connection with the closing of the sale of the Original Notes and the asset based senior secured credit agreement (the “ABL Facility”) and the repayment of the $630,000 senior secured credit agreement with BNP Paribas CC, Inc. (f/k/a Fortis Capital Corp.) and a group of lenders with Fortis acting as the agent entered into on July 10, 2008, the Company terminated all of its interest rate derivatives. Balances in Accumulated other comprehensive loss for terminated derivatives are being reclassified into earnings over the remaining life of the item previously hedged. Terminated interest rate derivatives are reviewed periodically to determine if the forecasted transactions remain probable of occurring. If the forecasted transactions were deemed remote, the related portion of the gain or loss associated with the terminated derivative included in AOCI would be recognized in the Consolidated Statement of Operations immediately. On January 10, 2013, the Company entered into a new interest rate swap transaction with Deutsche Bank AG. See also Notes 7, 10 and 15 for further information.

Revenue Recognition

The Company’s primary sources of equipment leasing revenue are derived from operating leases and revenue earned on direct finance leases.

Revenue Recognition—Equipment Leasing Revenue

The Company generates equipment leasing revenue through short-term and long-term operating leases, principally with shipping lines and North American rail and trucking companies. In the majority of its transactions, the Company acts as the lessor of leasing equipment for a specified period of time and at a specified per diem rate. Revenue is recognized on a straight-line basis over the life of the respective lease for term leases. Subscription agreements typically contain periodic pricing and minimum chassis usage reset features. Revenue associated with such agreements is recognized on a straight line basis for committed quantities at contractual rates.

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition—Finance Revenue

The Company enters into direct finance leases as lessor of equipment that it owns. In most instances, the leases include a bargain purchase option which allows the customer to purchase the leased equipment at the end of the lease term. Net investment in direct finance leases represents the receivables due from lessees, net of unearned income. The lease payments are segregated into principal and interest components similar to a loan. Unearned income is recognized on an effective interest basis over the life of the lease term and is recorded as Finance revenue in the Consolidated Statements of Operations. The principal component of the lease payment is reflected as a reduction to the Net investment in direct finance leases.

Revenue Recognition—Other Revenue

Other revenue includes fees that the Company's customers are contractually obligated to pay to return equipment to a leasable condition, fees for third-party positioning of equipment and scrap revenue generated from end of life chassis. When a lessee leases equipment from the Company, the lessee is contractually obligated to return the equipment in a leasable condition according to predetermined standards. Upon redelivery of the units, the Company charges the lessee for the expected cost to repair the equipment based on a repair survey performed at the depot. The Company charges the lessee based on this estimate and records maintenance and repair revenue at that time. In accordance with the *Revenue—Revenue Recognition—Principal Agent Considerations* Topic of the FASB ASC, the Company recognizes billings to customers for damages incurred and certain other pass-through costs as Other revenue in the Consolidated Statements of Operations. The Company recognizes gross revenues from these pass-through costs as the Company is the primary obligor with respect to purchasing goods and services from third parties. The Company generally has the discretion in selection of the repair service provider and the Company generally has the credit risk because the services are purchased prior to reimbursement being received. In addition, Other revenue includes fees earned for providing chassis pool management services. Revenue is recognized as services are rendered.

Direct Operating Expenses

Direct operating expenses are primarily related to costs incurred in relation to leasing equipment that is not being leased to a third-party and for equipment in the Company's chassis pools. These expenses primarily consist of costs to repair and maintain the equipment, to store the equipment when it is not on lease, to reposition the equipment for pick-up by a customer, and equipment rental related costs to meet customer demand. Costs to reposition the equipment incurred prior to the initial lease of the equipment are capitalized as a cost of the asset acquisition.

2. Summary of Significant Accounting Policies (continued)

Provision for Doubtful Accounts

The Company determines the provision for doubtful accounts based on its assessment of the collectability of its receivables. The Company identifies these accounts based on two methods: (1) a customer-by-customer basis and (2) an allowance method. In the first method, the Company reviews certain accounts based on size, payment history and third-party credit reports and places a likelihood of default percentage on each account individually. For the remaining receivable balance, the Company applies a delinquency factor based on prior history which represents the Company's best estimate of those accounts that will become uncollectible. Changes in economic conditions may require a re-assessment of the risk and could result in increases or decreases in the allowance for doubtful accounts.

Sales of Leasing Equipment

Sales of leasing equipment consist of sales of equipment to third parties, as well as billings to customers for lost or damaged equipment. The Company records the gains and losses from the sales of leasing equipment as part of Other income, net in the Consolidated Statements of Operations. Gains and losses are recognized upon completion of the sale based upon the sales price and the book value of the equipment. For the years ended December 31, 2014, 2013 and 2012, the Company recorded net gains of $928, $1,340 and $217, respectively.

Provision (Benefit) for Income Taxes

The Company is a Limited Liability Company with a single member and therefore is subject to U.S. income taxes.

Income taxes have been provided based upon the tax laws and rates in countries in which the Company's operations are conducted and income is earned. The Company's chassis leasing business is domiciled in the United States and, therefore, its income is subject to United States taxation. The provision (benefits) for income taxes recorded relates to the income earned by certain of the Company's subsidiaries, which are located in or have earned income in jurisdictions that impose income taxes, primarily in the United States. The Company is also subject to income tax in Canada and Mexico.

2. Summary of Significant Accounting Policies (continued)

New Accounting Standards

Pending Adoption

In August 2014, the FASB issued authoritative guidance on accounting for *Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). The amendments in this Update provide guidance on management's responsibility in evaluating whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Currently, there is no guidance in U.S. GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosures. U.S. auditing standards and federal securities law require that an auditor evaluate whether there is substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time not to exceed one year beyond the date of the financial statements being audited. Because of the lack of guidance in U.S. GAAP and the differing views about when there is substantial doubt about an entity's ability to continue as a going concern, there is diversity in whether, when, and how an entity discloses the relevant conditions and events in its footnotes. These amendments should reduce diversity in the timing and content of footnote disclosures. The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Company is currently evaluating the impact of this standard on its Consolidated Financial Statements.

In June 2014, the FASB issued authoritative guidance on accounting for *Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* ("ASU 2014-12"). The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The performance target should not be reflected in estimating the grant date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The amendments in this Update are effective for annual periods and interim periods beginning after December 15, 2015. Earlier adoption is permitted. The Company is currently evaluating the impact of this standard on its Consolidated Financial Statements.

2. Summary of Significant Accounting Policies (continued)

In May 2014, FASB issued authoritative guidance on accounting for *Revenue from Contracts with Customers (Topic 606):* ("ASU 2014-09"). This update supersedes most of the current revenue recognition requirements. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. New disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers are also required. This guidance is effective for fiscal years and interim periods beginning after December 15, 2016 and early application is not permitted. Entities must adopt the new guidance using one of two retrospective application methods. The Company is currently evaluating the standard to determine the impact of its adoption on the Consolidated Financial Statements.

In April 2014, the FASB issued authoritative guidance on accounting for *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* ("ASU 2014-08"). The amendments in this Update changes the criteria for determining which disposals can be presented as discontinued operations and modifies the related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. The revised guidance is effective for annual fiscal periods beginning after December 15, 2014. Early adoption is permitted. The Company is evaluating the impact the revised guidance will have on its Consolidated Financial Statements.

No other new accounting pronouncements issued or effective during 2014 had or are expected to have a material impact on the Company's Consolidated Financial Statements.

3. Leasing Activity

The Company's term leases are typically "triple net," requiring the lessee to maintain, insure and pay taxes on the equipment until return, at no cost to the lessor. Typical term lease provisions allocate all risk of loss to the lessee, requiring the lessee to indemnify the lessor against all risks, claims, or causes of actions arising from the leasing, operation, maintenance, repair, possession or control of the equipment. The Company also leases chassis through its network of chassis pools located throughout the United States. The cost of maintaining chassis in these pools is borne by the Company. The lessee is responsible for compliance with all laws and regulations, including all environmental risk. The lessee is further responsible for loss or damage to the equipment, however caused, subject to normal wear or tear. The lessee must defend and hold harmless the lessor in the event of any claims for loss or damage to the equipment, cargo, or third parties occurring while leased. The lease terms that are variable, and can change based on the lease type, are the per diem rates, the length of the lease and the redelivery locations and quantities that may be redelivered to such locations. However, the general governing terms and conditions of the lease remain the same whether the lease is short-term, long-term or a direct finance lease, and whether the lease is for the initial term or a renewal. Multiple contracts with a single lessee are not combined and are accounted for as separate arrangements. The Company had no amounts of contingent rental in any period presented.

(Dollars in Thousands, Except for Share Amounts)

3. Leasing Activity (continued)

Equipment Leasing Revenue

The Company has non-cancelable operating leases for its leasing equipment. At December 31, 2014, future minimum lease revenue under these agreements is estimated as follows:

2015	$ 81,461
2016	46,414
2017	32,697
2018	4,937
2019	3,890
Thereafter	134
	$ 169,533

Finance Revenue

The Company enters into direct finance 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 becomes exercisable. Guaranteed and unguaranteed residual values are included in Net investment in direct finance leases on the Consolidated Balance Sheets. 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 principal component is equal to the cost or carrying amount of the leased property. The interest component is equal to the gross cash flows charged to the lessee less the principal component. The Company recognizes the interest component, which is calculated using the effective interest method over the term of the lease as finance revenue. The principal component of the lease payment is reflected as a reduction to Net investment in direct finance leases.

As of December 31, 2014 and 2013, the Company had guaranteed and unguaranteed residual values for leasing equipment on direct finance leases of $8,778 and $11,923, respectively.

(Dollars in Thousands, Except for Share Amounts)

3. Leasing Activity (continued)

At December 31, 2014, receivables under these direct finance leases are collectible through 2022 as follows:

	Total Lease Receivables	Unearned Lease Income	Net Lease Receivables
2015	$ 4,814	$ 1,483	$ 3,331
2016	3,912	1,130	2,782
2017	10,380	406	9,974
2018	106	13	93
2019	10	8	2
Thereafter	49	16	33
	$ 19,271	$ 3,056	$ 16,215

As of December 31, 2013, the Company had total lease receivables, unearned lease income and net lease receivables of $31,655, $6,629 and $25,026, respectively. The unguaranteed residual values are reflected in "Total Lease Receivables" above.

Historically, the Company has not experienced losses related to direct finance leases and does not project future uncollectible amounts related to the principal balances receivable. If customers were to default, the Company would seek to recover the equipment securing the lease, often at fair market values in excess of the remaining receivable, and present certain claims to its insurers of default losses.

4. Leasing Equipment

The following is a summary of leasing equipment recorded on the Consolidated Balance Sheets:

	December 31	
	2014	2013
Total leasing equipment	$ 1,837,317	$ 1,759,517
Less accumulated depreciation	(400,408)	(365,429)
Leasing equipment, net of accumulated depreciation	$ 1,436,909	$ 1,394,088

Leasing equipment includes assets recorded under capital leases of $182,688 and $253,639 with accumulated depreciation of $53,016 and $59,424 at December 31, 2014 and 2013, respectively.

(Dollars in Thousands, Except for Share Amounts)

4. Leasing Equipment (continued)

In conjunction with the analysis of the Company's fleet in the second quarter, discussed below, management performed a review of the estimated useful life of its domestic chassis, currently at 17.5 years, versus marine chassis at 22.5 years. Such analysis involved inspections of a sampling of 53' chassis located across the United States for the purpose of evaluating their physical condition to assess future operating potential, allowing for normal maintenance and repair over the extended life. Based on such review, management believes extending the useful life of its domestic chassis fleet to 20 years is appropriate and better reflects its expected service life. Accordingly, this change in accounting estimate took effect as of April 1, 2014 and had the effect of reducing depreciation expense and increasing pre-tax income for the nine months ended December 31, 2014 by approximately $3,931. The Company estimates that depreciation expense will decrease and pre-tax income increase by approximately $5,200 on an annual basis thereafter.

Impairment of Leasing Equipment

The Company periodically analyzes the usability of leasing equipment at remanufacturing facilities, depots and other storage facilities. Certain leasing equipment is rejected in the remanufacturing process due to rust and corrosion or if otherwise determined to be unusable for future remanufacturing. Additionally, due to the frequent movement of the Company's assets in its operations, its chassis and axles are subject to shrinkage. Impairment charges are recorded based on management's ongoing analysis of the impairment indicators described in Note 2, and include estimates of shrinkage and other charges based on recent historical experience. Impairment of leasing equipment amounted to $5,855, $5,857 and $6,506 for the years ended December 31, 2014, 2013 and 2012, respectively. The 2013 and 2012 impairment charges are net of insurance recoveries of $494 and $169, respectively that the Company received related to the theft of axles that occurred in 2010 and 2011.

The following is a summary of the Company's impairment charges recorded for the years ended December 31, 2014, 2013 and 2012 by category:

	December 31		
	2014	**2013**	**2012**
Shrinkage	$ 218	$ 51	$ 1,134
Corroded/Unusable	2,527	658	789
Impairment	3,110	5,642	4,752
Insurance recoveries	—	(494)	(169)
Total impairment of leasing equipment	$ 5,855	$ 5,857	$ 6,506

4. Leasing Equipment (continued)

Early Retirement of Leasing Equipment

During the second quarter of 2014, management recommended the retirement of identified excess and other non-standard chassis residing at depots and chassis pools, in addition to certain axle sets residing at depots. Management's action was largely influenced by the consummation of the last of several shipping line deals or conversions to the "motor carrier" model during the quarter, whereby chassis owned or leased by the shipping line are sold or returned to the Company to be managed in its marine chassis pools. Having bid on and being awarded such deals has profound implications on the Company's fleet size, utilization model, and customer base.

Chassis Retirements

As a result of the continuing shift in the Company's business model and the significant impact of consummating deals during the second quarter of 2014, management developed a multi-year fleet requirements projection for its Marine Market segment which considered relevant factors such as market growth, the current performance of the marine chassis pools and utilization under pool versus term arrangements among other factors. Based on such analysis, the Company determined it had an excess amount of chassis in its Marine Market segment, specifically 20' chassis and to a lesser degree 40' chassis. Other non-standard type chassis were similarly considered for retirement given the significant influx of assets associated with the shipping line chassis purchases. Total charges incurred during the second quarter associated with retiring approximately 11,000 identified chassis amounted to $14,766.

Axle Retirements

Retiring approximately 11,000 chassis will produce an almost equivalent number of axle sets available for the future remanufacturing of chassis. Accordingly, management performed a similar review of the types, quality and quantity of axle sets residing at depots and identified certain types, such as German and Square axles, which are deemed to be less cost effective to remanufacture or repair due to the difficulty of obtaining spare parts. Accordingly, approximately 9,000 axle sets have been written-off in the second quarter amounting to $23,000. Axles are not assigned to the Company's reportable segments. The value of idle chassis and axle sets are included in Leasing equipment in the Other category in the Company's segment disclosure.

The total of the above retirement charges of $37,766 is recorded in Early retirement of leasing equipment in the Consolidated Statements of Operations. As of December 31, 2014, approximately $5,040 of such reserve remains outstanding.

(Dollars in Thousands, Except for Share Amounts)

5. Goodwill

Management has determined that the Company has two reporting units, the Marine Market segment and the Domestic Market segment. For the purpose of testing goodwill for impairment, the goodwill balance has been assigned to these two reporting units using a relative fair value allocation approach. The goodwill balance for the Marine Market segment was $134,019 at both December 31, 2014 and 2013. The goodwill balance for the Domestic Market segment was $117,888 at both December 31, 2014 and 2013. At December 31, 2014, there are no accumulated impairment losses related to Goodwill. Based upon the annual assessment of goodwill, the Company concluded that no impairment existed during the years ended December 31, 2014, 2013 and 2012.

6. Borrowings

The following is a summary of the Company's borrowings:

	December 31	
	2014	**2013**
Senior Secured 11% Notes	$ 300,000	$ 300,000
ABL Facility	759,000	713,000
Loans Payable CIMC	16,950	19,278
Capital lease obligations	88,272	131,859
Total debt	1,164,222	1,164,137
Less current maturities	(30,546)	(34,029)
Long-term debt, less current maturities	$ 1,133,676	$ 1,130,108

The Company's debt consisted of notes, loans and capital lease obligations payable in varying amounts through 2021, with a weighted-average interest rate of 5.78%, 6.11% and 6.23% for the years ended December 31, 2014, 2013 and 2012, respectively. The weighted-average interest rates disclosed are calculated as "all-in" rates which include interest expense and amortization of agents' fees and deferred financing fees.

Senior Secured 11% Notes

On August 9, 2012, TRAC along with TRAC Intermodal Corp., sold $300,000 aggregate principal amount of 11.0% Senior Secured Notes, (the "Notes"), issued at par in a private transaction. The Notes mature on August 15, 2019, with interest payable semi-annually beginning on February 15, 2013. The Notes are secured on a second-priority lien basis. Collateral generally consists of cash, owned chassis, accounts receivable, and investment property of the guarantors including, with limitations, the equity of the non-guarantors. The Company may redeem some or all of the Notes at any time on or after August 15, 2015 at the redemption prices set forth in the Notes plus accrued and unpaid interest, if any, to the redemption date. At any time prior to August 15, 2015, the Company may redeem some or all of the Notes at a price equal to 100% of the principal amount of the Notes to be redeemed plus a "make-whole" premium, plus accrued and unpaid interest, if any, to the redemption date. The Company may also redeem up to 35% of the aggregate principal amount of the Notes at any time on or prior to August 15, 2015 using net proceeds from certain equity offerings, subject to the satisfaction of certain conditions set forth in the Notes. If the Company experiences certain kinds of changes in control, the Company must offer to purchase the Notes at a price equal to 101% of the principal amount of the Notes plus accrued and

6. Borrowings (continued)

unpaid interest, if any, to the redemption date. Holders of the Notes will have the option to redeem their Notes for 101.0% of principal upon a change of control as defined by the Notes and upon the Company's collateral or non-collateral asset sales as defined in the Notes, at a redemption price of 100.0%.

TRAC has no operations of its own so it is dependent upon the cash flows of its subsidiaries to meet its obligations under these notes. Since the proceeds from the Notes were used to repay debt owed by Interpool, an intercompany note was entered into between TRAC and Interpool with terms identical to the Notes. The servicing of the intercompany note arrangement by Interpool will provide the funds for TRAC to service the interest and debt payments due under the Notes.

Concurrent with the offering of the Notes, the Company entered into a registration rights agreement with investors which required the Company to file a registration statement with the Securities and Exchange Commission to offer exchange notes with terms substantially identical in all material respects to the Notes within 365 days of closing. The exchange offer commenced on June 6, 2013 and expired on July 5, 2013. Based on information provided by Wells Fargo Bank, N.A., the exchange agent for the exchange offer, as of the expiration date, $300,000 aggregate principal amount of the Notes were validly tendered for exchange, representing 100% of the principal amount of the outstanding Notes.

The indenture governing the Notes also contains various restrictive covenants, including limitations on the payment of dividends and other restrictive payments, limitations on incurrence of indebtedness, investments, creation of liens and limitations on asset sales. The proceeds from this offering were used to repay existing indebtedness of Interpool, including interest rate swap liabilities, and for general corporate purposes. The Company incurred approximately $9,555 in fees and expenses related to the note offering. These fees and expenses are classified as deferred financing fees and are being amortized into interest expense over the seven year term of the Notes.

The amount outstanding under this facility was $300,000 at December 31, 2014 and 2013. The weighted-average interest rates including amortized debt issuance fees for the years ended December 31, 2014 and 2013 and for the period from August 9, 2012 to December 31, 2012 was 11.52%, 11.51% and 11.22%, respectively.

The Company has analyzed each of the redemption features included in the notes to determine whether any of these embedded features should be bifurcated in accordance with the *Derivatives and Hedging* Topic of the FASB ASC (ASC 815). The Company has concluded that the redemption feature which offers optional redemption by the Company of up to 35% of the aggregate principal amount of the notes at a redemption price of 111% of the aggregate principa1, amount of the notes using the cash proceeds of an equity offering qualifies as a feature that should be bifurcated under ASC 815. The Company has determined that the resulting measurement of the fair value of this derivative is immaterial to the consolidated financial statements, and will reassess the fair value of this derivative each reporting period with any changes recorded in earnings.

6. Borrowings (continued)

ABL Facility

Concurrent with the closing of the sale of the Original Notes, Interpool together with certain of its subsidiaries, and TRAC and TRAC Intermodal Corp entered into the ABL Facility, a $725,000 asset-based, senior secured credit agreement, with JPMorgan Chase Bank, N.A. and a group of lenders, with JPMorgan Chase Bank, N.A. acting as administrative agent. In connection with the ABL Facility, the Company pledged certain rental fleet assets, accounts receivable and various other assets for the benefit of the lenders as collateral security for the payment and performance of the Company's obligations under the ABL Facility and related loan documents.

The ABL Facility has a five-year maturity and borrowings are limited to a maximum amount equal to the sum of (i) 85% *multiplied by* eligible accounts receivable, *plus* (ii) the lesser of (a) 85% *multiplied by* the net book GAAP depreciated value of eligible rental fleet assets and (b) 80% *multiplied by* the net orderly liquidation value percentage identified in the most recent rental fleet asset appraisals *multiplied by* the net book GAAP depreciated value of eligible rental fleet assets, *less* (iii) reserves established by JPMorgan Chase Bank, N.A., acting as the administrative agent (the "*Advance Rate*").

The ABL Facility bears an interest rate equal to the Adjusted LIBOR plus 2.75% or the Alternate Base Rate plus 1.75% (each as defined in the ABL Facility). Field exams and appraisals will be conducted by the lenders on a periodic basis, the frequency of which increases subject to certain availability triggers or during the continuance of an event of default.

The ABL Facility contains various representations and covenants, including a minimum fixed charge coverage ratio of 1.00 to 1.00 and a maximum Senior Secured Debt leverage ratio for the applicable testing periods of (i) 6.50 to 1.00 from the effective date of the ABL Facility to June 30, 2013, (ii) 6.00 to 1.00 from September 30, 2013 to June 30, 2014, (iii) 5.50 to 1.00 from September 30, 2014 to June 30, 2015, (iv) 5.00 to 1.00 from September 30, 2015 to June 30, 2016 and (v) 4.50 to 1.00 from September 30, 2016 to the maturity date.

In addition to the above financial covenants, the ABL Facility contains restrictions, which include but are not limited to, restrictions on the creation of liens, the incurrence of additional indebtedness, investments, asset dispositions, sale and leaseback transactions, swap agreements, transactions with affiliates, mergers and consolidations, liquidations and dissolutions and restricted payments (including dividends and other payments in respect of capital stock). The ABL Facility also provides for cash dominion subject to certain availability triggers. The proceeds from the ABL were used to repay existing indebtedness of Interpool, including interest rate swap liabilities, and for general corporate purposes. The Company incurred $21,677 in fees and expenses related to the ABL facility including $14,488 in bank fees and $6,600 in re-titling costs. Since the current ABL Facility and the previous credit facilities were loan syndications and a number of lenders participated in both credit facilities, the Company evaluated the accounting for financing fees on a lender by lender basis in accordance with FASB ASC Topic 470-50, *Modifications and Extinguishments of Debt*. This resulted in a loss on modification of debt of $2,136 and loss on extinguishment of debt of $4,158 recorded in Loss on modification and extinguishment of debt and capital lease obligations in the Consolidated Statement of Operations. Approximately $20,917 was classified as deferred financing fees and is being amortized into interest expense over the five year term of the ABL Facility.

6. Borrowings (continued)

On December 20, 2012, the Company entered into an agreement with the above lenders to amend the ABL Facility and increase the revolving commitment by $120,000, increasing the total facility's commitment from $725,000 to $845,000. In connection with this amendment the Company paid $1,356 in upfront fees. These fees were classified as deferred financing fees and will be amortized into interest expense over the remaining term of the ABL Facility.

During the year ended December 31, 2013, the Company further increased its borrowing capacity under the ABL Facility by $105,000 bringing the total commitment by lenders to $950,000. Fees paid in connection with the increase were $670 and are being amortized into interest expense over the remaining term of the ABL Facility.

On April 15, 2014, the Company entered into an agreement with its lenders to amend the ABL Facility. The interest rate on the ABL Facility was decreased to LIBOR plus 2.25% from LIBOR plus 2.75%. Additionally, the borrowing capacity under the ABL Facility was increased by $80,000 bringing the total commitment by lenders to $1,030,000. Fees paid in connection with the increase were $1,880 and are being amortized over the remaining life of the loan. A Current Report on Form 8-K was filed with the SEC on April 18, 2014 in connection with the amendment.

During November and December, 2014, the Company further increased its borrowing capacity under the ABL Facility by $146,000 and $74,000, respectively bringing the total commitment by lenders to $1,250,000. Fees paid in connection with these increases were $1,087 and are being amortized into interest expense over the remaining term of the ABL Facility.

The amount outstanding under this facility was $759,000 and $713,000 at December 31, 2014 and 2013, respectively. The weighted-average interest rates including amortized debt issuance fees for the years ended December 31, 2014 and 2013 and for the period from August 9, 2012 to December 31, 2012 was 3.60%, 4.03% and 4.14%, respectively. At December 31, 2014, $491,000 additional borrowing capacity was available under this facility.

Swaps

On August 9, 2012, in connection with the closing of the sale of the Original Notes and the ABL Facility and the repayment of the Fortis Facility, the Company terminated all six interest rate derivatives.

On January 10, 2013, the Company entered into a new interest rate swap transaction with Deutsche Bank AG effectively converting $300,000 of variable rate debt based upon LIBOR into a fixed rate instrument. The Company will receive one month LIBOR with interest payable at a rate of 0.756% on the notional amount. At December 31, 2014, one month LIBOR was 0.171%. The agreement terminates on August 9, 2017, in line with the termination date of the ABL Facility. See Note 7.

(Dollars in Thousands, Except for Share Amounts)

6. Borrowings (continued)

Loans Payable CIMC

During 2010, the Company contracted for the remanufacture and financing of 3,135 chassis with CIMC Vehicles Group Ltd. and CIMC Transportation Equipment, Inc. (collectively, "CIMC"). CIMC financed 90% of the acquisition cost of these remanufactured chassis. This equipment was delivered in eight tranches as manufacturing was completed over various delivery dates from October 11, 2010 to June 30, 2011 and eight corresponding financing agreements were signed. The term of each agreement is 120 months commencing on the acceptance date of the equipment. Amounts outstanding under these agreements bear an interest rate equal to LIBOR plus a margin and payments are made quarterly. Upon registration, CIMC is listed as the first lien holder on all certificates of title to the equipment. At December 31, 2014 and 2013, $16,950 and $19,278 was outstanding under these agreements. The weighted-average interest rates for the years ended December 31, 2014, 2013 and 2012 were 4.53%, 4.56% and 4.73%, respectively.

Capital Lease Obligations

At December 31, 2014 and 2013, the total capital lease obligations outstanding associated with leasing equipment were $88,272 and $131,859, respectively. The capital lease obligations mature in varying amounts from 2015 through 2021 and have stated or implicit rates ranging from 3.53% to 7.07%. The weighted-average interest rates for the years ended December 31, 2014, 2013 and 2012 were 4.96%, 5.10% and 5.21%, respectively.

On December 31, 2014 the Company exercised an early purchase option for one of its capital leases. The Company purchased 1,371 chassis for approximately $12,032 and recognized a loss on modifications and extinguishment of debt and capital lease obligations of $225.

Assets Pledged as Collateral

The Company's debt obligations are collateralized by the Company's Leasing equipment and Net investment in direct finance leases. As of December 31, 2014 and 2013, assets pledged as collateral are as follows:

	December 31	
	2014	**2013**
ABL Facility	$ 1,276,781	$ 1,193,614
CIMC Loans	27,966	29,242
Capital Lease Obligations	129,670	194,550
Total Pledged as Collateral	$ 1,434,417	$ 1,417,406

The Company's 11% Senior Secured Notes are secured on a second-priority lien basis. Collateral generally consists of cash, owned chassis, accounts receivable, and investment property of the guarantors including, with limitations, the equity of the non-guarantors.

(Dollars in Thousands, Except for Share Amounts)

6. Borrowings (continued)

Covenants

At December 31, 2014, under the Company's debt instruments, the Company is required to maintain certain financial covenants (as defined in each agreement) including Minimum Tangible Net Worth tests, Funded Debt to Tangible Net Worth, Senior Secured Leverage Ratio and a Fixed Charge Coverage test. As of December 31, 2014, the Company was in compliance with all covenants.

Debt Maturities

The Company's outstanding debt, including capital lease obligations, as of December 31, 2014 matures as follows:

2015	$ 30,546
2016	39,468
2017	771,641
2018	14,678
2019	303,420
Thereafter	4,469
	$ 1,164,222

7. Derivatives and Hedging Activities

On August 9, 2012, in connection with the closing of the sale of the Original Notes and the ABL Facility and the repayment of the Fortis Facility, the Company terminated all six existing interest rate derivatives. Additionally, on January 10, 2013, the Company entered into a new interest rate swap transaction with Deutsche Bank AG effectively converting $300,000 of variable rate debt based upon LIBOR into a fixed rate instrument. The Company will receive one month LIBOR with interest payable at a rate of 0.756% on the notional amount. At December 31, 2014, one month LIBOR was 0.171%. The agreement terminates on August 9, 2017, in line with the termination date of the ABL Facility.

The Company accounts for derivative instruments in accordance with the *Derivatives and Hedging* Topic of the FASB ASC. In the normal course of business, the Company is exposed to fluctuations in interest rates on its floating rate debt. In order to reduce its interest rate risk, the Company utilized interest rate derivatives to manage its exposure to interest rate risks. Through the utilization of these interest rate derivatives, the Company receives floating rate payments in exchange for fixed rate payments, effectively converting its floating rate debt to a fixed rate. In accordance with the *Derivatives and Hedging* Topic of the FASB ASC, if certain conditions are met, an interest rate derivative may be specifically designated as a cash flow hedge. All of the Company's interest rate derivatives are cash flow hedges.

7. Derivatives and Hedging Activities (continued)

On the date that the Company entered into an interest rate derivative, it formally documented the intended use of the interest rate derivative and its designation as a cash flow hedge, if applicable. The Company also assessed (both at inception and on an ongoing basis) whether the interest rate derivative had been highly effective in offsetting changes in the cash flows of the floating rate interest payments on its debt and whether the interest rate derivative was expected to remain highly effective in future periods. If it were to be determined that the interest rate derivative was not (or had ceased to be) highly effective as a cash flow hedge, the Company would have discontinued hedge accounting treatment.

At inception of an interest rate derivative designated as a cash flow hedge, the Company established the method it would use to assess effectiveness and the method it would use to measure any ineffectiveness. The Company used the "hypothetical derivative method" to estimate the fair value of the hedged interest payments in both its assessments and measurement of hedge effectiveness. The degree to which a hedge was judged as highly effective under the hypothetical derivative method depended on a calculation involving the comparison of the change in the fair value of the actual interest rate derivative to the change in the fair value of a hypothetical interest rate derivative with critical terms which matched the hedged floating-rate interest payments.

The effectiveness of the Company's hedge relationships was assessed prospectively and retrospectively by regressing historical changes in the actual interest rate derivative against historical changes in the hypothetical interest rate derivative and evaluating whether certain statistical measures (such as correlation and slope) had been met. However, measurement of hedge effectiveness in the Consolidated Financial Statements each period required a comparison of the cumulative change in the fair value of the actual interest rate derivative to the cumulative change in the fair value of the hypothetical interest rate derivative. When the change in the interest rate derivative exceeded the change in the hypothetical interest rate derivative, the amount of the change in fair value by which the actual interest rate derivative exceeded the hypothetical interest rate derivative was the calculated ineffectiveness which was recorded in Interest expense in the Consolidated Statements of Operations.

In accordance with the *Derivatives and Hedging* Topic of the FASB ASC, all interest rate derivatives were recognized on the Company's Consolidated Balance Sheets at their fair value and consisted of United States dollar denominated LIBOR-based interest rate swaps. Their fair values were determined using cash flows discounted at relevant market interest rates in effect at the period close. The fair value generally reflected the estimated amounts that the Company would receive or pay to transfer the contracts at the reporting date and therefore reflects the Company's or counterparty's non-performance risk. See Note 15.

For the Company's interest rate derivatives designated as cash flow hedges, the effective portion of the interest rate derivative's gain or loss was deferred and initially reported as a component of Accumulated other comprehensive income (loss) ("AOCI") and subsequently reclassified into earnings when the interest payments on the debt were recorded in earnings. The ineffective portion of the interest rate derivative was calculated and recorded in Interest expense in the Consolidated Statements of Operations at each quarter-end. Refer to Note 10 for further information regarding the amounts accumulated in other comprehensive loss.

(Dollars in Thousands, Except for Share Amounts)

7. Derivatives and Hedging Activities (continued)

The Company may, at its discretion, choose to terminate or re-designate any interest rate derivatives prior to their contractual maturities. At that time, any gains and losses previously reported in AOCI on termination would continue to amortize into interest expense or interest income to correspond to the recognition of interest expense or interest income as the interest payments on the debt affect earnings, provided that management has determined that the forecasted transactions are probable of occurring.

On August 9, 2012, in connection with the closing of the sale of the Original Notes and the ABL Facility and the repayment of the Fortis Facility, the Company terminated all six remaining interest rate derivatives. Upon settlement, the Company paid $91,422, which included $1,052 of accrued interest. The balance in AOCI is being reclassified into earnings over the remaining life of the items previously hedged through October 2017, as management has determined that the forecasted transactions remain probable of occurring.

Terminated interest rate derivatives are reviewed periodically to determine if the forecasted transactions remain probable of occurring. To the extent that the debt instrument was also terminated or the occurrence of the interest payments on the debt is deemed remote, the related portion of the gain or loss associated with the terminated derivative included in AOCI would be recognized in the Consolidated Statements of Operations immediately.

For additional disclosures related to derivative instruments, see Notes 2, 10 and 15.

The Company held the following interest rate derivative designated as a cash flow hedge as of December 31, 2014:

Hedged Item	Current Notional Amount	Effective Date	Maturity Date	Floating Rate	Fixed Leg Interest Rate	Fair Value Gain (a)
ABL Facility	$ 300,000	Jan-2013	Aug-2017	1M LIBOR	0.756%	$ 2,015

(a) This interest rate derivative is recorded in Other Assets in the Consolidated Balance Sheets.

At the dates indicated, the Company had in place total interest rate derivatives to fix floating interest rates on a portion of the borrowings under its debt facilities as summarized below:

	Total Current Notional Amount	Weighted-Average Fixed Leg Interest Rate	Weighted-Average Remaining Term
December 31, 2014	$ 300,000	0.756%	2.5 years
December 31, 2013	$ 300,000	0.756%	3.5 years
December 31, 2012	—	—	—

(Dollars in Thousands, Except for Share Amounts)

7. Derivatives and Hedging Activities (continued)

The following table sets forth the net of tax effect of the Company's cash flow hedge derivative instruments on the Consolidated Financial Statements for the years ended December 31, 2014, 2013 and 2012:

	Effective Portion				Ineffective Portion	
	Derivative Instruments	**Change in Unrealized Gain (Loss) Recognized in OCI on Derivatives(a)**	**Classification of Loss Reclassified from OCI into Income**	**Loss Reclassified from OCI into Income (b)**	**Classification of (Gain) Loss Recognized Directly in Income on Derivative**	**(Gain) Loss Recognized Directly in Income on Derivative (c)**
December 31, 2014	Interest rate derivatives	$ (2,005)	Interest expense	$ 12,131	Interest expense	$ (84)
December 31, 2013	Interest rate derivatives	$ 1,081	Interest expense	$ 13,143	Interest expense	$ (82)
December 31, 2012	Interest rate derivatives	$ (17,572)	Interest expense	$ 17,061	Interest expense	$ 53

(a) This represents the change in the fair market value of the Company's interest rate derivatives, net of tax, offset by the amount of actual cash paid related to the net settlements of the interest rate derivatives, net of tax.

(b) This represents the amount of actual cash paid, net of tax, related to the net settlements of the interest rate derivatives plus any effective amortization of deferred losses on the Company's terminated derivatives, net of tax.

	2014	**2013**	**2012**
Net settlements of interest rate derivatives, net of tax of ($720), ($610) and ($7,116), respectively	$ 1,106	$ 939	$ 10,800
Amortization of terminated derivatives, net of tax of ($7,265), ($7,774) and ($4,757), respectively	11,025	12,204	6,261
	$ 12,131	$ 13,143	$ 17,061

(c) Amounts impacting income not related to OCI reclassification.

(Dollars in Thousands, Except for Share Amounts)

7. Derivatives and Hedging Activities (continued)

The following table summarizes the deferred (gains) and losses for the terminated interest rate derivatives and the related amortization into interest expense for the years ended December 31, 2014, 2013 and 2012:

Hedged Item	Original Maximum Notional Amount	Effective Date	Maturity Date	Fixed Rate %	Term-ination Date	Deferred Loss Upon Term-ination	Unamortized Deferred (Gain) Loss at December 31, 2014	Amount of Deferred Loss Amortized (including Accelerated Amortization) into Interest Expense 2014	2013	2012	Amount of Deferred Loss Expected to be Amortized over the Next 12 months
(a)	$ 60,852	Jul-2007	Oct-2017	5.299%	Dec-2007	$ 1,853	$ (8)	$ 10	$ 33	$ 91	$ (2)
(a)	200,000	Jul-2007	Jul-2017	5.307%	Dec-2007	6,412	(23)	45	141	355	(6)
(a)	163,333	Jul-2007	Jul-2014	5.580%	Dec-2007	3,773	—	200	413	545	—
(b)	150,000	Jul-2008	Oct-2014	5.512%	Jul-2008	1,711	—	44	65	163	—
(b)	150,000	Oct-2007	Oct-2014	5.512%	Jul-2008	3,498	—	139	235	320	—
(b)	480,088	Oct-2014	Oct-2017	5.436%	Jul-2008	1,711	1,566	145	—	—	662
(b)	480,088	Oct-2014	Oct-2017	5.436%	Jul-2008	1,526	1,380	146	—	—	698
(a)	163,333	Nov-2007	Jul-2014	4.605%	Jul-2008	2,082	—	(166)	(84)	125	—
(b)	332,525	Oct-2007	Oct-2014	4.743%	Jul-2008	7,641	—	(167)	102	421	—
(a)	58,238	Nov-2007	Oct-2017	4.305%	Jul-2008	862	(103)	(61)	(59)	(40)	(58)
(a)	193,333	Nov-2007	Jul-2017	4.365%	Jul-2008	3,265	(340)	(247)	(209)	(104)	(206)
(c)	37,000	Sep-2007	Jul-2014	5.526%	Mar-2011	3,122	—	335	809	1,074	—
(d)	53,286	Jul-2008	Oct-2017	3.989%	Aug-2012	2,048	535	469	678	366	330
(d)	181,667	Jul-2008	Jul-2017	4.033%	Aug-2012	8,538	1,987	2,135	2,944	1,472	1,321
(d)	43,333	Jul-2008	Jul-2014	4.328%	Aug-2012	11,033	—	3,437	5,477	2,119	—
(d)	211,567	Jul-2008	Oct-2014	4.147%	Aug-2012	17,002	—	6,578	7,200	3,224	—
(d)	150,000	Jul-2008	Oct-2014	4.000%	Aug-2012	5,080	—	1,960	2,233	887	—
(d)	427,407	Oct-2014	Oct-2017	5.174%	Aug-2012	46,372	43,084	3,288	—	—	17,438
Total						$ 127,529	$ 48,078	$ 18,290	$ 19,978	$ 11,018	$ 20,177

(a) This hedged item is referred to as Chassis Funding II Floating Rate Asset-Backed Notes, Series 2007-1
(b) This hedged item is referred to as Chassis Funding Floating Rate Asset-Backed Notes, Series 2007-1
(c) This hedged item is referred to as Chassis Financing Program, Term Loan Agreement—Portfolio C
(d) This hedged item is referred to as Chassis Financing Program, Portfolio A

The amount of loss expected to be reclassified from AOCI into interest expense over the next 12 months consists of net interest settlements on an active interest rate derivative in the amount of $825 (which is net of tax of $536) and amortization of deferred losses on the Company's terminated derivatives of $12,229 (which is net of tax of $7,948).

(Dollars in Thousands, Except for Share Amounts)

8. Commitments and Contingencies

Purchase Commitments

At December 31, 2014, commitments for capital expenditures for leasing equipment totaled approximately $6,874, all of which was committed for 2015.

Lease Commitments

Lease of 750 College Road East

On August 1, 2014, the Company entered into a lease of 82,283 square feet of office space for an initial term of 10 years and 9 months in an office building located at 750 College Road East, Princeton, New Jersey. The lease contains two five year renewal options and contains typical terms for agreements of such duration and size. The Company expects to move into the new office space during the second quarter of 2015. Entering into the lease will allow the Company to consolidate its headquarters from two locations into one. Additionally on August 1, 2014, the Company agreed to sell the building that currently serves as its corporate headquarters at 211 College Road East, Princeton, New Jersey, for $2,300. The Company reduced the carrying value of its headquarters to reflect the net realizable value of the pending sale. This resulted in the recognition of additional depreciation expense of $1,356.

The Company is eligible for various incentives in connection with this lease, including the award of a "Grow NJ Tax Credit" from the New Jersey Economic Development Authority for up to $9,800 in tax credits over a 10 year period, and subject to, among other things, meeting certain minimum capital spending requirements and retaining and adding new jobs in New Jersey.

The Company is party to various operating leases relating to office facilities and certain other equipment with various expiration dates through 2025. All leasing arrangements contain normal leasing terms without unusual purchase options or escalation clauses. Rental expense under operating leases was $8,541, $9,660 and $10,946 for the years ended December 31, 2014, 2013 and 2012, respectively.

As of December 31, 2014, the aggregate minimum rental commitment under operating leases having initial or remaining non-cancelable lease terms in excess of one year was as follows:

2015	$ 8,015
2016	4,458
2017	2,981
2018	3,237
2019	2,690
Thereafter	14,597
	$ 35,978

The Company is party to various capital leases and is obligated to make payments related to its long-term borrowings. See Note 6.

8. Commitments and Contingencies (continued)

Guarantees and Indemnifications

In the ordinary course of business, the Company executes contracts involving indemnifications standard in the industry and indemnifications specific to a transaction such as an assignment and assumption agreement. These indemnifications might include claims related to any of the following: tax matters, governmental regulations, and contractual relationships. Performance under these indemnities would generally be triggered by a breach of terms of the contract or by a third-party claim. The Company regularly evaluates the probability of having to incur costs associated with these indemnifications and have accrued for any expected losses that are probable. No losses have been accrued at December 31, 2014 and 2013.

At December 31, 2014, the following guarantees and indemnifications for which payments are possible are as follows:

Taxes

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

Other

The Company is engaged in various legal proceedings from time to time incidental to the conduct of its business. Such proceedings may relate to claims arising out of accidents that occur which involve death and injury to persons and damage to property. Accordingly, the Company requires all of its lessees to indemnify the Company against any losses arising out of such accidents or other occurrences while its equipment is on-hire to the lessees. In addition, the Company's lessees are generally required to maintain minimum levels of general liability and property insurance coverages which are standard in the industry. The Company maintains general liability and property damage policies in the event that the above lessee coverages are insufficient or there is a loss for which the Company is responsible.

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

(Dollars in Thousands, Except for Share Amounts)

8. Commitments and Contingencies (continued)

The Company is subject to legal proceedings and claims in the ordinary course of business, principally personal injury and property casualty claims. The Company may spend significant financial and managerial resources to defend itself against such claims, even when they are without merit. The Company is not aware of any legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on the Company, its consolidated financial condition, results of operations or cash flows.

9. Income Taxes

Deferred tax assets and liabilities are recognized for the expected future taxation of events that have been reflected in the Consolidated Financial Statements. Deferred tax assets and liabilities are determined based on the differences between the book values and tax bases of assets and liabilities, using tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to offset any deferred tax assets if, based upon the relevant facts and circumstances, it is more likely than not that some or all of the deferred tax assets will not be realized. U.S. income taxes are generally not provided on undistributed earnings of U.S.-owned foreign subsidiaries as such earnings are considered permanently invested in the foreign jurisdictions. The Company's liability for uncertain tax positions represents open tax return positions and tax assessments received and are reflected in Accrued expenses and other liabilities and offsets to deferred tax assets.

The Company's chassis leasing business is primarily domiciled in the United States. Therefore, its income is primarily subject to United States taxation.

Domestic and foreign pre-tax income was as follows:

	Year ended December 31		
	2014	**2013**	**2012**
Domestic	$ (7,988)	$ (13,472)	$ (7,571)
Foreign	1,587	2,273	2,306
Total	$ (6,401)	$ (11,199)	$ (5,265)

(Dollars in Thousands, Except for Share Amounts)

9. Income Taxes (continued)

The (benefit) provision for income taxes is comprised of the following:

	Year ended December 31		
	2014	2013	2012
Current taxes:			
Federal	$ (795)	$ 796	$ —
State	713	54	255
Foreign	67	398	400
Total current taxes	(15)	1,248	655
Deferred taxes:			
Federal	(2,115)	14,211	(2,207)
State	(1,395)	1,936	(1,010)
Foreign	80	759	387
Total deferred taxes	(3,430)	16,906	(2,830)
Total provision (benefit) for income taxes	$ (3,445)	$ 18,154	$ (2,175)

The decrease in the tax provision in 2014 compared to 2013 and the increase in the tax provision in 2013 compared to 2012 was due primarily to the Company recognizing for tax purposes in 2013 a $56,120 gain from the distribution of stock in a related company. The recognized gain was fully offset by net operating loss carryforwards.

A reconciliation of the U.S. statutory tax rate to the effective tax rate for continuing operations follows:

	Year ended December 31		
	2014	2013	2012
U.S. statutory rate	35.0%	35.0%	35.0%
State taxes	12.9	(12.2)	19.9
Foreign earnings taxed at other than 35%	7.5	(4.8)	(7.8)
Gain	—	(175.3)	—
Changes in uncertain tax positions	(6.3)	(0.1)	—
Valuation allowances	5.1	(5.6)	(5.5)
Permanent tax items	(0.4)	0.9	(0.3)
Other	—	—	—
Effective tax rate	53.8%	(162.1)%	41.3%

(Dollars in Thousands, Except for Share Amounts)

9. Income Taxes (continued)

In all years the effective tax rate differs from the U.S. federal tax rate of 35% due to state and local income taxes and foreign earnings. In addition, in 2014, the effective tax rate decreased due to an increase in an uncertain state tax position. In 2013, permanent differences between book and tax treatment of certain items including a recognized gain from the distribution of stock in a related company significantly increased the effective tax rate. The tax gain resulted from the difference between the fair market value of the stock at the time

of the distribution and the stock's historical tax basis. The transaction that produced the gain for income tax purposes did not result in a corresponding book gain. This difference is reflected in the significant decrease in the Company's effective tax rate for 2013.

Significant components of deferred tax assets and liabilities were as follows:

	December 31	
	2014	**2013**
Deferred tax assets:		
Loss carryforwards	$ 304,263	$ 295,387
Derivative instruments	18,148	24,829
Other	8,977	8,296
Deferred tax assets	331,388	328,512
Valuation allowance	(2,205)	(2,931)
Total deferred tax assets	329,183	325,581
Deferred tax liabilities:		
Operating property, net	412,706	398,788
Derivative Instruments	18,944	26,124
Total deferred tax liabilities	431,650	424,912
Net deferred tax liabilities	$ 102,467	$ 99,331

Through December 31, 2014, the Company has incurred passive activity loss ("PALs") and net operating loss ("NOLs") carryforwards of approximately $228,931 and $534,619, respectively, for U.S. federal and state income tax purposes. The PALs can be carried forward indefinitely to offset income generated from future leasing activities.

(Dollars in Thousands, Except for Share Amounts)

9. Income Taxes (continued)

The remaining $534,619 of NOLs can be carried forward to offset any income from future leasing activities or other future non-leasing taxable income (i.e., dividends, interest, and capital gain income). The NOL carryforward will not begin to expire until 2028. After considering the future reversal of its existing taxable temporary differences coupled with the tax planning strategies, the Company does not believe a valuation allowance is required for federal taxes with respect to these PALs or NOLs. However, as of December 31, 2014 and 2013, the Company has a valuation allowance recorded of $2,205 and $2,931, respectively, relating to state NOL and capital loss carryforwards which have a remaining expiration period of five years or less.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at December 31, 2012	$ 84
Change during 2013	—
Balance at December 31, 2013	84
Change during 2014	893
Balance at December 31, 2014	$ 977

As of December 31, 2014, 2013 and 2012 the Company had $696, $152 and $143 of unrecognized tax benefits (comprised of unrecognized tax benefits and associated interest and penalties), all of which, if recognized, would favorably affect the Company's effective tax rate. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. During the years ended December 31, 2014 and 2013, the Company recognized approximately $94 and $9, respectively, in interest and penalties. No interest and penalties were recognized during the year ended December 31, 2012. The Company does not anticipate any material reversals of its recorded uncertain tax positions in the subsequent twelve month period.

The Company's 2011 to 2013 federal income tax returns and 2010 to 2013 state tax returns remain subject to examination. The Company does not expect the outcome of any federal or state examinations to have a material impact on the Consolidated Financial Statements. In addition, the Company's NOLs generally remain subject to potential examination until three years from their utilization year regardless of their year of origin.

As of December 31, 2014, 2013 and 2012 the cumulative undistributed foreign earnings were approximately $2,610, $1,098 and $467, respectively. Determining the unrecognized deferred tax liability for these undistributed foreign earnings is not practical. The Company reinvests its earnings in Mexico into its local operations and does not have a domestic need to reinvest such earnings. As such the Company considers all of its foreign earnings to be permanently invested in the foreign jurisdictions.

(Dollars in Thousands, Except for Share Amounts)

10. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss includes the changes in the fair value of derivative instruments, reclassification into earnings of amounts previously deferred relating to derivative instruments and foreign currency translation gains and losses primarily relating to the Company's Canadian operation.

The components of Accumulated comprehensive (loss), net of tax, are as follows:

	Unrealized Gain (Loss) on Derivative Instruments	Net Derivative Loss to be Reclassified into Earnings	Foreign Currency Translation	Total Accumulated Other Comprehensive Loss
Balance, December 31, 2011	$ (47,525)	$ (4,394)	$ 296	$ (51,623)
Reclassification of terminated derivative	54,297	(54,297)	—	—
Current-period other comprehensive (loss) income	(6,772)	6,261	158	(353)
Balance, December 31, 2012	$ —	$ (52,430)	$ 454	$ (51,976)
Current-period other comprehensive income (loss)	2,020	12,204	(596)	13,628
Balance, December 31, 2013	$ 2,020	$ (40,226)	$ (142)	$ (38,348)
Current-period other comprehensive (loss) income	(899)	11,025	(395)	9,731
Balance, December 31, 2014	$ 1,121	$ (29,201)	$ (537)	$ (28,617)

The amount of loss expected to be reclassified from Accumulated other comprehensive loss into interest expense over the next twelve months consists of net interest settlements on an active interest rate derivative in the amount of $825 (which is net of tax of $536) and amortization of deferred losses on the Company's terminated derivatives of $12,229 (which is net of tax of $7,948).

The following table presents the effects of reclassifications out of AOCI and into the Consolidated Statement of Income:

		Year ended December 31,		
	Income Statement Line Item	2014	2013	2012
Total loss in AOCI reclassifications for previously unrealized net losses on terminated derivatives	Interest expense	$ 18,290	$ 19,978	$ 11,018
Related income tax benefit	Benefit for income taxes	(7,265)	(7,774)	(4,757)
Net loss reclassified out of AOCI		$ 11,025	$ 12,204	$ 6,261

11. Share-Based Payments

Restricted Stock Awards—SCT Chassis, Inc.

On March 28, 2012, the Company's indirect parent, SCT Chassis, Inc. increased its authorized share capital to 71,000,000 common shares, par value $0.01 per share. SCT Chassis, Inc. issued 68,459,471 common shares to its parent, Seacastle Inc. who previously held 200 shares. On May 31, 2012, Interpool purchased 540,329 shares of common stock of SCT Chassis, Inc. at a fair market value of $6.17 per share for a total of $3,334 for use in its newly created stock incentive program for key employees. Additionally, on September 30, 2012 Interpool purchased 3,181 shares at a fair market value of $6.17 per share for a total of $19 and on December 13, 2012 an additional 40,900 shares were purchased at a fair market value of $6.41 per share for a total of $262. As a result of these transactions, SCT Chassis, Inc. has 69,044,081 common shares outstanding. The fair value of these shares was determined by a valuation by the Board of Directors of Seacastle Inc. In determining fair market value, the Board of Directors relies on a number of valuation approaches including the market-based approach using current market multiples as well as the income approach utilizing a discounted cash flow analysis.

Certain key employees of Interpool held restricted shares of Seacastle Inc. During June 2012, these employees exchanged an aggregate of 58,425 shares of Seacastle Inc. common stock for 55,212 shares of SCT Chassis, Inc. common stock, at an exchange ratio of 0.945 of an SCT Chassis, Inc. share for each share of Seacastle Inc. common stock. The 58,425 shares of Seacastle Inc. common stock included 45,934 vested shares (37,365 granted vested shares and 8,569 employee purchased shares) and 12,491 unvested restricted shares. These were exchanged into 43,408 vested shares (35,310 granted vested shares and 8,098 employee purchased shares) and 11,804 unvested restricted shares. The unvested shares related to this exchange vested over periods through January 1, 2014.

The Company accounted for the exchange of the awards as a modification in accordance with the *Compensation—Stock Compensation* Topic of the FASB ASC where applicable and determined no additional compensation charges were required. The Company recorded compensation expense on the unvested shares at the date of the exchange over the remaining vesting period.

On June 1, 2012, a total of 493,214 restricted shares of SCT Chassis, Inc. were granted to key employees of the Company at a fair value of $6.17 per share or a total fair value of $3,043. Of this grant, 123,305 shares vested immediately, with the remainder vesting in equal increments on January 1, 2013, 2014 and 2015. On July 31, 2012, 53,079 shares were granted at a fair value of $6.17 per share or a total fair value of $327. Of this grant, 13,270 shares vested immediately, with the remainder vesting in equal increments on July 1, 2013, 2014 and 2015. Finally, on October 31, 2012, 40,900 shares were granted at a fair value of $6.41 per share or a total fair value of $262. These shares vest in equal increments on January 1, 2013, 2014, 2015, and 2016.

(Dollars in Thousands, Except for Share Amounts)

11. Share-Based Payments (continued)

On March 1, 2013, 27,599 restricted shares of SCT Chassis, Inc. were granted at a fair value of $7.15 per share or a total fair value of $197. Of this grant 6,900 shares vested immediately, with the remainder vesting in equal increments on January 1, 2014, 2015 and 2016. On May 1, 2013, 21,570 restricted shares of SCT Chassis, Inc. were granted at a fair value of $7.63 per share or a total fair value of $165. These shares will vest in equal increments on January 1, 2014, 2015, 2016 and 2017. Finally, on December 1, 2013, 50,000 restricted shares of SCT Chassis, Inc. were granted at a fair value of $7.63 per share or a total fair value of $382. These shares will vest in equal increments on January 1, 2014, 2015, 2016 and 2017.

No shares were granted during the year ended December 31, 2014.

At December 31, 2014, the Management Shareholder Agreements also provide for additional grants of 1,096,954 restricted shares if certain performance conditions are achieved or if certain market conditions are met following a liquidity event. No compensation expense has been recorded since achievement of these conditions is not considered probable. As of December 31, 2014, the total number of shares authorized for grant under this plan was 2,548,426 with 2,098,296 shares available for future grant.

During the years ended December 31, 2014, 2013 and 2012, the Company recorded share-based compensation expense of $810, $1,181 and $1,765, respectively. Compensation expense is recorded as a component of Selling, general and administrative expense in the Company's Consolidated Statements of Operations and is recognized on a straight-line basis with the compensation cost recognized as of any date being at least equal to the portion of the grant-date fair value that is vested at that date. Total unrecognized compensation cost was approximately $430 at December 31, 2014, which is expected to be recognized over the remaining weighted-average vesting period of 0.8 years.

Non-vested Shares	**Shares**	**Weighted-Average Grant Date Fair Value per share**	**Fair Value of Shares at Grant Date**
Non-vested at January 1, 2012	—	$ —	$ —
Granted	598,997	6.27	3,756
Forfeited	(3,031)	6.17	(19)
Vested	(144,606)	6.22	(900)
Non-vested at December 31, 2012	451,360	$ 6.29	$ 2,837
Granted	99,169	7.50	743
Forfeited	(23,750)	6.17	(146)
Vested	(174,336)	6.34	(1,106)
Non-vested at December 31, 2013	352,443	$ 6.61	$ 2,328
Granted	—	—	—
Forfeited	(20,000)	6.17	(123)
Vested	(152,226)	6.54	(996)
Non-vested at December 31, 2014	180,217	$ 6.71	$ 1,209

11. Share-Based Payments (continued)

Stock Repurchases

During the year ended December 31, 2014, Interpool purchased 92,643 shares of SCT Chassis, Inc. common stock from employees to meet their minimum statutory withholding requirements upon share vesting and to repurchase shares from employees upon termination. The cost of these shares was $858 and is included in Member's interest in the Consolidated Balance Sheet.

12. Segment and Geographic Information

The Company's principal business operations consist of the leasing of intermodal transportation equipment. The Company provides such services to its customers through two operating and reportable segments, the Marine Market segment and the Domestic Market segment. The Company does not aggregate its operating segments. The reportable segments are based on the chassis markets that are served by the Company. Revenue and expenses not directly assigned to reportable segments, such as equipment repair and storage services performed at third-party facilities, certain headquarter-related expenses and certain maintenance, repair and positioning costs re-billed to customers are reflected in the Other category. Assets in the Other category are primarily made up of idle chassis and axle sets. Reporting under the aforementioned segment structure facilitates the Company's chief operating decision maker's ability to allocate resources and assess the Company's performance.

The Marine Market segment provides marine chassis to the world's leading shipping lines and motor carriers. A marine chassis is typically 20', 40' or 45' in length and is used in the transport of dry or refrigerated marine shipping containers of the same size carrying goods between port terminals and/or railroad ramps and retail or wholesale warehouse or store locations.

The Domestic Market segment provides domestic chassis to major U.S. intermodal transportation companies and Class 1 railroads. A domestic chassis is typically 53' in length and is used in the transport of domestic shipping containers of the same size carrying goods between railroad ramps and retail or wholesale warehouses or store locations.

Product offerings in the Marine and Domestic Market segments include both short-term and long-term leasing arrangements. Short term or pool leasing arrangements operate under the concept of a chassis pool, which is similar to a car rental model, whereby the Company provides a shared pool of chassis at major intermodal transportation points such as port terminals and railroad ramps for use by multiple customers on an as-needed basis. Customers in pools generally enter into pool user agreements for a period of 1 to 3 years and may be subject to subscription levels for minimum chassis usage, known as minimum usage or subscription arrangements.

12. Segment and Geographic Information (continued)

The long-term and direct finance leasing arrangements typically represent long-term triple-net leases with fixed rate per diems, which require the lessee to pay all maintenance fees, insurance premiums and tax payments related to the equipment. Under a term lease, the Company retains the benefit and residual value of, and bears the risk of re-leasing the asset at the end of the lease term. Under a direct finance lease, the customer typically receives a bargain purchase option at the expiration of the lease.

The accounting policies of the segments are the same as those described in Note 2; however, certain expenses are allocated among segments using metrics such as revenue, units in fleet, net book value of equipment or headcount. Given their relative significance to total assets and ability to be identified to reportable segments, leasing assets represents the most significant balance sheet item reviewed by the Company's chief operating decision maker.

In accordance with FASB ASC 280-10 and because the Company's management views goodwill as a corporate asset, the Company does not allocate its goodwill balance to its reportable segments. However, in accordance with the provisions of FASB ASC 350, *Intangibles-Goodwill and Other*, the Company is required to allocate goodwill to each reporting unit in order to perform its annual impairment review of goodwill. See Note 5.

The Company evaluates current and future projected segment performance and allocates resources to them primarily based upon Adjusted EBITDA. The Company defines EBITDA as income (loss) before income taxes, interest expense, depreciation and amortization expense, impairment of assets and leasing equipment, early retirement of leasing equipment, loss on modification and extinguishment of debt and capital lease obligations and other expense (income) and interest income. The Company defines Adjusted EBITDA as EBITDA excluding non-cash share-based compensation and principle collections on direct finance leases. Adjusted EBITDA helps management identify controllable expenses and make decisions designed to help the Company meet its current financial goals and optimize its financial performance. Accordingly, the Company believes this metric measures its financial performance based on operational factors that management can impact in the short-term, namely the cost structure and expenses of the organization.

(Dollars in Thousands, Except for Share Amounts)

12. Segment and Geographic Information (continued)

The following tables show segment information for the years ended December 31, 2014, 2013 and 2012.

2014	**Marine Market segment**	**Domestic Market segment**	**Other**	**Total**
Term revenue	$ 38,767	$ 17,313	$ —	$ 56,080
Pool revenue	380,491	151,716	—	532,207
All other revenue	21,943	9,615	7,143	38,701
Total revenue	441,201	178,644	7,143	626,988
Adjusted EBITDA	127,779	99,313	(26,160)	200,932
Depreciation expense	37,867	26,666	7,581	72,114
Net investment in direct finance leases	16,105	110	—	16,215
Leasing equipment	789,874	501,609	145,426	1,436,909
Capital expenditures for long-lived assets	111,604	37,772	4,999	154,375

2013	**Marine Market segment**	**Domestic Market segment**	**Other**	**Total**
Term revenue	$ 45,782	$ 18,227	$ —	$ 64,009
Pool revenue	273,391	135,171	—	408,562
All other revenue	25,990	6,852	9,831	42,673
Total revenue	345,163	160,250	9,831	515,244
Adjusted EBITDA	96,731	79,410	(13,177)	162,964
Depreciation expense	33,862	30,923	7,006	71,791
Net investment in direct finance leases	24,865	161	—	25,026
Leasing equipment	742,434	475,371	176,283	1,394,088
Capital expenditures for long-lived assets	102,837	38,276	4,225	145,338

2012	**Marine Market segment**	**Domestic Market segment**	**Other**	**Total**
Term revenue	$ 69,886	$ 18,108	$ —	$ 87,994
Pool revenue	164,375	120,691	—	285,066
All other revenue	20,863	7,264	13,406	41,533
Total revenue	255,124	146,063	13,406	414,593
Adjusted EBITDA	106,342	66,819	(13,267)	159,894
Depreciation expense	31,544	26,245	8,263	66,052
Net investment in direct finance leases	40,523	206	—	40,729
Leasing equipment	694,588	470,894	159,901	1,325,383
Capital expenditures for long-lived assets	52,476	50,514	588	103,578

(Dollars in Thousands, Except for Share Amounts)

12. Segment and Geographic Information (continued)

The following are reconciliations of the total measure of profit or loss to the Company's net loss.

	Year ended December 31		
	2014	2013	2012
Adjusted EBITDA	$ 200,932	$ 162,964	$ 159,894
Principal collections on direct finance leases, net of interest earned	(4,622)	(5,706)	(7,836)
Non-cash share-based compensation	(810)	(1,181)	(1,765)
Interest expense	(86,837)	(91,085)	(75,102)
Depreciation expense	(72,114)	(71,791)	(66,052)
Impairment of leasing equipment	(5,855)	(5,857)	(6,506)
Early retirement of leasing equipment	(37,766)	—	—
Loss on modification and extinguishment of debt and capital lease obligations	(315)	(904)	(8,850)
Interest income	61	287	143
Other income, net	925	2,074	809
Loss before (benefit) provision for income taxes	(6,401)	(11,199)	(5,265)
(Benefit) provision for income taxes	(3,445)	18,154	(2,175)
Net loss	$ (2,956)	$ (29,353)	$ (3,090)

Geographic Information

Primarily all of the Company's revenues and long-lived assets are attributable to the United States, the Company's country of domicile.

13. Defined Contribution Plan

The Company has a defined contribution plan covering substantially all of its eligible employees. Participating employees may make contributions to the plan, through payroll deductions. The Company matches 100% of the employee's contribution to the extent such employee contribution did not exceed 6% of such employee's compensation. For the years ended December 31, 2014, 2013 and 2012, the Company contributed approximately $1,961, $1,283 and $1,078, respectively, to this plan. These amounts are included in Selling, general and administrative expenses on the Consolidated Statements of Operations.

14. Related Party Transactions

Management, Facility Fees and Chassis Leasing

Beginning in July 2007, management and facility fees have been allocated among affiliates of Seacastle Inc. Such allocations relate to expenses incurred and services performed by one affiliate on behalf of another affiliate. For the years ended December 31, 2014, 2013 and 2012, the Company reflected income of $107, $296 and $336, respectively, associated with such allocations.

14. Related Party Transactions (continued)

The Company believes the estimates and assumptions used in deriving such allocations are reasonable and would not be materially different if negotiated independently. Included in such amounts are expenses for share-based compensation allocated from Seacastle Inc., the Parent, relative to both dedicated and shared Seacastle Inc. employees. These amounts are recorded in Selling, general and administrative expenses on the Consolidated Statements of Operations.

The Company has a net receivable from affiliates of $705 and $1,823 at December 31, 2014 and 2013, respectively, which is included in Other assets on the Consolidated Balance Sheets.

The Company also leases chassis to the Florida East Coast railway (“FEC”) under term lease and pool arrangements. The parent company to the FEC is Florida East Coast Industries, Inc., which is owned by private equity funds managed by affiliates of Fortress Investment Group LLC. For the years ended December 31, 2014, 2013 and 2012, the Company recorded revenue from FEC of $1,766, $1,028 and $664, respectively.

In addition to the above, during 2013, the Company received a one-time stock distribution in a related company that resulted in a tax gain of $56.1 million without producing a corresponding book gain. The Company recorded a non-cash tax provision related to this gain of $22.1 million. The recognized tax gain was fully offset by net operating loss carryforwards.

15. Fair Value of Financial Instruments

The Company applies the provisions included in the *Fair Value Measurement* Topic in the FASB ASC to all financial and non-financial assets and liabilities. This Topic emphasizes that fair value is a market-based measurement, not an entity-specific measurement. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current conditions (that is, an exit price) at the measurement date from the perspective of the market participant that holds the asset or owes the liability. The Topic requires the use of valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. These inputs are prioritized as follows:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities that the Company can access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available.

- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include quoted prices for similar assets or liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

(Dollars in Thousands, Except for Share Amounts)

15. Fair Value of Financial Instruments (continued)

- Level 3: Unobservable inputs for which there is little or no market data and which require internal development of assumptions about how market participants price the asset or liability. In developing unobservable inputs, the Company may begin with its own data, but it shall adjust those data if reasonably available information indicates that other market participants would use different data or there is something particular to the Company that is not available to other market participants.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers counterparty credit risk and the Company's credit risk in its assessment of fair value.

The following table sets forth the valuation of the Company's financial assets and liabilities measured at fair value on a recurring basis by the input levels (as defined) at the dates indicated:

	Fair Value as of December 31,	Fair Value Measurement as of December 31, 2014 using Fair Value Hierarchy		
	2014	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$ 4,256	$ 4,256	$ —	$ —
Derivative instruments	2,015	—	2,015	—

	Fair Value as of December 31,	Fair Value Measurement as of December 31, 2013 using Fair Value Hierarchy		
	2013	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$ 11,843	$ 11,843	$ —	$ —
Derivative instruments	3,414	—	3,414	—

15. Fair Value of Financial Instruments

Cash and cash equivalents: Cash and cash equivalents include all cash balances and highly liquid investments having original maturities of three months or less at the time of purchase. These instruments are stated at cost, which approximates market value because of the short-term nature of the instruments.

Derivative instruments: The Company's interest rate derivative was recorded at fair value in Other Assets on the Company's Consolidated Balance Sheets and consists of a United States dollar denominated LIBOR-based interest rate swap. Its fair value was determined using cash flows discounted at relevant market interest rates in effect at the period close. The fair value generally reflected the estimated amounts that the Company would receive or pay to transfer the contracts at the reporting date and therefore reflected the Company's or counterparty's non-performance risk. Additionally, the Company has analyzed each of the redemption features included in the notes to determine whether any of these embedded features should be bifurcated in accordance with the *Derivatives and Hedging* Topic of the FASB ASC (ASC 815). The Company has concluded that the redemption feature which offers optional redemption by the Company of up to 35% of the aggregate principal amount of the notes at a redemption price of 111% of the aggregate principal amount of the notes using the cash proceeds of an equity offering qualifies as a feature that should be bifurcated under ASC 815. The Company has determined that the resulting measurement of the fair value of this derivative is immaterial to the consolidated financial statements, and will reassess the fair value of this derivative each reporting period with any changes recorded in earnings.

Leasing equipment that is deemed to be impaired is measured at fair value on a non-recurring basis. The fair value is calculated using the income approach based on inputs classified as level 2 in the fair value hierarchy.

The Company believes the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other liabilities approximates the fair value of these financial instruments because of their short-term nature.

Debt: The Company's debt consists of fixed and floating rate instruments. Variable interest rate debt is $479,334 as of December 31, 2014 and $436,162 as of December 31, 2013. Variable interest rate debt in both years is net of $300,000 of variable rate debt which has been effectively converted to fixed rate debt through the use of an interest rate swap entered into with Deutsche Bank AG. Accordingly, the Company's variable rate debt approximates market value for similar instruments at the respective dates. The Company had fixed rate debt of $684,888 as of December 31, 2014 and $727,975 as of December 31, 2013. In order to estimate the fair value of its fixed rate debt, where quoted market prices were not available, the Company valued the instruments using a present value discounted cash flow analysis with a discount rate approximating current market rates of similar term debt at the end of each period. The discount rate used in the present value calculation was 4.87% at December 31, 2014 and 4.91% at December 31, 2013. Fair value was calculated based on inputs classified as Level 2 in the fair value hierarchy.

15. Fair Value of Financial Instruments (continued)

The carrying amounts and fair values of the Company's financial instruments are as follows:

	December 31, 2014		December 31, 2013	
	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)
Derivative instrument	2,015	2,015	3,414	3,414
Total debt	(1,164,222)	(1,186,862)	(1,164,137)	(1,205,298)

16. Guarantor Financial Information

On August 9, 2012, TRAC along with TRAC Intermodal Corp., entered into a Purchase Agreement pursuant to which it sold $300,000 total principal amount of the Original Notes. Concurrent with the offering of the Original Notes, the Company entered into a registration rights agreement with investors which requires the Company to file a registration statement with the Securities and Exchange Commission to offer exchange notes with terms substantially identical in all material respects to the Original Notes within 365 days of closing. The exchange offer commenced on June 6, 2013 and expired on July 5, 2013. Based on information provided by Wells Fargo Bank, N.A., the exchange agent for the exchange offer, as of the expiration date, $300,000 aggregate principal amount of the Original Notes were validly tendered for exchange, representing 100% of the principal amount of the outstanding Original Notes. The notes are jointly and severally guaranteed unconditionally on a senior secured basis by all of the Issuer's existing and future wholly-owned domestic subsidiaries, with certain exceptions. All guarantor subsidiaries are 100% owned by the Issuer. All amounts in the following tables are in thousands.

(Dollars in Thousands, Except for Share Amounts)

16. Guarantor Financial Information (continued)

TRAC Intermodal LLC
Condensed Consolidating Balance Sheet
December 31, 2014

	Issuer Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ —	$ 2,037	$ 2,219	$ —	$ 4,256
Accounts receivable, net	—	134,765	311	—	135,076
Net investment in direct finance leases	—	25,176	—	(8,961)	16,215
Leasing equipment, net of accumulated depreciation	—	1,424,112	12,797	—	1,436,909
Goodwill	—	251,907	—	—	251,907
Affiliate and intercompany receivable	—	704	8	(8)	704
Intercompany interest receivable	12,467	—	—	(12,467)	—
Intercompany note receivable	300,000	—	—	(300,000)	—
Investment in subsidiary	530,398	4,642	—	(535,040)	—
Other assets	—	40,966	284	—	41,250
Total assets	$ 842,865	$ 1,884,309	$ 15,619	$ (856,476)	$ 1,886,317
Liabilities member's interest					
Accounts payable, accrued expenses and other liabilities	$ 12,467	$ 76,705	$ 58	$ —	$ 89,230
Intercompany payable	—	8	—	(8)	—
Intercompany note payable	—	300,000	—	(300,000)	—
Intercompany interest payable	—	12,467	—	(12,467)	—
Intercompany lease payable	—	—	8,961	(8,961)	—
Deferred income taxes, net	—	100,509	1,958	—	102,467
Debt and capital lease obligations	300,000	864,222	—	—	1,164,222
Total liabilities	312,467	1,353,911	10,977	(321,436)	1,355,919
Total member's interest	530,398	530,398	4,642	(535,040)	530,398
Total liabilities and member's interest	$ 842,865	$ 1,884,309	$ 15,619	$ (856,476)	$ 1,886,317

(Dollars in Thousands, Except for Share Amounts)

16. Guarantor Financial Information (continued)

TRAC Intermodal LLC
Condensed Consolidating Statements of Operations
and Comprehensive (Loss) Income
For The Year Ended December 31, 2014

	Issuer Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total revenue	$ —	$ 624,059	$ 3,205	$ (276)	$ 626,988
Direct operating expenses	—	333,095	40	—	333,135
Selling, general and administrative expenses	—	83,788	558	—	84,346
Depreciation expense	—	71,518	596	—	72,114
Provision for doubtful accounts	—	14,007	—	—	14,007
Impairment of leasing equipment	—	5,855	—	—	5,855
Early retirement of leasing equipment	—	37,766	—	—	37,766
Loss on modification and extinguishment of debt and capital lease obligations	—	315	—	—	315
Interest expense	33,000	86,836	277	(33,276)	86,837
Interest income	(33,000)	(61)	—	33,000	(61)
Equity in earnings of subsidiary	2,956	(1,512)	—	(1,444)	—
Other income, net	—	(925)	—	—	(925)
Total expenses	2,956	630,682	1,471	(1,720)	633,389
(Loss) income before (benefit) provision for income taxes	(2,956)	(6,623)	1,734	1,444	(6,401)
(Benefit) provision for income taxes	—	(3,667)	222	—	(3,445)
Net (loss) income	(2,956)	(2,956)	1,512	1,444	(2,956)
Unrealized gain on derivative instruments, net of tax of $585	—	(899)	—	—	(899)
Derivative loss reclassified into earnings, net of tax of ($7,265)	—	11,025	—	—	11,025
Foreign currency translation loss, net of tax of $364	—	(395)	—	—	(395)
Total other comprehensive income	—	9,731	—	—	9,731
Total comprehensive (loss) income	$ (2,956)	$ 6,775	$ 1,512	$ 1,444	$ 6,775

(Dollars in Thousands, Except for Share Amounts)

16. Guarantor Financial Information (continued)

TRAC Intermodal LLC
Condensed Consolidating Statement of Cash Flows
For The Year Ended December 31, 2014

	Issuer Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by operating activities	$ —	$ 135,211	$ 1,684	$ 1,654	$ 138,549
Investing activities:					
Proceeds from sale of leasing equipment	—	8,265	—	—	8,265
Collections on net investment in direct finance leases, net of interest earned	—	6,276	—	(1,654)	4,622
Purchase of leasing equipment	—	(149,376)	—	—	(149,376)
Purchase of fixed asset	—	(4,999)	—	—	(4,999)
Net cash used in investing activities	—	(139,834)	—	(1,654)	(141,488)
Financing activities:					
Proceeds from long-term debt	—	148,000	—	—	148,000
Repayment of long-term debt	—	(148,292)	—	—	(148,292)
Cash paid for debt issuance fees	—	(3,156)	—	—	(3,156)
Repurchase of shares from employees	—	(858)	—	—	(858)
Net cash used in financing activities	—	(4,306)	—	—	(4,306)
Effect of changes in exchange rates on cash and cash equivalents	—	(342)	—	—	(342)
Net (decrease) increase in cash and cash equivalents	—	(9,271)	1,684	—	(7,587)
Cash and cash equivalents, beginning of period	—	11,308	535	—	11,843
Cash and cash equivalents, end of period	$ —	$ 2,037	$ 2,219	$ —	$ 4,256

(Dollars in Thousands, Except for Share Amounts)

16. Guarantor Financial Information (continued)

TRAC Intermodal LLC
Condensed Consolidating Balance Sheet
December 31, 2013

	Issuer Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ —	$ 11,308	$ 535	$ —	$ 11,843
Accounts receivable, net	—	112,550	588	—	113,138
Net investment in direct finance leases	—	35,237	—	(10,211)	25,026
Leasing equipment, net of accumulated depreciation	—	1,380,685	13,403	—	1,394,088
Goodwill	—	251,907	—	—	251,907
Affiliate and intercompany receivable	—	1,994	—	(171)	1,823
Intercompany interest receivable	12,467	—	—	(12,467)	—
Intercompany note receivable	300,000	—	—	(300,000)	—
Investment in subsidiary	523,658	3,130	—	(526,788)	—
Other assets	—	43,073	1,012	—	44,085
Total assets	$ 836,125	$ 1,839,884	$ 15,538	$ (849,637)	$ 1,841,910
Liabilities member's interest					
Accounts payable, accrued expenses and other liabilities	$ 12,467	$ 42,027	$ 290	$ —	$ 54,784
Intercompany payable	—	—	171	(171)	—
Intercompany note payable	—	300,000	—	(300,000)	—
Intercompany interest payable	—	12,467	—	(12,467)	—
Intercompany lease payable	—	—	10,211	(10,211)	—
Deferred income taxes, net	—	97,595	1,736	—	99,331
Debt and capital lease obligations	300,000	864,137	—	—	1,164,137
Total liabilities	312,467	1,316,226	12,408	(322,849)	1,318,252
Total member's interest	523,658	523,658	3,130	(526,788)	523,658
Total liabilities and member's interest	$ 836,125	$ 1,839,884	$ 15,538	$ (849,637)	$ 1,841,910

(Dollars in Thousands, Except for Share Amounts)

16. Guarantor Financial Information (continued)

TRAC Intermodal LLC
Condensed Consolidating Statements of Operations
and Comprehensive (Loss) Income
For The Year Ended December 31, 2013

	Issuer Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total revenue	$ —	$ 512,351	$ 3,207	$ (314)	$ 515,244
Direct operating expenses	—	289,726	41	—	289,767
Selling, general and administrative expenses	—	57,303	728	—	58,031
Depreciation expense	—	71,120	671	—	71,791
Provision for doubtful accounts	—	11,369	—	—	11,369
Impairment of leasing equipment	—	5,857	—	—	5,857
Loss on modification and extinguishment of debt and capital lease obligations	—	904	—	—	904
Interest expense	33,000	91,083	323	(33,321)	91,085
Interest income	(33,000)	(294)	—	33,007	(287)
Equity in earnings of subsidiary	29,353	(613)	—	(28,740)	—
Other income, net	—	(2,069)	(5)	—	(2,074)
Total expenses	29,353	524,386	1,758	(29,054)	526,443
(Loss) income before provision for income taxes	(29,353)	(12,035)	1,449	28,740	(11,199)
Provision for income taxes	—	17,318	836	—	18,154
Net (loss) income	(29,353)	(29,353)	613	28,740	(29,353)
Unrealized gain on derivative instruments, net of tax of ($1,313)	—	2,020	—	—	2,020
Derivative loss reclassified into earnings, net of tax of ($7,774)	—	12,204	—	—	12,204
Foreign currency translation loss, net of tax of $398	—	(596)	—	—	(596)
Total other comprehensive income	—	13,628	—	—	13,628
Total comprehensive (loss) income	$ (29,353)	$ (15,725)	$ 613	$ 28,740	$ (15,725)

(Dollars in Thousands, Except for Share Amounts)

16. Guarantor Financial Information (continued)

TRAC Intermodal LLC
Condensed Consolidating Statement of Cash Flows
For The Year Ended December 31, 2013

	Issuer Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ —	$ 64,539	$ (184)	$ 2,401	$ 66,756
Investing activities:					
Proceeds from sale of leasing equipment	—	7,066	—	—	7,066
Collections on net investment in direct finance leases, net of interest earned	—	8,107	—	(2,401)	5,706
Purchase of leasing equipment	—	(141,113)	—	—	(141,113)
Purchase of fixed asset	—	(4,225)	—	—	(4,225)
Net cash used in investing activities	—	(130,165)	—	(2,401)	(132,566)
Financing activities:					
Proceeds from long-term debt	—	142,000	—	—	142,000
Repayment of long-term debt	—	(87,290)	—	—	(87,290)
Cash paid for debt issuance fees	—	(2,267)	—	—	(2,267)
Excess tax benefits – restricted shares	—	73	—	—	73
Repurchase of shares from employees	—	(820)	—	—	(820)
Net cash provided by financing activities	—	51,696	—	—	51,696
Effect of changes in exchange rates on cash and cash equivalents	—	(599)	—	—	(599)
Net decrease in cash and cash equivalents	—	(14,529)	(184)	—	(14,713)
Cash and cash equivalents, beginning of period	—	25,837	719	—	26,556
Cash and cash equivalents, end of period	$ —	$ 11,308	$ 535	$ —	$ 11,843

(Dollars in Thousands, Except for Share Amounts)

16. Guarantor Financial Information (continued)

TRAC Intermodal LLC
Condensed Consolidating Statements of Operations
and Comprehensive (Loss) Income
For The Year Ended December 31, 2012

	Issuer Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total revenue	$ —	$ 412,181	$ 2,723	$ (311)	$ 414,593
Direct operating expenses	—	214,085	40	—	214,125
Selling, general and administrative expenses	—	45,498	540	—	46,038
Depreciation expense	—	65,441	611	—	66,052
Provision for doubtful accounts	—	4,137	—	—	4,137
Impairment of leasing equipment	—	6,506	—	—	6,506
Loss on modification and extinguishment of debt and capital lease obligations	—	8,850	—	—	8,850
Interest expense	13,017	75,101	315	(13,331)	75,102
Interest income	(13,017)	(145)	—	13,019	(143)
Non-cash settlement of intercompany obligation	—	(6,367)	—	6,367	—
Equity in earnings of subsidiary	3,090	(1,123)	—	(1,967)	—
Other income, net	—	(309)	(500)	—	(809)
Total expenses	3,090	411,674	1,006	4,088	419,858
(Loss) income before (benefit) provision for income taxes	(3,090)	507	1,717	(4,399)	(5,265)
(Benefit) provision for income taxes	—	(2,769)	594	—	(2,175)
Net (loss) income	(3,090)	3,276	1,123	(4,399)	(3,090)
Unrealized loss on derivative instruments, net of tax of $4,462	—	(6,772)	—	—	(6,772)
Derivative loss reclassified into earnings, net of tax of ($4,757)	—	6,261	—	—	6,261
Foreign currency translation gain, net of tax of ($195)	—	158	—	—	158
Total other comprehensive loss	—	(353)	—	—	(353)
Total comprehensive (loss) income	$ (3,090)	$ 2,923	$ 1,123	$ (4,399)	$ (3,443)

(Dollars in Thousands, Except for Share Amounts)

16. Guarantor Financial Information (continued)

TRAC Intermodal LLC
Condensed Consolidating Statement of Cash Flows
For The Year Ended December 31, 2012

	Issuer Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash (used in) provided by operating activities	$ —	$ (7,820)	$ 242	$ (693)	$ (8,271)
Investing activities:					
Proceeds from sale of leasing equipment	—	2,689	—	—	2,689
Collections on net investment in direct finance leases, net of interest earned	—	7,836	—	—	7,836
Disbursement related to intercompany note	(300,000)	—	—	300,000	—
Purchase of leasing equipment	—	(102,989)	—	—	(102,989)
Purchase of fixed assets	—	(588)	—	—	(588)
Net cash used in investing activities	(300,000)	(93,052)	—	300,000	(93,052)
Financing activities:					
Proceeds from long-term debt	300,000	932,397	—	(300,000)	932,397
Repayment of long-term debt	—	(800,738)	—	—	(800,738)
Cash paid for debt issuance fees	—	(32,588)	—	—	(32,588)
Dividend paid	—	—	(693)	693	—
Capital contribution from parent	—	3,616	—	—	3,616
Investment in parent	—	(3,616)	—	—	(3,616)
Repurchase of shares from employees	—	(307)	—	—	(307)
Net cash (used in) provided by financing activities	300,000	98,764	(693)	(299,307)	98,764
Effect of changes in exchange rates on cash and cash equivalents	—	110	—	—	110
Net decrease in cash and cash equivalents	—	(1,998)	(451)	—	(2,449)
Cash and cash equivalents, beginning of period	—	27,835	1,170	—	29,005
Cash and cash equivalents, end of period	$ —	$ 25,837	$ 719	$ —	$ 26,556

17. Subsequent Events

On February 28, 2015, the Company exercised a purchase option from a maturing capital lease for an aggregate price of $11,806.

On January 19, 2015, the Company sold 663 chassis to a transportation company for $5,636.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Member
TRAC Intermodal LLC

We have audited the accompanying consolidated balance sheets of TRAC Intermodal LLC and Subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), member's interest, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the index on page F-1. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TRAC Intermodal LLC and Subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Ernst & Young LLP

MetroPark, New Jersey
March 24, 2015

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TRAC Intermodal is the world's largest provider of marine and domestic chassis, measured by total assets, operating throughout the United States, Canada and Mexico. TRAC Intermodal provides short term rentals through an extensive chassis pool network, long term chassis leasing and pool/fleet management through the utilization of its proprietary Pool-Stat® information management system. TRAC Intermodal's active fleet consists of approximately 276,000 chassis. TRAC Intermodal has a broad operating footprint with 602 marine, 166 domestic and 61 depot locations across North America and is the leader in providing chassis solutions to the intermodal industry.

For More Information

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