

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2019

or

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

For the Transition Period from _____ to _____

Commission file number: 001-33388

CAI International, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

94-3109229

(I.R.S. Employer Identification Number)

Steuart Tower, 1 Market Plaza, Suite 2400

San Francisco, California

(Address of principal executive office)

94105

(Zip Code)

(415) 788-0100

(Registrant's telephone number including area code)

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

Title of each class	Trading symbols	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	CAI	New York Stock Exchange
8.50% Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Stock, par value \$0.0001 per share	CAI-PA	New York Stock Exchange
8.50% Series B Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Stock, par value \$0.0001 per share	CAI-PB	New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of June 28, 2019, the last trading day of the registrant’s most recently completed second fiscal quarter, the aggregate market value of common stock held by non-affiliates of the registrant (based upon the closing sale price of such shares on the New York Stock Exchange on June 28, 2019) was approximately \$391.4 million. Shares of registrant’s common stock held by each executive officer, director and beneficial holders of 10% or more of the registrant’s common stock have been excluded in that such persons may be deemed to be affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

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

Common Stock	February 28, 2020
Common Stock, \$0.0001 par value per share	17,487,222 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement relating to the registrant’s 2020 Annual Meeting of Stockholders, which will be filed no later than 120 days after the close of the registrant’s fiscal year ended December 31, 2019, are incorporated by reference into Part III hereof.

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain forward-looking statements, including, without limitation, statements concerning the conditions in our industry, our operations, our economic performance and financial condition, including, in particular, statements relating to our business, operations, and growth strategy and service development efforts. The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for certain forward-looking statements so long as such information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. When used in this Annual Report on Form 10-K, the words “may,” “might,” “should,” “estimate,” “project,” “plan,” “anticipate,” “expect,” “intend,” “outlook,” “believe” and other similar expressions are intended to identify forward-looking statements and information. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. These forward-looking statements are based on estimates and assumptions by our management that, although we believe to be reasonable, are inherently uncertain and subject to a number of risks and uncertainties. These risks and uncertainties include, without limitation, those identified under the caption Item 1A. “Risk Factors” in this Annual Report on Form 10-K and our other reports filed with the Securities and Exchange Commission (SEC). We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law. Reference is also made to such risks and uncertainties detailed from time to time in our filings with the SEC.

Unless the context requires otherwise, references to “CAI,” the “Company,” “we,” “us” or “our” in this Annual Report on Form 10-K refer to CAI International, Inc. and its subsidiaries.

PART I

ITEM 1: BUSINESS

Our Company

We are one of the world's leading transportation finance and logistics companies. We purchase equipment, primarily intermodal shipping containers and railcars, which we lease to our customers. We also manage equipment for third-party investors. In operating our fleet, we lease, re-lease and dispose of equipment and contract for the repair, repositioning and storage of equipment. We also provide domestic and international logistics services.

The following tables show the composition of our fleet as of December 31, 2019 and our average utilization for the year ended December 31, 2019:

	As of December 31, 2019	Percent of Total Container Fleet
Owned container fleet in TEUs	1,611,527	96%
Managed container fleet in TEUs	69,650	4%
Total container fleet in TEUs	<u>1,681,177</u>	<u>100%</u>
Owned container fleet in CEUs	1,642,118	95%
Managed container fleet in CEUs	85,698	5%
Total container fleet in CEUs	<u>1,727,816</u>	<u>100%</u>
Owned railcar fleet in units	<u>5,498</u>	
		Year Ended December 31, 2019
Average container fleet utilization in CEUs		98.6%
Average owned container fleet utilization in CEUs		98.7%
Average railcar fleet utilization		87.2%

The intermodal marine container industry-standard measurement unit is the 20-foot equivalent unit (TEU), which compares the size of a container to a standard 20-foot container. For example, a 20-foot container is equivalent to one TEU and a 40-foot container is equivalent to two TEUs. Containers can also be measured in cost equivalent units (CEUs), whereby the cost of each type of container is expressed as a ratio relative to the cost of a standard 20-foot dry van container. For example, the CEU ratio for a standard 40-foot dry van container is 1.6, and a 40-foot high cube container is 1.7.

Utilization of containers is computed by dividing the average total units on lease during the period in CEUs, by the average total CEUs in our container fleet during the period. Utilization of railcars is computed by dividing the average number of railcars on lease during the period by the average total number of railcars in our fleet during the period. In both cases, the total fleet excludes new units not yet leased and off-hire units designated for sale. If new units not yet leased are included in the total fleet, average total container fleet utilization would be 96.2%, average owned container fleet utilization would be 96.1%, and average railcar fleet utilization would be 83.8%, for the year ended December 31, 2019.

Our revenue from continuing operations consists of container lease revenue from our owned container fleet, management fee revenue for managing containers for third-party investors and logistics revenue for the provision of logistics services. Substantially all of our revenue is denominated in U.S. dollars. For the year ended December 31, 2019, we recorded revenue of \$416.5 million and net income attributable to CAI common stockholders of \$22.2 million. A comparison of our 2019 financial results with those of the prior years can be found in Item 6. "Selected Financial Data" of this Annual Report on Form 10-K.

We earn container lease revenue from intermodal containers, which are deployed by our customers in a wide variety of global trade routes. Virtually all of our containers are used internationally, and no container is domiciled in one particular place for a prolonged period of time. As such, substantially all of our container assets are considered to be international with no single country of use. Our logistics business provides both domestic and international logistics services.

Discontinued Operations

In the quarter ended June 30, 2019, we committed to a plan to sell our railcar assets as we believe it is in the best interest of our shareholders to reallocate the capital invested in our rail business to other investments. As a result, the railcar assets have been classified as held for sale and the operations of the rail business have been classified as discontinued operations in the consolidated financial statements in this Annual Report on Form 10-K. All prior periods presented in the consolidated financial statements have been restated to reflect the reclassification.

During the year ended December 31, 2019, we recorded an impairment charge of \$33.0 million to reduce the book value of our railcar portfolio to its estimated fair value. To assist us in our assessment of fair value, a third-party desk top appraisal was carried out on the railcar fleet using a combination of cost and market approaches. See Note 3 – *Discontinued Operations* to the consolidated financial statements in this Annual Report on Form 10-K for more information.

History

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

Our logistics business operates under the brand name, CAI Logistics, which is comprised of our acquisitions of (i) ClearPointt Logistics LLC, an intermodal logistics company focused on the domestic intermodal market, in July 2015, (ii) Challenger Overseas, LLC (Challenger), a Non-Vessel Operating Common Carrier (NVOCC), in February 2016, and (iii) Hybrid Logistics, Inc. and its affiliate, General Transportation Services, Inc. (collectively, Hybrid), which are asset light truck brokers, in June 2016. CAI Logistics is headquartered in Everett, Washington.

Corporate Information

Our corporate headquarters and principal executive offices are located at Steuart Tower, 1 Market Plaza, Suite 2400, San Francisco, California 94105. Our telephone number is (415) 788-0100 and our website address is www.capps.com. The information found on, or otherwise accessible through, our website is not incorporated by reference into, nor does it form a part of, this Annual Report on Form 10-K, or any other document that we file with the SEC. We operate our business in 22 offices in 12 countries including the United States, and have agents in Asia, Europe, South Africa, and South America. Our wholly-owned international subsidiaries are located in the United Kingdom, Japan, Malaysia, Sweden, Germany, Singapore, Luxembourg, Australia, Chile, South Korea, Barbados and Bermuda.

Segment Information

We organize our business by the nature of services we provide and separate our business into two reportable segments: container leasing and logistics.

The container leasing segment derives its revenue from the ownership and leasing of containers and fees earned for managing container portfolios on behalf of third-party investors. The logistics segment derives its revenue from the provision of logistics services.

Industry Overview

Container Leasing

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

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

The three principal categories of containers are as follows:

- Dry van containers.** A dry van container is constructed of steel sides, roof and end panel with a set of doors on the other end, a wooden floor and a steel undercarriage. Dry van containers are the least expensive and most commonly used type of container. They are used to carry general cargo, such as manufactured component parts, consumer staples, electronics and apparel.
- Refrigerated containers.** A refrigerated container has an integrated refrigeration unit on one end, which plugs into a generator set or other outside power source and is used to transport perishable goods.

- **Specialized equipment.** Specialized equipment includes open-top, flat-rack, palletwide and swapbody containers, roll trailers, and generator sets. An open-top container is similar in construction to a dry van container except that the roof is replaced with a tarpaulin supported by removable roof bows. A flat-rack container is a heavily reinforced steel platform with a wood deck and steel end panels. Open-top and flat-rack containers are generally used to move heavy or oversized cargo, such as marble slabs, building products or machinery. Palletwide containers are a type of dry-van container externally similar to ISO standard containers, but internally about two inches wider so as to accommodate two European-sized pallets side-by-side. Swapbody containers are a type of dry van container designed to be easily transferred between rail, truck, and barge and are equipped with legs under their frames. Roll trailers are a type of flat-bed trailer equipped with rubber wheels underneath for terminal haulage and stowage on board roll-on/roll-off vessels. Generator sets are units that are attached to refrigerated containers to provide the container with cooling.

Containers provide a secure and cost-effective method of transportation because they can be used in multiple modes of transportation, making it possible to move cargo from a point of origin to a final destination without repeated unpacking and repacking. As a result, containers reduce transit time and freight and labor costs as they permit faster loading and unloading of shipping vessels and more efficient utilization of transportation containers than traditional bulk shipping methods. The protection provided by containers also reduces damage, loss and theft of cargo during shipment. While the life of containers varies based upon the damage and normal wear and tear suffered by a container, we estimate that the average useful life of a dry van container used in our fleet is 13.0 years, and 12.0 years for a refrigerated container.

Container shipping lines own and lease containers for their use. The *Container Census & Leasing, Survey and Forecast of Global Container Units (2019/2020 Annual Report)*, published by Drewry Maritime Research, estimates that as of the end of 2018, transportation companies (including container shipping lines and freight forwarders) owned approximately 47% of the total worldwide container fleet and container leasing companies owned approximately 53% of the total worldwide container fleet, measured in TEUs. Given the uncertainty and variability of export volumes and the fact that container shipping lines have difficulty in accurately forecasting their container requirements at different ports, the availability of containers for lease significantly reduces a container shipping line's need to purchase and maintain excess container inventory. In addition, container leases allow the container shipping lines to adjust their container fleets both seasonally and over time and help to balance trade flows. The flexibility offered by container leasing helps container shipping lines improve their overall fleet management and provides the container shipping lines with an alternative source of financing.

Fleet Overview. The table below summarizes the composition of our container fleet as of December 31, 2019 by type of equipment:

	Dry Van Containers	Percent of Total Fleet	Refrigerated Containers	Percent of Total Fleet	Specialized Equipment	Percent of Total Fleet	Total	Percent of Total Fleet
Owned container fleet in TEUs	1,461,733	87%	53,944	3%	95,850	6%	1,611,527	96%
Managed container fleet in TEUs	63,001	4%	438	-	6,211	-	69,650	4%
Total container fleet in TEUs	1,524,734	91%	54,382	3%	102,061	6%	1,681,177	100%

	Dry Van Containers	Percent of Total Fleet	Refrigerated Containers	Percent of Total Fleet	Specialized Equipment	Percent of Total Fleet	Total	Percent of Total Fleet
Owned container fleet in CEUs	1,297,993	75%	194,881	11%	149,244	9%	1,642,118	95%
Managed container fleet in CEUs	55,966	3%	1,533	-	28,199	2%	85,698	5%
Total container fleet in CEUs	1,353,959	78%	196,414	11%	177,443	11%	1,727,816	100%

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

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

- **Long-Term Leases.** Our long-term leases have terms of one year or more and specify the number of containers to be leased, the pick-up and drop-off locations, the applicable per diem rate and the contract term. We typically enter into long-term leases for a fixed term ranging from three to eight years, with five-year leases being most common. Our long-term leases generally require our lessees to maintain all units on lease for the duration of the lease, which provides us with scheduled lease payments and predictable, recurring revenue. A small percentage of our long-term leases contain early termination options and afford the lessee interchangeability of containers, and the ability to redeliver containers if the lessee's fleet requirements change. Generally, leases with an early termination provision impose various economic penalties on the customer if the customer elects to exercise the early termination provision.

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

The following table provides a summary of our container fleet by lease type as of December 31, 2019:

	As of December 31, 2019	
	TEUs	CEUs
Long-term leases	69%	69%
Short-term leases	7%	7%
Finance leases	24%	24%
Total	100%	100%

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

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

Management Services Overview. We manage containers for third-party investors under management agreements that cover portfolios of containers. We lease, re-lease and dispose of the containers and contract for their repair, repositioning and storage. Our management agreements have multiple year terms and provide that we receive a management fee based upon the net operating income for each container, which is equal to the rental revenue for a container less the operating expenses directly attributable to that container. Management fees are collected monthly or quarterly, depending upon the agreement, and generally are not paid if net operating revenue is zero dollars or less for a particular period. If operating expenses exceed revenue, third-party investors are required to pay the excess, or we may deduct the excess, including our management fee, from future net operating revenue. Under these agreements, we also receive a commission for selling or otherwise disposing of containers for the third-party investor. Sales of containers typically have to be approved by the third-party investor. Our management agreements generally require us to indemnify the third-party investor for liabilities or losses arising out of a breach of our obligations. In return, the third-party investor typically indemnifies us in our capacity as the manager of the container against a breach by the third-party investor, sales taxes on commencement of the arrangement, withholding taxes on payments to the third-party investor under the management agreement and any other taxes, other than our income taxes, incurred with respect to the containers that are not otherwise included as operating expenses deductible from revenue.

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

- **Re-leasing.** Since our leases generally allow our lessees to return their containers, we typically lease a container several times during its useful life. New containers can usually be leased with a limited marketing and customer service infrastructure because initial leases for new containers typically cover large volumes of units and are fairly standardized transactions. Used containers, on the other hand, are typically leased in smaller transactions that are structured to accommodate pick-ups and returns in a variety of locations. Our utilization rates depend on our re-leasing abilities. Factors that affect our ability to re-lease used containers include the size of our lessee base, ability to anticipate lessee needs, our presence in relevant geographic locations and the level of service we provide our lessees. We believe that our global presence and long-standing relationships with more than 380 container lessees as of December 31, 2019 provide us an advantage over our smaller competitors in re-leasing our used containers.
- **Logistics Management.** The shipping industry is characterized by large regional trade imbalances, with loaded containers generally flowing from export-oriented economies in Asia to other Asian countries, North America and Western Europe. Because of these trade imbalances, container shipping lines have an incentive to return leased containers in relatively low export areas to reduce the cost of shipping empty containers. We have managed this structural imbalance of inventories with the following approach:
 - *Limiting or prohibiting container returns to low-demand areas.* In order to minimize our repositioning costs, our leases typically include a list of the specific locations to which containers may be returned, limitations on the number of containers that may be returned to low-demand locations, high drop-off charges for returning containers to low-demand locations or a combination of these provisions;
 - *Taking advantage of the secondary resale market.* In order to maintain a younger fleet age profile, we have aggressively sold older containers when they are returned to low demand areas;
 - *Developing country-specific leasing markets to utilize older containers in the portable storage market.* In North America and Western Europe, we lease older containers on a limited basis for use as portable storage;
 - *Seeking one-way lease opportunities to move containers from lower demand locations to higher demand locations.* One-way leases may include incentives, such as free days, credits and damage waivers. The cost of offering these incentives is considerably less than the cost we would incur if we paid to reposition the empty containers; and
 - *Paying to reposition our containers to higher demand locations.* At locations where our inventories remain high, despite the efforts described above, we will selectively choose to ship excess containers to locations with higher demand.
- **Depot Management.** As of December 31, 2019, we managed our equipment fleet through 200 independent equipment depot facilities located in 42 countries. Depot facilities are generally responsible for repairing containers when they are returned by lessees and for storing the containers while they are off-hire. Our operations group is responsible for managing our depot contracts and periodically visiting depot facilities to conduct inventory and repair audits. We also supplement our internal operations group with the use of independent inspection agents. As of December 31, 2019, a majority of our off-lease inventory was located at depots that are able to report notices of container activity and damage detail via electronic data interchange.

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

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

Customer Concentration. Billings from our ten largest container lessees represented 66.0% of container leasing billings for the year ended December 31, 2019, with billings from our two largest lessees, MSC Mediterranean Shipping Company S.A. and CMA CGM, accounting for 18.6% and 11.7%, respectively, of container leasing billings, or \$65.9 million and \$41.4 million, respectively. The \$65.9 million and \$41.4 million of billings generated by MSC Mediterranean Shipping Company S.A. and CMA CGM represented 13.4% and 8.4%, respectively, of our total billings for the year ended December 31, 2019.

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

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

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

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

Our competitors compete with us in many ways, including pricing, lease flexibility, supply reliability, customer service and the quality and location of containers. Some of our competitors have greater financial resources, better access to capital, lower cost of capital, better credit ratings, more containers, broader market presence, longer standing relationships with lessees, longer operating histories, stronger brand recognition and greater marketing resources than us, or are affiliates of larger companies. We emphasize the quality of our fleet, supply reliability and high level of customer service to our container lessees. We focus on ensuring adequate container availability in high-demand locations, dedicate large portions of our organization to building relationships with lessees, maintain close day-to-day coordination with lessees and have developed a proprietary information technology system that allows our lessees to access real-time information about their containers.

Seasonality. We have historically experienced increased seasonal demand for containers in the second and third quarters of the year. However, equipment rental revenue may fluctuate significantly in future periods based upon the level of demand by container shipping lines for leased containers, our ability to maintain a high utilization rate of containers in our total fleet, and changes in per diem rates for leases.

Rail Leasing

As referenced earlier, we have committed to a plan to sell our railcar assets. As a result, the railcar assets have been classified as held for sale and the operations of the rail business have been classified as discontinued operations in the consolidated financial statements in this Annual Report on Form 10-K. See Note 3 – *Discontinued Operations* to the consolidated financial statements in this Annual Report on Form 10-K for more information.

Fleet Overview. We own a fleet of railcars of various types including: 50 foot and 60 foot box cars for paper and forest products; covered hoppers for grain, cement, sand, plastic pellets and many other industrial products; general purpose tank cars that are used to transport food-grade and other liquid and gaseous commodities; gondolas for coal and steel; and general service flat cars. We owned 5,498 railcars as of December 31, 2019.

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

Customer Concentration. Our railcar customers are typically industrial companies who ship their products or raw materials by rail. Our customers are generally large, creditworthy, industrial companies. Additionally, we work with a number of North American Class I Railroads and regional carriers. Billings from our ten largest railcar lessees represented 45.0% of rail leasing billings for the year ended December 31, 2019, with no single customer generating more than 10% of our rail leasing billings.

Our Competition. We operate in a highly competitive marketplace that includes large and small operating lessors, financial institutions with passive leasing enterprises, captive leasing companies owned by manufacturers and at times with shippers holding large and diverse fleets of railcars. We compete on the basis of customer relationships, lease rate, maintenance expertise, service capability and availability of railcars. Some of our competitors have greater financial resources, better access to capital, lower cost of capital, better credit ratings, more railcars, broader market presence, longer standing relationships with lessees, longer operating histories, stronger brand recognition and greater marketing resources than us, or are affiliates of larger companies.

Logistics

Overview of Our Services. We offer comprehensive logistics services including intermodal, truck brokerage, port drayage, warehousing, international ocean freight and freight forwarding, as well as the arrangement and coordination of international air freight services and customs brokerage. Through our network of transportation carriers and equipment providers, we arrange for the movement of our customers' freight. We contract with railroads to provide transportation for the line-haul portion of the shipment and with local trucking companies, known as "drayage companies," for pickup and delivery. We may also offer use of our own CAI equipment for domestic beneficial cargo owner (BCO) movements. As part of our intermodal and truck brokerage services, we negotiate and bundle rates for our customers, track shipments in transit, and facilitate the handling of claims for freight loss or damage on behalf of our customers. We also provide international export and import services for full container loads, less than container loads, perishable cargo, project cargo, and airfreight across the globe.

We have a network of logistics professionals dedicated to developing, implementing and operating customized logistics solutions. We offer a wide range of transportation management services and technology solutions including shipment optimization, load consolidation, mode selection, carrier management, load planning and execution and web-based shipment visibility.

Customer Concentration. We provide services to customers in a wide variety of industries, including consumer products, retail and durable goods. Billings from our ten largest logistics customers represented 31.7% of logistics billings for the year ended December 31, 2019, with no single customer generating more than 10% of our logistics billings.

Our Competition. The transportation services industry is highly competitive. We compete against other logistics companies, third party IMC's, brokers, asset-based providers, trucking companies and shipping lines that market their own intermodal and international shipping services. Several large trucking companies have entered into agreements with railroads to market intermodal services nationwide. These companies both retail and wholesale their services. In addition, new internet-based competitors such as Uber Freight and Convoy have recently entered the market. Competition is based primarily on freight rates, quality of services, reliability, transit time and scope of operations. Some of our competitors have greater financial resources, better access to capital, lower cost of capital, better credit ratings, broader market presence, longer operating histories, stronger brand recognition and greater marketing resources than us, or are affiliates of larger companies. However, we believe we have a strong competitive advantage being able to offer customers a variety of services under one organization. Few, if any, of our competitors can offer customers leasing of containers, sale of used containers, nationwide truck brokerage and international export/import services.

Relationship with Railroads. A key element of our business strategy is to maintain and continually strengthen our close working relationship with the major railroads in the United States and Canada. Due to our size and relative importance, the railroads dedicate support personnel to focus on our day-to-day service requirements. We have relationships with all seven of the Class I freight railroads, and our senior executives meet with each of the railroads on a regular basis to discuss major strategic issues concerning intermodal transportation.

Transportation rates are market driven. We sometimes negotiate with the railroads or other major service providers on a route or customer specific basis. Consistent with industry practice, some of the rates we negotiate are special commodity quotations (SCQs), which provide discounts from published price lists based on competitive market factors, volume commitments and are designed by the railroads or major service providers to attract new business or to retain existing business. SCQ rates are generally issued for the account of a single Intermodal Marketing Company (IMC). SCQ rates apply to specific customers in specified shipping lanes for a specific period of time, usually up to 12 months, offering BCO's guaranteed equipment commitments and pricing stability. Other transactional or spot market business is negotiated on a daily basis, dependent on capacity and dynamic pricing, consistent with existing market conditions.

Relationship with Drayage Companies. We have a "Quality Carrier Program," under which participants commit to provide high quality drayage service along with clean and safe equipment, maintain a defined on-time performance level and follow specified procedures designed to minimize freight loss and damage. We negotiate drayage rates for transportation between specific origin and destination points. Drayage is the transport of goods over a short distance and is often part of a longer overall move.

Relationship with Trucking Companies. Our truck brokerage operation has relationships with more than 14,000 trucking companies that we use to transport freight. Our truck brokerage operation handles the administrative and regulatory aspects of the trucking company relationship including an eight-step vetting process. Our relationships with these trucking companies are important since these relationships determine pricing, load coverage and overall service.

Relationship with Shipping Lines. Our international division has relationships with every major shipping line providing a worldwide network of shipping options based on price and service for export and import cargoes. These relationships enable us to provide a basket of options that best suit the needs of our customers at any given moment. Supported by a world-wide agency network, we are able to provide the best price and service option anywhere in the world. Additional value and customized solutions can be accomplished by offering use of our own CAI equipment for domestic and international BCO movements.

Risk Management and Insurance. We require all drayage and highway companies who participate in our Quality Carrier Program to carry general liability insurance, truckman's auto liability insurance and cargo insurance. To cover freight loss or damage our carriers are carefully vetted to ensure all cargo insurance and safety requirements are in place and monitored. We also carry contingent cargo insurance to protect from any lapse in a carrier's primary insurance.

Credit Control

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

Environmental Matters

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

Regulation

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

Our rail operations are subject to various laws, rules, and regulations administered by authorities in jurisdictions where we do business: the United States, Canada and Mexico. In the United States, for example, our railcar fleet is subject to safety, operations, maintenance, and mechanical standards, rules, and regulations enforced by various federal and state agencies and industry organizations, including the U.S. Department of Transportation (DOT), the Federal Railroad Administration (FRA), and the Association of American Railroads (AAR). State agencies regulate some health and safety matters related to rail operations not otherwise covered by federal law. As these regulations develop and change, we may incur increased compliance costs due to additional maintenance or substantial modification or refurbishment of our railcars to meet new requirements imposed by such regulations. In addition, violations of these rules and regulations can result in substantial fines and penalties, including potential limitations on operations or forfeitures of assets.

Our domestic logistics business is licensed by the DOT as brokers in arranging for the transportation of general commodities by motor carriers and railroads. To the extent that we perform truck brokerage and intermodal services, we do so under these licenses. The DOT prescribes qualifications for acting in this capacity, including a surety bond that we have posted. To date, compliance with these regulations has not had a material adverse effect on our results of operations or financial condition. However, the transportation industry is subject to legislative or regulatory changes that can affect the economics of the industry by requiring changes in operating practices or influencing the demand for, and cost of providing, transportation services. Our international freight forwarding business is regulated by the Federal Maritime Commission (FMC). We have our own tariff on file with the FMC and are required to have a bond for both our freight forwarding and NVOCC businesses.

Employees

As of December 31, 2019, we had 218 employees worldwide. We are not a party to any collective bargaining agreements. We believe that relations with our employees are good.

Available Information

Our Internet website address is www.capps.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act), are available free of charge through the SEC's website at www.sec.gov and on our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. Also, copies of our filings with the SEC will be made available, free of charge, upon written request to the Company. The information found on, or otherwise accessible through, our website is not incorporated by reference into, nor does it form a part of, this Annual Report on Form 10-K, or any other document that we file with the SEC.

ITEM 1A: RISK FACTORS

In addition to the other information contained in this Annual Report on Form 10-K, we have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition, results of operations and cash flows. Investors should carefully consider the risks described below before making an investment decision. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently believe are immaterial may also impair our business operations. Our business could be harmed by any of these risks. The trading price of our securities could decline due to any of these risks and investors may lose all or part of their investment. This section should be read in conjunction with our audited consolidated financial statements and related notes thereto, and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in this Annual Report on Form 10-K.

General Business Risks

We are exploring strategic alternatives, but we do not give any assurance that our exploration of strategic alternatives will result in any transaction being completed, and speculation and uncertainty regarding the outcome of our exploration of strategic alternatives may adversely affect our business.

On December 16, 2019, we announced that we are conducting a process to explore and evaluate strategic alternatives to maximize stockholder value, and have engaged Centerview Partners to act as our financial advisor to assist with the review. We do not give any assurance that the exploration of strategic alternatives will result in the completion of any transaction or other action.

The process of exploring strategic alternatives involves the dedication of significant resources and the incurrence of significant costs and expenses, and the potential loss of customers or employees. If we are unable to mitigate these or other potential risks related to the uncertainty caused by our exploration of strategic alternatives, our business may be disrupted and our results of operations and financial condition may be adversely affected.

Our level of indebtedness reduces our financial flexibility and could impede our ability to operate.

We have a significant amount of indebtedness and we intend to borrow additional amounts under our credit facilities to purchase equipment and make acquisitions and other investments. We expect that we will maintain a significant amount of indebtedness on an ongoing basis. As of December 31, 2019, our total outstanding debt was \$2,113.0 million. Interest expense on such debt will be \$18.1 million per quarter for 2020, assuming floating interest rates remain consistent with those as of December 31, 2019. There is no assurance that we will be able to refinance our outstanding indebtedness when it becomes due, or, if refinancing is available, that it can be obtained on terms that we can afford.

Some of our credit facilities require us to pay a variable rate of interest, which will increase or decrease based on variations in certain financial indices, and increases in interest rates can significantly decrease our profits. We do not have any hedge or similar contracts that would protect us against changes in interest rates.

The amount of our indebtedness could have important consequences for us, including the following:

- requiring us to dedicate a substantial portion of our cash flow from operations to make payments on our debt, thereby reducing funds available for operations, future business opportunities and other purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- making it more difficult for us to satisfy our debt obligations, and any failure to comply with such obligations, including financial and other restrictive covenants, could result in an event of default under the agreements governing such indebtedness, which could lead to, among other things, an acceleration of our indebtedness or foreclosure on the assets securing our indebtedness, which could have a material adverse effect on our business, financial condition, results of operations and cash flows;
- making it difficult for us to pay dividends on, or repurchase, our common stock, our Series A Preferred Stock or our Series B Preferred Stock;
- placing us at a competitive disadvantage compared to our competitors having less debt;
- limiting our ability to borrow additional funds, or to sell assets to raise funds, if needed, for working capital, capital expenditures, acquisitions or other purposes; and
- increasing our vulnerability to general adverse economic and industry conditions, including changes in interest rates.

We may not generate sufficient cash flow from operations to service and repay our debt and related obligations and have sufficient funds left over to achieve or sustain profitability in our operations, meet our working capital and capital expenditure needs or compete successfully in our industry.

We will require a significant amount of cash to service and repay our outstanding indebtedness and our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and repay our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. As of December 31, 2019, our total outstanding debt was \$2,113.0 million. Interest expense on such debt will be \$18.1 million per quarter in 2020, assuming floating interest rates remain consistent with those at December 31, 2019. These amounts will increase to the extent we borrow additional funds and if interest rates increase. It is possible that:

- our business will not generate sufficient cash flow from operations to service and repay our debt and to fund working capital requirements and planned capital expenditures;
- future borrowings will not be available under our current or future credit facilities in an amount sufficient to enable us to refinance our debt; or
- we will not be able to refinance any of our debt on commercially reasonable terms or at all.

Our credit facilities impose, and the terms of any future indebtedness may impose, significant operating, financial and other restrictions on us and our subsidiaries.

Restrictions imposed by our credit facilities or other indebtedness will limit or prohibit, among other things, our ability to:

- incur additional indebtedness;
- pay dividends on or redeem or repurchase our stock;
- enter into new lines of business;
- issue capital stock of our subsidiaries (except to the Company);
- make loans and certain types of investments;
- create liens;
- sell certain assets or merge with or into other companies;
- enter into certain transactions with stockholders and affiliates; and
- restrict dividends, distributions or other payments from our subsidiaries.

These restrictions could adversely affect our ability to finance our future operations or capital needs and pursue available business opportunities. A breach of any of these restrictions, including a breach of financial covenants, could result in a default in respect of the related indebtedness. If a default occurs, the relevant lenders could elect to declare the indebtedness, together with accrued interest and fees, to be immediately due and payable and proceed against any collateral securing that indebtedness, which would constitute substantially all of our equipment assets.

Lessee defaults may adversely affect our business, results of operations and financial condition by decreasing revenue and increasing storage, repositioning, collection and recovery expenses.

Our rental equipment is leased to numerous lessees. Lessees are required to pay rent and indemnify us for damage to or loss of equipment. Lessees may default in paying rent and performing other obligations under their leases. A delay or diminution in amounts received under the leases, or a default in the performance of maintenance or other lessee obligations under the leases could adversely affect our business, financial condition, results of operations and cash flows and our ability to make payments on our debt.

Our cash flows from rental equipment, principally rental revenue, are affected significantly by the ability to collect payments under leases and the ability to replace cash flows from terminating leases by re-leasing or selling equipment on favorable terms. All of these factors are subject to external economic conditions and the performance by lessees and service providers that are not within our control.

In addition, when lessees default, we may fail to recover all of our equipment, and the equipment we do recover may be returned in damaged condition or to locations where we will not be able to efficiently re-lease or sell the equipment. As a result, we may have to repair and reposition the equipment to other places where we can re-lease or sell it, and we may lose revenue and incur additional operating expenses in repossessing, repositioning and storing the equipment.

We also often incur extra costs when repossessing containers from a defaulting lessee. These costs typically arise when our lessee has also defaulted on payments owed to container terminals or depot facilities where the repossessed containers are located. In such cases, the terminal or depot facility will sometimes seek to have us repay a portion of the unpaid bills as a condition before releasing the containers back to us.

We believe that the risk of lessee defaults in our container leasing business remains high. The container shipping industry has been suffering for several years from excess vessel capacity and low freight rates. A number of our customers generated financial losses over the last several years and many are burdened by high levels of debt. Ongoing deliveries of fuel-efficient mega vessels will likely continue to pressure freight rates and our customers' profitability. In addition, the implementation in 2020 of the IMO 2020 global sulfur cap regulations is likely to increase the financial pressures on shipping lines. These regulations will require our customers to either purchase more expensive, low sulfur fuel or invest large amounts to install sulfur scrubbers for their existing ships. These extra expenses and investments could create significant additional financial burdens for our customers.

We currently have one shipping line customer that has not met its scheduled payments and as a result we reserved \$5.2 million at December 31, 2019 against the customer's outstanding receivables. Although we are proactively taking back equipment to reduce our exposure to this customer, if the customer were to not make future payments or were to cease operations, it would adversely impact our financial results and operations. Any other large lessee defaults could have a material adverse effect on our business, financial condition, results of operations and cash flow.

We maintain insurance to reimburse us and third-party investors for customer defaults. The insurance agreements are subject to deductibles of \$3.0 million or \$3.5 million per occurrence, depending on the customer's credit rating, and have significant exclusions. Our level of insurance coverage in 2020, inclusive of \$5.6 million for which CAI is self-insured, is limited to \$22.5 million or \$23.0 million per occurrence and \$27.5 million or \$28.0 million in aggregate, depending on the customer's credit rating, and may not be sufficient to prevent us from suffering material losses. Additional insurance claims made by the Company may result in such insurance not being available to us in the future on commercially reasonable terms, or at all.

Possible replacement of the LIBOR benchmark interest rate may have an impact on our business and the trading price of our Series A Preferred Stock and our Series B Preferred Stock.

As of December 31, 2019, we had \$864.3 million of debt outstanding on facilities with interest rates based on LIBOR. On July 27, 2017, the U.K. Financial Conduct Authority (the "FCA"), which regulates LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR rates after 2021. As a result, LIBOR may be discontinued after 2021. The FCA and the submitting LIBOR banks have indicated they will support the LIBOR indices through 2021 to allow for an orderly transition to an alternative reference rate. Financial services regulators and industry groups are evaluating the phase-out of LIBOR and the development of alternate reference rate indices or reference rates. The Alternative Reference Rates Committee ("ARRC") has proposed that the Secured Overnight Financing Rate ("SOFR") is the rate that represents best practice as the alternative to USD-LIBOR for use in derivative financial contracts that are currently indexed to USD-LIBOR. ARRC has proposed a paced market transition plan to SOFR from USD-LIBOR and organizations are currently working on industry wide and company specific transition plans as it relates to derivatives and cash markets exposed to USD-LIBOR. We have material contracts, including agreements governing certain of our indebtedness, that are indexed to USD-LIBOR and are monitoring this activity and evaluating the related risks. In September 2019, the FASB proposed guidance that would help facilitate the market transition from existing reference rates to alternative rates. However, at this time, it is not possible to predict the effect of any such changes, any establishment of alternative reference rates or any other reforms to LIBOR that may be enacted in the United Kingdom or elsewhere. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the trading market for LIBOR-based securities, including our material contracts that are indexed to USD-LIBOR. Furthermore, we may need to renegotiate any credit agreements extending beyond 2021 that utilize LIBOR as a factor in determining the interest rate to replace LIBOR with the new standard that is established. In addition, if LIBOR ceases to exist or a replacement rate is used to determine the interest rate on borrowings under credit facilities, our borrowing costs may increase materially. There is currently no definitive information regarding the future utilization of LIBOR or of any particular replacement rate. As such, the potential changes to the underlying floating rate indices may have an adverse impact on our liabilities indexed to LIBOR and could have a material adverse effect on our operating results and financial condition, but the precise potential effect of any such events on our business, financial condition and results of operations cannot yet be determined.

In addition, on and after April 15, 2023, with respect to our Series A Preferred Stock, and August 15, 2023, with respect to our Series B Preferred Stock, such series preferred stock will each have a floating dividend rate set each dividend period at an annual rate based in part on LIBOR. At this time, it is not possible to predict the effect of any changes as a result of the discontinuation of LIBOR, any establishment of alternative reference rates or any other reforms to LIBOR that may be enacted in the UK or elsewhere. Furthermore, if we or the calculation agent for the applicable series of preferred stock determine that Three-Month LIBOR (as defined in the applicable certificate of designations) has been permanently discontinued, the calculation agent will use an alternative rate, as further detailed in the applicable certificate of designations. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the trading market for LIBOR-based securities, including our Series A Preferred Stock and our Series B Preferred Stock.

We have identified a material weakness in our internal control over financial reporting which could, if not remediated, result in material misstatements in our financial statements.

Effective internal controls are necessary for us to provide reasonable assurance with respect to our financial reports and to effectively prevent or detect fraud. If we cannot provide reasonable assurance with respect to our financial reports and effectively prevent or detect fraud, our operating results could be harmed. Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls cannot provide absolute assurance with respect to the preparation and fair presentation of financial statements.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Under the direction of our Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of our disclosure controls and procedures and internal control over financial reporting. As a result of this evaluation, management identified control deficiencies that constituted a material weakness in our internal control over financial reporting with respect to the measurement and review of fair value estimates. Because of this material weakness identified in 2019, our management concluded that we did not maintain effective internal control over financial reporting as of December 31, 2019.

Management has and will continue to enhance its internal control over financial reporting, which is expected to include refinements and enhancements to the design and operation of our controls related to fair value. We intend to implement these enhancements to the design and operation of our controls during 2020. However, the material weakness will not be considered remediated until management designs and implements effective controls that operate for a sufficient period of time and management has concluded, through testing, that these controls are effective. We will monitor the effectiveness of the remediation plan and will refine the remediation plan, as needed. Until remediated, this material weakness could result in future errors to our financial statements. However, we can give no assurance that the measures we take will remediate the material weakness or that additional material weaknesses will not arise in the future. Any failure to remediate the material weakness, or the development of new material weaknesses in our internal control over financial reporting, could result in material misstatements in our financial statements and cause us to fail to meet our reporting and financial obligations, which in turn could have a negative impact on the price of our stock, our results of operations and financial condition.

Security breaches and other disruptions could compromise our information technology systems and expose us to a liability, which could have a material adverse effect on our business, results of operations and our reputation.

In the ordinary course of business, we collect and store sensitive data on our systems and networks, including our proprietary business information and that of our customers and suppliers, and personally identifiable information of our customers and employees. The secure storage, processing, maintenance and transmission of this information is critical to our operations. Despite security measures we employ, our information technology systems and networks may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Hackers and data thieves are increasingly sophisticated and operate large-scale and complex automated attacks. Any breach of our network may result in the loss of valuable business data, misappropriation of our consumers' or employees' personal information, cause us to breach our legal, regulatory or contractual obligations, create an inability to access or rely upon critical business records or cause other disruptions of our business. Despite our existing security procedures and controls, if our network becomes compromised, it could give rise to unwanted media attention, materially damage our customer relationships, harm our business, our reputation, and our financial results, which could result in fines or lawsuits, and may increase the costs we incur to protect against such information security breaches, such as increased investment in technology, the costs of compliance with consumer protection laws, and costs resulting from consumer fraud. These breaches may result from human error, equipment failure, or fraud or malice on the part of employees or third parties.

We expend significant financial resources to protect against such threats and may be required to further expend financial resources to alleviate problems caused by physical, electronic, and cyber security breaches. As techniques used to breach security are growing in frequency and sophistication and are generally not recognized until launched against a target, regardless of our expenditures and protection efforts, we may not be able to implement security measures in a timely manner or, if and when implemented, these measures could be circumvented. Any breaches that may occur could expose us to increased risk of lawsuits, loss of existing or potential future customers, harm to our reputation and increases in our security costs, which could have a material adverse effect on our financial performance and operating results.

In the event of a breach resulting in loss of data, such as personally identifiable information or other such data protected by data privacy or other laws, we may be liable for damages, fines and penalties for such losses under applicable regulatory frameworks despite not handling the data. Further, the regulatory framework around data custody, data privacy and breaches varies by jurisdiction and is an evolving area of law. We may not be able to limit our liability or damages in the event of such a loss.

We are subject to legislative, regulatory, and legal developments involving taxes.

Taxes are a significant part of our expenses. The U.S. Tax Cuts and Job Act of 2017 was signed into law on December 22, 2017 (the 2017 Tax Act), and includes substantial changes to the U.S. federal corporate tax system that will affect our operations, including, but not limited to, (1) reduction of the U.S. federal corporate tax rate; (2) elimination of the corporate alternative minimum tax; (3) the creation of the base erosion anti-abuse tax (BEAT), a new minimum tax on taxable income adjusted for certain base erosion payments; (4) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (5) a new provision designed to currently tax certain global intangible low-taxed income (GILTI) of controlled foreign corporations, which allows for the possibility of using foreign tax credits (FTCs) and a deduction of up to 50% to reduce this income tax liability (subject to some limitations); (6) a new limitation on deductible interest expense; (7) limitations on the deductibility of certain executive compensation; (8) limitations on the use of FTCs to reduce the U.S. income tax liability; and (9) limitations on net operating losses generated in the taxable years beginning after December 31, 2017, to 80% of taxable income. The U.S. Treasury Department and the Internal Revenue Service continue to issue guidance on how the provisions of the 2017 Tax Act will be applied or otherwise administered. In addition, the 2017 Tax Act could be subject to potential amendments and technical corrections, any of which could materially increase certain adverse impacts of the legislation on us.

We exercise significant judgement in calculating our worldwide tax provision for income taxes and other tax liabilities. Although, we believe our tax estimates are reasonable, many factors may limit their accuracy. We are not currently under examination in any jurisdiction, but we may be subject to examinations or disputes in the future. Relevant tax authorities may disagree with our tax treatment of certain material items and thereby increase our tax liability. We are subject to U.S. federal, state, and foreign income, payroll, property, sales and use, fuel, and other types of taxes. Changes in tax rates, such as those included in the 2017 Tax Act, enactment of new tax laws, revisions of tax regulations, and claims or litigation with taxing authorities could result in a material effect to our results of operations, financial condition, and liquidity. Higher tax rates could have a material adverse effect on our results of operations, financial condition, and liquidity.

We operate in numerous tax jurisdictions and a taxing authority within any of these jurisdictions may challenge our operating structure which could result in additional taxes, interest and penalties that could materially impact our financial conditions and our future financial results.

We have structured our Company and its domestic and international subsidiaries to minimize our income tax obligations in countries in which we operate. There can be no assurance that our tax structure and the amount of taxes we pay in any of these countries will not be challenged by the relevant taxing authorities. If the tax authorities challenge our tax positions or the amount of taxes paid for the purchase, lease or sale of equipment in each jurisdiction in which we operate, we could incur substantial expenses associated with defending our tax position as well as expenses associated with the payment of any additional taxes, penalties and interest that may be imposed on us. The payment of these amounts could have an adverse material effect on our business, financial condition, results of operations and cash flows.

Legislation recently enacted in Bermuda and Barbados requiring registered entities within those jurisdictions to establish domestic economic substance could have a material adverse impact on our future financial results.

We seek to minimize our overall tax liability through the use of a tax efficient corporate structure of our international subsidiaries. As part of that effort, we have established an asset owning subsidiary registered in Barbados and multiple special purpose vehicles registered in Bermuda. While this structure has effectively reduced our overall tax liability, there can be no assurance that this will continue to be the case, particularly if the structure is challenged by one or more governmental agencies within those jurisdictions or the structure otherwise becomes non-compliant with applicable law. The failure to be able to maintain the above tax efficient corporate structure, and any fines or penalties that could be imposed as a result of challenges to the structure, could have a material adverse impact on our business operations, and future financial and operational results.

Barbados and Bermuda have both recently enacted legislation that could have a material impact upon our subsidiaries located in those jurisdictions. In 2019 Barbados enacted the *Companies (Economic Substance) Act, 2019* and in 2018 Bermuda enacted the *Economic Substance Act 2018*. Both sets of legislation require affected Barbados and Bermuda registered companies to maintain a substantial economic presence in their respective countries. It is anticipated that the guidelines which assist in the interpretation and application of the legislation, will be revised periodically within those jurisdictions, but this legislation could require us to incur additional costs to achieve compliance, and/or result in the imposition of significant penalties, and possibly require us to re-domicile our registered subsidiaries to a jurisdiction with higher tax rates. As noted, because the details surrounding implementation of this legislation are still developing, we cannot predict the impact of the economic substance requirements on our Company. However, the results of our business operations and future financial performance could be materially adversely affected depending on whether, and to the extent, we become subject to this legislation and/or other unanticipated tax liabilities.

Actual or threatened terrorist attacks, efforts to combat terrorism, or the outbreak of war and hostilities could negatively impact our operations and profitability and may expose us to liability.

Terrorist attacks and the threat of such attacks have contributed to economic instability in the United States and elsewhere, and further acts or threats of terrorism, violence, war or hostilities could similarly affect world trade and the industries in which we and our customers operate. In addition, terrorist attacks or hostilities may directly impact ports, depots, our facilities or those of our suppliers or customers, and could impact our sales and our supply chain. A severe disruption to the worldwide ports system and flow of goods could result in a reduction in the level of international trade and lower demand for our equipment or services. Any of these events could also negatively affect the economy and consumer confidence, which could cause a downturn in the transportation industry. The consequence of any terrorist attacks or hostilities are unpredictable, and we may not be able to foresee events that could have an adverse effect on our operations

It is also possible that our equipment could be involved in a terrorist attack. Although our lease agreements require our lessees to indemnify us against all damages arising out of the use of our containers, and we carry insurance to potentially offset any costs in the event that our customer indemnifications prove to be insufficient, our insurance does not cover certain types of terrorist attacks, and we may not be fully protected from liability of the reputational damage that could arise from a terrorist attack which utilizes one of our containers.

Our operations could be affected by natural or man-made events in the locations in which we or our customers or suppliers operate.

We have operations in locations subject to severe weather conditions, natural disasters, the outbreak of contagious disease, or man-made incidents such as chemical explosions, any of which could disrupt our operations. In addition, our suppliers and customers also have operations in such locations. For example, in 2015, a chemical explosion and fire in the port of Tianjin, China damaged or destroyed a small number of our containers and disrupted operations in the port. Similarly, outbreaks of pandemic or contagious diseases, such as the coronavirus, H1N1 (swine) flu and the Ebola virus, could significantly reduce the demand for international shipping or could prevent our containers from being discharged in the affected areas or in other locations after having visited the affected areas. Any future natural or man-made disasters or health concerns in the world where we have business operations could lead to disruption of the regional and global economies, which could result in a decrease in demand for leased containers.

We may be affected by market or regulatory responses to climate change.

Changes in laws, rules, and regulations, or actions by authorities under existing laws, rules, or regulations, to address greenhouse gas emissions and climate change could negatively impact our customers and business. For example, restrictions on emissions could significantly increase costs for our customers whose production processes require significant amounts of energy. Customers' increased costs could reduce their demand to lease our assets. Potential consequences of laws, rules, or regulations addressing climate change could have an adverse effect on our financial position, results of operations, and cash flows.

Our business could be adversely affected by strikes or work stoppages by draymen, truckers, port workers and railroad workers.

There has been labor unrest, including strikes and work stoppages, among workers at various transportation providers and in industries affecting the transportation industry, such as port workers. We could lose business due to any significant work stoppage or slowdown and, if labor unrest results in increased rates for transportation providers such as draymen, we may not be able to pass these cost increases on to our customers. Strikes among longshoremen and clerical workers at ports in the past few years have slowed down the ports for a time, creating a major impact on the transportation industry. Work stoppages occurring among owner-operators in a specific market have increased our operating costs periodically over the past several years. In the past several years, there have been strikes involving railroad workers. Future strikes by railroad workers in the United States, Canada or anywhere else that our customers' freight travels by railroad would impact our operations. Any significant work stoppage, slowdown or other disruption involving ports, railroads, truckers or draymen could adversely affect our business and results of operations.

Our senior executives are critical to the success of our business and our inability to retain them or recruit new personnel could adversely affect our business.

Most of our senior executives and other management-level employees have over 15 years of industry experience. We rely on this knowledge and experience in our strategic planning and in our day-to-day business operations. Our success depends in large part upon our ability to retain our senior management, the loss of one or more of whom could have a material adverse effect on our business, financial condition, results of operations and cash flows. Our success also depends on our ability to retain our experienced sales force and technical personnel as well as recruiting new skilled sales, marketing and technical personnel. Competition for these individuals in our industry is intense and we may not be able to successfully recruit, train or retain qualified personnel. In addition, uncertainty regarding our exploration of strategic alternatives may harm our ability to retain and recruit our key personnel. If we fail to retain and recruit the necessary personnel, our business and our ability to obtain new equipment lessees and provide acceptable levels of customer service could suffer.

We rely on our information technology systems to conduct our business. If these systems fail to adequately perform their functions, or if we experience an interruption in their operation, our business, results of operations and financial prospects could be adversely affected.

The efficient operation of our business is highly dependent on our information technology systems. We rely on our systems to track transactions, such as repair and depot charges and changes to book value, and movements associated with each of our owned or managed equipment units. We use the information provided by our systems in our day-to-day business decisions in order to effectively manage our lease portfolio and improve customer service. We also rely on them for the accurate tracking of the performance of our managed fleet for each third-party investor, and the tracking and billing of logistics moves. The failure of our systems to perform as we expect could disrupt our business, adversely affect our financial condition, results of operations and cash flows and cause our relationships with lessees and third-party investors to suffer. In addition, our information technology systems are vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, power loss and computer systems failures, unauthorized breach and viruses. Any such interruption could have a material adverse effect on our business, reputation, results of operations and financial prospects.

As a U.S. corporation, we are subject to U.S. Executive Orders and U.S. Treasury Sanctions Regulations regarding doing business in or with certain nations and specially designated nationals.

As a U.S. corporation, we are subject to U.S. Executive Orders and U.S. Treasury Sanctions Regulations restricting or prohibiting business dealings in or with certain nations and with certain specially designated nationals (individuals and legal entities). Any perception or determination that we have violated such Executive Orders and U.S. Treasury Sanctions Regulations could have a material adverse effect on our business, financial condition, results of operations and cash flows.

As a U.S. corporation, we are subject to the Foreign Corrupt Practices Act, and a determination that we violated this act may affect our business and operations adversely.

As a U.S. corporation, we are subject to the regulations imposed by the Foreign Corrupt Practices Act (FCPA), which generally prohibits U.S. companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business. Violations of the FCPA could result in fines and penalties; criminal sanctions against us, our officers, or our employees; prohibitions on the conduct of our business and on our ability to offer our products and services in one or more countries; and a materially negative effect on our company and our operating results. Although we have implemented policies and procedures designed to ensure compliance with the FCPA, there can be no assurance that our employees, business partners, or agents will not violate our policies. Any perception or determination that we have violated the FCPA could have a material adverse effect on our business, financial condition, results of operations and cash flows.

A failure to comply with export control or economic sanctions laws and regulations could have a material adverse effect on our business, results of operations or financial condition. We may be unable to ensure that our agents and/or customers comply with applicable sanctions and export control laws.

We face several risks inherent in conducting our business internationally, including compliance with applicable economic sanctions laws and regulations, such as laws and regulations administered by the U.S. Department of Treasury's Office of Foreign Assets Control (OFAC), the U.S. Department of State and the U.S. Department of Commerce. We must also comply with all applicable export control laws and regulations of the United States (including but not limited to the U.S. Export Administration Regulations) and other countries. Any determination of a violation or an investigation into violations of export controls or economic sanctions laws and regulations could result in significant criminal or civil fines, penalties or other sanctions and repercussions, including reputational harm that could materially affect our business, results of operations or financial condition.

We may pursue acquisitions or joint ventures in the future that could present unforeseen integration obstacles or costs.

We have pursued, and may continue to pursue, acquisitions and joint ventures in the future. Acquisitions involve a number of risks and present financial, managerial and operational challenges, including:

- potential disruption of our ongoing business and distraction of management;
- customer retention;
- difficulty integrating personnel and financial and other systems;
- hiring additional management and other critical personnel; and
- increasing the scope, geographic diversity and complexity of our operations.

In addition, we may encounter unforeseen obstacles or costs in the integration of acquired businesses. Also, the presence of one or more material liabilities of an acquired company that are unknown to us at the time of acquisition may have a material adverse effect on our business. Acquisitions or joint ventures may not be successful, we may not realize any anticipated benefits from acquisitions or joint ventures, we may realize dilutive earnings per share from such activities, and acquired businesses and joint ventures may incur losses.

Fluctuations in foreign exchange rates could reduce our profitability.

Most of our revenues and costs are billed in U.S. dollars. Our operations and used equipment sales in locations outside of the U.S. have some exposure to foreign currency fluctuations, and trade growth and the direction of trade flows can be influenced by large changes in relative currency values. In addition, most of our container equipment fleet is manufactured in China. Although the purchase price is in U.S. dollars, our manufacturers pay labor and other costs in the local currency, the Chinese yuan. To the extent that our manufacturers' costs increase due to changes in the valuation of the Chinese yuan, the dollar price we pay for equipment could be affected. Adverse or large exchange rate fluctuations may negatively affect our financial condition, results of operations and cash flows.

Risks Related to Container Leasing

The demand for leased containers is particularly tied to international trade. If international trade were to decrease, as a result of increased tariffs or other actions impeding trade, it could reduce demand for container leasing, which would materially adversely affect our business, financial condition and results of operations.

A substantial portion of our containers are used in trade involving goods being shipped from exporting countries (e.g., China and other export-oriented Asian countries) to importing countries (e.g., other Asian countries, North America and Western Europe). The willingness and ability of international consumers to purchase foreign goods is dependent upon political support for an absence of government-imposed barriers to international trade in goods and services. For example, international consumer demand for foreign goods is related to price. Therefore, if the price differential between foreign goods and domestically-produced goods were to decrease due to increased tariffs on the import of foreign goods, strengthening in the applicable foreign currencies relative to domestic currencies, rising foreign wages, increasing input or energy costs or other factors, then demand for foreign goods could decrease. This in turn could result in reduced demand for container leasing. A similar reduction in demand for container leasing could result from an increased use of quotas or other technical barriers to restrict trade. The current regime of relatively free trade may not continue, which would materially adversely affect our business, financial condition and results of operations.

The international nature of the container industry exposes us to risks relating to the imposition of import and export duties, quotas, domestic and foreign customs and tariffs, and other impediments to trade. These risks have increased recently due to trade actions taken by the United States and China that have led to increased tariffs on goods traded between these two countries, and the United States has threatened to further increase tariffs if certain demands are not met. Given the importance of the United States and China in the global economy, these increased tariffs could significantly reduce the volume of goods traded internationally and reduce the rate of global economic growth, leading to decreased demand for leased containers, lower new container prices (which would indirectly reduce the value of the Company's inventory of containers held for lease) and decreased market leasing rates. These impacts could have a materially adverse effect on our business, financial condition and results of operations.

Container leasing demand can be negatively affected by numerous market factors as well as external political and economic events that are beyond our control. Decreasing leasing demand could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Demand for containers depends largely on the rate of world trade and economic growth. Demand for leased containers is also driven by our customers' "lease vs. buy" decisions. Cyclical recessions can negatively affect the operating results of container lessors, such as us, because during economic downturns or periods of reduced trade, shipping lines tend to lease fewer containers, or lease containers only at reduced rates, and tend to rely more on their own fleets to satisfy a greater percentage of their requirements. As a result, during periods of weak global economic activity, container lessors like ourselves typically experience decreased leasing demand, decreased equipment utilization, lower average rental rates, decreased leasing revenue, decreased used container resale prices and significantly decreased profitability. These effects can be severe.

For example, our key operating metrics and profitability in 2019 were negatively impacted by reduced trade and economic growth, both of which were affected by increased trade tariffs due to trade dispute between the U.S. and China. As a result, our utilization, average leasing rates and used container prices decreased steadily throughout 2019, and our profitability decreased during the year as well. We will start 2020 with a lower base of operating performance and profitability, and expect negative impacts from the trade dispute between the U.S. and China to continue into 2020. Additionally, the recent coronavirus outbreak in China has significantly reduced factory production in the first quarter of 2020, which has led to lower exports from China and reduced container demand.

We rely upon the export of goods from China to support our business. The coronavirus outbreak has resulted in significant governmental measures being implemented to control the spread of the virus, including, among others, restrictions on manufacturing and the movement of employees in many regions of the country. As a result of the coronavirus and the measures designed to contain the spread of the virus, factories in China may not have the materials, capacity, or capability to manufacture products and export goods in line with our business plan. In addition, if products are not shipped on containers out of China or there are delays in shipments, in each case, our results of operations could be materially and adversely affected. While the disruptions and restrictions on the ability to travel, quarantines, and temporary closures of facilities in China, as well as general limitations on movement in the region are expected to be temporary, the duration of the production and shipment disruption, and related financial impact, cannot be estimated at this time. Should the production and distribution closures continue for an extended period of time, the impact on our business in China and globally could have a material adverse effect on our results of operations and cash flows. The coronavirus outbreak could evolve into a worldwide health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could affect demand for the export of products, which in turn could impact the financial results of our shipping line customers. These impacts could have a material adverse effect on our business, operating results, and financial condition.

We have experienced a number of other periods of weak performance in recent years due to adverse global economic conditions, including in 2009 due to the global financial crisis, and during 2015 and 2016 due to a global manufacturing recession. During both of these periods, our profitability and growth rate were significantly impacted by weak container demand.

Other general factors affecting demand for leased containers, container utilization and per diem rental rates include:

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

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

Lease rates may decrease due to a decrease in new container prices, weak leasing demand, increased competition or other factors, resulting in reduced revenues, lower margins, and reduced profitability and cash flows.

Market lease rates are typically a function of, among other things, new equipment prices (which are heavily influenced by steel prices), interest rates, the type and length of the lease, the equipment supply and demand balance at a particular time and location, and other factors more fully described below. A decrease in lease rates can have a materially adverse effect on our leasing revenues, profitability and cash flow.

A decrease in market lease rates negatively impacts the lease rates on both new container investments and existing containers in our fleet. Most of our existing containers are on operating leases, which means that the lease term is shorter than the expected life of the container, so the lease rate we receive for the container is subject to change at the expiration of the current lease. Lower new container prices, widespread availability of attractively priced financing, and aggressive competition for new leasing transactions could put pressure on market lease rates. As a result, during periods of low market lease rates, the average lease rate received for our containers is negatively impacted by both the addition of new containers at low lease rates as well as, and more significantly, by the turnover of existing containers from leases with higher lease rates to leases with lower lease rates. We have a large number of historically high rate leases that are expiring in 2020 and those that have already expired or been renegotiated have been re-priced at relatively lower lease rates.

A reduction in the price of new containers could harm our business, results of operations and financial condition.

New container prices dropped to record lows in the first quarter of 2016, and although prices have generally increased since then, they started to decrease again in the fourth quarter of 2018, before recovering at the end of 2019. If new container prices decrease, the per diem lease rates for new leases of older, off-lease containers would also be expected to decrease and the prices obtained for containers sold at the end of their useful life would also be expected to decrease. Between the beginning of 2014 and the first quarter of 2016, due primarily to decreases in steel prices and other macro-economic factors outside of our control, new container pricing and the sale prices of containers sold at the end of their useful life declined. Although new and used container prices have recovered from the lows of 2016, if the price of new containers declines such that market per diem lease rates or resale values for containers are reduced, our revenue and income could decline. A continuation of these factors could harm our business, financial condition, results of operations and cash flows, even if a sustained reduction in price would allow us to purchase new containers at a lower cost.

Our customers may decide to lease fewer containers. Should shipping lines decide to buy a larger percentage of the containers they operate, our utilization rate and level of investment would decrease, resulting in decreased leasing revenues, increased storage costs, increased repositioning costs and lower growth.

We, like other suppliers of leased containers, are dependent upon decisions by shipping lines to lease rather than buy their container equipment. Should shipping lines decide to buy a larger percentage of the containers they operate, our utilization rate would decrease, resulting in decreased leasing revenues, increased storage costs and increased positioning costs. A decrease in the portion of leased containers operated by shipping lines would also reduce our investment opportunities and significantly constrain our growth. Most of the factors affecting the decisions of our customers are outside of our control.

Our shipping line customers are subject to requirements under environmental and operational safety laws, regulations and conventions that could require them to incur significant expenditures, which may impact our container leasing business.

On October 27, 2016, the International Maritime Organization's Marine Environment Protection Committee announced the results from a vote concerning the implementation of regulations mandating a reduction in sulfur emissions from 3.5% to 0.5% as of the beginning of 2020 rather than pushing the deadline back to 2025. Since the beginning of 2020 ships now have to either remove sulfur from emissions through the use of emission scrubbers or buy fuel with low sulfur content. Scrubbers can cost \$3.0 million to \$5.0 million to install on existing ships. If a vessel is not retrofitted with a scrubber or other emission abatement technology, it will need to use low sulfur bunker fuel (0.5%), which is more expensive than standard bunker fuel. The increased demand for low sulfur bunker fuel is likely to result in an increase in the bunker price. While we believe that these costs are being passed on to shippers through higher freight rates, the increased cost will lead to greater working capital demands for the shipping lines. If such costs are not able to be passed on, it may impact the financial results of our shipping line customers, which may adversely impact our business, financial condition, results of operations and cash flows.

Used container sale prices may decrease, leading to losses on the sale of used rental equipment.

Although our revenues primarily depend upon equipment leasing, our profitability is also affected by the gains or losses we realize on the sale of used containers because, in the ordinary course of our business, we sell certain containers when they are returned to us. The volatility of the selling prices and gains or losses from the disposal of such equipment may be significant. Used container selling prices, which can vary substantially, depend upon, among other factors, the cost of new containers, the global supply and demand balance for containers, the location of the containers, the supply and demand balance for used containers at a particular location, the repair condition of the container, refurbishment needs, materials and labor costs and equipment obsolescence. Most of these factors are outside of our control.

Containers are typically sold if it is in our best interest to do so, after taking into consideration earnings prospects, book value, remaining useful life, condition and repair costs, storage costs, suitability for leasing or other uses, and the prevailing local sales price for containers. Gains or losses on the disposition of used containers will fluctuate and may be significant if we sell large quantities of used containers.

Used container selling prices and the gains or losses that we have recognized from selling used containers have varied widely over recent years. During 2015 and 2016, disposal prices were close to, and in many cases below, our residual values which resulted in losses being incurred on the sales of used equipment. As a result of consistent losses being recorded on the sale of 40-foot high cube dry van containers, we reduced the residual value for these containers from \$1,650 to \$1,400 per container, effective July 1, 2016. Sales prices for used containers recovered from the lows of 2016, resulting in gains being recognized on the sale of used equipment, but started to decline again towards the end of 2018 and into 2019. If used container prices continue to decline, we may incur losses on the sale of used containers, our residual values may need to be reduced further, resulting in increased depreciation expense, and we may incur impairment charges on such equipment. A decline in these factors could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may incur significant costs to reposition containers.

When lessees return containers to locations where supply exceeds demand, we may make a decision to reposition containers to higher demand areas rather than sell the container and realize a loss on sale. Repositioning expenses vary depending on geographic location, distance, freight rates and other factors. We seek to limit the number of units that can be returned and in some cases, impose surcharges on containers returned to areas where demand for such containers is not expected to be strong. However, market conditions may not enable us to continue such practices. In addition, we may not accurately anticipate which port locations will be characterized by high or low demand in the future, and our current contracts will not protect us from repositioning costs if ports that we expect to be high-demand ports turn out to be low-demand ports at the time leases expire.

We may incur additional asset impairment charges and depreciation expense.

Asset impairment charges may result from the occurrence of unexpected adverse events or management decisions that impact our estimates of expected cash flows generated from our long-lived assets. We review our long-lived assets for impairment when events or changes in circumstances indicate the carrying value of an asset may not be recoverable. We may be required to recognize asset impairment charges in the future as a result of prolonged reductions in demand for specific container types, an extended weak economic environment, persistent challenging market conditions, events related to particular customers or asset type, or as a result of asset or portfolio sale decisions by management. If an asset, or group of assets, is considered to be impaired, it may also indicate that the residual value of the associated equipment type needs to be reduced. For example, we reduced the residual value for 40-foot high cube dry van containers from \$1,650 to \$1,400 per container, effective July 1, 2016. If residual values of our rental equipment are lowered further, then our depreciation expense will increase, which would have an adverse impact on our business, financial condition and results of operations.

Consolidation and concentration in the container shipping industry could decrease the demand for leased containers.

We primarily lease containers to container shipping lines. The container shipping lines have historically relied on a large number of leased containers to satisfy their needs. Consolidation of major container shipping lines, such as between Maersk and Hamburg Süd in 2017, or the creation of operating alliances between shipping lines, such as the formation of ONE, a joint venture between NYK, Mitsui OSK and K Line, in 2018, could create efficiencies for the shipping lines and decrease demand for leased containers, because they may be able to fulfill a larger portion of their needs through their owned container fleets. It would also create increased concentration of credit risk if the number of our container lessees decreases due to consolidation. Additionally, large container shipping lines with significant resources could choose to purchase their own containers directly, which would decrease their demand for leased containers and could have an adverse impact on our business, financial condition, results of operations and cash flows. Finally, decreased demand from shipping companies for leased containers could also occur due to consolidation caused by the financial failure of container shipping companies, such as the bankruptcy of Hanjin during 2016.

We derive a substantial portion of our revenue from a limited number of container lessees. The loss of, or reduction in business by, any of these container lessees, or a default from any large container lessee, could result in a significant loss of revenue and cash flow.

We have derived, and believe that we will continue to derive, a significant portion of our revenue and cash flow from a limited number of container lessees. Billings from our ten largest container lessees represented 66.0% of total billings for this segment for the year ended December 31, 2019, with billings from our two largest container lessees accounting for 18.6% and 11.7%, respectively, of container lease billings, or \$65.9 million and \$41.4 million, respectively, which represented 13.4% and 8.4%, respectively, of our total billings for the year ended December 31, 2019. As our business grows, and as consolidation continues among our shipping line customers, we expect the proportion of revenue generated by our larger customers to continue to increase. The loss of a recently-consolidated customer such as those noted above would have a material adverse impact on our business, financial condition, results of operations and cash flows. In addition, a default by any of our largest lessees would result in a major reduction in our leasing revenue, large repossession expenses, potentially large lost equipment charges and a material adverse impact on our performance and financial condition. Although we maintain insurance against customer defaults, our insurance is limited and may not be sufficient to cover such a default.

Changes in market price or availability of containers in China could adversely affect our ability to maintain our supply of containers.

The vast majority of intermodal containers are currently manufactured in China, and we currently purchase almost all of our containers from manufacturers based there. In addition, the container manufacturing industry in China is highly concentrated. In 2019, Dong Fang International Container purchased several of the manufacturing facilities of Singamas Container Holdings Limited, further consolidating the container manufacturing industry. If it became more expensive for us to procure containers in China because of further consolidation among container suppliers, a dispute with one of our manufacturers, increased tariffs imposed by the United States or other governments or for any other reason, we may have to seek alternative sources of supply. We may not be able to make alternative arrangements quickly enough to meet our equipment needs, and the alternative arrangements may increase our costs.

It may become more expensive for us to store our off-hire containers.

We are dependent on third-party depot operators to repair and store our equipment in port areas throughout the world. In many of these locations the land occupied by these depots is increasingly being considered as prime real estate. Accordingly, local communities are considering increasing restrictions on depot operations which may increase their costs of operation and in some cases force depots to relocate to sites further from port areas. Additionally, depots in prime locations may become filled to capacity based on market conditions and may refuse additional containers due to space constraints. This could require us to enter into higher-cost storage agreements with third-party depot operators in order to accommodate our customers' turn-in requirements and could result in increased costs and expenses for us. If these changes affect a large number of our depots, it could significantly increase the cost of maintaining and storing our off-hire containers.

We face extensive competition in the container leasing industry.

We may be unable to compete favorably in the highly competitive container leasing business. We compete with a number of major leasing companies, many smaller lessors, companies and financial institutions offering finance leases, promoters of equipment ownership and leasing as a tax-efficient investment, container shipping lines (which sometimes lease their excess container stocks), and suppliers of alternative types of containers for freight transport. Some of these competitors have greater financial resources, better access to capital, lower cost of capital, better credit ratings, more containers, broader market presence, longer standing relationships with lessees, longer operating histories, stronger brand recognition and greater marketing resources than us, or are affiliates of larger companies. Additionally, some of these competitors may have large, underutilized inventories of equipment, which could lead to significant downward pressure on per diem rates, margins and prices of equipment.

Our business requires large amounts of working capital to fund our operations. We are aware that some of our competitors have had ownership changes and there has been consolidation in the industry in recent years. As a consequence, these competitors may have greater resources available to aggressively seek to expand their market share. This could include offering lease rates with which we may not be able to effectively compete. We may not be able to compete successfully against these competitors.

Competition among container leasing companies depends upon many factors, including, among others, per diem rates; lease terms, including lease duration, drop-off restrictions and repair provisions; customer service; and the location, availability, quality and individual characteristics of equipment units. The highly competitive nature of our industry may reduce lease rates and margins and undermine our ability to maintain our current level of container utilization or achieve our growth plans.

The international nature of our business exposes us to numerous risks.

Our ability to enforce lessees' obligations will be subject to applicable law in the jurisdiction in which enforcement is sought. As containers are predominantly located on international waterways, it is not possible to predict, with any degree of certainty, the jurisdictions in which enforcement proceedings may be commenced. For example, repossession from defaulting lessees may be difficult and more expensive in jurisdictions in which laws do not confer the same security interests and rights to creditors and lessors as those in the United States and in other jurisdictions where recovery of containers from defaulting lessees is more cumbersome. As a result, the relative success and expedience of enforcement proceedings with respect to containers in various jurisdictions cannot be predicted.

We are also subject to risks inherent in conducting business across national boundaries, any one of which could adversely impact our business. These risks include:

- regional or local economic downturns;
- changes in governmental policy or regulation;
- restrictions on the transfer of funds into or out of the countries in which we operate;
- consequences from changes in tax laws, including tax laws pertaining to container investors;
- value-added tax and other sales-type taxes which could result in additional costs to us if they are not properly collected or paid;
- domestic and foreign customs and tariffs;

- international incidents;
- public health issues;
- war, hostilities, terrorist attacks, piracy, or the threat of any of these events;
- government instability;
- nationalization of foreign assets;
- government protectionism;
- compliance with export controls, including those of the U.S. Department of Commerce;
- compliance with import procedures and controls, including those of the DHS;
- potential liabilities relating to foreign withholding taxes;
- labor or other disruptions at key ports;
- difficulty in staffing and managing widespread operations;
- restrictive local employment laws; and
- restrictions on our ability to own or operate subsidiaries, make investments or acquire new businesses in these jurisdictions.

One or more of these factors could impair our current or future international operations and, as a result, harm our overall business, financial condition, results of operations and cash flows.

We may incur costs associated with new security regulations, which may adversely affect our business, financial condition and results of operations.

We may be subject to regulations promulgated in various countries, including the United States, seeking to protect the integrity of international commerce and prevent the use of equipment for international terrorism or other illicit activities. For example, the Container Security Initiative, the Customs-Trade Partnership Against Terrorism and Operation Safe Commerce are among the programs administered by the DHS that are designed to enhance security for cargo moving throughout the international transportation system by identifying existing vulnerabilities in the supply chain and developing improved methods for ensuring the security of containerized cargo entering and leaving the United States. Moreover, the CSC applies to new and existing containers and seeks to maintain a high level of safety of human life in the transport and handling of containers by providing uniform international safety regulations. As these regulations develop and change, we may incur compliance costs due to the acquisition of new, compliant equipment and/or the adaptation of existing equipment to meet new requirements imposed by such regulations. Additionally, certain companies are currently developing or may in the future develop products designed to enhance the security of equipment transported in international commerce. Regardless of the existence of current or future government regulations mandating the safety standards of intermodal shipping equipment, our competitors may adopt such products or our equipment lessees may require that we adopt such products. In responding to such market pressures, we may incur increased costs, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Environmental liability may adversely affect our business and financial condition.

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

Many countries, including the United States, restrict, prohibit or otherwise regulate the use of chemical refrigerants due to their ozone depleting and global warming effects. Our refrigerated containers currently use R134A or 404A refrigerant. While R134A and 404A do not contain Chlorofluorocarbons (CFCs) (which have been restricted since 1995), the European Union (EU) has instituted regulations, which began in 2011 to phase out the use of R134A in automobile air conditioning systems and replace it with R1234YF, due to concern that the release of R134A into the atmosphere may contribute to global warming. While the EU regulations do not currently restrict the use of R134A or 404A in refrigerated containers or trailers, it has been proposed that, beginning in 2025, R134A and 404A usage in refrigerated containers will be banned, although the final decision has not yet been made. Further, certain manufacturers of refrigerated containers, including the largest manufacturer of cooling machines for refrigerated containers, have begun testing units that utilize alternative refrigerants, such as carbon dioxide, that may have less global warming potential than R134A and 404A. If future regulations prohibit the use or servicing of containers using R134A or 404A refrigerants, we could be forced to incur large retrofitting expenses. In addition, refrigerated containers that are not retrofitted may become difficult to lease, command lower rental rates and disposal prices, or may have to be scrapped.

Before 2010, foam insulation in the walls of intermodal refrigerated containers required the use of a blowing agent that contained hydrochlorofluorocarbons (specifically HCFC-141b). Since 2010, our manufacturers have phased out the use of this blowing agent in the manufacturing process, replacing that blowing agent with cyclopentane, which contains no CFCs. However, we may still have intermodal refrigerated containers in our fleet that used HCFC-141b in their production. The EU prohibits the import and the placing on the market in the EU of intermodal containers with insulation made with HCFC-141b (EU Regulation). However, the European Commission has recognized that notwithstanding its regulation, under international conventions governing free movement of intermodal containers, the use of such intermodal refrigerated containers admitted into EU countries on temporary customs admission should be permitted. Each country in the EU has its own individual and different regulations to implement the EU Regulation. We have procedures in place that we believe comply with the EU and country regulations. However, if such intermodal refrigerated containers exceed their temporary customs admission period and/or their custom admissions status changes (e.g., should such container be off-hired) and such intermodal refrigerated containers are deemed placed on the market in the EU, or if our procedures are deemed not to comply with EU or a country's regulation, we could be subject to fines and penalties. Also, if future international conventions or regulations prohibit the use or servicing of containers with foam insulation that utilized this blowing agent during the manufacturing process, we could be forced to incur large retrofitting expenses and those containers that are not retrofitted may become more difficult to lease and command lower rental rates and disposal prices.

An additional environmental concern affecting our operations relates to the construction materials used in our dry containers. The floors of dry containers are plywood, usually made from tropical hardwoods. Due to concerns about the de-forestation of tropical rain forests and climate change, many countries that have been the source of these hardwoods have implemented severe restrictions on the cutting and export of these woods. Accordingly, container manufacturers have switched a significant portion of production to more readily available alternatives such as birch, bamboo, and other farm grown wood species. Container users are also evaluating alternative designs that would limit the amount of plywood required and are also considering possible synthetic materials to replace the plywood. These new woods or other alternatives have not proven their durability over the typical 10 to 15 year life of a dry container, and if they cannot perform as well as the hardwoods have historically, the future repair and operating costs for these containers could be significantly higher and the useful life of the containers may be decreased.

Use of counterfeit and improper refrigerant in refrigeration machines for refrigerated containers could result in irreparable damage to the refrigeration machines, death or personal injury, and materially impair the value of our refrigerated container fleet.

There are reports of counterfeit and improper refrigerant gas being used to service refrigeration machines. The use of this counterfeit gas has led to the explosion of several refrigeration machines within the industry. A small number of these incidents have resulted in personal injury or death and, in all cases, the counterfeit gas has led to irreparable damage to the refrigeration machines.

A testing procedure has been developed and approved by the IICL to determine whether counterfeit gas has been used to service a refrigeration machine. These tests are carried out on our refrigeration machines when they are off-hired and returned to a depot. If such tests are not proven safe and effective or if the use of such counterfeit and improper refrigerant is more widespread than currently believed, the value of our refrigerated container fleet and our ability to lease refrigerated containers could be materially impaired and could therefore have a material adverse effect on our business, financial condition, results of operations and cash flows.

Certain liens may arise on our equipment.

Depot operators, repairmen and transporters may come into possession of our equipment from time to time and have sums due to them from lessees or sub-lessees of equipment. In the event of nonpayment of those charges by lessees or sub-lessees, we may be delayed in, or entirely barred from, repossessing equipment, or be required to make payments or incur expenses to discharge liens on our equipment.

The lack of an international title registry for containers increases the risk of ownership disputes.

There is no internationally recognized system of recordation or filing to evidence our title to containers nor is there an internationally recognized system for filing security interests in containers. Although we have not incurred material problems with respect to this lack of an internationally recognized system, the lack of an international title recordation system for containers could result in disputes with lessees, end-users, or third parties who may improperly claim ownership of the containers.

Risks Related to Railcar Leasing

We may not be able to sell our railcar assets being held for sale and/or any sales we consummate may not produce the desired results.

In the quarter ended June 30, 2019, we committed to a plan to sell our railcar assets as we believe it is in the best interest of our stockholders to reallocate the capital invested in our rail business to other investments. As a result, our railcar assets have been classified as held for sale and the operations of the rail business have been classified as discontinued operations in the consolidated financial statements in this Annual Report on Form 10-K. At December 31, 2019, our assets held for sale totaled \$284.5 million. See Note 3 – *Discontinued Operations* to the consolidated financial statements in this Annual Report on Form 10-K for more information.

We can provide no assurances that we will successfully sell these railcar assets, that we will do so in accordance with our expected timeline or that we will recover the carrying value of the assets. Additionally, any decisions made regarding our deployment or use of any sales proceeds we receive in any sale involves risks and uncertainties. As a result, our decisions with respect to such proceeds may not lead to increased long-term stockholder value.

We may incur additional impairment charges on our rail assets, which may have an adverse effect on our business, financial condition or results of operations.

Due to the reclassification of our railcar business as “assets held for sale”, we recorded an asset impairment charge of \$7.3 million for the quarter ended June 30, 2019 and an additional impairment charge of \$25.6 million for the quarter ended September 30, 2019, reducing the value of our railcar assets to their estimated fair value. There are a limited number of purchasers of rail assets and the rail market is currently experiencing an over-supply in several equipment types, resulting in low rental rates. The price that we can receive, net of sale-related expenses, is dependent on many factors, including: current and expected future rental rates for the railcars we own; market conditions, such as the state of the economy and the number of comparable new and used railcars available for purchase; demand for railcars in the particular configurations of the railcars in our fleet; and whether particular railcars are currently subject to leases, and if so, the terms of such leases. As a result, although the impairment charges reflect our best estimate of the value of our rail assets as of the dates specified, no assurance can be provided that we will not incur additional impairment charges or losses on sale. Any additional impairment charges could have a material adverse effect on our business, financial condition or results of operations.

In addition, no assurance can be given that our railcar business can be sold for a price that in our opinion reflects its intrinsic value. If a sale of the railcar business at what we consider to be a reasonable price is not available, we may decide to cease efforts to sell the rail assets and resume operating the railcar assets as an ongoing business.

Weak economic conditions, financial market volatility, and other factors may decrease customer demand for our assets and services and negatively impact our business and results of operations.

We rely on continued demand from our customers to lease our railcars. Demand for railcars depends on the markets for our customers’ products and services and the strength and growth of their businesses. Some of our customers operate in cyclical markets, such as the steel, chemical, energy and construction industries, which are susceptible to macroeconomic downturns and may experience significant changes in demand over time. Weakness in certain sectors of the economy in the United States and other parts of the world may make it more difficult for us to lease certain types of railcars that are either returned at the end of a lease term or returned as a result of a customer bankruptcy or default. We have experienced continued weakness in macroeconomic conditions in the railcar business over the last year, and we expect those market conditions to continue into 2020.

In many cases, demand for our assets also depends on our customers’ desire to lease, rather than buy, the assets. Tax and accounting considerations, interest rates, and operational flexibility, among other factors, may influence a customer’s decision to lease or buy assets. We have no control over these external considerations, and changes in these factors, including potential changes to lease accounting rules, could negatively impact demand for our assets held for lease.

Additional factors, such as changes in harvest or production volumes, changes in supply chains, choices in types of transportation assets, availability of substitutes and other operational needs may also influence customer demand for our assets. Significant declines in customer demand for our assets and services or continued weakness in macroeconomic conditions in the railcar business could adversely affect our financial performance.

We may be unable to maintain assets on lease at satisfactory rates.

Our profitability depends on our ability to lease railcars at satisfactory rates, sell railcars, and to re-lease railcars upon lease expiration. Circumstances such as economic downturns, changes in customer behavior, more efficient use of railcars through precision scheduled railroading, excess capacity in particular railcar types or generally in the marketplace due to over-building or lower demand, or other changes in supply or demand can adversely affect asset utilization rates and lease rates. Economic uncertainty or a decline in customer demand for our railcars could cause customers to request shorter lease terms and lower lease rates, which may result in a decrease in our asset utilization rate and reduced revenues. Alternatively, customers may seek to lock-in relatively low lease rates for longer terms, which may result in an adverse impact on current or future revenues.

Changes in railroad efficiency may adversely affect demand for our railcars.

Improvements in railroad efficiency, such as from the recently adopted precision scheduled railroading, or declines in rail traffic due to decreased demand could increase the average speed at which railroads can operate their trains, which may reduce the number of railcars needed for railroads to haul the same amount of cargo. Adverse weather conditions, railroad mergers, and increase in rail traffic could result in slower transit times making rail transportation less attractive to shippers versus other modes of transport. In each case, these changes could reduce demand for our railcars and negatively impact revenue and our result of operations.

A significant decrease in lease renewals by our customers could negatively impact operations and substantially increase our costs.

Decreases in customer demand for our railcars could increase the number of leases that are not renewed upon expiration, resulting in the early return of railcars. Railcars that are returned by our customers often must undergo maintenance and service work before being leased to new customers. A significant increase in the number of railcars requiring maintenance may negatively affect our operations and substantially increase maintenance and other related costs. In addition, low demand for certain types of railcars in our fleet may make those railcars more difficult to lease to new customers if they are returned at the end of their existing leases or following a customer default, which could negatively affect our results of operations.

Our rail operations are subject to various laws, rules, and regulations. If these laws, rules, and regulations change or we fail to comply with them, it could have a significant negative effect on our business and profitability.

Our rail operations are subject to various laws, rules, and regulations administered by authorities in jurisdictions where we do business. In the United States, our railcar fleet is subject to safety, operations, maintenance, and mechanical standards, rules, and regulations enforced by various federal and state agencies and industry organizations, including the DOT, the FRA, and the AAR. State agencies regulate some health and safety matters related to rail operations not otherwise preempted by federal law. Our business and railcar fleet may be adversely impacted by new rules or regulations, or changes to existing rules or regulations, which could require additional maintenance or substantial modification or refurbishment of our railcars, or could make certain types of railcars inoperable or obsolete or require them to be phased out prior to the end of their useful lives. In addition, violations of these rules and regulations can result in substantial fines and penalties, including potential limitations on operations or forfeitures of assets.

We are subject to extensive environmental regulations and the costs of remediation may be material.

We are subject to extensive federal, state, and local environmental laws and regulations concerning, among other things, the discharge of hazardous materials. Under some environmental laws in the United States, the owner of a leased railcar may be liable for environmental damage, cleanup or other costs in the event of a spill or discharge of material from a railcar without regard to the owner's fault. We routinely assess environmental liabilities, including our potential obligations and the possible amount of recoveries from other responsible parties. Due to the regulatory complexities and the potential liability for the operations of our lessees, it is possible environmental and remediation costs could adversely affect our financial performance.

Our assets may become obsolete.

In addition to changes in laws, rules, and regulations that may make assets obsolete, changes in the preferred method our customers use to ship their products, changes in demand for particular products, or a shift by customers toward purchasing assets rather than leasing them may adversely impact us. Our customers' industries are driven by dynamic market forces and trends, which are influenced by economic and political factors. Changes in our customers' markets may significantly affect demand for our rail assets. A reduction in customer demand or change in customers' preferred method of product transportation could result in the economic obsolescence of the assets leased by those customers.

Competition could result in decreased profitability.

We operate in a highly competitive business environment. In certain cases, our competitors are larger than we are and have greater financial resources, higher credit ratings, and a lower cost of capital. In addition, we compete against railcar manufacturers that have leasing subsidiaries. These factors may enable our competitors to offer leases to customers at lower rates than we can provide, thus negatively impacting our profitability, asset utilization and investment volume.

We derive a substantial portion of our revenue from a limited number of railcar lessees. The loss of, or reduction in business by, any of these railcar lessees, or a default from any large railcar lessee, could result in a significant loss of revenue and cash flow.

We have derived, and believe that we will continue to derive, a significant portion of our revenue and cash flow from a limited number of railcar lessees. Billings from our ten largest railcar lessees represented 45.0% of total billings for this segment for the year ended December 31, 2019. The loss of such customers would have a material adverse impact on our business, financial condition, results of operations and cash flows. In addition, a default by any of our largest railcar lessees would result in a major reduction in our leasing revenue, large repossession expenses, potentially large lost equipment charges and a material adverse impact on our performance and financial condition.

Certain liens may arise on our equipment.

Depot operators and repairmen may come into possession of our equipment from time to time and have sums due to them from lessees or sub-lessees of equipment. In the event of nonpayment of those charges by lessees or sub-lessees, we may be delayed in, or entirely barred from, repossessing equipment, or be required to make payments or incur expenses to discharge liens on our equipment.

Risk Related to Logistics

Because we depend on railroads for our intermodal operations, our operating results and financial condition are likely to be adversely affected by any reduction or deterioration in rail service.

We depend on the major railroads in the United States for virtually all of the intermodal services we provide. In many markets, rail service is limited to one or two railroads. Consequently, a reduction in, or elimination of, rail service to a particular market is likely to adversely affect our ability to provide intermodal transportation services to some of our customers. In addition, the railroads are relatively free to adjust shipping rates up or down as market conditions permit. Rate increases would result in higher intermodal transportation costs, reducing the attractiveness of intermodal transportation compared to truck or other transportation modes, which could cause a decrease in demand for our services. Further, our ability to continue to expand our intermodal transportation business is dependent upon the railroads' ability to increase capacity for intermodal freight and provide consistent and reliable service. Our business could also be adversely affected by a work stoppage at one or more railroads or by adverse weather conditions or other factors that hinder the railroads' ability to provide reliable transportation services. In the past, there have been service issues when railroads have merged. As a result, we cannot predict what effect, if any, further consolidations among railroads may have on intermodal transportation services or our results of operations.

Because our relationships with the major railroads are critical to our ability to provide intermodal transportation services, our business may be adversely affected by any change to those relationships.

We have important relationships with certain major U.S. railroads. To date, the railroads have chosen to rely on us, other IMCs and other intermodal competitors to market their intermodal services rather than fully developing their own marketing capabilities. If one or more of the major railroads were to decide to reduce their dependence on us, the volume of intermodal shipments we arrange would likely decline, which could adversely affect our results of operations and financial condition.

Because we rely on drayage companies in our intermodal operations, our ability to expand our business or maintain our profitability may be adversely affected by a shortage of drivers and drayage capacity.

In certain markets we serve, we use third-party drayage companies for pickup and delivery of some or all of our intermodal containers. Most drayage companies operate relatively small fleets and have limited access to capital for fleet expansion. In some of our markets, there are a limited number of drayage companies that can meet our quality standards. This could limit our ability to expand our intermodal business or require us to establish more of our own drayage operations in some markets, which could increase our operating costs and could adversely affect our profitability and financial condition. Also, the trucking industry periodically experiences a shortage of available drivers, which may limit the ability of third-party drayage companies to expand their fleets. This shortage also may require them to increase drivers' compensation, thereby increasing our cost of providing drayage services to our customers. Therefore, the driver shortage could also adversely affect our profitability and limit our ability to expand our intermodal business.

Because we depend on trucking companies for our truck brokerage services, our ability to maintain or expand our truck brokerage business may be adversely affected by a shortage of trucking capacity.

We depend upon various third-party trucking companies for the transportation of our customers' loads. Particularly during periods of economic expansion, trucking companies may be unable to expand their fleets due to capital constraints or chronic driver shortages, and these trucking companies also may raise their rates. If we face insufficient capacity among our third-party trucking companies, we may be unable to maintain or expand our truck brokerage business. Also, we may be unable to pass rate increases on to our customers, which could adversely affect our profitability.

Our results of operations are susceptible to changes in general economic conditions and cyclical fluctuations.

Economic recession, customers' business cycles, changes in fuel prices and supply, interest rate fluctuations, increases in fuel or energy taxes and other general economic factors affect the demand for transportation services and the operating costs of railroads, trucking companies and drayage companies. We have little or no control over any of these factors or their effects on the transportation industry. Increases in the operating costs of railroads, trucking companies or drayage companies can be expected to result in higher freight rates. Our operating margins could be adversely affected if we were unable to pass through to our customers the full amount of higher freight rates. Economic recession or a downturn in customers' business cycles also may have an adverse effect on our results of operations and growth by reducing demand for our services. Therefore, our results of operations, like the entire freight transportation industry, are cyclical and subject to significant period-to-period fluctuations.

Relatively small increases in our transportation costs that we are unable to pass through to our customers are likely to have a significant effect on our gross margin and operating income.

Because transportation costs represent such a significant portion of our costs, even relatively small increases in these transportation costs, if we are unable to pass them through to our customers, are likely to have a significant effect on our gross margin and operating income.

The transportation industry is subject to government regulation, and regulatory changes could have a material adverse effect on our operating results or financial condition.

We are licensed by the DOT as freight brokers. The DOT prescribes qualifications for acting in this capacity, including surety bond requirements. As freight brokers, we may become subject to new or more restrictive regulations relating to new laws and regulations specific to legal liability, such as motor carriers are today. Future laws and regulations may be more stringent and require changes in operating practices, influence the demand for transportation services or increase the cost of providing transportation services, any of which could adversely affect our business and results of operations.

We are not able to accurately predict how new governmental laws and regulations, or changes to existing laws and regulations, will affect the transportation industry generally, or us in particular. Although government regulation that affects us and our competitors may simply result in higher costs that can be passed along to customers, that may not be the case.

Our operations may be subject to various environmental laws and regulations, the violation of which could result in substantial fines or penalties.

From time to time, we arrange for the movement of hazardous materials at the request of our customers. As a result, we may be subject to various environmental laws and regulations relating to the handling of hazardous materials. If we are involved in a spill or other accident involving hazardous materials, or if we are found to be in violation of applicable laws or regulations, we could be subject to substantial fines or penalties and to civil and criminal liability, any of which could have an adverse effect on our business and results of operations.

We derive a significant portion of our logistics revenue from our largest customers and the loss of several of these customers could have a material adverse effect on our revenue and business.

Billings from our ten largest customers represented 31.7% of total billings for this segment for the year ended December 31, 2019. A reduction in or termination of our services by such customers could have a material adverse effect on our revenue and business.

Our obligation to pay our carriers is not contingent upon receipt of payment from our clients, and we extend credit to certain clients as part of our business model.

In most cases, we take full risk of credit loss for the transportation services we procure from carriers. Our obligation to pay our carriers is not contingent upon receipt of payments from our clients. If any of our key clients fail to pay for our services, our profitability would be negatively impacted.

We extend credit to certain clients in the ordinary course of business as part of our business model. By extending credit, we increase our exposure to uncollected receivables. A deterioration in the global or domestic economy could drive an increase in business failures, downsizing and delinquencies, which could cause an increase in our credit risk. If we fail to monitor and manage effectively any increased credit risk, our immediate and long-term liquidity may be adversely affected.

Continued weakness in the logistics business could have an adverse effect on our overall business, results of operations and financial condition, and may require us to record an impairment charge with respect to the assets relating to our logistics business.

We have reported losses in our logistics business. Continued losses due to factors such as aggressive competition, weak freight demand or other disruptions in the logistics segment could have a material adverse effect on our overall business, results of operations or financial condition, and could require us to record impairment charges in the future with respect to the assets relating to our logistics business. Any impairment charge would result in an immediate reduction to our earnings in the period in which the charge is taken, which could have a material adverse effect on our results of operations and financial condition.

If we fail to maintain and enhance our information technology systems, or if we fail to successfully implement new technology or enhancements, we may be at a competitive disadvantage and lose customers.

We continue to see technology as key to driving internal efficiencies as well as providing additional capabilities to customers and carriers. We expect our customers to continue to demand more sophisticated technology-driven solutions from their suppliers and we may need to enhance or replace our information technology systems in response. This may involve significant implementation costs and potential challenges.

Technology and new market entrants may also disrupt the way we and our competitors operate. New internet-based competitors such as Uber Freight and Convoy may reduce profitability for traditional logistics companies such as ours. As technology improves and new companies enter the freight brokerage market, our customers may be able to find alternatives to our services for matching shipments with available freight hauling capacity. We will continue to develop innovative emerging technologies to source, track and provide visibility to capacity while exploiting machine learning and artificial intelligence to further improve customer outcomes.

Competition could result in decreased profitability.

The transportation services industry is highly competitive. We compete against other logistics companies, third party IMC's, brokers, asset-based providers, trucking companies and shipping lines that market their own intermodal and international shipping services. Several large trucking companies have entered into agreements with railroads to market intermodal services nationwide. Some of our competitors have greater financial resources, better access to capital, lower cost of capital, better credit ratings, broader market presence, longer operating histories, stronger brand recognition and greater marketing resources than us, or are affiliates of larger companies. These factors may enable our competitors to offer services to customers at lower rates than we can provide, thus negatively impacting our profitability.

Risks Related to our Stock

Our common stock price has been volatile and may remain volatile.

The trading price of our common stock may be subject to wide fluctuations in response to quarter-to-quarter variations in operating results, new products or services by us or our competitors, general conditions in the shipping industry and the intermodal equipment sales and leasing markets, changes in earnings estimates by analysts, or other events or factors which may or may not be under our control. Broad market fluctuations may adversely affect the market price of our common stock. Since the initial public offering of our common stock at \$15.00 per share on May 16, 2007, the market price of our common stock has fluctuated significantly from a high of \$40.11 per share to a low of \$2.12 per share through March 6, 2020. Since the trading volume of our common stock is modest on a daily basis, shareholders may experience difficulties in liquidating our common stock at an acceptable price. Factors affecting the trading price of our common stock may include, among others:

- variations in our financial results;
- changes in financial estimates or investment recommendations by any securities analysts following our business;
- the public's response to our press releases, our other public announcements and our filings with the SEC;
- our ability to successfully execute our business plan;
- changes in accounting standards, policies, guidance, interpretations or principles;
- future sales of common stock by us or our directors, officers or significant stockholders or the perception such sales may occur;
- our ability to achieve operating results consistent with securities analysts' projections;
- the operating and stock price performance of other companies that investors may deem comparable to us;
- recruitment or departure of key personnel;
- our ability to timely address changing equipment lessee and third-party investor preferences;
- equipment market and industry factors;
- the size of our public float;
- general stock market conditions; and
- other events or factors, including those resulting from war, incidents of terrorism or responses to such events.

In addition, if the market for companies deemed similar to us or the stock market in general experiences loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business or financial results. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us.

Future new sales of our common stock or preferred stock by us or outstanding shares by existing stockholders, or the perception that there will be future sales of new shares from us or existing stockholders, may cause our common stock or preferred stock price, as applicable, to decline and impair our ability to obtain capital through future stock offerings.

In the future, we may sell additional shares of our common stock or preferred stock to raise additional capital. The issuance of additional shares of our common stock, preferred stock or convertible securities, will dilute the ownership interest of our common and preferred stockholders. In addition, our greater than 5% stockholders may sell a substantial number of their shares in the public market, which could also affect the market price for our common and preferred stock. We cannot predict the size of future sales or issuances of our common or preferred stock or the effect, if any, that they may have on the market price for our common and preferred stock. The issuance and/or sale of substantial amounts of common or preferred stock, or the perception that such issuances and/or sales may occur, could adversely affect the market price of our common or preferred stock and impair our ability to raise capital through the sale of additional equity or debts securities.

We do not currently pay dividends to holders of our common stock, and we cannot assure you that we will pay dividends to holders of our common stock in the future.

Although our board of directors may consider a dividend policy under which we would pay cash dividends on our common stock, any determinations by us to pay cash dividends on our common stock in the future will be based primarily upon our financial condition, results of operations, business requirements, tax considerations and our board of directors' continuing determination that the declaration of dividends under the dividend policy are in the best interests of our stockholders and are in compliance with all laws and agreements applicable to the dividend program. In addition, the terms of our credit agreements contain provisions restricting the payment of cash dividends subject to certain exceptions. Consequently, investors may be required to rely on sales of their common stock as the only way to realize any future gains on their investment.

If securities analysts do not publish research or reports about our business or if they decrease their financial estimates or investment recommendations, the price of our stock could decline.

The trading market for our common and preferred stock may rely in part on the research and reports that industry or financial analysts publish about us or our business. We do not control or influence the decisions or opinions of these analysts and analysts may not cover us.

If any analyst who covers us decreases his or her financial estimates or investment recommendation, the price of our common and preferred stock could decline. If any analyst ceases coverage of our company, we could lose visibility in the market, which in turn could cause our common or preferred stock price to decline.

Our certificate of incorporation and bylaws and Delaware law contain provisions that could discourage a third party from acquiring us and consequently decrease the market value of an investment in our stock.

Our certificate of incorporation and bylaws and Delaware corporate law each contain provisions that could delay, defer or prevent a change in control of our company or changes in our management. Among other things, these provisions:

- authorize us to issue preferred stock that can be created and issued by the board of directors without prior stockholder approval, with rights senior to those of our common stock;
- permit removal of directors only for cause by the holders of a majority of the shares entitled to vote at the election of directors and allow only the directors to fill a vacancy on the board of directors;
- prohibit stockholders from calling special meetings of stockholders;
- prohibit stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of our stockholders;
- require the affirmative vote of 66 2/3% of the shares entitled to vote to amend our bylaws and certain articles of our certificate of incorporation, including articles relating to the classified board, the size of the board, removal of directors, stockholder meetings and actions by written consent;
- allow the authorized number of directors to be changed only by resolution of the board of directors;
- establish advance notice requirements for submitting nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting;
- classify our board of directors into three classes so that only a portion of our directors are elected each year; and
- allow our directors to amend our bylaws.

These provisions could discourage proxy contests and make it more difficult for our stockholders to elect directors and take other corporate actions, which may prevent a change of control or changes in our management that a stockholder might consider favorable. In addition, Section 203 of the Delaware General Corporation Law, which makes unfriendly takeover more difficult, may discourage, delay or prevent a change in control of us, which shareholders not affiliated with the takeover group might favor. Any delay or prevention of a change in control or change in management that stockholders might otherwise consider to be favorable could cause the market price of our common stock to decline.

The change of control conversion right in our preferred stock may make it more difficult for a party to acquire us or discourage a party from acquiring us.

Upon the occurrence of a change of control, each holder of shares of our outstanding preferred stock will have the right (subject to certain conditions) to convert some or all of the shares of preferred stock held by such holder (the “Change of Control Conversion Right”). The Change of Control Conversion Right may have the effect of discouraging a third party from making an acquisition proposal for us or of delaying, deferring or preventing certain of our change of control transactions under circumstances that otherwise could provide the holders of our preferred stock with the opportunity to realize a premium over the then-current market price of such equity securities or that stockholders may otherwise believe is in their best interests.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

ITEM 2: PROPERTIES

Office Locations. As of December 31, 2019, we operated our business in 22 offices in 12 different countries including the U.S. We have 10 offices in the U.S. including our headquarters in San Francisco, California. We have 12 offices outside the U.S., including offices operated by third-party corporate service providers in Bermuda and Luxembourg. In addition, we have agents in Asia, Europe, Africa, and South America. Our headquarters is used for our container leasing, rail leasing and logistics segments. Our offices in Everett, Washington, Eatontown, New Jersey, Portland, Oregon, Tampa, Florida, Jacksonville, Florida, Knoxville, Tennessee, Chicago, Illinois, and Dallas, Texas are used for our logistics segment operations. Each one of our other offices is used for our container leasing segment. All of our offices, except those operated by third party corporate service providers, are leased.

The following table summarizes our office locations as of December 31, 2019:

Office Locations – U.S.

San Francisco, CA (Headquarters)	Charleston, SC
Everett, WA	Eatontown, NJ
Portland, OR	Tampa, FL
Jacksonville, FL	Knoxville, TN
Chicago, IL	Dallas, TX

Office Locations - International

Brentwood, United Kingdom	St. Michael, Barbados
Antwerp, Belgium	Singapore
Delmenhorst, Germany	Hamburg, Germany
Kuala Lumpur, Malaysia	Taipei, Taiwan
Luxembourg City, Luxembourg	Hamilton, Bermuda
Seoul, South Korea	Sydney, Australia

ITEM 3: LEGAL PROCEEDINGS

From time to time we may become a party to litigation matters arising in connection with the normal course of our business, including in connection with enforcing our rights under our leases. While we cannot predict the outcome of these matters, in the opinion of our management, any liability arising from these matters will not have a material adverse effect on our business, financial condition, results of operations or cash flows. Nevertheless, unexpected adverse future events, such as an unforeseen development in our existing proceedings, a significant increase in the number of new cases or changes in our current insurance arrangements could result in liabilities that have a material adverse impact on our business, financial condition, results of operations or cash flows. We are currently not party to any material legal proceedings which are material to our business, financial condition, results of operations or cash flows.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5: MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NYSE under the symbol “CAI.” As of February 10, 2020, there were 35 registered holders of record of the common stock and 2,618 beneficial holders, based on information obtained from our transfer agent.

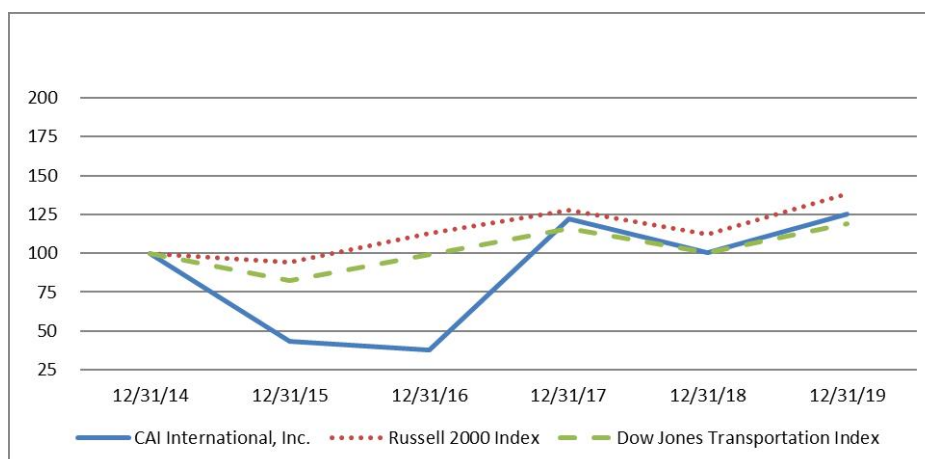
In addition, our Series A Preferred Stock and our Series B Preferred Stock are traded on the NYSE under the symbols “CAI-PA” and “CAI-PB,” respectively.

Dividend Policy

We have never declared or paid dividends on our common stock. We are required to pay dividends of 8.5% per annum on our outstanding shares of each series of our preferred stock. Our board of directors may consider adopting a dividend policy in the future with respect to our common stock. Any determinations by us to pay cash dividends on our common stock in the future will be based primarily upon our financial condition, results of operations, business requirements, tax considerations and our board of directors’ continuing determination that the declaration of dividends under the dividend policy are in the best interests of our stockholders and are in compliance with all laws and agreements, including the agreements governing our indebtedness, applicable to the dividend program. In the absence of such a policy, other than to pay dividends on our preferred stock, we intend to retain future earnings to finance the operation and expansion of our business, and to repurchase our common stock.

Performance Graph

The graph below compares cumulative shareholder returns on our common stock as compared with the Russell 2000 Stock Index and the Dow Jones Transportation Stock Index for the period from December 31, 2014 to December 31, 2019. The graph assumes an investment of \$100 as of December 31, 2014, and that all dividends were reinvested without the payment of any commissions. The stock performance shown on the performance graph below is not necessarily indicative of future performance.



Company/Index	Returns as of December 31,					
	Dec. 31, 2014	2015	2016	2017	2018	2019
CAI International, Inc.	\$ 100	\$ 43	\$ 37	\$ 122	\$ 100	\$ 125
Russell 2000 Index	100	94	113	127	112	138
Dow Jones Transportation Index	100	82	99	116	100	119

ITEM 6: SELECTED FINANCIAL DATA

The selected financial data presented below have been derived from our audited consolidated financial statements. Historical results are not necessarily indicative of the results of operations to be expected in future periods. You should read the selected consolidated financial data and operating data presented below in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

Consolidated Statement of Income Data (In thousands, except share data)

	Year Ended December 31,				
	2019	2018	2017	2016	2015
Revenue					
Container lease revenue	\$ 298,853	\$ 284,924	\$ 235,365	\$ 202,328	\$ 220,732
Logistics revenue	117,687	111,471	80,552	61,536	11,502
Total revenue	416,540	396,395	315,917	263,864	232,234
Operating expenses					
Depreciation of rental equipment	111,917	107,109	99,753	95,755	108,996
Storage, handling and other expenses	17,533	8,853	15,303	32,477	27,654
Logistics transportation costs	104,109	97,170	68,155	51,980	10,172
(Gain) loss on sale of rental equipment	(4,402)	(9,886)	(5,333)	12,638	2,276
Administrative expenses	52,699	46,240	39,588	33,082	25,090
Total operating expenses	281,856	249,486	217,466	225,932	174,188
Operating income	134,684	146,909	98,451	37,932	58,046
Other expenses					
Net interest expense	79,158	62,573	41,815	35,784	33,162
Other expense	313	677	765	654	182
Total other expenses	79,471	63,250	42,580	36,438	33,344
Income before income taxes and non-controlling interest	55,213	83,659	55,871	1,494	24,702
Income tax expense (benefit)	4,192	4,554	(6,694)	910	2,052
Income from continuing operations	51,021	79,105	62,565	584	22,650
(Loss) income from discontinued operations, net of taxes	(20,010)	(509)	9,495	5,450	4,085
Net income	31,011	78,596	72,060	6,034	26,735
Preferred stock dividends	8,829	5,124	-	-	-
Net income attributable to non-controlling interest	-	-	-	37	134
Net income attributable to CAI common stockholders	\$ 22,182	\$ 73,472	\$ 72,060	\$ 5,997	\$ 26,601
Amounts attributable to CAI common stockholders					
Net income from continuing operations	\$ 42,192	\$ 73,981	\$ 62,565	\$ 547	\$ 22,516
Net (loss) income from discontinued operations	(20,010)	(509)	9,495	5,450	4,085
Net income attributable to CAI common stockholders	\$ 22,182	\$ 73,472	\$ 72,060	\$ 5,997	\$ 26,601
Net income (loss) per share attributable to CAI common stockholders					
Basic					
Continuing operations	\$ 2.38	\$ 3.78	\$ 3.25	\$ 0.03	\$ 1.09
Discontinued operations	(1.13)	(0.02)	0.49	0.28	0.19
Total basic	\$ 1.25	\$ 3.76	\$ 3.74	\$ 0.31	\$ 1.28
Diluted					
Continuing operations	\$ 2.34	\$ 3.73	\$ 3.19	\$ 0.03	\$ 1.07
Discontinued operations	(1.11)	(0.02)	0.49	0.28	0.20
Total diluted	\$ 1.23	\$ 3.71	\$ 3.68	\$ 0.31	\$ 1.27
Weighted average shares of common stock outstanding					
Basic	17,731	19,562	19,253	19,318	20,733
Diluted	18,011	19,822	19,607	19,393	20,988
Other Financial Data					
EBITDA from continuing operations (unaudited)(1)	\$ 239,469	\$ 250,401	\$ 199,748	\$ 134,798	\$ 167,371
Purchase of equipment for continuing operations	316,857	739,944	432,212	118,420	226,469

Consolidated Balance Sheet Data (In thousands)

	As of December 31,				
	2019	2018	2017	2016	2015
Cash*	\$ 73,239	\$ 75,983	\$ 47,209	\$ 52,326	\$ 59,765
Assets held for sale	284,513	449,730	440,840	370,710	234,362
Rental equipment, net	1,820,735	1,816,794	1,564,121	1,436,300	1,513,849
Net investment in finance leases	566,716	549,767	276,513	100,541	103,368
Total assets	2,901,765	3,012,617	2,428,128	2,055,934	1,973,585
Current portion of debt	218,094	311,381	132,049	95,527	169,249
Debt	1,880,122	1,847,633	1,570,773	1,380,499	1,250,560
Total liabilities	2,208,525	2,311,485	1,864,283	1,598,430	1,513,480
Redeemable preferred stock	103,865	103,865	-	-	-
Total CAI stockholders' equity	693,240	701,132	563,845	457,504	459,182

*Includes restricted cash of \$26,775, \$30,668, \$11,789, \$6,192 and \$7,212 and cash owned by VIEs of \$26,594, \$25,211, \$20,685, \$30,449, and \$35,106 at December 31, 2019, 2018, 2017, 2016 and 2015, respectively.

Selected Operating Data (unaudited):

	As of December 31,				
	2019	2018	2017	2016	2015
Owned container fleet in TEUs (2)	1,611,527	1,465,799	1,146,268	921,694	984,085
Managed container fleet in TEUs (2)	69,650	74,246	80,736	162,582	198,093
	<u>1,681,177</u>	<u>1,540,045</u>	<u>1,227,004</u>	<u>1,084,276</u>	<u>1,182,178</u>
Owned container fleet in CEUs (3)	1,642,118	1,501,060	1,209,209	1,014,078	1,029,117
Managed container fleet in CEUs (3)	85,698	67,647	73,530	146,258	177,958
	<u>1,727,816</u>	<u>1,568,707</u>	<u>1,282,739</u>	<u>1,160,336</u>	<u>1,207,075</u>
Owned railcar fleet in units	<u>5,498</u>	<u>7,279</u>	<u>7,172</u>	<u>6,459</u>	<u>5,096</u>
Percentage of on-lease container fleet on long-term leases (4)	69%	69%	72%	75%	74%
Percentage of on-lease container fleet on short-term leases (4)	7%	9%	13%	16%	17%
Percentage of on-lease container fleet on finance leases	24%	22%	15%	9%	9%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Average container fleet utilization in CEUs (5)	98.6%	99.2%	97.4%	92.8%	92.5%
Average railcar fleet utilization (6)	87.2%	88.6%	90.0%	93.9%	95.8%

- (1) EBITDA is a non-GAAP financial measure, and is defined as net income before interest expense, income taxes, depreciation and amortization of intangible assets. We believe EBITDA is helpful in understanding our past financial performance as a supplement to net income and other performance measures calculated in conformity with accounting principles generally accepted in the United States (GAAP). EBITDA is also frequently used by analysts, investors, and other interested parties to evaluate companies in our industry. Our management believes that EBITDA is useful to investors in evaluating our operating performance because it provides a measure of operating results unaffected by differences in capital structures, capital investment cycles and ages of related assets among otherwise comparable companies in our industry. EBITDA has limitations as an analytical tool and you should not consider it in isolation or as a substitute for any measure reported under GAAP. Its usefulness as a performance measure as compared to net income is limited by the fact that EBITDA excludes the impact of interest expense, depreciation and amortization expense and taxes. We borrow money in order to finance our operations; therefore, interest expense is a necessary element of our costs and ability to generate revenue. Similarly, our use of capital assets makes depreciation and amortization expense a necessary element of our costs and ability to generate income. In addition, since we are subject to state and federal income taxes, any measure that excludes tax expense has material limitations.

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The following table provides a reconciliation of net income from continuing operations, the most comparable performance measure under GAAP (in thousands):

	Year Ended December 31,				
	2019	2018	2017	2016	2015
Net income from continuing operations	\$ 42,192	\$ 73,981	\$ 62,565	\$ 547	\$ 22,516
Net interest expense	79,158	62,573	41,815	35,784	33,162
Income tax expense (benefit)	4,192	4,554	(6,694)	910	2,052
Depreciation	112,317	107,304	100,093	96,114	109,409
Amortization of intangible assets	1,610	1,989	1,969	1,443	232
EBITDA, from continuing operations	\$ 239,469	\$ 250,401	\$ 199,748	\$ 134,798	\$ 167,371

- (2) Reflects the total number of TEUs in our managed or owned equipment fleet, as applicable, as of the end of the period indicated, including units for sale and units we have purchased but held at the manufacturer.
- (3) Reflects the total number of CEUs in our managed or owned equipment fleet, as applicable, as of the end of the period indicated, including units for sale and units we have purchased but held at the manufacturer.
- (4) Long-term leases comprise leases that had a contractual term in excess of twelve months at the time of inception of the leases, including leases that permit cancellation by the lessee within 12 months if penalties are paid, and leases that have exceeded their initial contractual term of 12 months or greater. Short-term leases comprise leases that had a contractual term of 12 months or less at the time of inception of the leases.
- (5) Reflects the average number of CEUs in our equipment fleet on lease as a percentage of total CEUs available for lease. In calculating CEUs available for lease, we exclude units for sale and units held at the manufacturer that we have purchased.
- (6) Reflects the average number of units in our railcar fleet on lease as a percentage of total units available for lease. In calculating units available for lease, we exclude units for sale and units held at the manufacturer that we have purchased. If new railcars not yet leased are included in the total railcar fleet, railcar fleet utilization would be 83.8% for the year ended December 31, 2019.

ITEM 7: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes thereto, included elsewhere in this Annual Report on Form 10-K. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results may differ materially from those contained in or implied by any forward-looking statements. See “Special Note Regarding Forward-Looking Statements.” Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in Item 1A. “Risk Factors.”

Overview

We are one of the world’s leading transportation finance and logistics companies. We purchase intermodal shipping containers, which we lease to our customers. We also manage equipment for third-party investors. In operating our fleet, we lease, re-lease and dispose of equipment and contract for the repair, repositioning and storage of equipment. We also provide domestic and international logistics services. As of December 31, 2019, our container fleet comprised 1,727,816 CEUs, 95% of which represented our owned fleet and 5% of which represented our managed fleet. In addition, we also own 5,498 railcars, which we lease within North America, see ‘Discontinued Operations’ below.

Our revenue comprises container lease revenue from our owned container fleet, management fee revenue for managing containers for third-party investors, and logistics revenue for the provision of logistics services.

Our revenue from our owned container fleet depends primarily upon a combination of: (1) the number of units in our owned fleet; (2) the utilization level of equipment in our owned fleet; and (3) the per diem rates charged under each equipment lease. The same factors in our managed fleet affect the amount of our management fee income. The number of CEUs in our container fleet varies over time as we purchase new equipment based on prevailing market conditions during the year and sell used equipment to parties in the secondary resale market.

Recent Developments

On December 16, 2019, we announced that we are conducting a process to explore and evaluate strategic alternatives to maximize stockholder value, and have engaged Centerview Partners to act as our financial advisor to assist with the review. There can be no assurance that a transaction or other action will result, or if a transaction is undertaken, its terms or timing. We do not intend to disclose further developments with respect to our strategic process, unless and until our Board of Directors approves a specific transaction or action, or otherwise concludes the strategic review.

Discontinued Operations

In the quarter ended June 30, 2019, we committed to a plan to sell our railcar assets as we believe it is in the best interest of our shareholders to reallocate the capital invested in our rail business to other investments. As a result, the railcar assets have been classified as held for sale and the operations of the rail business have been classified as discontinued operations in the consolidated financial statements in this Annual Report on Form 10-K. All prior periods presented in the consolidated financial statements have been restated to reflect the reclassification.

Key Metrics

Utilization. We measure container utilization on the basis of the average number of CEUs on lease expressed as a percentage of our total container fleet available for lease. We measure railcar utilization on the basis of the average number of railcars on lease expressed as a percentage of our total railcar fleet available for lease. In both cases, we calculate the total fleet available for lease by excluding new units that have been manufactured for us but either remain at the manufacturer or have not yet entered their first lease, and off-hire units that are likely to be sold. Our utilization is primarily driven by the overall level of equipment demand, the location of our available equipment and the quality of our relationships with equipment lessees. The location of available equipment is critical because equipment available in high-demand locations is more readily leased and is typically leased on more favorable terms than equipment available in low-demand locations.

The equipment leasing market is highly competitive. As such, our relationships with our customers are important to ensure that they continue to select us as one of their providers of leased equipment. Our average container fleet utilization rate in CEUs for the year ended December 31, 2019 was 98.6% compared to 99.2% for the year ended December 31, 2018. Our average container fleet utilization decreased slightly in 2019 due to low trade growth and weak leasing demand. Our average railcar fleet utilization rate for the year ended December 31, 2019 was 87.2% compared to 88.6% for the year ended December 31, 2018. If new railcars not yet leased are included in the total railcar fleet, railcar fleet utilization would be 83.8% for the year ended December 31, 2019. The decrease in the utilization of our railcar fleet has been primarily caused by decreased demand and competitive pressure in the rail market. Our utilization rate may increase or decrease depending on future global economic conditions and the additional supply of new equipment.

Per Diem Rates. The per diem rate for a lease is set at the time we enter into a lease agreement. Our long-term per diem rates have historically been strongly influenced by new equipment pricing, interest rates, the balance of supply and demand for equipment at a particular time and location, our estimate of the residual value of the equipment at the end of the lease, the type and age of the equipment being leased, and, for container per diem rates, the purchase of equipment and efficiencies in container utilization by container shipping lines. The overall average per diem rates for equipment in our owned fleet and in the portfolios of equipment comprising our managed fleet do not change significantly in response to changes in new equipment prices because existing lease agreements can only be re-priced upon the expiration of the lease.

Revenue from continuing operations

Container Lease Revenue. We generate container lease revenue by leasing our owned containers primarily to container shipping lines. Approximately 95% of our container lease revenue is derived from the rental of containers. Container lease revenue is comprised of monthly lease payments due under the lease agreements together with payments for other charges set forth in the leases, such as handling fees, drop-off charges and repair charges. Approximately 24% of our owned container fleet is subject to finance leases. Under a finance lease, the lessee's payments consist of principal and interest components. The interest component is included within container lease revenue. Lessees under our finance leases have the substantive risks and rewards of equipment ownership and typically have the option to purchase the equipment at the end of the lease term for a nominal amount.

Container lease revenue also includes management fee revenue generated by our management services, which include the leasing, re-leasing, repair, repositioning, storage and disposition of equipment. We provide these management services pursuant to management agreements with third-party investors. Under these agreements, which have multiple year terms, we earn fees for the management of the equipment and a commission, or a managed units' sales fee, upon disposition of equipment under management.

Logistics Revenue. We generate logistics revenue by arranging for the movement of our customers' freight through our network of non-affiliated transportation carriers and equipment providers. Revenue is comprised of the gross price charged to our customers.

Revenue from discontinued operations

Rail Lease Revenue. We generate rail lease revenue by leasing our railcars primarily for the transport of industrial goods, materials and other products on railroad tracks throughout North America. Rail lease revenue is comprised of monthly lease payments due under the lease agreements. Lease revenue may be based on a fixed monthly rate or may be recognized on an hourly or mileage basis. A small number of our railcars are subject to finance leases.

Operating Expenses

Our operating expenses include transportation costs, depreciation of rental equipment, storage, handling and other expenses applicable to our owned equipment, and administrative expenses.

We depreciate our containers on a straight-line basis over a period ranging from 12 to 15 years to a fixed estimated residual value depending on the type of container (see Note 2(d) to our consolidated financial statements included in this Annual Report on Form 10-K). We regularly assess both the estimated useful life of our containers and their expected residual values, and, when warranted, adjust our depreciation estimate accordingly. Depreciation expense for rental equipment will vary over time based upon the size of our owned rental equipment fleet and the purchase price of new equipment. If our rental equipment is impaired, the equipment is written-down to its fair value and the amount of the write-down is recorded in depreciation expense.

Storage, handling and other expenses are operating costs of our owned rental equipment fleet. Storage and handling expenses occur when lessees drop off equipment at depots at the end of a lease. Storage and handling expenses vary significantly by location. Other expenses include repair expenses, which are the result of normal wear and tear on the equipment, and repositioning expenses, which are incurred when we contract to move equipment from locations where our inventories exceed actual or expected demand to locations with higher demand. Storage, handling and other expenses are directly related to the number of units in our owned fleet and inversely related to our utilization rate for those units: as utilization increases, we typically have lower storage, handling and repositioning expenses.

Logistics transportation costs represent the expenses we incur for providing logistics services to our customers. Such costs include shipping, pick-up and delivery charges, primarily from railroads and drayage companies we contract with to fulfill the movement of our customers' freight.

Our administrative expenses are primarily employee-related costs such as salary, bonus and commission expenses, employee benefits, rent, allowance for doubtful accounts and travel and entertainment costs, as well as expenses incurred for outside services such as legal, consulting and audit-related fees.

Our operating expenses include the gain or loss on sale of rental equipment. This gain or loss is typically the result of our sale of used equipment in the secondary resale market and is the difference between: (1) the cash we receive for these units, less selling expenses; and (2) the net book value of the units.

Results of Operations

The following table summarizes our results of operations for the years ended December 31, 2019 and 2018 (in thousands):

	Year Ended December 31,	
	2019	2018
Revenue		
Container lease revenue	\$ 298,853	\$ 284,924
Logistics revenue	117,687	111,471
Total revenue	416,540	396,395
Operating expenses		
Depreciation of rental equipment	111,917	107,109
Storage, handling and other expenses	17,533	8,853
Logistics transportation costs	104,109	97,170
Gain on sale of rental equipment	(4,402)	(9,886)
Administrative expenses	52,699	46,240
Total operating expenses	281,856	249,486
Operating income	134,684	146,909
Other expenses		
Net interest expense	79,158	62,573
Other expense	313	677
Total other expenses	79,471	63,250
Income before income taxes	55,213	83,659
Income tax expense	4,192	4,554
Income from continuing operations	51,021	79,105
Loss from discontinued operations, net of taxes	(20,010)	(509)
Net income	31,011	78,596
Preferred stock dividends	8,829	5,124
Net income attributable to CAI common stockholders	\$ 22,182	\$ 73,472

In this Management's Discussion and Analysis of Financial Condition and Results of Operations, we discuss the results of our operations and certain cash flow information for the year ended December 31, 2019 compared to the year ended December 31, 2018. A discussion of the year ended December 31, 2018 compared to the year ended December 31, 2017 has been omitted from this Annual Report on Form 10-K, but may be found in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 5, 2019, which is available free of charge on the SEC's website at www.sec.gov and our corporate website (www.capps.com).

Year Ended December 31, 2019 Compared with Year Ended December 31, 2018

Container lease revenue

	Year Ended December 31,		2019 vs 2018	
	2019	2018	\$ Change	% Change
(\$ in thousand)				
Container lease revenue	\$ 298,853	\$ 284,924	\$ 13,929	5%

The increase in container lease revenue between 2019 and 2018 was a result of a \$36.8 million increase in rental revenue, primarily due to a 16% increase in the average number of CEUs of on-lease owned containers, partially offset by a \$20.6 million decrease in rental revenue resulting from an 8% decrease in average owned container per diem rental rates. The reduction in average container per diem rental rates was caused primarily by competitive market pressure.

Logistics revenue and gross margin

	Year Ended December 31,		2019 vs 2018	
	2019	2018	\$ Change	% Change
(\$ in thousand)				
Logistics revenue	\$ 117,687	\$ 111,471	\$ 6,216	6%
Logistics transportation costs	104,109	97,170	6,939	7%
Logistics gross margin	\$ 13,578	\$ 14,301	\$ (723)	-5%

The increase in logistics revenue between 2019 and 2018 was primarily due to an increase in freight rates, partially offset by a decrease in volume in our intermodal and truck brokerage operations. Transportation costs increased at a slightly higher rate than revenue due primarily to increased volume in our lower margin intermodal business and resulted in a decrease in the gross margin percentage from 12.8% for the year ended December 31, 2018 to 11.5% for the year ended December 31, 2019.

Depreciation of rental equipment

	Year Ended December 31,		2019 vs 2018	
	2019	2018	\$ Change	% Change
(\$ in thousand)				
Depreciation of rental equipment	\$ 111,917	\$ 107,109	\$ 4,808	4%

Depreciation expense for 2019 increased compared to 2018. While there was a 19% increase in the average size of our owned container fleet during 2019, 28% of containers purchased during the current year were used, which depreciate at a lower rate.

Storage, handling and other expenses

	Year Ended December 31,		2019 vs 2018	
	2019	2018	\$ Change	% Change
(\$ in thousand)				
Storage, handling and other expenses	\$ 17,533	\$ 8,853	\$ 8,680	98%

The increase in storage, handling and other expenses between 2019 and 2018 was primarily attributable to a \$1.8 million credit recorded in recovery costs in the prior year as a result of insurance proceeds received relating to the bankruptcy of Hanjin, a \$4.3 million increase in storage, handling and repair expenses due to an increase in the average size of the off-lease fleet and a \$0.6 million increase in container liability insurance.

Gain on sale of rental equipment

	Year Ended December 31,		2019 vs 2018	
	2019	2018	\$ Change	% Change
(\$ in thousand)				
Gain on sale of rental equipment	\$ 4,402	\$ 9,886	\$ (5,484)	-55%

We sold approximately 3% fewer CEUs of containers in 2019 compared to the prior year and there was a decrease of 10% in the average sales price per unit, resulting in a decrease in gain on sale of rental equipment. We also recognized a loss of \$2.6 million at lease commencement for finance leases during 2019.

Administrative expenses

	Year Ended December 31,		2019 vs 2018	
	2019	2018	\$ Change	% Change
(\$ in thousand)				
Container Leasing	\$ 34,188	\$ 28,792	\$ 5,396	19%
Logistics	18,511	17,448	1,063	6%
	\$ 52,699	\$ 46,240	\$ 6,459	14%

Container Leasing

The increase in administrative expenses between 2019 and 2018 was primarily attributable to a \$5.2 million increase in bad debt expense resulting from non-payment from a certain customer.

Logistics

The increase in administrative expenses between 2019 and 2018 was primarily attributable to a \$0.8 million increase in payroll-related costs between the two periods due to an increase in average headcount.

Other expenses

	Year Ended December 31,		2019 vs 2018	
	2019	2018	\$ Change	% Change
(\$ in thousand)				
Net interest expense	\$ 79,158	\$ 62,573	\$ 16,585	27%
Other expense	313	677	(364)	-54%
	<u>\$ 79,471</u>	<u>\$ 63,250</u>	<u>\$ 16,221</u>	<u>26%</u>

Net interest expense

The increase in net interest expense between 2019 and 2018 was due primarily to an increase in our average loan principal balance between the two periods, as we continue to increase our borrowings to finance our acquisition of additional rental equipment, partially offset by a decrease in the average interest rate on our outstanding debt, caused by a slight decrease in LIBOR, from approximately 3.9% at December 31, 2018 to 3.6% at December 31, 2019.

Other expense

Other expense, representing a loss on foreign exchange of \$0.3 million for the year ended December 31, 2019, decreased from a loss of \$0.7 million for the year ended December 31, 2018, primarily as a result of movements in the U.S. Dollar exchange rate against the Euro.

Income tax expense

	Year Ended December 31,		2019 vs 2018	
	2019	2018	\$ Change	% Change
(\$ in thousand)				
Income tax expense	\$ 4,192	\$ 4,554	\$ (362)	-8%

While income before tax decreased between the two periods, the effective tax rate increased from 5.4% for the year ended December 31, 2018 to 7.6% for the year ended December 31, 2019. The increase in the effective tax rate was primarily caused by an increase in the amount of interest income generated by foreign finance leases subject to both foreign and U.S. income tax.

Note 12 to our consolidated financial statements included in this Annual Report on Form 10-K includes a reconciliation between the tax expense calculated at the statutory U.S. income tax rate and the actual tax expense for the years ended December 31, 2019 and 2018.

Preferred stock dividends

	Year Ended December 31,		2019 vs 2018	
	2019	2018	\$ Change	% Change
(\$ in thousand)				
Preferred stock dividends	\$ 8,829	\$ 5,124	\$ 3,705	72%

A full year of preferred stock dividends of \$8.8 million was accrued during the year ended December 31, 2019 attributable to the shares of preferred stock that were issued in 2018. The Series A Preferred Stock was issued in March 2018 and the Series B Preferred Stock was issued in August 2018 and as a result, the accrual for preferred stock dividends was \$5.1 million for the year ended December 31, 2018.

Loss from discontinued operations

The following table summarizes our results of discontinued operations for the years ended December 31, 2019 and 2018:

	Year Ended December 31,		2019 vs 2018	
	2019	2018	\$ Change	% Change
(\$ in thousand)				
Rail lease revenue	\$ 26,130	\$ 35,703	\$ (9,573)	-27%
Operating expenses	6,220	22,107	(15,887)	-72%
Interest expense	13,343	15,772	(2,429)	-15%
Loss on classification as held for sale and subsequent impairment	32,955	-	32,955	100%
Net loss from discontinued operations	(20,010)	(509)	(19,501)	3831%

The decrease in rail lease revenue for 2019 compared to 2018 was primarily attributable to a decrease in the size of the on-lease railcar fleet between the two periods as a result of the sale of railcars in November 2018 and February 2019. The decrease in operating expenses for 2019 compared to 2018 was mainly attributable to an \$8.9 million, or 63%, decrease in depreciation expense due to a decrease in the size of the railcar fleet, and a \$7.7 million increase in gain on sale of rental equipment, partially offset by a \$1.1 million, or 19%, increase in storage, handling and other expenses due to lower utilization. The decrease in interest expense for 2019 compared to 2018 was primarily attributable to a decrease in our average loan principal balance between the two periods. The decrease in revenue and the \$33.0 million loss on classification as held for sale and subsequent impairment, partially offset by the decrease in operating expenses and interest expense resulted in an increase in net loss from discontinued operations for the year ended December 31, 2019 compared to the year ended December 31, 2018.

Liquidity and Capital Resources

As of December 31, 2019, we had cash and cash equivalents of \$46.5 million, including \$26.6 million of cash held by variable interest entities (VIEs). Our principal sources of liquidity are cash in-flows provided by operating activities, proceeds from the sale of rental equipment, borrowings under our debt agreements, and equity and debt offerings. Our cash in-flows are used to finance capital expenditures and meet debt service requirements.

As of December 31, 2019, our outstanding indebtedness and the related maximum borrowing level was as follows (in thousands):

	Current Amount Outstanding	Current Maximum Borrowing Level
Revolving credit facilities	\$ 783,037	\$ 1,378,043
Term loans	251,235	251,235
Senior secured notes	52,775	52,775
Asset-backed notes	898,176	898,176
Collateralized financing obligations	91,296	91,296
Term loans held by VIE	36,484	36,484
	2,113,003	2,708,009
Debt issuance costs	(14,787)	-
Total	\$ 2,098,216	\$ 2,708,009

As of December 31, 2019, we had \$594.9 million in availability under our revolving credit facilities (net of \$0.1 million in letters of credit), subject to our ability to meet the collateral requirements under the agreements governing the facilities. Based on the borrowing base and collateral requirements as of December 31, 2019, the borrowing availability under our revolving credit facilities was \$116.8 million, assuming no additional contributions of assets.

As of December 31, 2019, we had \$1,227.2 million of total debt outstanding on facilities with fixed interest rates. These fixed rate facilities are scheduled to mature between 2020 and 2043 and had a weighted average interest rate of 3.9% as of December 31, 2019.

As of December 31, 2019, we had \$885.8 million of total debt outstanding on facilities with interest rates based on floating rate indices (primarily LIBOR). These floating rate facilities are schedule to mature between 2020 and 2023 and had a weighted average interest rate of 3.3% as of December 31, 2019.

We have typically funded a significant portion of the purchase price for new equipment through borrowings under our credit facilities. However, from time to time we have funded new equipment acquisitions through the use of working capital.

Revolving Credit Facilities

We have three revolving credit facilities, which have a maximum borrowing capacity of \$1,100.0 million, \$250.0 million, and €25.0 million, respectively, and maturity dates of June 2023, October 2023, and September 2020, respectively. The entire amount of the facilities drawn at any time plus accrued interest and fees is callable on demand in the event of certain specified events of default.

We use the revolving credit facilities primarily to fund the purchase of rental equipment. As of December 31, 2019, in addition to a rental equipment payable of \$25.1 million, we had commitments to purchase \$6.0 million of containers in the twelve months ending December 31, 2020.

Term Loans

We utilize our term loans as an important funding source for the purchase of rental equipment. Our term loans amortize in monthly or quarterly installments and mature between December 2020 and October 2023.

Senior Secured Notes

We used the proceeds from the senior secured notes primarily to fund the purchase of rental equipment. The notes amortize in semi-annual installments and mature in September 2022.

Asset-Backed Notes

Our asset-backed notes were issued by two of our indirect wholly-owned subsidiaries, which were established to facilitate asset-backed note financings. We used the proceeds from the issuance of the asset-backed notes primarily to repay part of our borrowings under the senior revolving credit facility and to reduce the balance on one of our term loans.

Our borrowings under the asset-backed facilities amortize in monthly installments and mature between October 2027 and September 2043. We are required to maintain a restricted cash account to cover payments of the obligations. As of December 31, 2019, the restricted cash account had a balance of \$26.8 million.

Other Debt Obligations

We have entered into a series of collateralized financing obligations with Japanese investor funds that are consolidated by us as VIEs (see Note 4 to our consolidated financial statements included in this Annual Report on Form 10-K). The obligations have maturity dates between March 2020 and February 2026.

One of our Japanese investor funds that is consolidated by us as a VIE entered into a term loan agreement with a bank. The VIE term loan matures in February 2026.

Our term loans, senior secured notes, asset-backed notes, collateralized financing obligations and term loans held by VIEs are secured by specific pools of rental equipment and other assets owned by the Company, the underlying leases thereon and the Company's interest in any money received under such contracts.

In addition to customary events of default, our revolving credit facilities and term loans contain restrictive covenants, including limitations on certain liens, indebtedness and investments and restrictions on dividends, distributions or other payments from our subsidiaries. In addition, all of our debt facilities contain various restrictive financial and other covenants. The financial covenants in our debt facilities require us to maintain (1) a consolidated funded debt to consolidated tangible net worth ratio of no more than 3.75:1.00, and in the case of our asset-backed notes, of no more than 4.50:1.00; and (2) a fixed charge coverage ratio of at least 1.20:1.00, and in the case of our asset-backed notes, of at least 1.10:1.00. As of December 31, 2019, we were in compliance with all of our debt covenants.

Under certain conditions, as defined in our credit agreements with our banks and/or note holders, we are subject to certain cross default provisions that may result in an acceleration of principal repayment under these credit facilities if an uncured default condition were to exist. Our asset-backed notes are not subject to any such cross-default provisions.

Cash Flow

The following table sets forth certain cash flow information for the years ended December 31, 2019 and 2018 (in thousands):

	Year Ended December 31,	
	2019	2018
Net income	\$ 31,011	\$ 78,596
Net income from continuing operations adjusted for non-cash items	176,860	189,741
Changes in working capital	73,830	(20,504)
Net cash provided by operating activities of continuing operations	250,690	169,237
Net cash used in investing activities of continuing operations	(271,869)	(631,813)
Net cash provided by financing activities of continuing operations	30,670	517,123
Net cash used in discontinued operations	(12,418)	(25,770)
Effect on cash of foreign currency translation	183	(3)
Net (decrease) increase in cash	(2,744)	28,774
Cash and restricted cash at beginning of period	75,983	47,209
Cash and restricted cash at end of period	<u>\$ 73,239</u>	<u>\$ 75,983</u>

Cash Flows from Continuing Operations*Operating Activities*

Net cash provided by operating activities of continuing operations was \$250.7 million for the year ended December 31, 2019, an increase of \$81.5 million compared to \$169.2 million for the year ended December 31, 2018. The increase was due to a \$94.3 million increase in our net working capital adjustments, partially offset by a \$12.9 million decrease in income from continuing operations as adjusted for depreciation, amortization and other non-cash items. The decrease of \$12.9 million in net income as adjusted for non-cash items was primarily due to a \$28.1 million decrease in income from continuing operations, partially offset by an increase of \$5.0 million in depreciation expense, an increase of \$5.5 million in bad debt expense, and a decrease of \$5.5 million in the gain on sale of rental equipment.

Net working capital provided by operating activities of \$73.8 million for the year ended December 31, 2019 was due to a \$65.7 million decrease in net investment in finance leases, primarily due to receipt of principal payments, which was presented as cash inflows from investing activities in 2018, a \$3.9 million decrease in accounts receivable, primarily caused by the timing of cash receipts from customers, and a \$6.5 million increase in accounts payable, accrued expenses and other liabilities, primarily caused by the timing of payments, partially offset by a \$2.2 million increase in prepaid expenses and other assets. Net working capital used in operating activities of \$20.5 million for the year ended December 31, 2018 was due to an \$18.4 million increase in accounts receivable, primarily caused by an increase in lease and logistics activity, a \$1.1 million increase in prepaid expenses and other assets, and a \$0.8 million decrease in accounts payable, accrued expenses and other liabilities, primarily caused by the timing of payments.

Investing Activities

Net cash used in investing activities of continuing operations decreased \$359.9 million to \$271.9 million for the year ended December 31, 2019 from \$631.8 million for the year ended December 31, 2018. The decrease in cash usage was primarily attributable to a \$423.1 million decrease in the purchase of rental equipment and a \$16.1 million increase in proceeds from sale of rental equipment, partially offset by a \$37.1 million increase for the purchase of financing receivables and a \$43.4 million decrease in receipt of principal payments from finance leases, which is presented as cash inflows from operating activities in 2019 in accordance with the requirements of the new accounting standard on leases.

Financing Activities

Net cash provided by financing activities of continuing operations of \$30.7 million for the year ended December 31, 2019 decreased \$486.5 million compared to the year ended December 31, 2018, primarily as a result of lower net borrowings being required to finance the acquisition of rental equipment. During the year ended December 31, 2019, our net cash inflow from borrowings was \$73.2 million compared to \$461.7 million for the year ended December 31, 2018, reflecting a decrease in investment in rental equipment during 2019 compared to 2018. The decrease was also a result of a \$103.4 million decrease in proceeds received from the issuance of common stock and preferred stock and a \$5.6 million increase in dividends paid to preferred stockholders, partially offset by a \$6.8 million decrease in the repurchase of common stock, a \$3.0 million decrease in payments made for debt issuance costs, and a \$1.3 million increase in proceeds from employee stock option exercises.

Cash Flows from Discontinued Operations

Net cash used in discontinued operations was \$12.4 million for the year ended December 31, 2019, an increase of \$13.4 million compared to net cash used in discontinued operations of \$25.8 million for the year ended December 31, 2018. The decrease in cash used by discontinued operations was primarily attributable to a \$155.0 million increase in net cash provided by investing activities of discontinued operations, mainly as a result of proceeds received from the sale of railcar assets, partially offset by a \$134.4 million increase in net cash used in financing activities of discontinued operations due to an increase in net cash outflow to repay borrowing for rail operations, and a \$7.3 million decrease in net cash provided by operating activities of discontinued operations.

Equity Transactions

Stock Repurchase Plan

In October 2018, we announced that our Board of Directors had approved the repurchase of up to three million shares of our outstanding common stock. The number, price, structure and timing of the repurchases, if any, will be at our sole discretion and will be evaluated by us depending on market conditions, corporate needs and other factors. Stock repurchases may be made in the open market, block trades or privately negotiated transactions. This stock repurchase program replaced any available prior share repurchase authorization and may be discontinued at any time. During the year ended December 31, 2019, we repurchased 1.5 million shares of our common stock under this repurchase plan, at a cost of approximately \$34.1 million. As of December 31, 2019, approximately 1.0 million shares remained available for repurchase under our share repurchase program.

Common Stock At-the-Market (ATM) Offering Program

In October 2017, we commenced an ATM offering program with respect to our common stock, which allows us to issue and sell up to 2.0 million shares of our common stock. We did not issue any shares under this ATM program during the year ended December 31, 2019. As of December 31, 2019, we had remaining capacity to issue up to approximately 1.0 million of additional shares of common stock under this ATM offering program.

Series A Preferred Stock ATM Offering Program

In May 2018, we commenced an ATM offering program with respect to our Series A Preferred Stock, which allows us to issue and sell up to 2.2 million shares of our Series A Preferred Stock. We did not issue any shares under this ATM program during the year ended December 31, 2019. As of December 31, 2019, we had remaining capacity to issue up to approximately 1.8 million of additional shares of Series A Preferred Stock under this ATM program.

Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations and commercial commitments by due date as of December 31, 2019 (in thousands):

	Payments Due by Period						
	Total	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years
Total debt obligations:							
Revolving credit facilities (1)	\$ 783,037	\$ 21,537	\$ -	\$ -	\$ -	\$ 761,500	\$ -
Term loans (1)	251,235	33,100	113,935	7,800	96,400	-	-
Senior secured notes	52,775	6,110	6,110	40,555	-	-	-
Asset-backed notes	898,176	134,547	134,547	131,697	100,272	94,547	302,566
Collateralized financing obligations	91,296	21,681	35,852	16,278	-	-	17,485
Term loans held by VIE	36,484	5,250	5,482	5,719	5,969	6,223	7,841
Interest on debt obligations (2)	269,277	72,426	63,777	55,679	35,776	14,945	26,674
Rental equipment payable	25,137	25,137	-	-	-	-	-
Rent, office facilities and equipment	7,802	2,836	2,626	1,705	462	158	15
Equipment purchase commitments - Containers	6,034	6,034	-	-	-	-	-
Total contractual obligations	\$ 2,421,253	\$ 328,658	\$ 362,329	\$ 259,433	\$ 238,879	\$ 877,373	\$ 354,581

(1) Includes \$137.5 million outstanding under a revolving credit facility and \$55.9 million outstanding under term loans that are expected to be repaid upon the sale of our railcar assets.

- (2) Our estimate of interest expense commitment includes \$88.5 million relating to our revolving credit facilities, \$24.3 million relating to our term loans, \$6.6 million relating to our senior secured notes, \$138.0 million relating to our asset-backed notes, \$6.6 million relating to our collateralized financing obligations, and \$5.2 million related to our term loans held by VIEs. The calculation of interest commitment related to our debt assumes the following weighted average interest rates as of December 31, 2019: revolving credit facilities, 3.2%; term loans, 4.0%; senior secured notes, 4.9%; asset-backed notes, 4.0%; collateralized financing obligations, 1.5%; and term loans held by VIEs, 4.2%. These calculations assume that interest rates will remain at the same level over the next five years. We expect that interest rates will vary over time based upon fluctuations in the underlying indexes upon which these interest rates are based.

See Note 10 to our consolidated financial statements included in this Annual Report on Form 10-K for a description of the terms of our revolving credit facilities, term loans and asset-based notes.

Off-Balance Sheet Arrangements

As of December 31, 2019, we had no material off-balance sheet arrangements or obligations that have or are reasonably likely to have a current or future effect on our financial condition, change in financial condition, revenue or expenses, results of operations, liquidity capital expenditure, or capital resources that are material to investors. An off-balance sheet arrangement includes any contractual obligation, agreement or transaction arrangement involving an unconsolidated entity under which we would have: (1) retained a contingent interest in transferred assets; (2) an obligation under derivative instruments classified as equity; (3) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us, or that engages in leasing, hedging or research and development services with us; or (4) made guarantees.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires management to use judgment in making estimates and assumptions that affect reported amounts of assets and liabilities, the reported amounts of income and expenses during the reporting period and the disclosure of contingent assets and liabilities as of the date of the financial statements. We have identified the policies and estimates below as among those critical to our business operations and the understanding of our results of operations. These policies and estimates are considered critical due to the existence of uncertainty at the time the estimate is made, the likelihood of changes in estimates from period to period and the potential impact that these estimates can have on our financial statements. The following accounting policies and estimates include inherent risks and uncertainties related to judgments and assumptions made by us. Our estimates are based on the relevant information available at the end of each period. Actual results could differ from those estimates.

Revenue Recognition

We provide a range of services to our customers incorporating rental, sale and management of equipment, and the provision of logistics services. Revenue for all forms of service is recognized when earned following the guidelines under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue Recognition* (ASC 606) and FASB ASC Topic 842, *Leases* (ASC 842). Revenue is reported net of any related sales tax.

Container Lease Revenue

We recognize revenue from operating leases of our owned equipment as earned over the term of the lease. Where minimum lease payments vary over the lease term, revenue is recognized on a straight-line basis over the term of the lease. Early termination of the rental contracts subjects the lessee to a penalty, which is included in lease revenue upon such termination. Finance lease income, and interest earned on financing receivables, are recognized using the effective interest method, which generates a constant rate of interest over the term of the arrangement.

Included in lease revenue is revenue consisting primarily of fees charged to the lessee for handling, delivery, and repairs. These activities are considered non-lease components of the contracts, which are generally accounted for separately from the lease component, and revenue is recognized as earned in accordance with ASC 606.

Also included in lease revenue is revenue from management fees earned under equipment management agreements. Management fees are generally calculated as a percentage of the monthly net operating income for an investor's portfolio and recognized as revenue in the month of service.

Logistics Revenue

Our logistics business derives its revenue from three principal sources: (1) truck brokerage services, (2) intermodal transportation services, and (3) international ocean freight and freight forwarding services. For truck brokerage services, which typically involve a short transit time, revenue is recognized when delivery has been completed due to the lack of reliable information to reasonably measure progress toward complete satisfaction of the performance obligation. For intermodal transportation services, which can take a longer time to complete, revenue is recognized over time by measuring progress toward complete satisfaction of the performance obligation, utilizing input methods. For any such services not completed at the end of a reporting period, we use a percentage of completion method based on costs incurred to date to allocate the appropriate revenue to each separate reporting period. We provide international freight forwarding services as an indirect carrier, sometimes referred to as a Non-Vessel Operating Common Carrier. Due to the lack of reliable information to reasonably measure progress toward complete satisfaction of the performance obligation, revenue from these shipments is recognized at the time the freight departs the terminal of origin, which is when the customer is billed and we have no further obligation to the customer.

We report logistics revenue on a gross basis as we are primarily responsible for fulfilling the promise to provide the specified service desired by the customer and have discretion in establishing the price for the specified service.

Rental Equipment

Container

We purchase new container equipment from manufacturers to lease to our customers. We also purchase used container equipment through sale-leaseback transactions with our customers, or equipment that was previously owned by one of our third party investors. Used equipment is typically purchased with an existing lease in place.

Container rental equipment is recorded at original cost and depreciated to an estimated residual value on a straight-line basis over its estimated useful life. The estimated useful lives and residual values of our container equipment are based on historical disposal experience and our expectations for future used container sale prices. Depreciation estimates are reviewed on a regular basis to determine whether sustained changes have taken place in the useful lives of our equipment or assigned residual values, which would suggest that a change in depreciation estimates is warranted. We completed our annual depreciation policy review during the fourth quarter of 2019 and concluded no change was necessary.

The estimated useful lives and residual values for each major equipment type purchased new from the factory are as follows:

	Residual Value	Depreciable Life in Years
20-ft. standard dry van container	\$ 1,050	13.0
40-ft. standard dry van container	\$ 1,300	13.0
40-ft. high cube dry van container	\$ 1,400	13.0
20-ft. refrigerated container	\$ 2,750	12.0
40-ft. high cube refrigerated container	\$ 3,500	12.0

Other specialized equipment is depreciated to its estimated residual value, which ranges from \$1,000 to \$3,500, over its estimated useful life of between 12.5 years and 15 years.

For used container equipment acquired through sale-leaseback transactions, we often adjust our estimates for remaining useful life and residual values based on current conditions in the sale market for older containers and our expectations for how long the equipment will remain on-hire to the current lessee.

Equipment Held for Sale

In the quarter ended June 30, 2019, we committed to a plan to sell our railcar assets. As a result, and in accordance with ASC 205, *Discontinued Operations*, the railcar assets have been classified as held for sale. Equipment held for sale is carried at the lower of its estimated fair value, less costs to sell, or its carrying value. In addition, held for sale accounting requires that depreciation is no longer charged on held for sale assets as of the date that the assets became held for sale, which we consider to be May 31, 2019. In accordance with ASC 360-10, *Impairment and Disposal of Long-Lived Assets*, the fair value less cost to sell of the long-lived asset group must be evaluated each period to determine if it has changed. To assist us in our assessment of fair value, we have engaged a third-party appraiser.

Impairment of Long-Lived Assets

On at least an annual basis, we evaluate our rental equipment fleet to determine whether there have been any events or changes in circumstances indicating that the carrying amount of all, or part, of our fleet may not be recoverable. Events which would trigger an impairment review include, among others, a significant decrease in the long-term average market value of rental equipment, a significant decrease in the utilization rate of rental equipment resulting in an inability to generate income from operations and positive cash flow in future periods, or a change in market conditions resulting in a significant decrease in lease rates.

When testing for impairment, equipment is generally grouped by equipment type, and is tested separately from other groups of assets and liabilities. Potential impairment exists when the estimated future undiscounted cash flows generated by an asset group, comprised of lease proceeds and residual values, less related operating expenses, are less than the carrying value of that asset group. If potential impairment exists, the equipment is written down to its fair value. In determining the fair value of an asset group, we consider market trends, published value for similar assets, recent transactions of similar assets and in certain cases, quotes from third party appraisers. Excluding held for sale railcar assets, no impairment charges were recorded in 2019, 2018 and 2017 as a result of our annual review.

Recent Accounting Pronouncements.

In June 2016, the FASB issued Accounts Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)* (ASU 2016-13). This guidance affects net investment in finance leases and the amendments in this update replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses. The guidance requires the measurement of expected credit losses to be based on relevant information from past events, current conditions, and reasonable and supportable information that affects collectability. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years and with early adoption permitted for fiscal years beginning after December 15, 2018. Further, ASU 2018-19 was issued in November 2018 to clarify that operating lease receivables should be accounted for under the new lease standard, Topic 842, and are not within the scope of Topic 326. We will adopt ASU 2016-13 and its related amendments effective January 1, 2020. We do not expect adoption to have a material effect on our consolidated financial statements.

The most recent adopted accounting pronouncements are described in Note 2 to our consolidated financial statements included in this Annual Report on Form 10-K.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of changes in value of a financial instrument, derivative or non-derivative, caused by fluctuations in foreign exchange rates and interest rates. Changes in these factors could cause fluctuations in our results of operations and cash flows. We are exposed to the market risks described below.

Interest Rate Risk. The nature of our business exposes us to market risk arising from changes in interest rates to which our variable-rate debt is linked. As of December 31, 2019, the principal amount of debt outstanding under variable-rate revolving credit facilities was \$783.0 million. In addition, at December 31, 2019, we had balances on our variable rate term loans of \$102.8 million. As of December 31, 2019, our total outstanding variable-rate debt was \$885.8 million, which represented 42% of our total debt at that date. The average interest rate on our variable-rate debt was 3.3% as of December 31, 2019 based on LIBOR plus a margin based on certain conditions.

A 1.0% increase or decrease in underlying interest rates for these obligations would increase or decrease interest expense by approximately \$8.9 million annually, assuming debt remains constant at December 31, 2019 levels.

We do not currently participate in hedging, interest rate swaps or other transactions to manage the market risks described above.

This analysis does not consider the effect of any change in overall economic activity that could impact interest rates. Further, in the event of an increase in interest rates of significant magnitude, we may take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our financial structure.

Foreign Exchange Rate Risk. Although we have significant foreign-based operations, the U.S. dollar is our primary operating currency. Thus, most of our revenue and expenses are denominated in U.S. Dollars. We have equipment sales in British Pound Sterling, Euros and Japanese Yen and incur overhead costs in foreign currencies, primarily in British Pound Sterling and Euros. During the year ended December 31, 2019, the U.S. Dollar increased in value in relation to other major foreign currencies (such as the Euro and British Pound Sterling). The increase in the relative value of the U.S. Dollar has decreased our revenues and expenses denominated in foreign currencies. The associated decrease in the value of certain foreign currencies as compared to the U.S. Dollar has also caused assets held at some of our foreign subsidiaries to decrease in value when translated to U.S. Dollars. For the year ended December 31, 2019, we recognized a loss on foreign exchange of \$0.3 million. A 10% change in foreign exchange rates would not have a material impact on our business, financial position, results of operations or cash flows.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and financial statement schedule are contained in Item 15 of this Annual Report on Form 10-K, and are incorporated herein by reference. See Part IV, Item 15(a) for an index to the consolidated financial statements and supplementary data.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

In accordance with Rule 13a-15(b) under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K. Based upon their evaluation of these disclosure controls and procedures, our President and Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2019 due to a material weakness in our internal control over financial reporting as described below.

Notwithstanding this material weakness surrounding the measurement and review of fair value estimates, management concluded that the consolidated financial statements included in this Annual Report on Form 10-K present fairly, in all material respects, the financial position, results of operations and cash flows for the periods disclosed in conformity with GAAP. KPMG LLP (KPMG), the Company's independent registered public accounting firm, has issued an unqualified opinion on our consolidated financial statements as of and for the year ended December 31, 2019. This material weakness has no impact on our consolidated financial statements in prior years.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed with the participation of our principal executive officer and principal financial officer or persons performing similar functions to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Our internal control over financial reporting includes policies and procedures that: (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of assets; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and Board of Directors; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Our management, including our President and Chief Executive Officer and our Chief Financial Officer, under the supervision of our Board of Directors, conducted an assessment of the effectiveness of its internal control over financial reporting as of December 31, 2019 based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that our internal control over financial reporting was not effective as of December 31, 2019 because of the material weakness described below.

A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

A material weakness in our internal control over financial reporting resulted from the ineffective design and operation of process level controls over the completeness and accuracy of key assumptions and financial data utilized in estimating the fair value of certain assets. In addition, the Company did not design effective controls that demonstrated a sufficient level of precision used in the review of fair value estimates. The material weakness arose because management's risk assessment process did not appropriately identify risks, and design and implement responsive control activities associated with changes in business operations. The control deficiencies surrounding the measurement and review of fair value estimates resulted in immaterial misstatements that were corrected prior to the issuance of the Company's financial statements. A reasonable possibility exists that a material misstatement to the consolidated financial statements may not be prevented or detected on a timely basis, and therefore we concluded that the deficiencies represent a material weakness.

Our internal control over financial reporting as of December 31, 2019 has been audited by KPMG, who has issued an adverse opinion on the effectiveness of internal control over financial reporting, which is included on page 54 in this Annual Report on Form 10-K.

Remediation Actions

We are taking several steps to remediate the material weakness identified above. These steps include the following:

- We plan to implement continuous risk assessment processes that are designed to identify and assess changes that could significantly impact our internal control over financial reporting, including existing and new risks of material misstatement related to the measurement and review of fair value estimates.
- We plan to enhance the design of existing control activities and implement additional control activities to ensure controls and other controls related to fair value estimates (including controls that validate the completeness and accuracy of information, data and assumptions), are properly designed, implemented and documented.

We intend to execute our plans to remediate the material weakness identified above as soon as feasible. We will test the ongoing effectiveness of the new and enhanced controls and will consider the material weakness remediated after the new controls operate effectively for a sufficient period of time. There is no assurance, however, that these measures will remediate the material weakness or ensure that our internal controls over financial reporting will be effective in the future.

Inherent Limitations in the Effectiveness of Controls

Because of its inherent limitations, our internal controls and procedures may not prevent or detect misstatements. A control system, no matter how well conceived and operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2019, we identified a material weakness in our internal control over financial reporting that existed earlier in the year related to the timely assessment of lease classification. This material weakness was remediated as of December 31, 2019. Except as related to the material weaknesses previously described, there were no changes to our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
CAI International, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited CAI International, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, because of the effect of the material weakness, described below, on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and financial statement schedule II (collectively, the consolidated financial statements), and our report dated March 5, 2020 expressed an unqualified opinion on those consolidated financial statements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness has been identified and included in management's assessment related to the ineffective design and operation of process level controls over the completeness and accuracy of key assumptions and financial data utilized in estimating the fair value of certain assets. In addition, the Company did not design effective controls that demonstrated a sufficient level of precision used in the review of fair value estimates. The material weakness arose because management's risk assessment process did not appropriately identify risks and design and implement responsive control activities associated with changes in business operations. The material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2019 consolidated financial statements, and this report does not affect our report on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

San Francisco, California

March 5, 2020

ITEM 9B: OTHER INFORMATION

None.

PART III

ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated herein by reference from our definitive proxy statement for our 2020 Annual Meeting of Stockholders, which will be filed no later than 120 days after December 31, 2019.

Code of Ethics

We have a written Code of Business Conduct and Ethics in place that applies to all our employees, including our principal executive officer, principal financial officer, principal accounting officer and controller, and persons performing similar functions. A copy of our Code of Business Conduct and Ethics is available on our website at www.capps.com. We intend to use our website as a method of disseminating any change to, or waiver from, our Code of Business Conduct and Ethics as permitted by the applicable SEC rules.

ITEM 11: EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference from our definitive proxy statement for our 2020 Annual Meeting of Stockholders, which will be filed no later than 120 days after December 31, 2019.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated herein by reference from our definitive proxy statement for our 2020 Annual Meeting of Stockholders, which will be filed no later than 120 days after December 31, 2019.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference from our definitive proxy statement for our 2020 Annual Meeting of Stockholders, which will be filed no later than 120 days after December 31, 2019.

ITEM 14: PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated herein by reference from our definitive proxy statement for our 2020 Annual Meeting of Stockholders, which will be filed no later than 120 days after December 31, 2019.

PART IV**ITEM 15: EXHIBITS, FINANCIAL STATEMENT SCHEDULES**(a)(1) *Financial Statements.*

The following financial statements are included in Item 8 of this report:

	Page
Report of Independent Registered Public Accounting Firm	58
Consolidated Balance Sheets as of December 31, 2019 and 2018	59
Consolidated Statements of Income for the years ended December 31, 2019, 2018 and 2017	61
Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018 and 2017	62
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2019, 2018 and 2017	63
Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017	64
Notes to Consolidated Financial Statements	66

(a)(2) *Financial Statement Schedules.*

The following financial statement schedule for the Company is filed as part of this report:

Schedule II—Valuation Accounts	95
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Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the accompanying Consolidated Financial Statements or notes thereto.

(a)(3) *List of Exhibits.*

The exhibits set forth on the accompanying Exhibit Index immediately following the financial statement schedule are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K. 96

ITEM 16: FORM 10-K SUMMARY

None.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
CAI International, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of CAI International, Inc. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and financial statement schedule II (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 5, 2020 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

Adoption of a new accounting pronouncement

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of Accounting Standards Codification Topic 842, *Leases*.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 1989.

San Francisco, California
March 5, 2020

CAI INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share information)

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Assets		
Current assets		
Cash	\$ 19,870	\$ 20,104
Cash held by variable interest entities	26,594	25,211
Accounts receivable, net of allowance for doubtful accounts of \$8,171 and \$2,042 at December 31, 2019 and 2018, respectively	88,452	95,942
Current portion of net investment in finance leases	71,228	75,975
Assets held for sale	284,513	449,730
Prepaid expenses and other current assets	8,471	1,525
Total current assets	499,128	668,487
Restricted cash	26,775	30,668
Rental equipment, net of accumulated depreciation of \$588,815 and \$557,559 at December 31, 2019 and 2018, respectively	1,820,735	1,816,794
Net investment in finance leases	495,488	473,792
Financing receivable	30,693	-
Goodwill	15,794	15,794
Intangible assets, net of accumulated amortization of \$5,221 and \$3,611 at December 31, 2019 and 2018, respectively	4,123	5,733
Other non-current assets	9,029	1,349
Total assets (1)	\$ 2,901,765	\$ 3,012,617
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 7,291	\$ 7,371
Accrued expenses and other current liabilities	30,479	25,069
Unearned revenue	6,405	7,573
Current portion of debt	218,094	311,381
Rental equipment payable	25,137	74,139
Total current liabilities	287,406	425,533
Debt	1,880,122	1,847,633
Deferred income tax liability	35,376	38,319
Other non-current liabilities	5,621	-
Total liabilities (2)	2,208,525	2,311,485
Stockholders' equity		
Preferred stock, par value \$.0001 per share; authorized 10,000,000		
8.50% Series A fixed-to-floating rate cumulative redeemable perpetual preferred stock, issued and outstanding 2,199,610 shares, at liquidation preference	54,990	54,990
8.50% Series B fixed-to-floating rate cumulative redeemable perpetual preferred stock, issued and outstanding 1,955,000 shares, at liquidation preference	48,875	48,875
Common stock: par value \$.0001 per share; authorized 84,000,000 shares; issued and outstanding 17,479,127 and 18,764,459 shares at December 31, 2019 and 2018, respectively	2	2
Additional paid-in capital	102,709	132,666
Accumulated other comprehensive loss	(6,630)	(6,513)
Retained earnings	493,294	471,112
Total stockholders' equity	693,240	701,132
Total liabilities and stockholders' equity	\$ 2,901,765	\$ 3,012,617

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- (1) Total assets at December 31, 2019 and December 31, 2018 include the following assets of certain variable interest entities (VIEs) that can only be used to settle the liabilities of those VIEs: Cash, \$26,594 and \$25,211; Net investment in finance leases, \$4,790 and \$13,862; and Rental equipment net of accumulated depreciation, \$101,907 and \$71,958, respectively.
- (2) Total liabilities at December 31, 2019 and December 31, 2018 include the following VIE liabilities for which the VIE creditors do not have recourse to CAI International, Inc.: Current portion of debt, \$26,931 and \$41,066; Debt, \$100,849 and \$67,615, respectively.

See accompanying notes to consolidated financial statements.

CAI INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Year Ended December 31,		
	2019	2018	2017
Revenue			
Container lease revenue	\$ 298,853	\$ 284,924	\$ 235,365
Logistics revenue	117,687	111,471	80,552
Total revenue	416,540	396,395	315,917
Operating expenses			
Depreciation of rental equipment	111,917	107,109	99,753
Storage, handling and other expenses	17,533	8,853	15,303
Logistics transportation costs	104,109	97,170	68,155
Gain on sale of rental equipment	(4,402)	(9,886)	(5,333)
Administrative expenses	52,699	46,240	39,588
Total operating expenses	281,856	249,486	217,466
Operating income	134,684	146,909	98,451
Other expenses			
Net interest expense	79,158	62,573	41,815
Other expense	313	677	765
Total other expenses	79,471	63,250	42,580
Income before income taxes	55,213	83,659	55,871
Income tax expense (benefit)	4,192	4,554	(6,694)
Income from continuing operations	51,021	79,105	62,565
(Loss) income from discontinued operations, net of taxes	(20,010)	(509)	9,495
Net income	31,011	78,596	72,060
Preferred stock dividends	8,829	5,124	-
Net income attributable to CAI common stockholders	\$ 22,182	\$ 73,472	\$ 72,060
Amounts attributable to CAI common stockholders			
Net income from continuing operations	\$ 42,192	\$ 73,981	\$ 62,565
Net (loss) income from discontinued operations	(20,010)	(509)	9,495
Net income attributable to CAI common stockholders	\$ 22,182	\$ 73,472	\$ 72,060
Net income (loss) per share attributable to CAI common stockholders			
Basic			
Continuing operations	\$ 2.38	\$ 3.78	\$ 3.25
Discontinued operations	(1.13)	(0.02)	0.49
Total basic	\$ 1.25	\$ 3.76	\$ 3.74
Diluted			
Continuing operations	\$ 2.34	\$ 3.73	\$ 3.19
Discontinued operations	(1.11)	(0.02)	0.49
Total diluted	\$ 1.23	\$ 3.71	\$ 3.68
Weighted average shares of common stock outstanding			
Basic	17,731	19,562	19,253
Diluted	18,011	19,822	19,607

See accompanying notes to consolidated financial statements.

CAI INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Year Ended December 31,		
	2019	2018	2017
Net income	\$ 31,011	\$ 78,596	\$ 72,060
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	(117)	(391)	2,010
Comprehensive income before preferred stock dividends	30,894	78,205	74,070
Dividends on preferred stock	8,829	5,124	-
Comprehensive income available to CAI common stockholders	<u>\$ 22,065</u>	<u>\$ 73,081</u>	<u>\$ 74,070</u>

See accompanying notes to consolidated financial statements.

CAI INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Equity
	Shares	Amount	Shares	Amount				
Balances as of December 31, 2016	-	\$ -	19,057	\$ 2	\$ 141,058	\$ (8,132)	\$ 324,576	\$ 457,504
Net income	-	-	-	-	-	-	72,060	72,060
Adoption of ASU 2016-09	-	-	-	-	-	-	1,004	1,004
Foreign currency translation adjustment	-	-	-	-	-	2,010	-	2,010
Issuance of common stock, net of offering costs	-	-	889	-	29,148	-	-	29,148
Exercise of stock options	-	-	414	-	145	-	-	145
Stock-based compensation	-	-	31	-	1,974	-	-	1,974
Balances as of December 31, 2017	-	-	20,391	2	172,325	(6,122)	397,640	563,845
Net income	-	-	-	-	-	-	78,596	78,596
Preferred stock dividends, \$2.125/share	-	-	-	-	-	-	(5,124)	(5,124)
Foreign currency translation adjustment	-	-	-	-	-	(391)	-	(391)
Issuance of common and preferred stock, net of offering costs	4,155	103,865	100	-	(1,552)	-	-	102,313
Repurchase of common stock	-	-	(1,767)	-	(40,869)	-	-	(40,869)
Exercise of stock options	-	-	5	-	24	-	-	24
Stock-based compensation	-	-	35	-	2,738	-	-	2,738
Balances as of December 31, 2018	4,155	103,865	18,764	2	132,666	(6,513)	471,112	701,132
Net income	-	-	-	-	-	-	31,011	31,011
Preferred stock dividends, \$2.125/share	-	-	-	-	-	-	(8,829)	(8,829)
Foreign currency translation adjustment	-	-	-	-	-	(117)	-	(117)
Repurchase of common stock	-	-	(1,458)	-	(34,118)	-	-	(34,118)
Exercise of stock options	-	-	130	-	1,285	-	-	1,285
Stock-based compensation	-	-	43	-	2,876	-	-	2,876
Balances as of December 31, 2019	4,155	\$ 103,865	17,479	\$ 2	\$ 102,709	\$ (6,630)	\$ 493,294	\$ 693,240

See accompanying notes to consolidated financial statements.

CAI INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2019	2018	2017
Cash flows from operating activities			
Net income	\$ 31,011	\$ 78,596	\$ 72,060
(Loss) income from discontinued operations, net of income taxes	(20,010)	(509)	9,495
Income from continuing operations	51,021	79,105	62,565
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation	112,317	107,304	100,093
Amortization of debt issuance costs	3,921	3,650	2,598
Amortization of intangible assets	1,610	1,989	1,969
Stock-based compensation expense	2,758	2,583	1,838
Reduction in contingent consideration	-	-	(2,211)
Unrealized loss on foreign exchange	16	436	106
Gain on sale of rental equipment	(4,402)	(9,886)	(5,333)
Deferred income taxes	3,734	4,172	(6,749)
Bad debt expense	5,885	388	404
Changes in other operating assets and liabilities:			
Accounts receivable	3,864	(18,365)	(4,248)
Prepaid expenses and other assets	(2,245)	(1,131)	738
Net investment in finance leases	65,688	-	-
Accounts payable, accrued expenses and other liabilities	6,518	(834)	(9,838)
Unearned revenue	5	(174)	(333)
Net cash provided by operating activities of continuing operations	250,690	169,237	141,599
Net cash provided by operating activities of discontinued operations	3,307	10,533	13,593
Net cash provided by operating activities	253,997	179,770	155,192
Cash flows from investing activities			
Purchase of rental equipment	(316,857)	(739,944)	(432,212)
Purchase of financing receivable	(37,139)	-	-
Proceeds from sale of rental equipment	81,692	65,602	65,674
Purchase of furniture, fixtures and equipment	(2,285)	(823)	(124)
Receipt of principal payments from financing receivable	2,720	-	-
Receipt of principal payments from finance leases	-	43,352	24,061
Net cash used in investing activities of continuing operations	(271,869)	(631,813)	(342,601)
Net cash provided by (used in) investing activities of discontinued operations	123,424	(31,530)	(69,150)
Net cash used in investing activities	(148,445)	(663,343)	(411,751)
Cash flows from financing activities			
Proceeds from debt	705,045	1,605,564	704,340
Principal payments on debt	(631,875)	(1,143,908)	(522,486)
Debt issuance costs	(839)	(3,861)	(3,441)
Proceeds from issuance of common and preferred stock	-	103,433	28,028
Repurchase of common stock	(34,118)	(40,869)	-
Dividends paid to preferred stockholders	(8,828)	(3,260)	-
Exercise of stock options	1,285	24	145
Net cash provided by financing activities of continuing operations	30,670	517,123	206,586
Net cash (used in) provided by financing activities of discontinued operations	(139,149)	(4,773)	44,636
Net cash (used in) provided by financing activities	(108,479)	512,350	251,222
Effect on cash of foreign currency translation	183	(3)	220
Net (decrease) increase in cash and restricted cash	(2,744)	28,774	(5,117)
Cash and restricted cash at beginning of the period (1)	75,983	47,209	52,326
Cash and restricted cash at end of the period (2)	\$ 73,239	\$ 75,983	\$ 47,209

Supplemental disclosure of cash flow information

Cash paid during the period for:

Income taxes	\$	871	\$	651	\$	194
Interest		84,767		71,286		47,596

Supplemental disclosure of non-cash operating activity

Lease liabilities arising from obtaining right-of-use assets	\$	5,306	\$	-	\$	-
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Supplemental disclosure of non-cash investing and financing activity

Transfer of rental equipment to finance lease	\$	110,766	\$	316,697	\$	205,033
Transfer of finance lease to rental equipment		21,179		-		413
Rental equipment payable		25,137		74,139		92,415

- (1) Includes cash of \$20,104, \$14,735, and \$15,685, cash held by variable interest entities of \$25,211, \$20,685, and \$30,449, and restricted cash of \$30,668, \$11,789, and \$6,192 at December 31, 2018, 2017, and 2016, respectively.
- (2) Includes cash of \$19,870, \$20,104, and \$14,735, cash held by variable interest entities of \$26,594, \$25,211, and \$20,685, and restricted cash of \$26,775, \$30,668, and \$11,789 at December 31, 2019, 2018, and 2017, respectively.

See accompanying notes to consolidated financial statements.

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements

(1) The Company and Nature of Operations

CAI International, Inc., together with its subsidiaries (collectively, CAI or the Company), is a transportation finance and logistics company. The Company purchases equipment, primarily intermodal shipping containers and railcars, which it leases to its customers. The Company also manages equipment for third-party investors. In operating its fleet, the Company leases, re-leases and disposes of equipment and contracts for the repair, repositioning and storage of equipment. The Company also provides domestic and international logistics services.

The Company's common stock, 8.50% Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Stock and 8.50% Series B Fixed-to-Floating Rate Cumulative Redeemable Perpetual Stock are each traded on the New York Stock Exchange under the symbols "CAI," "CAI-PA" and "CAI-PB," respectively. The Company's corporate headquarters are located in San Francisco, California.

(2) Summary of Significant Accounting Policies and Recent Accounting Pronouncements**Recent Accounting Pronouncements**

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), and subsequently issued amendments thereto, that replaced existing lease accounting guidance. The new standard requires lessors to classify leases as a sales-type, direct financing, or operating lease. A lease is a sales-type lease if any of five criteria are met, each of which indicate that the lease, in effect, transfers control of the underlying asset to the lessee. If none of those five criteria are met, but two additional criteria are both met, indicating that the lessor has transferred substantially all of the risks and benefits of the underlying asset to the lessee and a third-party, the lease is a direct financing lease. All leases that are not sales-type or direct financing leases are operating leases. The new standard also established a right-of-use model (ROU) that requires lessees to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than twelve months.

The Company adopted ASU 2016-02, as amended, effective January 1, 2019, using the modified retrospective approach and the effective date as the date of initial application. Consequently, financial information will not be updated, and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019. In addition, the Company elected the following practical expedients permitted under the transition guidance within the new standard: (1) the "package of practical expedients," which does not require the Company to reassess under the new standard its prior conclusions about lease identification, lease classification, and initial direct costs, (2) the short-term lease recognition exemption for its office space leases of twelve months or less, which resulted in the Company not recognizing an ROU asset or lease liability for these leases, and (3) the practical expedient to not separate lease and non-lease components for leases that qualify for the practical expedient.

Adoption of the new standard resulted in the recognition of operating lease ROU assets of \$3.7 million and operating lease liabilities of \$4.1 million as of January 1, 2019. Adoption of the new standard resulted in the receipt of principal payments from finance leases being recognized in operating activities in the consolidated statement of cash flows for the year ended December 31, 2019. These cash flows were recognized as investing activities in the statements of cash flows for the years ended December 31, 2018 and 2017. Adoption did not have an impact on the Company's consolidated statements of income.

Summary of Significant Accounting Policies**(a) Principles of Consolidation**

The consolidated financial statements include the financial statements of CAI International, Inc. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company regularly performs a review of its container fund arrangements with investors to determine whether or not it has a variable interest in the fund and if the fund is a variable interest entity (VIE). If it is determined that the Company does not have a variable interest in the fund, further analysis is not required and the Company does not consolidate the fund. If it is determined that the Company does have a variable interest in the fund and the fund is a VIE, further analysis is performed to determine if the Company is a primary beneficiary of the VIE and meets both of the following criteria under FASB Accounting Standards Codification (ASC) Topic 810, *Consolidation*:

- it has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance; and
- it has the obligation to absorb losses of the VIE that could be potentially significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

If in the Company's judgment both of the above criteria are met, the VIE's financial statements are included in the Company's consolidated financial statements as required under FASB ASC Topic 810, *Consolidation* (see Note 4).

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

(b) Discontinued Operations

In the quarter ended June 30, 2019, the Company committed to a plan to sell its railcar assets and to reallocate the capital invested in its rail business to other investments. As a result, the railcar assets have been reclassified as held for sale in the accompanying consolidated balance sheets and the operations of the rail business have been reclassified as discontinued operations in the accompanying consolidated statements of income and cash flows. All prior periods presented in these consolidated financial statements have been restated to reflect the reclassification of the railcar business as discontinued operations and assets held for sale. See Note 3 – *Discontinued Operations* for more information.

(c) Use of Estimates

Certain estimates and assumptions were made by the Company’s management that affect the reported amounts 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 expenses during the reporting periods. Significant items subject to such estimates and assumptions include revenue recognition, allowances for receivables, the carrying amount of rental equipment, the residual values and lives of rental equipment, and income tax uncertainties. Actual results could differ from those estimates.

(d) Rental equipment*Container*

The Company purchases new container equipment from manufacturers to lease to its customers. The Company also purchases used container equipment through sale-leaseback transactions with its customers, or equipment that was previously owned by one of the Company’s third-party investors. Used equipment is typically purchased with an existing lease in place.

Container rental equipment is recorded at original cost and depreciated to an estimated residual value on a straight-line basis over its estimated useful life. The estimated useful lives and residual values of the Company’s container equipment are based on historical disposal experience and the Company’s expectations for future used container sale prices. Depreciation estimates are reviewed on a regular basis to determine whether sustained changes have taken place in the useful lives of equipment or the assigned residual values, which would suggest that a change in depreciation estimates is warranted.

The estimated useful lives and residual values for the majority of the Company’s container equipment purchased new from the factory are as follows:

	Residual Value	Depreciable Life in Years
20-ft. standard dry van container	\$ 1,050	13.0
40-ft. standard dry van container	\$ 1,300	13.0
40-ft. high cube dry van container	\$ 1,400	13.0
20-ft. refrigerated container	\$ 2,750	12.0
40-ft. high cube refrigerated container	\$ 3,500	12.0

Other specialized equipment is depreciated to its estimated residual value, which ranges from \$1,000 to \$3,500, over its estimated useful life of between 12.5 years and 15 years.

For used container equipment acquired through sale-leaseback transactions, the Company often adjusts its estimates for remaining useful life and residual values based on current conditions in the sale market for older containers and its expectations for how long the equipment will remain on-hire to the current lessee.

Rail

Effective June 1, 2019, depreciation of the Company’s railcar assets ceased due to held for sale classification. See Note 3 – *Discontinued Operations* for more information.

(e) Impairment of Long-Lived Assets

On at least an annual basis, the Company evaluates its rental equipment fleet to determine whether there have been any events or changes in circumstances indicating that the carrying amount of all, or part, of its fleet may not be recoverable. Events which would trigger an impairment review include, among others, a significant decrease in the long-term average market value of rental equipment, a significant decrease in the utilization rate of rental equipment resulting in an inability to generate income from operations and positive cash flow in future periods, or a change in market conditions resulting in a significant decrease in lease rates.

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

When testing for impairment, equipment is generally grouped by equipment type, and is tested separately from other groups of assets and liabilities. Potential impairment exists when the estimated future undiscounted cash flows generated by an asset group, comprised of lease proceeds and residual values, less related operating expenses, are less than the carrying value of that asset group. If potential impairment exists, the equipment is written down to its fair value. In determining the fair value of an asset group, the Company considers market trends, published value for similar assets, recent transactions of similar assets and in certain cases, quotes from third party appraisers. Excluding held for sale railcar assets, no impairment charges were recorded in 2019, 2018 and 2017.

(f) Intangible Assets

Intangible assets with definite useful lives are reviewed for impairment whenever events or changes in circumstances indicate an asset's carrying value may not be recoverable. The Company amortizes intangible assets on a straight-line basis over their estimated useful lives as follows:

Customer relationships	5-8 years
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(g) Goodwill

In connection with acquisitions made in 2015 and 2016, the Company recorded \$15.8 million of goodwill. Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in a business combination. Goodwill is not amortized but is evaluated for impairment at the reporting unit level annually, or more frequently if events or changes in circumstances indicate that impairment may exist.

The Company assesses qualitative factors such as industry and market considerations, overall financial performance and other relevant events and factors affecting a reporting unit to determine if it is more likely than not that impairment may exist and whether it is necessary to perform the quantitative goodwill impairment test. This involves comparing the fair value to the carrying value of each reporting unit that has goodwill assigned to it. The Company recognizes an impairment charge for the amount by which the carrying value of the reporting unit exceeds the fair value. The Company performed the annual impairment test during the fourth quarter of 2019 and concluded that there was no impairment of goodwill.

(h) Sales-type and Direct Finance Leases and Financing Receivable

Sales-type and direct finance lease income, and interest earned on financing receivables are recognized using the effective interest method, which generates a constant rate of interest over the term of the arrangements.

(i) Debt Issuance Costs

To the extent that the Company is required to pay issuance fees or direct costs relating to its debt and credit facilities, such fees are amortized over the lives of the related debt using the effective interest method and reflected in interest expense. Unamortized debt issuance costs of \$14.8 million and \$20.4 million are presented as a reduction of debt on the Company's consolidated balance sheets as of December 31, 2019 and 2018, respectively.

(j) Foreign Currency Translation

The accounts of the Company's foreign subsidiaries have been converted at rates of exchange in effect at year-end for balance sheet accounts and average exchange rates for the year for income statement accounts. The effects of changes in exchange rates in translating foreign subsidiaries' financial statements are included in stockholders' equity as accumulated other comprehensive income.

(k) Accounts Receivable

Amounts billed under leases for equipment owned by the Company, as well as amounts due from customers for the provision of logistics services, are recorded in accounts receivable. The Company estimates an allowance for doubtful accounts for accounts receivable it does not consider fully collectible. The allowance for doubtful accounts is developed based on two components: (1) specific reserves for receivables for which management believes full collection is doubtful; and (2) a general reserve for estimated losses inherent in the receivables. The general reserve is estimated by applying certain percentages to receivables that have not been specifically reserved, ranging from 1.0% on accounts that are one to thirty days overdue, to 100% on accounts that are one year or more overdue. The allowance for doubtful accounts is reviewed regularly by management and is based on the risk profile of the receivables, credit quality indicators such as the level of past due amounts and non-performing accounts and economic conditions. Changes in economic conditions or other events may necessitate additions or deductions to the allowance for doubtful accounts. The allowance is intended to provide for losses inherent in the company's accounts receivable, and requires the application of estimates and judgments as to the outcome of collection efforts and the realization of collateral, among other things.

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

(l) Leases

The Company leases office space under operating leases with expiration dates through 2025. The Company determines whether an arrangement constitutes a lease and records lease liabilities and ROU assets on its consolidated balance sheet at lease commencement. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU assets also include any lease pre-payments made and exclude lease incentives. Certain of the Company's leases include one or more options to renew, which are included in the lease term only when it is reasonably certain that the Company will exercise that option. The Company's office space leases often include lease and non-lease components, which are combined and accounted for as a single lease component.

For short-term leases, the Company records rent expense in its consolidated statements of income on a straight-line basis over the lease term and records variable lease payments as incurred.

(m) Income Taxes

Income taxes are accounted for using the asset-and-liability method. Under this method, deferred income taxes are recognized for the future tax consequences of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when it is more likely than not that deferred tax assets will not be recovered.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records penalties and interest related to unrecognized tax benefits within income tax expense (see Note 12).

(n) Revenue Recognition

The Company provides a range of services to its customers incorporating the rental, sale and management of equipment and the provision of logistics services. Revenue for all forms of service is recognized when earned following the guidelines under FASB ASC Topic 606, *Revenue Recognition*, FASB ASC Topic 840, *Leases* and FASB ASC Topic 842, *Leases*. Revenue is reported net of any related sales tax.

Container and Rail Lease Revenue

The Company recognizes revenue from operating leases of its owned equipment as earned over the term of the lease. Where minimum lease payments vary over the lease term, revenue is recognized on a straight-line basis over the term of the lease. The Company recognizes revenue on a cash basis for certain railcar leases that are billed on an hourly or mileage basis through a third-party railcar manager if we are unable to reliably estimate the revenue. Early termination of the rental contracts subjects the lessee to a penalty, which is included in lease revenue upon such termination. Finance lease income, and interest earned on financing receivables are recognized using the effective interest method, which generates a constant rate of interest over the term of the arrangement.

Certain leases include one or more options to renew or purchase the leased rental equipment. The exercise of lease renewal or equipment purchase options is at the sole discretion of the customer.

Included in lease revenue is revenue consisting primarily of fees charged to the lessee for handling, delivery, and repairs. These activities are considered non-lease components of the contract, which are generally accounted for separately from the lease component, and revenue is recognized as earned in accordance with ASC Topic 606, *Revenue Recognition*. For certain leases of railcar equipment, the Company is responsible for the repair and maintenance of the railcars throughout the lease term. For such leases, the lease and non-lease component are combined as a single lease component, and revenue is recognized as earned in accordance with ASC Topic 842, *Leases*.

Also included in lease revenue is revenue from management fees earned under equipment management agreements. Management fees are generally calculated as a percentage of the monthly net operating income for an investor's portfolio and recognized as revenue in the month of service.

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

Logistics Revenue

The Company's logistics business derives its revenue from three principal sources: (1) truck brokerage services, (2) intermodal transportation services, and (3) international ocean freight and freight forwarding services. For truck brokerage services, which typically involve a short transit time, revenue is recognized when delivery has been completed due to lack of reliable information to reasonably measure progress toward complete satisfaction of the performance obligation. For intermodal transportation services, which can take a longer time to complete, revenue is recognized over time by measuring progress toward complete satisfaction of the performance obligation, utilizing input methods. For any such services not completed as of the end of a reporting period, a percentage of completion method based on costs incurred to date is used to allocate the appropriate revenue to each separate reporting period. The Company provides international freight forwarding services as an indirect carrier, sometimes referred to as a Non-Vessel Operating Common Carrier. Due to the lack of reliable information to reasonably measure progress toward complete satisfaction of the performance obligation, revenue for these shipments is recognized at the time the freight departs the terminal of origin, which is when the customer is billed and the Company has no further obligation to the customer.

The Company reports logistics revenue on a gross basis as it is primarily responsible for fulfilling the promise to provide the specified service desired by the customers and has discretion in establishing the price for the specified service.

Unearned Revenue

The Company records unearned revenue when cash payments are received in advance of the Company satisfying its performance obligations.

Payment terms vary by customer and type of service. The time between invoicing and when payment is due is not significant. For certain customers or services, the Company may require payment before the services are delivered or performed for the customer.

Practical Expedients

The Company expenses sales commissions when incurred because the period of amortization would have been one year or less. These costs are recorded within administrative expenses.

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts with variable consideration for a distinct good or service that forms part of a single performance obligation.

(o) Stock-Based Compensation

The Company has granted stock options, restricted stock and performance stock to certain directors and employees under its equity incentive plans. In addition, the Company operates an Employee Stock Purchase Plan (ESPP). The Company accounts for stock-based compensation in accordance with FASB ASC Topic 718, *Compensation – Stock Compensation*, which requires that compensation cost related to stock-based compensation be recognized in the financial statements. The cost is measured at the date the award is granted based on the fair value of the award. The fair value of stock options and shares purchased under the ESPP are calculated using the Black-Scholes-Merton option pricing model. The stock-based compensation expense is recognized over the vesting period of the grant on a straight-line basis (see Note 11). The company accounts for forfeitures as they occur.

(p) Repairs and Maintenance

The Company's leases generally require the lessee to pay for any damage to the equipment beyond normal wear and tear at the end of the lease term. The Company accounts for repairs and maintenance expense on an accrual basis when an obligation to pay has been incurred.

(3) Discontinued Operations

As discussed in Note 2, railcar assets of \$284.5 million and \$449.7 million were reclassified as held for sale as of December 31, 2019 and 2018, respectively, and the related operations of the rail business were reclassified as discontinued operations in the accompanying consolidated statements of income and cash flows.

The Company's held for sale railcar assets as of the dates indicated are made up as follows (in thousands):

	December 31, 2019	December 31, 2018
Rental equipment	\$ 315,059	\$ 448,466
Other assets	2,409	1,264
Loss on classification as held for sale	(7,323)	-
Impairment of rental equipment	(25,632)	-
Assets held for sale	\$ 284,513	\$ 449,730

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

Other assets and liabilities of the rail business, including accounts receivable, accrued expenses and other liabilities, deferred tax liabilities and debt, have not been classified as held for sale in the consolidated balance sheets as of December 31, 2019 and 2018 as they will not be sold by the Company. The rail debt will be repaid upon the sale of the railcar assets.

During the year ended December 31, 2019, the Company recorded an impairment charge of \$33.0 million to reduce the book value of its railcar portfolio to its estimated fair value less costs to sell. To assist the Company in its assessment of fair value, a third-party desk top appraisal was carried out on the railcar fleet using a combination of cost and market approaches. The cost approach utilizes the current replacement cost for a particular car type and calculates an estimated depreciation based on a railcar having a 40-year life and residual value being 10% of the estimated purchase price. The market approach estimates value based on recent market transactions involving similar railcars. The railcars were classified within Level 3 of the fair value hierarchy.

The following table summarizes the components of net loss from discontinued operations in the accompanying consolidated statements of income for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Revenue			
Rail lease revenue	\$ 26,130	\$ 35,703	\$ 32,476
Operating expenses			
Depreciation of rental equipment	5,248	14,189	11,199
Storage, handling and other expenses	6,782	5,692	5,615
Gain on sale of rental equipment	(9,490)	(1,839)	(14)
Administrative expenses	3,680	4,065	3,111
Total operating expenses	<u>6,220</u>	<u>22,107</u>	<u>19,911</u>
Operating income	19,910	13,596	12,565
Interest expense	13,343	15,772	11,237
Income (loss) before income taxes	<u>6,567</u>	<u>(2,176)</u>	<u>1,328</u>
Loss on classification as held for sale and subsequent impairment	32,955	-	-
(Loss) income from discontinued operations before income taxes	<u>(26,388)</u>	<u>(2,176)</u>	<u>1,328</u>
Income tax benefit	(6,378)	(1,667)	(8,167)
Net (loss) income from discontinued operations	<u>\$ (20,010)</u>	<u>\$ (509)</u>	<u>\$ 9,495</u>

(4) Consolidation of Variable Interest Entities as a Non-Controlling Interest

The Company regularly performs a review of its container fund arrangements with investors to determine whether or not it has a variable interest in the fund and if the fund is a VIE. If it is determined that the Company does not have a variable interest in the fund, further analysis is not required and the Company does not consolidate the fund. If it is determined that the Company does have a variable interest in the fund and the fund is a VIE, further analysis is performed to determine if the Company is a primary beneficiary of the VIE and meets both of the following criteria under FASB ASC Topic 810, *Consolidation*:

- it has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance; and
- it has the obligation to absorb losses of the VIE that could be potentially significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

If in the Company's judgment both of the above criteria are met, the VIE's financial statements are included in the Company's consolidated financial statements as required under FASB ASC Topic 810, *Consolidation*.

The Company currently enters into two types of container fund arrangements with investors which are reviewed under FASB ASC Topic 810, *Consolidation*. These arrangements include container funds that the Company manages for investors and container funds that have entered into financing arrangements with investors. All of the funds under financing arrangements are Japanese container funds that were established under separate investment agreements allowed under Japanese commercial laws. Each of the funds is financed by unrelated Japanese third-party investors.

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

Managed Container Funds

The fees earned by the Company for arranging, managing and establishing container funds are commensurate with the level of effort required to provide those services, and the arrangements include only terms and conditions that are customarily present in arrangements for similar services. As such, the Company does not have a variable interest in the managed container funds, and does not consolidate those funds. No container portfolios were sold to the funds during the years ended December 31, 2019, 2018 and 2017.

Collateralized Financing Obligations

The Company has transferred containers to Japanese investor funds while concurrently entering into lease agreements for the same containers, under which the Company leases the containers back from the Japanese investors. The Company concluded these were financing transactions under which sale-leaseback accounting was not applicable.

The terms of the transactions with container funds under financing arrangements include options for the Company to purchase the containers from the funds at a fixed price. As a result of the residual interest resulting from the fixed price call option, the Company concluded that it may absorb a significant amount of the variability associated with the funds' anticipated economic performance and, as a result, the Company has a variable interest in the funds. The funds are considered VIEs under FASB ASC Topic 810, *Consolidation*, because, as lessee of the funds, the Company has the power to direct the activities that most significantly impact each entity's economic performance, including the leasing and managing of containers owned by the funds. As the Company has the power to direct the activities that most significantly impact the economic performance of the VIEs and the variable interest provides the Company with the right to receive benefits from the entity that could potentially be significant to the funds, the Company determined that it is the primary beneficiary of these VIEs and included the VIEs' assets and liabilities as of December 31, 2019 and 2018, and the results of the VIEs' operations and cash flows for the years ended December 31, 2019, 2018 and 2017 in the Company's consolidated financial statements.

The containers that were transferred to the Japanese investor funds had a net book value of \$106.7 million as of December 31, 2019. The container equipment, together with \$26.6 million of cash held by the investor funds that can only be used to settle the liabilities of the VIEs, has been included on the Company's consolidated balance sheet with the related liability presented in the debt section of the Company's consolidated balance sheet as collateralized financing obligations of \$91.3 million and term loans held by VIE of \$36.5 million. See Note 10(e) and Note 10(f) for additional information. No gain or loss was recognized by the Company on the initial consolidation of the VIEs. Containers sold to the Japanese investor funds during the years ended December 31, 2019, 2018 and 2017, had a net book value of \$65.0 million, \$40.6 million and \$20.5 million, respectively.

(5) Rental Equipment

The following table provides a summary of the Company's rental equipment (in thousands):

	December 31, 2019	December 31, 2018
Dry containers	\$ 1,902,471	\$ 1,840,304
Refrigerated containers	282,155	341,983
Other specialized equipment	224,924	192,066
	<u>2,409,550</u>	<u>2,374,353</u>
Accumulated depreciation	(588,815)	(557,559)
Rental equipment, net of accumulated depreciation	<u>\$ 1,820,735</u>	<u>\$ 1,816,794</u>

(6) Net Investment in Finance Leases

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

	December 31, 2019	December 31, 2018
Gross finance lease receivables (1)	\$ 804,880	\$ 804,511
Unearned income (2)	(238,164)	(254,744)
Net investment in finance leases	<u>\$ 566,716</u>	<u>\$ 549,767</u>

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

- (1) At the inception of the lease, the Company records the total minimum lease payments, executory costs, if any, and unguaranteed residual value as gross finance lease receivables. The gross finance lease receivables are reduced as customer payments are received. There was \$74.3 million and \$74.4 million unguaranteed residual value at December 31, 2019 and 2018, respectively, included in gross finance lease receivables. There were no executory costs included in gross finance lease receivables as of December 31, 2019 and 2018.
- (2) The difference between the gross finance lease receivables and the cost of the equipment or carrying amount at the lease inception is recorded as unearned income. Unearned income, together with initial direct costs, are amortized to income over the lease term so as to produce a constant periodic rate of return. There were no unamortized initial direct costs as of December 31, 2019 and 2018.

In order to estimate the allowance for losses contained in the gross finance lease receivables, the Company reviews the credit worthiness of its customers on an ongoing basis. The review includes monitoring credit quality indicators, the aging of customer receivables and general economic conditions.

The categories of gross finance lease receivables based on the Company's internal customer credit ratings can be described as follows:

Tier 1— These customers are typically large international shipping lines that have been in business for many years and have world-class operating capabilities and significant financial resources. In most cases, the Company has had a long commercial relationship with these customers and currently maintains regular communication with them at several levels of management, which provides the Company with insight into the customer's current operating and financial performance. In the Company's view, these customers have the greatest ability to withstand cyclical down turns and would likely have greater access to needed capital than lower-rated customers. The Company views the risk of default for Tier 1 customers to range from minimal to moderate.

Tier 2— These customers are typically either smaller shipping lines or freight forwarders with less operating scale or with a high degree of financial leverage, and accordingly the Company views these customers as subject to higher volatility in financial performance over the business cycle. The Company generally expects these customers to have less access to capital markets or other sources of financing during cyclical down turns. The Company views the risk of default for Tier 2 customers as moderate.

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

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

	December 31, 2019	December 31, 2018
Tier 1	\$ 725,038	\$ 698,014
Tier 2	79,842	106,497
Tier 3	-	-
	<u>\$ 804,880</u>	<u>\$ 804,511</u>

Contractual maturities of the Company's gross finance lease receivables subsequent to December 31, 2019 for the years ending December 31 are as follows (in thousands):

2020	\$ 114,614
2021	111,508
2022	108,638
2023	89,270
2024	62,849
2025 and thereafter	318,001
	<u>\$ 804,880</u>

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

(7) Financing Receivable

The Company has entered into agreements with customers to purchase rental equipment and to lease the equipment back to the customers on a finance lease. As control of the equipment has been retained by the customers, the Company concluded that sale-leaseback accounting was not applicable and has treated the arrangements as financing transactions. The amount paid by the Company has been recorded as a financing receivable. Payments made by the customers are recorded as a reduction to the financing receivable and as interest income, calculated using the effective interest method.

The following table summarizes the components of the Company's financing receivable (in thousands):

	Financial statement caption	December 31, 2019
Current	Prepaid expenses and other current assets	\$ 3,726
Non-current	Financing receivable	30,693
Total financing receivable		\$ 34,419

In order to estimate an allowance for losses from financing receivables, the Company reviews the credit worthiness of its customers on an ongoing basis. As of December 31, 2019, \$33.7 million and \$0.7 million of the Company's financing receivable would be categorized as Tier 1 and Tier 2, respectively, based on the internal customer credit ratings as described in Note 6.

(8) Intangible Assets

The Company's intangible assets as of December 31, 2019 and 2018 were as follows (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
December 31, 2019			
Customer relationships	\$ 9,344	\$ (5,221)	\$ 4,123
	<u>\$ 9,344</u>	<u>\$ (5,221)</u>	<u>\$ 4,123</u>
December 31, 2018			
Customer relationships	\$ 9,344	\$ (3,611)	\$ 5,733
	<u>\$ 9,344</u>	<u>\$ (3,611)</u>	<u>\$ 5,733</u>

Amortization expense was \$1.6 million for the year ended December 31, 2019 and \$2.0 million for both the years ended December 31, 2018 and 2017, and was included in administrative expenses in the consolidated statements of income.

As of December 31, 2019, estimated future amortization expenses are as follows (in thousands):

2020	\$ 1,609
2021	1,515
2022	474
2023	457
2024	68
	<u>\$ 4,123</u>

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

(9) Leases*Lessor*

The Company leases its rental equipment on either short-term operating leases through master lease agreements, long-term non-cancelable operating leases, or finance leases. The following table summarizes the components of lease revenue from continuing operations for the year ended December 31, 2019 (in thousands):

Lease revenue - operating leases	\$ 238,971
Interest income on finance leases	45,568
Other revenue	12,338
Interest income on financing receivable	1,976
Total lease revenue	\$ 298,853

For finance leases, the net selling loss recognized at lease commencement, representing the difference between the estimated fair value of rental equipment placed on lease and net book value, in the amount of \$2.6 million for the year ended December 31, 2019 is included in "gain on sale of rental equipment" in the consolidated statement of income.

The following represents future minimum rents receivable under long-term non-cancelable operating leases of continuing operations as of December 31, 2019 (in thousands):

2020	\$ 163,334
2021	139,378
2022	113,994
2023	76,629
2024	48,541
2025 and thereafter	76,019
Total	\$ 617,895

See Note 6 for contractual maturities of the Company's gross finance lease receivables.

Lessee

The Company has entered into various non-cancelable office space leases with original lease periods expiring between 2020 and 2025. As of December 31, 2019, operating lease ROU assets of \$6.2 million were reported in other non-current assets in the consolidated balance sheets. As of December 31, 2019, total operating lease liabilities were \$7.2 million, of which \$2.4 million are due within one year and \$4.7 million are due beyond one year and were recorded in accrued expenses and other current liabilities and other non-current liabilities, respectively, in the consolidated balance sheets.

Certain leases provide for increases in future minimum annual rental payments as defined in the lease agreements. Lease expense for lease payments is recognized on a straight-line basis over the lease term and is reported in administrative expenses in the consolidated statements of income.

The following table summarizes the components of lease expense for the year ended December 31, 2019 (in thousands):

Operating lease cost	\$ 2,632
Short-term lease cost	86
Variable lease cost	339
Total lease cost	\$ 3,057

The weighted-average remaining term of the Company's operating leases was 3.0 years and the weighted-average discount rate used to measure the present value of the Company's operating lease liabilities was 3.7% as of December 31, 2019.

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

Maturities of the Company's operating lease liabilities, which do not include short-term leases, as of December 31, 2019 were as follows (in thousands):

2020	\$ 2,652
2021	2,600
2022	1,705
2023	462
2024	158
2025 and thereafter	16
Total lease payments	7,593
Less imputed interest	(430)
Total operating lease liabilities	<u>\$ 7,163</u>

Cash paid for operating leases was \$2.4 million during the year ended December 31, 2019.

(10) Debt

Details of the Company's debt as of December 31, 2019 and 2018 were as follows (dollars in thousands):

Reference	December 31, 2019			December 31, 2018			Maturity
	Outstanding		Average	Outstanding		Average	
	Current	Long-term	Interest	Current	Long-term	Interest	
(a)(i) Revolving credit facility	\$ -	\$ 624,000	3.3%	\$ 4,200	\$ 301,000	4.2%	June 2023
(a)(ii) Revolving credit facility - Rail (1)	-	137,500	3.3%	-	272,500	4.2%	October 2023
(a)(iii) Revolving credit facility - Euro	21,537	-	2.0%	-	19,457	2.0%	September 2020
(b)(i) Term loan	1,800	25,500	3.9%	1,800	27,300	4.5%	April 2023
(b)(ii) Term loan	-	-	-	111,750	-	3.8%	October 2019
(b)(iii) Term loan	7,000	68,500	3.5%	7,000	75,500	4.0%	June 2021
(b)(iv) Term loan (1)	15,284	-	3.4%	1,240	15,284	3.4%	December 2020
(b)(v) Term loan (1)	3,016	37,635	3.6%	2,909	40,651	3.6%	August 2021
(b)(vi) Term loan	6,000	86,500	4.6%	6,000	92,500	4.6%	October 2023
(c) Senior secured notes	6,110	46,665	4.9%	6,110	52,775	4.9%	September 2022
(d)(i) Asset-backed notes 2012-1	17,100	31,350	3.5%	17,100	48,450	3.5%	October 2027
(d)(ii) Asset-backed notes 2013-1	22,900	51,525	3.4%	22,900	74,425	3.4%	March 2028
(d)(iii) Asset-backed notes 2017-1	25,307	164,496	3.7%	25,307	189,802	3.7%	June 2042
(d)(iv) Asset-backed notes 2018-1	34,890	250,045	4.0%	34,890	284,935	4.0%	February 2043
(d)(v) Asset-backed notes 2018-2	34,350	266,213	4.4%	34,350	300,563	4.4%	September 2043
(e) Collateralized financing obligations	21,681	69,615	1.5%	39,610	67,615	1.2%	February 2026
(f) Term loans held by VIE	5,250	31,234	4.2%	1,456	-	3.3%	February 2026
	222,225	1,890,778		316,622	1,862,757		
Debt issuance costs	(4,131)	(10,656)		(5,241)	(15,124)		
Total Debt	<u>\$ 218,094</u>	<u>\$ 1,880,122</u>		<u>\$ 311,381</u>	<u>\$ 1,847,633</u>		

(1) These facilities will be repaid upon the sale of the railcar assets.

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

(a) Revolving Credit Facilities

Revolving credit facilities consist of the following:

(i) On March 15, 2013, the Company entered into a Third Amended and Restated Revolving Credit Agreement, as amended, with a consortium of banks to finance the acquisition of container rental equipment and for general working capital purposes. On June 27, 2018, the Company entered into an amendment to the Third Amended and Restated Revolving Credit Agreement, pursuant to which the revolving credit facility was amended to, among other things, increase the commitment level from \$960.0 million to \$1,100.0 million, with the ability to increase the revolving credit facility by an additional \$250.0 million without lender approval, subject to certain conditions. The amendment also extended the maturity date of the revolving credit facility to June 26, 2023 and revised certain covenants, restrictions and events of default to provide the Company with additional flexibility, including an increase in the maximum total leverage ratio from 3.75:1.00 to 4.00:1.00, subject to certain conditions.

As of December 31, 2019, the maximum commitment under the revolving credit facility was \$1,100.0 million. There is a commitment fee on the unused amount of the total commitment, payable quarterly in arrears. The revolving credit facility provides that swing line loans (short-term borrowings of up to \$25.0 million in the aggregate that are payable within 10 business days or at maturity date, whichever comes earlier) and standby letters of credit (up to \$30.0 million in the aggregate) will be available to the Company. These credit commitments are part of, and not in addition to, the total commitment provided under the revolving credit facility. The interest rates vary depending upon whether the loans are characterized as Base Rate loans or Eurodollar rate loans, as defined in the revolving credit agreement. Interest rates are based on LIBOR for Eurodollar loans and Base Rate for Base Rate loans. In addition to various financial and other covenants, the Company's revolving credit facility also includes certain restrictions on the Company's ability to incur other indebtedness or pay dividends to stockholders. As of December 31, 2019, the Company was in compliance with the terms of the revolving credit facility.

As of December 31, 2019, the Company had \$475.9 million in availability under the revolving credit facility (net of \$0.1 million in letters of credit) subject to its ability to meet the collateral requirements under the agreement governing the facility. Based on the borrowing base and collateral requirements at December 31, 2019, the borrowing availability under the revolving credit facility was \$83.5 million, assuming no additional contribution of assets. The entire amount of the facility drawn at any time plus accrued interest and fees is callable on demand in the event of certain specified events of default.

The Company's revolving credit facility, including any amounts drawn on the facility, is secured by substantially all of the assets of the Company (not otherwise used as security for its other credit facilities), including containers owned by the Company, which had a net book value of \$852.1 million as of December 31, 2019, the underlying leases and the Company's interest in any money received under such contracts.

(ii) On October 22, 2018, the Company and CAI Rail Inc. (CAI Rail), a wholly-owned subsidiary of the Company, entered into the Third Amended and Restated Revolving Credit Agreement with a consortium of banks, pursuant to which the revolving credit facility for CAI Rail was amended to, among other things, (i) extend the maturity date from October 22, 2020 to October 23, 2023, (ii) increase the commitment level from \$500.0 million to \$550.0 million, with the ability to increase the facility by an additional \$150.0 million, subject to certain conditions, and (iii) revise certain of the covenants and restrictions under the prior facility to provide the Company with additional flexibility. As of December 31, 2019, the maximum credit commitment under the revolving line of credit was \$250.0 million.

Borrowings under this revolving credit facility bear interest at a variable rate. The interest rates vary depending upon whether the loans are characterized as Base Rate loans or Eurodollar rate loans, as defined in the revolving credit agreement. Interest rates are based on LIBOR for Eurodollar loans, and Base Rate for Base Rate loans.

As of December 31, 2019, CAI Rail had \$112.5 million in availability under the revolving credit facility, subject to its ability to meet the collateral requirements under the agreement governing the facility. Based on the borrowing base and collateral requirements at December 31, 2019, the borrowing availability under the revolving credit facility was \$32.7 million, assuming no additional contribution of assets. The entire amount of the facility drawn at any time plus accrued interest and fees is callable on demand in the event of certain specified events of default.

The agreement governing CAI Rail's revolving credit facility contains various financial and other covenants. As of December 31, 2019, CAI Rail was in compliance with the terms of the revolving credit facility. CAI Rail's revolving credit facility, including any amounts drawn on the facility, is secured by certain assets of CAI Rail, which had a net book value of \$212.8 million as of December 31, 2019, and is guaranteed by the Company.

(iii) On September 23, 2016, the Company and CAI International GmbH (CAI GmbH), a wholly-owned subsidiary of the Company, entered into a Revolving Credit Agreement with a financial institution to finance the acquisition of rental equipment. As of December 31, 2019, the maximum credit commitment under the revolving credit facility was €25.0 million. Borrowings under this revolving credit facility bear interest at a variable rate. Interest rates are based on EURIBOR.

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

As of December 31, 2019, CAI GmbH had €5.8 million in availability under the revolving credit facility, subject to its ability to meet the collateral requirements under the agreement governing the facility. Based on the borrowing base and collateral requirements at December 31, 2019, the borrowing availability under the revolving credit facility was €0.5 million, assuming no additional contribution of assets. The entire amount of the facility drawn at any time plus accrued interest and fees is callable on demand in the event of certain specified events of default.

The agreement governing CAI GmbH's revolving credit facility contains various financial and other covenants. As of December 31, 2019, CAI GmbH was in compliance with the terms of the revolving credit facility. CAI GmbH's revolving credit facility, including any amounts drawn on the facility, is secured by all of the assets of CAI GmbH, which had a net book value of €26.3 million as of December 31, 2019, and is guaranteed by the Company.

(b) Term Loans

Term loans consist of the following:

(i) On April 19, 2018, the Company entered into a \$30.0 million five-year term loan agreement with a bank. The loan is payable in 19 quarterly installments of \$0.5 million starting July 31, 2018 and a final payment of \$21.5 million on April 30, 2023. The loan bears interest at a variable rate based on LIBOR. As of December 31, 2019, the loan had a balance of \$27.3 million.

The following are the estimated future principal and interest payments under this loan as of December 31, 2019 (in thousands). The payments were calculated assuming the interest rate remains 3.9% through maturity of the loan.

2020	\$	2,846
2021		2,775
2022		2,704
2023		22,325
		<u>30,650</u>
Less: Amount representing interest		<u>(3,350)</u>
Term loan	\$	<u>27,300</u>

(ii) On December 20, 2010, the Company entered into a term loan agreement with a consortium of banks. Under this loan agreement, the Company was eligible to borrow up to \$300.0 million, subject to certain borrowing conditions, which amount is secured by certain assets of the Company's wholly-owned foreign subsidiaries.

On October 1, 2014, the Company entered into an amended and restated term loan agreement with a consortium of banks, pursuant to which the prior loan agreement was refinanced. The amended and restated term loan agreement, which contains similar terms to the prior loan agreement, was amended to, among other things: (a) reduce the borrowing rates from LIBOR plus 2.25% to LIBOR plus 1.6% (per annum) for Eurodollar loans, (b) increase the loan commitment from \$115.0 million to \$150.0 million, (c) extend the maturity date to October 1, 2019, and (d) revise certain of the covenants and restrictions under the prior loan agreement to provide the Company with additional flexibility. The outstanding balance of \$107.3 million was repaid on October 1, 2019.

(iii) On April 11, 2012, the Company entered into a term loan agreement with a consortium of banks. The agreement, as amended, provided for a five-year term loan of up to \$142.0 million, subject to certain borrowing conditions, which amount is secured by certain assets of the Company.

On June 30, 2016, the Company entered into an amended and restated term loan agreement, pursuant to which the prior loan agreement was refinanced. The amended and restated term loan agreement, which contains similar terms to the prior loan agreement, was amended to, among other things: (a) provide the Company with the ability to increase the commitments under the facility to a maximum of \$100.0 million, subject to certain conditions, (2) extend the maturity date to June 30, 2021, and (c) revise certain of the covenants and restrictions under the prior agreement to provide the Company with additional flexibility. The term loan's outstanding principal is amortized quarterly, with quarterly payments equal to 1.75% multiplied by the original outstanding principal. The amended and restated term loan agreement bears a variable interest rate based on LIBOR for Eurodollar loans, and Base Rate for base rate loans. As of December 31, 2019, the loan had a balance of \$75.5 million.

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

The following are the estimated future principal and interest payments under this loan as of December 31, 2019 (in thousands). The payments were calculated assuming the interest rate remains 3.5% through maturity of the loan.

2020	\$	9,629
2021		69,707
		<u>79,336</u>
Less: Amount representing interest		(3,836)
Term loan	\$	<u>75,500</u>

(iv) On December 22, 2015, the Company entered into a \$20.0 million five-year term loan agreement for CAI Rail with a financial institution. The term loan's outstanding principal bears interest at a fixed rate of 3.4% per annum and is amortized quarterly. Any unpaid principal and interest is due and payable on December 22, 2020. The proceeds from the term loan were primarily used to repay outstanding amounts under CAI Rail's revolving credit facility. As of December 31, 2019, the loan had a balance of \$15.3 million.

The following are the estimated future principal and interest payments under this loan as of December 31, 2019 (in thousands). The payments were calculated based on the fixed interest rate of 3.4%.

2020	\$	15,793
Less: Amount representing interest		(509)
Term loan	\$	<u>15,284</u>

(v) On August 30, 2016, CAI Rail entered into a term loan agreement of up to \$100.0 million with a consortium of banks for the acquisition of railcars, subject to certain borrowing conditions, which is secured by certain railcars and other assets of CAI Rail. The loan agreement is an amortizing facility with a term of five years. Borrowings under the loan bear interest at a fixed rate as specified in the applicable term note entered into at the time a draw is made under the loan agreement. Principal and interest on the borrowings are payable monthly during the five-year term of the note. At closing of the loan agreement, CAI Rail made a draw of \$50.0 million on the facility at a fixed interest rate of 3.6% per annum. Any unpaid principal and interest is due on August 30, 2021. As of December 31, 2019, the loan had a balance of \$40.7 million.

The following are the estimated future principal and interest payments under this loan as of December 31, 2019 (in thousands). The payments were calculated based on the fixed interest rate of 3.6%.

2020	\$	4,441
2021		38,524
		<u>42,965</u>
Less: Amount representing interest		(2,314)
Term loan	\$	<u>40,651</u>

(vi) On October 18, 2018, the Company entered into a \$100.0 million five-year term loan agreement with a bank. The loan is payable in 20 quarterly installments of \$1.5 million starting December 20, 2018 and a final payment of \$70.0 million on October 18, 2023. The outstanding principal amounts under the loan bear interest at a fixed rate per annum of 4.6%. As of December 31, 2019, the loan had a balance of \$92.5 million.

The following are the estimated future principal and interest payments under this loan as of December 31, 2019 (in thousands). The payments were calculated based on the fixed interest rate of 4.6%.

2020	\$	10,122
2021		9,848
2022		9,574
2023		77,266
		<u>106,810</u>
Less: Amount representing interest		(14,310)
Term loan	\$	<u>92,500</u>

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

The Company's term loans are secured by rental equipment owned by the Company, which had a net book value of \$308.1 million as of December 31, 2019.

(c) Senior Secured Notes

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

The Notes bear interest at 4.9% per annum, due and payable semiannually on March 13 and September 13 of each year, commencing on March 13, 2013. In addition, CAL is required to make certain principal payments on March 13 and September 13 of each year, commencing on March 13, 2013. Any unpaid principal and interest is due and payable on September 13, 2022. The Note Purchase Agreement provides that CAL may prepay at any time all or any part of the Notes in an amount not less than 10% of the aggregate principal amount of the Notes then outstanding. As of December 31, 2019, the Notes had a balance of \$52.8 million.

The following are the estimated future principal and interest payments under the Notes as of December 31, 2019 (in thousands). The payments were calculated based on the fixed interest rate of 4.9%.

2020	\$	8,621
2021		8,322
2022		42,467
		<u>59,410</u>
Less: Amount representing interest		<u>(6,635)</u>
Senior secured notes	\$	<u>52,775</u>

The Company's senior secured notes are secured by rental equipment owned by the Company, which had a net book value of \$66.0 million as of December 31, 2019.

(d) Asset-Backed Notes

Asset-backed notes consist of the following:

(i) On October 18, 2012, CAL II issued \$171.0 million of 3.47% fixed rate asset-backed notes (Series 2012-1 Asset-Backed Notes). Principal and interest on the Series 2012-1 Asset-Backed Notes is payable monthly commencing on November 26, 2012, and the Series 2012-1 Asset-Backed Notes mature in October 2027. The proceeds from the Series 2012-1 Asset-Backed Notes were used to repay part of the Company's borrowings under its senior revolving credit facility. As of December 31, 2019, the Series 2012-1 Asset-Backed Notes had a balance of \$48.5 million.

The following are the estimated future principal and interest payments under the Series 2012-1 Asset-Backed Notes as of December 31, 2019 (in thousands). The payments were calculated based on the fixed interest rate of 3.5%.

2020	\$	18,509
2021		17,916
2022		14,477
		<u>50,902</u>
Less: Amount representing interest		<u>(2,452)</u>
Asset-backed notes	\$	<u>48,450</u>

(ii) On March 28, 2013, CAL II issued \$229.0 million of 3.35% fixed rate asset-backed notes (Series 2013-1 Asset-Backed Notes). Principal and interest on the Series 2013-1 Asset-Backed Notes is payable monthly commencing on April 25, 2013, and the Series 2013-1 Asset-Backed Notes mature in March 2028. The proceeds from the Series 2013-1 Asset-Backed Notes were used partly to reduce the balance of the Company's term loan as described in Note 10 (b)(ii) above, and to partially pay down the Company's senior revolving credit facility. The Series 2013-1 Asset-Backed Notes had a balance of \$74.4 million as of December 31, 2019.

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

The following are the estimated future principal and interest payments under the Series 2013-1 Asset-Backed Notes as of December 31, 2019 (in thousands). The payments were calculated based on the fixed interest rate of 3.4%.

2020	\$	25,042
2021		24,274
2022		23,507
2023		5,757
		78,580
Less: Amount representing interest		(4,155)
Asset-backed notes	\$	74,425

(iii) On July 6, 2017, CAL Funding III Limited (CAL III), a wholly-owned indirect subsidiary of CAI, issued \$240.9 million of 3.6% Class A fixed rate asset-backed notes and \$12.2 million of 4.6% Class B fixed rate asset-backed notes (collectively, the Series 2017-1 Asset-Backed Notes). Principal and interest on the Series 2017-1 Asset-Backed Notes is payable monthly commencing on July 25, 2017, with the Series 2017-1 Asset-Backed Notes maturing in June 2042. The proceeds from the Series 2017-1 Asset-Backed Notes were used for general corporate purposes, including repayment of debt by the Company. As of December 31, 2019, the Series 2017-1 Asset-Backed Notes had a balance of \$189.8 million.

The following are the estimated future principal and interest payments under the Series 2017-1 Asset-Backed Notes as of December 31, 2019 (in thousands). The payments were calculated based on the weighted average fixed interest rate of 3.7%.

2020	\$	31,842
2021		30,914
2022		29,986
2023		29,058
2024		28,130
2025 and thereafter		66,265
		216,195
Less: Amount representing interest		(26,392)
Asset-backed notes	\$	189,803

(iv) On February 28, 2018, CAL III issued \$332.0 million of 4.0% Class A fixed rate asset-backed notes and \$16.9 million of 4.8% Class B fixed rate asset-backed notes (collectively, the Series 2018-1 Asset-Backed Notes). Principal and interest on the Series 2018-1 Asset-Backed Notes is payable monthly commencing on March 26, 2018, with the Series 2018-1 Asset-Backed Notes maturing in February 2043. The proceeds were used for general corporate purposes, including repayment of debt by the Company. As of December 31, 2019, the Series 2018-1 Asset-Backed Notes had a balance of \$284.9 million.

The following are the estimated future principal and interest payments under the Series 2018-1 Asset-Backed Notes as of December 31, 2019 (in thousands). The payments were calculated based on the weighted average fixed interest rate of 4.0%.

2020	\$	45,650
2021		44,254
2022		42,858
2023		41,462
2024		40,066
2025 and thereafter		117,668
		331,958
Less: Amount representing interest		(47,023)
Asset-backed notes	\$	284,935

(v) On September 19, 2018, CAL III issued \$331.5 million of 4.3% Class A fixed rate asset-backed notes and \$12.0 million of 5.2% Class B fixed rate asset-backed notes (collectively, the Series 2018-2 Asset-Backed Notes). Principal and interest on the Series 2018-2 Asset-Backed Notes is payable monthly commencing on October 25, 2018, with the Series 2018-2 Asset-Backed Notes maturing in September 2043. The proceeds were used for general corporate purposes, including repayment of debt by the Company. As of December 31, 2019, the Series 2018-2 Asset-Backed Notes had a balance of \$300.6 million.

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

The following are the estimated future principal and interest payments under the Series 2018-2 Asset-Backed Notes as of December 31, 2019 (in thousands). The payments were calculated based on the weighted average fixed interest rate of 4.4%.

2020	\$	46,799
2021		45,297
2022		43,796
2023		42,295
2024		40,793
2025 and thereafter		139,603
		<u>358,583</u>
Less: Amount representing interest		(58,020)
Asset-backed notes	\$	<u>300,563</u>

The Company's asset-backed notes are secured by rental equipment owned by the Company, which had a net book value of \$1,094.8 million as of December 31, 2019.

The agreements under each of the asset-backed notes described above require the Company to maintain a restricted cash account to cover payment of the obligations. As of December 31, 2019, the restricted cash account had a balance of \$26.8 million.

(e) Collateralized Financing Obligations

As of December 31, 2019, the Company had collateralized financing obligations of \$91.3 million (see Note 3). The obligations had an average interest rate of 1.5% as of December 31, 2019 with maturity dates between March 2020 and February 2026. The debt is secured by a pool of containers covered under the financing arrangements.

The following are the estimated future principal and interest payments under the Company's collateralized financing obligations as of December 31, 2019 (in thousands). The payments were calculated assuming an average interest rate of 1.5% through maturity of the obligations.

2020	\$	21,898
2021		36,273
2022		16,759
2023		-
2024		-
2025 and thereafter		22,948
		<u>97,878</u>
Less: Amount representing interest		(6,582)
Collateralized financing obligations	\$	<u>91,296</u>

(f) Term Loans Held by VIE

On March 29, 2019, one of the Japanese investor funds that is consolidated by the Company as a VIE (see Note 4) entered into a term loan agreement with a bank. Under the terms of the term loan agreement, the Japanese investor fund entered into a seven-year, amortizing term loan of \$40.8 million at a fixed interest rate of 4.2%. The term loan is secured by assets of the Japanese investor fund and is subject to certain borrowing conditions set out in the term loan agreement. As of December 31, 2019, the term loans held by the Japanese investor fund totaled \$36.5 million and had an average interest rate of 4.2%.

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

The following are the estimated future principal and interest payments under this loan as of December 31, 2019 (in thousands). The payments were calculated assuming the interest rate remains 4.2% through maturity of the loan.

2020	\$	6,725
2021		6,725
2022		6,725
2023		6,725
2024		6,725
2025 and thereafter		8,080
		41,705
Less: Amount representing interest		(5,221)
Term loans held by VIE	\$	36,484

The Company's term loans held by VIE are secured by rental equipment owned by the Japanese investor fund, which had a net book value of \$56.0 million as of December 31, 2019.

The agreements relating to all of the Company's debt contain various financial and other covenants. As of December 31, 2019, the Company was in compliance with all of its debt covenants.

(11) Stock-Based Compensation Plan

2019 Incentive Plan

In June 2019, the Company's stockholders approved the CAI International, Inc. 2019 Incentive Plan (2019 Plan), which replaced the CAI International, Inc. Amended and Restated 2007 Equity Incentive Plan (2007 Plan). No further awards will be made under the 2007 Plan. Under the 2019 Plan, a maximum of 2,577,075 share awards may be granted. Under the 2019 Plan, the Company may grant incentive and nonqualified stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance awards and other stock or cash-based awards.

Stock Options

Stock options granted to employees have a vesting period of four years from grant date, with 25% vesting after one year, and 1/48th vesting each month thereafter until fully vested. Stock options granted to independent directors vest in one year. All of the stock options have a contractual term of 10 years.

The following table summarizes the Company's stock option activities for the three years ended December 31, 2019:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding, December 31, 2016	1,428,255	\$ 16.31		
Options granted	230,500	\$ 16.80		
Options exercised	(799,195)	\$ 16.31		
Options outstanding, December 31, 2017	859,560	\$ 16.44		
Options exercised	(9,393)	\$ 14.76		
Options outstanding, December 31, 2018	850,167	\$ 16.46		
Options exercised	(185,221)	\$ 14.06		
Options forfeited	(3,000)	\$ 12.88		
Options expired	(15,000)	\$ 25.53		
Options outstanding, December 31, 2019	646,946	\$ 16.96	5.6	\$ 7,779
Options exercisable at December 31, 2019	568,876	\$ 17.44	5.4	\$ 6,566
Expected to vest after December 31, 2019	78,070	\$ 13.44	6.9	\$ 1,213

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

The aggregate intrinsic value represents the value by which the Company's closing stock price of \$28.98 per share on the last trading day of the year ended December 31, 2019 exceeds the exercise price of the stock multiplied by the number of options outstanding or exercisable, excluding options that have a zero or negative intrinsic value. The aggregate intrinsic value of stock options exercised during 2019, 2018 and 2017, based on the closing share price on the date each option was exercised, was \$2.0 million, \$0.1 million and \$11.7 million, respectively.

The Company recognized stock-based compensation expense relating to stock options in continuing operations of \$0.6 million, \$1.1 million and \$1.4 million for the years ended December 31, 2019, 2018 and 2017, respectively. As of December 31, 2019, the remaining unamortized stock-based compensation cost relating to stock options granted to the Company's employees and independent directors was approximately \$0.4 million, which is to be recognized over the remaining weighted average vesting period of approximately 0.9 years.

The total fair value of stock options granted to the Company's employees and independent directors at the time of grant was approximately \$2.1 million, or \$9.16 per share for the year ended December 31, 2017, calculated using the Black-Scholes-Merton pricing model under the following weighted average assumptions:

	2017
Stock price	\$ 16.80
Exercise price	\$ 16.80
Expected term (years)	5.5 - 6.25
Expected volatility (%)	56.4 - 57.5
Risk-free interest rate (%)	1.77 - 2.14
Dividend yield (%)	-

The Company did not grant any stock options during the years ended December 31, 2019 and 2018.

The expected option term is calculated using the simplified method in accordance with SEC guidance. The expected volatility was derived from the average volatility of the Company's stock over a period approximating the expected term of the options. The risk-free rate is based on the daily U.S. Treasury yield curve with a term approximating the expected term of the options. No forfeiture was estimated on all options granted during the year ended December 31, 2017, as the Company accounts for forfeitures as they occur (see Note 2(o)).

Restricted Stock and Performance Stock

The Company grants restricted stock units and restricted stock awards from time to time to certain employees and independent directors pursuant to the 2019 Plan. Restricted stock granted to employees has a vesting period of four years; 25% vesting on each anniversary of the grant date. Restricted stock granted to independent directors vests in one year. The company recognizes the compensation cost associated with restricted stock over the vesting period based on the closing price of the Company's stock on the date of grant.

The Company grants performance stock to certain executives and other key employees. The performance stock vests at the end of a 3-year performance cycle if certain financial performance targets are met. The Company recognizes compensation cost associated with the performance stock ratably over the 3-year term when it is considered probable that performance targets will be met. Compensation cost is based on the closing price of the Company's common stock on the date of grant.

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

The following table summarizes the activity of restricted stock and performance stock under the 2019 Plan:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2016	65,802	\$ 14.75
Granted	37,414	\$ 17.14
Vested	(24,674)	\$ 17.83
Outstanding at December 31, 2017	78,542	\$ 14.92
Granted	156,165	\$ 22.48
Vested	(29,977)	\$ 16.52
Outstanding at December 31, 2018	204,730	\$ 20.45
Granted	166,939	\$ 25.37
Vested	(81,259)	\$ 20.89
Forfeited	(8,674)	\$ 22.42
Outstanding at December 31, 2019	281,736	\$ 23.18

The Company recognized stock-based compensation expense relating to restricted stock and performance stock awards in continuing operations of \$2.2 million, \$1.5 million and \$0.4 million for the years ended December 31, 2019, 2018 and 2017, respectively. As of December 31, 2019, unamortized stock-based compensation expense relating to restricted stock and performance stock was \$3.8 million, which will be recognized over the remaining average vesting period of 1.9 years.

Stock-based compensation expense is recorded as a component of administrative expenses in the Company's consolidated statements of income with a corresponding credit to additional paid-in capital in the Company's consolidated balance sheets.

Employee Stock Purchase Plan

In June 2019, the Company's stockholders approved the CAI International, Inc. 2019 Employee Stock Purchase Plan (ESPP). The ESPP provides a means by which eligible employees may be given an opportunity to purchase shares of the Company's common stock at a discount using payroll deductions. The ESPP authorizes the issuance of up to 250,000 shares of the Company's common stock. The first offering period under the ESPP commenced in December 2019. No shares were issued under the ESPP during the year ended December 31, 2019.

(12) Income Taxes

For the years ended December 31, 2019, 2018 and 2017, income before income taxes consisted of the following (in thousands):

	Year Ended December 31,		
	2019	2018	2017
U.S. operations	\$ (6,203)	\$ (3,215)	\$ (3,408)
Foreign operations	61,416	86,874	59,279
	<u>\$ 55,213</u>	<u>\$ 83,659</u>	<u>\$ 55,871</u>

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

Income tax expense (benefit) attributable to income from continuing operations consisted of (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Current			
Federal	\$ 5	\$ 2	\$ (563)
State	89	98	82
Foreign	364	282	536
	<u>458</u>	<u>382</u>	<u>55</u>
Deferred			
Federal	2,486	1,859	(8,755)
State	396	734	826
Foreign	852	1,579	1,180
	<u>3,734</u>	<u>4,172</u>	<u>(6,749)</u>
Income tax expense (benefit)	<u>\$ 4,192</u>	<u>\$ 4,554</u>	<u>\$ (6,694)</u>

The reconciliations between the Company's income tax expense and the amounts computed by applying the U.S. federal income tax rate of 21.0% for the years ended December 31, 2019 and 2018 and 35.0% for the year ended December 31, 2017 are as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Computed expected tax expense	\$ 11,595	\$ 17,568	\$ 19,555
Increase (decrease) in income taxes resulting from:			
Foreign tax differential	(11,648)	(16,384)	(19,032)
State income tax expense, net of federal income tax benefit	433	534	(1,158)
Subpart F income	3,592	2,202	683
IRC Section 162(m) excess officer's compensation	215	172	-
Non-deductible stock-based compensation	94	133	218
Excess tax benefit related to stock-based compensation	(155)	(34)	(1,858)
Increase in uncertain tax positions	1	1	61
Adjustment for prior years	(13)	304	1,894
Change in Federal tax rate	-	-	(6,962)
Adjustment to contingent consideration	-	-	(429)
Other	78	58	334
	<u>\$ 4,192</u>	<u>\$ 4,554</u>	<u>\$ (6,694)</u>

As of December 31, 2019, the Company had \$78.3 million and \$15.4 million of net operating loss (NOL) carry forwards available to offset future federal and state taxable income, respectively. The NOL carry forwards will begin to expire in 2035 and 2029 for federal and state income tax purposes, respectively.

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2019 and 2018 are presented below (in thousands):

	Year Ended December 31,	
	2019	2018
Deferred tax assets:		
Accounts receivable	\$ 357	\$ 144
Accrued expenses and other current liabilities	422	743
Unearned revenue	33	51
Stock-based compensation	1,026	1,060
Other	53	62
Net operating loss carry forwards	21,087	37,464
Gross deferred tax assets	22,978	39,524
Valuation allowance	-	-
Net deferred tax assets	22,978	39,524
Deferred tax liabilities:		
Depreciation and amortization	46,180	68,859
Foreign deferred tax liabilities	953	1,047
Intangible assets	1,167	1,425
Deferred subpart F income	10,054	6,512
Gross deferred tax liabilities	58,354	77,843
Net deferred tax liability	\$ 35,376	\$ 38,319

The realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company's management considers the projected future taxable income for making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, the Company's management believes it is more likely than not the Company will realize the benefits of the deductible differences noted above.

Deferred income taxes have not been provided on the undistributed earnings of foreign subsidiaries. As of December 31, 2019, the amount of such earnings totaled approximately \$6.4 million. These earnings have been permanently reinvested and the Company does not plan to initiate any action that would precipitate the payment of income taxes thereon. The amount of income taxes that would have resulted had such earnings been repatriated is not practically determinable.

The following table summarizes the activity related to the Company's unrecognized tax benefits (in thousands):

Balance at December 31, 2017	\$ 277
Increases related to current year tax positions	14
Balance at December 31, 2018	291
Increases related to current year tax positions	12
Balance at December 31, 2019	\$ 303

The unrecognized tax benefits of \$0.3 million at December 31, 2019, if recognized, would reduce the Company's effective tax rate. The Company accrued potential interest and penalties of less than \$0.1 million related to unrecognized tax benefits for each of the years ended December 31, 2019 and 2018.

The U.S. Tax Cuts and Job Act of 2017 (TCJA) was signed into law on December 22, 2017. The most significant effect of TCJA on the Company was the U.S. federal corporate tax rate reduction from 35% to 21%, which required re-measurement of the Company's U.S. deferred income tax assets and liabilities as of December 31, 2017. As the Company was in an overall net deferred tax liability position, the corporate tax rate reduction resulted in a net tax benefit of \$16.9 million in 2017.

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

Other significant provisions of the TCJA that became effective in 2018 that may impact the Company's income taxes are: the limitation on the deduction of interest expense in excess of 30 percent of adjusted taxable income; limitation on the utilization of net operating losses generated after fiscal year 2017 to 80 percent of taxable income; the taxation of global intangible low-taxed income (GILTI) of controlled foreign corporations; and limitation on the deduction for executive compensation. As a result of the GILTI provisions of the TCJA, the Company is likely to incur additional taxes on GILTI in the future, although the timing and amount of such taxes cannot be reasonably determined, as it depends on the Company's future operating results and investment in containers. The Company adopted the accounting policy of accounting for taxes on GILTI in the period that it is subject to such tax.

The Company's tax returns, including the United States, California, New Jersey and South Carolina, are subject to examination by the tax authorities. The Company accrues for unrecognized tax benefits based upon its best estimate of the additional taxes, interest and penalties expected to be paid. These estimates are updated over time as more definitive information becomes available from taxing authorities, completion of tax audits, expiration of statute of limitations, or upon occurrence of other events.

The Company does not believe the total amount of unrecognized tax benefit as of December 31, 2019 will increase or decrease significantly in the next twelve months. As of December 31, 2019, the statute of limitations for tax examinations in the United States has not expired for the years ended December 31, 2015 through 2018. California, New Jersey and South Carolina have not expired for tax returns filed for the years ended December 31, 2015 through 2018. The Company was notified on May 1, 2017 that its 2015 U.S. federal income tax return was selected for examination. The examination was concluded on June 20, 2018 with no impact to tax expense.

(13) Fair Value of Financial Instruments

The carrying amounts of cash, restricted cash, accounts receivable and accounts payable reflected in the balance sheets as of December 31, 2019 and 2018, approximate their fair value due to the short-term nature of these financial assets and liabilities. The carrying value of variable rate debt in the balance sheets as of December 31, 2019 and 2018 approximates fair value as the changes in their associated interest rates reflect the current market and credit risk is similar to when the loans were originally obtained.

The principal balance of the Company's fixed-rate term loans, asset-backed notes and collateralized financing obligations was \$148.4 million, \$898.2 million and \$91.3 million as of December 31, 2019, with a fair value of approximately \$151.0 million, \$911.0 million and \$93.0 million, respectively, based on the fair value of estimated future payments calculated using prevailing interest rates. The fair value of these financial instruments would be categorized as Level 2 in the fair value hierarchy. The principal balance of the Company's asset-backed notes and collateralized financing obligations was \$1,032.7 million and \$107.2 million as of December 31, 2018, with a fair value of approximately \$1,024.7 million and \$108.9 million, respectively. Management believes that the balances of the Company's senior secured notes of \$52.8 million and \$58.9 million and term loans held by VIE of \$36.5 million and \$1.5 million as of December 31, 2019 and 2018, respectively, fixed-rate term loans of \$158.6 million as of December 31, 2018, and financing receivable of \$34.4 million as of December 31, 2019, approximate their fair values. The fair value of these financial instruments would be categorized as Level 2 in the fair value hierarchy.

(14) Commitments and Contingencies

As of December 31, 2019 and 2018, the Company had one outstanding letter of credit of \$0.1 million. The letter of credit guarantees the Company's obligations under certain operating lease agreements.

In addition to the rental equipment payable of \$25.1 million, the Company had commitments to purchase approximately \$6.0 million of containers as of December 31, 2019, all in the twelve months ended December 31, 2020.

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 tax matters, governmental regulations, and contractual relationships. Performance under these indemnities would generally be triggered by a breach of terms of a contract or by a third-party claim. The Company regularly evaluates the probability of having to incur costs associated with these indemnifications and as of December 31, 2019 there were no claims outstanding under such indemnifications and the Company believes that no claims are probable of occurring in the future.

(15) Related Party Transactions

In May 2018, the Company purchased, and subsequently cancelled, 1,225,214 shares of its common stock, from an affiliate of Andrew S. Ogawa in a privately-negotiated transaction. Mr. Ogawa is a member of the Company's Board of Directors. The stock was purchased at a price of \$22.81 per share, which represented a 2% discount to the closing price on the date of purchase.

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

The Company is responsible for settling income tax liabilities of certain employees related to stock-based compensation. The Company is then reimbursed for those amounts by the employees. At December 31, 2019, the Company had a liability of \$1.2 million representing tax due to the UK tax authorities in respect of an officer of the Company. The Company also included in its balance sheet at December 31, 2019 a current asset of \$1.2 million, representing the amount that will be reimbursed to the Company by that officer.

(16) Stockholders' Equity

Stock Repurchase Plan

In October 2018, the Company announced that the Board of Directors approved the repurchase of up to three million shares of its outstanding common stock. The number, price, structure and timing of the repurchases, if any, will be at the Company's sole discretion and will be evaluated by the Company depending on prevailing market conditions, corporate needs, and other factors. The stock repurchases may be made in the open market, block trades or privately negotiated transactions. This stock repurchase program replaces any available prior share repurchase authorization and may be discontinued at any time. During the year ended December 31, 2019, the Company repurchased 1.5 million shares of its common stock under this repurchase plan, at a cost of approximately \$34.1 million. As of December 31, 2019, approximately 1.0 million shares remained available for repurchase under this share repurchase program.

Common Stock At-the-Market (ATM) Offering Program

In October 2017, the Company commenced an ATM offering program with respect to its common stock, which allows the Company to issue and sell up to 2.0 million shares of its common stock. During the year ended December 31, 2018, the Company issued 100,000 shares of common stock under the ATM offering program for net proceeds of \$2.8 million. The Company paid commissions to the sales agent of \$0.1 million in connection with the sales of common stock under this ATM offering program during the year ended December 31, 2018. The net proceeds were used for general corporate purposes. The Company did not issue any shares under this ATM offering program during the year ended December 31, 2019. The Company has remaining capacity to issue and sell up to approximately 1.0 million of additional shares of common stock under this ATM offering program.

Series A Preferred Stock Underwritten Offering

In March 2018, the Company completed an underwritten public offering of 1,600,000 shares of its 8.5% Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Stock, par value \$0.0001 per share and liquidation preference \$25.00 per share (Series A Preferred Stock), resulting in net proceeds to the Company of approximately \$38.3 million, after deducting the underwriting discount and other offering expenses. In April 2018, the Company sold an additional 170,900 shares of Series A Preferred Stock upon the partial exercise by the underwriters of their option to purchase additional Series A Preferred Stock, resulting in net proceeds to the Company of approximately \$4.1 million, after deducting the underwriting discount of \$0.1 million. The net proceeds were used for repayment of debt and general corporate purposes.

Dividends on the Series A Preferred Stock accrue daily and are cumulative from and including the date of original issuance and are payable quarterly in arrears. Dividends accrue at an annual rate of 8.5% of the \$25.00 liquidation preference per annum. The Series A Preferred Stock ranks senior to the Company's common stock with respect to dividend rights and rights upon the Company's liquidation, dissolution or winding up.

The Series A Preferred Stock becomes redeemable by the Company beginning April 15, 2023 for cash at a redemption price of \$25.00 per share of Series A Preferred Stock, plus accrued but unpaid dividends. The Company may also redeem the Series A Preferred Stock upon a Change of Control (as defined in the Series A Certificate of Designations), subject to certain restrictions, for cash at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends. There is no mandatory redemption of the Series A Preferred Stock or redemption at the option of the holders. Holders of the Series A Preferred Stock do not have general voting rights.

Series A Preferred Stock ATM Offering Program

In May 2018, the Company commenced an ATM offering program with respect to its Series A Preferred Stock, which allows the Company to issue and sell up to 2.2 million shares of its Series A Preferred Stock. During the year ended December 31, 2018, the Company issued 428,710 shares of Series A Preferred Stock under the ATM offering program for net proceeds of \$10.5 million. The Company paid commissions to the sales agent of \$0.2 million in connection with the sales of Series A Preferred Stock under this ATM offering program during the year ended December 31, 2018. The net proceeds were used for repayment of debt and general corporate purposes. The Company did not issue any shares under this ATM offering program during the year ended December 31, 2019. As of December 31, 2019, the Company had remaining capacity to issue and sell up to approximately 1.8 million of additional shares of Series A Preferred Stock under this ATM offering program.

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

Series B Preferred Stock Underwritten Offering

In August 2018, the Company completed an underwritten public offering of 1,700,000 shares of its 8.5% Series B Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Stock, par value \$0.0001 per share and liquidation preference \$25.00 per share (Series B Preferred Stock), resulting in net proceeds to the Company of approximately \$41.2 million, after deducting the underwriting discount, and other offering expenses. The Company sold an additional 255,000 shares of Series B Preferred Stock upon the exercise by the underwriters of their option to purchase additional Series B Preferred Stock, resulting in net proceeds to the Company of approximately \$6.2 million, after deducting the underwriting discount of \$0.2 million. The net proceeds were used for repayment of debt and general corporate purposes.

Dividends on the Series B Preferred Stock accrue daily and are cumulative from and including the date of original issuance and are payable quarterly in arrears. Dividends accrue at an annual rate of 8.5% of the \$25.00 liquidation preference per annum. The Series B Preferred Stock ranks senior to the Company's common stock with respect to dividend rights and rights upon the Company's liquidation, dissolution or winding up.

The Series B Preferred Stock becomes redeemable by the Company beginning August 15, 2023 for cash at a redemption price of \$25.00 per share of Series B Preferred Stock, plus accrued but unpaid dividends. The Company may also redeem the Series B Preferred Stock upon a Change of Control (as defined in the Series B Certificate of Designations), subject to certain restrictions, for cash at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends. There is no mandatory redemption of the Series A Preferred Stock or redemption at the option of the holders. Holders of the Series B Preferred Stock do not have general voting rights.

(17) Segment and Geographic Information

The Company organizes itself by the nature of the services it provides, which includes equipment leasing (consisting of container leasing and rail leasing) and logistics.

As disclosed in Note 3, the Company's railcar assets have been reclassified as held for sale in the accompanying consolidated balance sheets and the operations of the rail business have been reclassified as discontinued operations in the accompanying consolidated statements of income. As a result, the Company will no longer report Rail leasing as a segment. The Company revised prior period information to conform to current period presentation.

The container leasing segment is aggregated with equipment management and derives its revenue from the ownership and leasing of containers and fees earned for managing container portfolios on behalf of third-party investors. The logistics segment derives its revenue from the provision of logistics services. There are no material inter-segment revenues and operating expenses are directly attributable to each segment.

The following tables show condensed segment information for the years ended December 31, 2019, 2018 and 2017, reconciled to the Company's income before income taxes as shown in its consolidated statements of income for such periods (in thousands):

	Year Ended December 31, 2019		
	Container Leasing	Logistics	Total
Container lease revenue	\$ 298,853	\$ -	\$ 298,853
Logistics revenue	-	117,687	117,687
Total revenue	298,853	117,687	416,540
Depreciation of rental equipment	111,917	-	111,917
Storage, handling and other expenses	17,533	-	17,533
Logistics transportation costs	-	104,109	104,109
Gain on sale of rental equipment	(4,402)	-	(4,402)
Administrative expenses	34,188	18,511	52,699
Total operating expenses	159,236	122,620	281,856
Operating income (loss)	139,617	(4,933)	134,684
Net interest expense (income)	79,174	(16)	79,158
Other expense	313	-	313
Total other expenses	79,487	(16)	79,471
Income (loss) before income taxes	\$ 60,130	\$ (4,917)	\$ 55,213
Purchase of rental equipment (1)	\$ 316,857	\$ -	\$ 316,857

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

Year Ended December 31, 2018

	Container Leasing	Logistics	Total
Container lease revenue	\$ 284,924	\$ -	\$ 284,924
Logistics revenue	-	111,471	111,471
Total revenue	284,924	111,471	396,395
Depreciation of rental equipment	107,109	-	107,109
Storage, handling and other expenses	8,853	-	8,853
Logistics transportation costs	-	97,170	97,170
Gain on sale of rental equipment	(9,886)	-	(9,886)
Administrative expenses	28,792	17,448	46,240
Total operating expenses	134,868	114,618	249,486
Operating income (loss)	150,056	(3,147)	146,909
Net interest expense	62,573	-	62,573
Other expense	677	-	677
Total other expenses	63,250	-	63,250
Income (loss) before income taxes	\$ 86,806	\$ (3,147)	\$ 83,659
Purchase of rental equipment (1)	\$ 739,944	\$ -	\$ 739,944

Year Ended December 31, 2017

	Container Leasing	Logistics	Total
Container lease revenue	\$ 235,365	\$ -	\$ 235,365
Logistics revenue	-	80,552	80,552
Total revenue	235,365	80,552	315,917
Depreciation of rental equipment	99,753	-	99,753
Storage, handling and other expenses	15,303	-	15,303
Logistics transportation costs	-	68,155	68,155
Gain on sale of rental equipment	(5,333)	-	(5,333)
Administrative expenses	24,570	15,018	39,588
Total operating expenses	134,293	83,173	217,466
Operating income (loss)	101,072	(2,621)	98,451
Net interest expense	41,815	-	41,815
Other expense	765	-	765
Total other expenses	42,580	-	42,580
Income (loss) before income taxes	\$ 58,492	\$ (2,621)	\$ 55,871
Purchase of rental equipment (1)	\$ 432,212	\$ -	\$ 432,212

(1) Represents cash disbursements for purchasing of rental equipment as reflected in the consolidated statements of cash flows for the periods indicated.

The summary below presents total assets for the Company's segments as of the dates indicated (in thousands):

	December 31, 2019	December 31, 2018
Container leasing	\$ 2,565,828	\$ 2,506,279
Logistics (1)	42,478	45,951
Rail (2)	293,459	460,387
Total assets	\$ 2,901,765	\$ 3,012,617

(1) Includes goodwill of \$15.8 million as of December 31, 2019 and 2018.

(2) Represents total assets related to discontinued operations, including assets held for sale of \$284.5 million and \$449.7 million as of December 31, 2019 and 2018, respectively.

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

Geographic Data

The Company earns its revenue primarily from intermodal containers which are deployed by its customers in a wide variety of global trade routes. Virtually all of the Company's containers are used internationally and typically no container is domiciled in one particular place for a prolonged period of time. As such, substantially all of the Company's long-lived assets are considered to be international, with no single country of use.

The following table represents the geographic allocation of revenue for the periods indicated based on customers' primary domicile (in thousands):

	Year Ended December 31,		
	2019	2018	2017
United States	\$ 124,335	\$ 118,724	\$ 88,082
Switzerland	50,118	50,805	32,430
France	34,947	37,565	34,862
Korea	42,257	31,877	20,755
Singapore	41,626	26,854	19,856
Other Asia	58,349	67,695	64,097
Other Europe	63,141	54,677	45,176
Other International	1,767	8,198	10,659
Total revenue	\$ 416,540	\$ 396,395	\$ 315,917

(18) Concentration of Credit Risk

The Company's single largest container lessee accounted for 13.4%, or \$65.9 million, 11.8%, or \$58.0 million, and 9.7% or \$34.7 million, of total billings for the years ended December 31, 2019, 2018 and 2017, respectively, and accounted for 6% of its accounts receivable as of December 31, 2019 and 2018. The Company's second largest container lessee accounted for 8.4%, or \$41.4 million, 8.4%, or \$41.3 million, and 10.5%, or \$37.5 million, of total billings for the years ended December 31, 2019, 2018 and 2017, respectively, and accounted for 11% and 15% of its accounts receivable as of December 31, 2019 and 2018, respectively.

(19) Earnings per Share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock; however, potential common equivalent shares are excluded if their effect is anti-dilutive.

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

The following table sets forth the reconciliation of basic and diluted net income per share for the years ended December 31, 2019, 2018 and 2017 (in thousands, except per share data):

	Year Ended December 31,		
	2019	2018	2017
Numerator			
Net income from continuing operations	\$ 42,192	\$ 73,981	\$ 62,565
Net (loss) income from discontinued operations	(20,010)	(509)	9,495
Net income attributable to CAI common stockholders	<u>\$ 22,182</u>	<u>\$ 73,472</u>	<u>\$ 72,060</u>
Denominator			
Weighted-average shares used in per share computation - basic	17,731	19,562	19,253
Effect of dilutive securities:			
Stock options and restricted stock	280	260	354
Weighted-average shares used in per share computation - diluted	<u>18,011</u>	<u>19,822</u>	<u>19,607</u>
Net income (loss) per share attributable to CAI common stockholders:			
Basic			
Continuing operations	\$ 2.38	\$ 3.78	\$ 3.25
Discontinued operations	\$ (1.13)	\$ (0.02)	\$ 0.49
Total basic	<u>\$ 1.25</u>	<u>\$ 3.76</u>	<u>\$ 3.74</u>
Diluted			
Continuing operations	\$ 2.34	\$ 3.73	\$ 3.19
Discontinued operations	\$ (1.11)	\$ (0.02)	\$ 0.49
Total diluted	<u>\$ 1.23</u>	<u>\$ 3.71</u>	<u>\$ 3.68</u>

The calculation of diluted earnings per share for the years ended December 31, 2019, 2018 and 2017, excluded from the denominator 57,411 shares, 160,163 shares and 458,857 shares, respectively, of common stock options because their effect would have been anti-dilutive.

(20) Selected Quarterly Financial Data (Unaudited)

The following table sets forth key interim financial information for the years ended December 31, 2019 and 2018 (in thousands, except per share amount):

	2019 Quarters Ended				2018 Quarters Ended			
	Dec. 31	Sept. 30 (1)	June 30 (1)	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Revenue	\$ 103,420	\$ 105,805	\$ 104,088	\$ 103,227	\$ 106,846	\$ 106,693	\$ 96,586	\$ 86,270
Operating expenses	71,934	70,031	71,436	68,455	68,216	67,044	60,065	54,161
Operating income	31,486	35,774	32,652	34,772	38,630	39,649	36,521	32,109
Net income from continuing operations	9,541	11,926	8,487	12,238	16,084	20,571	19,503	17,823
Net income per share attributable to CAI common stockholders - continuing operations:								
Basic	\$ 0.54	\$ 0.69	\$ 0.48	\$ 0.66	\$ 0.85	\$ 1.07	\$ 1.00	\$ 0.87
Diluted	\$ 0.54	\$ 0.68	\$ 0.47	\$ 0.65	\$ 0.83	\$ 1.06	\$ 0.99	\$ 0.86

CAI INTERNATIONAL, INC.
Notes to Consolidated Financial Statements (continued)

- (1) Subsequent to the filing of the Company's Quarterly Reports on Form 10-Q for the periods ended June 30, 2019 and September 30, 2019, the Company identified misstatements arising from the misclassification of certain leases. The Company has determined that the misstatements are immaterial to the prior quarters' consolidated financial statements. The impact of the adjustments is set out below (in thousands, except share amount):

	Three Months Ended June 30, 2019			Three Months Ended September 30, 2019		
	As Previously Reported	Correction	As Adjusted	As Previously Reported	Correction	As Adjusted
	Revenue	\$ 105,576	\$ (1,488)	\$ 104,088	\$ 107,570	\$ (1,765)
Operating expenses	69,566	1,870	71,436	70,750	(719)	70,031
Operating income	36,010	(3,358)	32,652	36,820	(1,046)	35,774
Net income from continuing operations	12,328	(3,841)	8,487	12,958	(1,032)	11,926
Net income per share attributable to CAI						
common stockholders - continuing operations:						
Basic	\$ 0.70	\$ (0.22)	\$ 0.48	\$ 0.75	\$ (0.06)	\$ 0.69
Diluted	\$ 0.69	\$ (0.22)	\$ 0.47	\$ 0.74	\$ (0.06)	\$ 0.68

Schedule II
Valuation Accounts
(In thousands)

	Balance at Beginning of Period	Net Additions to Expense	(Deductions)/ Recoveries*	Balance at End of Period
December 31, 2017				
Accounts receivable, allowance for doubtful accounts	\$ 1,340	\$ 402	\$ (302)	\$ 1,440
December 31, 2018				
Accounts receivable, allowance for doubtful accounts	\$ 1,440	\$ 492	\$ 110	\$ 2,042
December 31, 2019				
Accounts receivable, allowance for doubtful accounts	\$ 2,042	\$ 6,225 ⁽¹⁾	\$ (96)	\$ 8,171

*Primarily consists of write-offs, net of recoveries and other adjustments.

(1) Includes a \$5.2 million reserve against a customer receivable.

EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of CAI International, Inc. (incorporated by reference to Exhibit 3.1 of our Registration Statement on Form S-1, as amended, File No. 333-140496, filed on April 24, 2007).
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of CAI International, Inc., dated June 4, 2018 (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on June 5, 2018).
3.3	Certificate of Designations of Rights and Preferences of 8.50% Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Stock, dated March 28, 2018 (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on March 28, 2018).
3.4	Certificate of Designations of Rights and Preferences of 8.50% Series B Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Stock, dated August 10, 2018 (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on August 10, 2018).
3.5	Amended and Restated Bylaws of CAI International, Inc. (incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K, filed on March 10, 2009).
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 of our Registration Statement on Form S-1, as amended, File No. 333-140496, filed on April 24, 2007).
4.2	Indenture, dated October 18, 2012, between CAL Funding II Limited and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K, filed on October 23, 2012).
4.3	Series 2012-1 Supplement, dated October 18, 2012, to Indenture dated October 18, 2012, between CAL Funding II Limited and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.2 of our Current Report on Form 8-K, filed on October 23, 2012).
4.4	Series 2013-1 Supplement, dated March 28, 2013, to Indenture dated October 18, 2012, between CAL Funding II Limited and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K, filed on April 3, 2013).
4.5	Indenture, dated July 6, 2017, among CAL Funding III Limited and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K, filed on July 11, 2017).
4.6	Series 2017-01 Supplement, dated July 6, 2017, among CAL Funding III Limited and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.2 of our Current Report on Form 8-K, filed on July 11, 2017).
4.7	Series 2018-1 Supplement, dated February 28, 2018, to Indenture dated July 6, 2017, between CAL Funding III Limited and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K filed on March 5, 2018).
4.8	Series 2018-2 Supplement, dated September 19, 2018, to Indenture dated July 6, 2017, between CAL Funding III Limited and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K filed on September 25, 2018).
4.9#	Description of Registrant's Securities.
10.1*	Form of Indemnification Agreement between CAI International, Inc. and each of its current executive officers and directors (incorporated by reference to Exhibit 10.8 of our Registration Statement on Form S-1, as amended, File No. 333-140496, filed on April 24, 2007).
10.2*	CAI International, Inc. 2007 Equity Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed on June 7, 2017).

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10.3*	CAI International, Inc. 2019 Incentive Plan (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed on June 13, 2019).
10.4*	CAI International, Inc. 2019 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K, filed on June 13, 2019).
10.5††	P&R Management Agreement, dated March 14, 2006, among Container Applications International, Inc., P&R Equipment & Finance Corporation and Interpool Containers Limited (incorporated by reference to Exhibit 10.12 of our Registration Statement on Form S-1, as amended, File No. 333-140496, filed on March 27, 2007).
10.6	Third Amended and Restated Revolving Credit Agreement, dated March 15, 2013, by and among CAI International, Inc., Container Applications Limited, the lending institutions listed on Schedule I thereto, Bank of America, N.A., as administrative agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Union Bank, N.A. and Wells Fargo Bank, N.A., as syndication agents, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Union Bank, N.A. and Wells Fargo Securities, LLC, as joint lead arrangers and book managers, and Bank of Montreal (Chicago Branch), JPMorgan Chase Bank, N.A. and Sovereign Bank, N.A., as co-agents (incorporated by reference to Exhibit 99.1 of our Current Report on Form 8-K, filed on March 21, 2013).
10.7	Amendment No. 1 to Third Amended and Restated Revolving Credit Agreement, dated October 1, 2013, by and among CAI International, Inc., Container Applications Limited, Bank of America, N.A. and other lending institutions from time to time party to the Third Amended and Restated Revolving Credit Agreement, Bank of America, N.A., as administrative agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Union Bank, N.A. and Wells Fargo Bank, N.A., as syndication agents, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Union Bank, N.A. and Wells Fargo Securities, LLC, as joint lead arrangers and book managers, and Bank of Montreal (Chicago Branch), JP Morgan Chase Bank, N.A. and Sovereign Bank, N.A., as co-agents (incorporated by reference to Exhibit 10.6 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed on February 27, 2015).
10.8	Amendment No. 2 to Third Amended and Restated Revolving Credit Agreement, dated August 15, 2014, by and among CAI International, Inc., Container Applications Limited, Bank of America, N.A. and other lending institutions from time to time party to the Third Amended and Restated Revolving Credit Agreement, Bank of America, N.A., as administrative agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Union Bank, N.A. and Wells Fargo Bank, N.A., as syndication agents, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Union Bank, N.A. and Wells Fargo Securities, LLC, as joint lead arrangers and book managers, and Bank of Montreal (Chicago Branch), JP Morgan Chase Bank, N.A. and Santander Bank, N.A., as co-agents (incorporated by reference to Exhibit 10.7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed on February 27, 2015).
10.9	Amendment No. 3 to Third Amended and Restated Revolving Credit Agreement, dated January 30, 2015, by and among CAI International, Inc., Container Applications Limited, Bank of America, N.A. and other lending institutions from time to time party to the Third Amended and Restated Revolving Credit Agreement, Bank of America, N.A., as administrative agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, MUFG Union Bank, N.A. and Wells Fargo Bank, N.A., as syndication agents, Merrill Lynch, Pierce, Fenner & Smith Incorporated, MUFG Union Bank, N.A. and Wells Fargo Securities, LLC, as joint lead arrangers and book managers, and Bank of Montreal (Chicago Branch), JP Morgan Chase Bank, N.A. and Santander Bank, N.A., as co-agents (incorporated by reference to Exhibit 99.1 of our Current Report on Form 8-K, filed on February 5, 2015).
10.10	Commitment Increase, Amendment No. 5 and Joinder, dated June 16, 2017, by and among CAI International, Inc., Container Applications Limited, the guarantors named therein, Bank of America, N.A., as a lender and administrative agent of the lenders, the other lending institutions party thereto, Merrill Lynch, Pierce, Fenner & Smith Incorporated, MUFG Union Bank, N.A. and Wells Fargo Bank, N.A., as syndication agents, Merrill Lynch, Pierce, Fenner & Smith Incorporated, MUFG Union Bank, N.A. and Wells Fargo Securities, LLC, as joint lead arrangers and book managers, and Bank of Montreal (Chicago branch), JPMorgan Chase Bank, N.A. and Santander Bank N.A. as co-agents (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed on June 22, 2017).
10.11	Amendment No. 6 to Third Amended and Restated Revolving Credit Agreement, dated June 26, 2018, by and among CAI International, Inc., Container Applications Limited, the guarantors named therein, Bank of America, N.A., as a lender and administrative agent, the other lending institutions party thereto, Merrill Lynch, Pierce, Fenner & Smith Incorporated (“Merrill Lynch”), MUFG Union Bank, N.A. and Wells Fargo Bank, N.A., as syndication agents, Merrill Lynch, as lead arranger and book runner, and ABN AMRO Capital USA, LLC, Compass Bank, Bank of Montreal, Royal Bank of Canada and PNC Bank, National Association, as documentation agents (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on June 28, 2018).

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- [10.12](#) [Amended and Restated Term Loan Agreement, dated October 1, 2014, among Container Applications Limited, CAI International, Inc., the lending institutions from time to time listed on Schedule I thereto, ING Bank N.V. and ING Bank, branch of ING-DIBA AG \(incorporated by reference to Exhibit 99.1 of our Current Report on Form 8-K, filed on October 7, 2014\).](#)
- [10.13](#) [Amended and Restated Term Loan Agreement, dated June 30, 2016, among Container Applications Limited, CAI International, Inc., the Lenders listed on Schedule I thereto, SunTrust Bank and SunTrust Robinson Humphrey, Inc. \(incorporated by reference to Exhibit 99.1 of our Current Report on Form 8-K, filed on July 7, 2016\).](#)
- [10.14](#) [Second Amended and Restated Revolving Credit Agreement, dated October 22, 2015, among CAI Rail, Inc., CAI International, Inc., the lending institutions from time to time listed on Schedule 1 thereto, MUFG Union Bank, N.A. and Bank of America, N.A., as joint lead arrangers and joint bookrunners, Bank of America, N.A., as syndication agent, and ING Bank, a branch of ING-Diba AG and The Huntington National Bank, as co-documentation agents \(incorporated by reference to Exhibit 99.1 of our Current Report on Form 8-K, filed on October 27, 2015\).](#)
- [10.15](#) [Third Amended and Restated Revolving Credit Agreement, dated October 22, 2018, among CAI Rail Inc., CAI International, Inc., the lending institutions from time to time listed on Schedule 1 thereto, MUFG Union Bank, N.A., as administrative agent and lead arranger and bookrunner, Bank of America, N.A., as syndication agent, and ING Bank, a branch of ING-Diba AG and The Huntington National Bank, as co-documentation agents.](#)
- [10.16](#) [Contribution and Sale Agreement, dated October 18, 2012, between Container Applications Limited and CAL Funding II Limited \(incorporated by reference to Exhibit 99.2 of our Current Report on Form 8-K, filed on October 23, 2012\).](#)
- [10.17](#) [Performance Guaranty, dated October 18, 2012, made by CAI International, Inc. for the benefit of Wells Fargo Bank, National Association \(incorporated by reference to Exhibit 99.3 of our Current Report on Form 8-K, filed on October 23, 2012\).](#)
- [10.18](#) [Loan and Security Agreement, dated August 30, 2016, among CAI Rail, Inc., the lenders from time to time party thereto, and Bank of Utah, as administrative and collateral agent \(incorporated by reference to Exhibit 99.1 of our Current Report on Form 8-K filed on September 6, 2016\).](#)
- [10.19](#) [Term Loan Agreement, dated October 18, 2018, among Container Applications Limited, CAI International, Inc., the lending institutions from time to time listed on Schedule 1 thereto, and Wells Fargo Bank, N.A., as administrative agent \(incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on October 23, 2018\).](#)
- [10.20*](#) [Amended and Restated Employment Agreement, dated April 29, 2011, between CAI International, Inc. and Victor Garcia \(incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2011, filed on May 6, 2011\).](#)
- [10.21*](#) [Employment Agreement, dated August 20, 2013, between CAI International, Inc. and Timothy B. Page \(incorporated by reference to Exhibit 99.1 of our Current Report on Form 8-K, filed on August 23, 2013\).](#)
- [10.22*](#) [Service Agreement, dated August 20, 2013, between Container Applications International \(UK\) Limited and Daniel Hallahan \(incorporated by reference to Exhibit 99.2 of our Current Report on Form 8-K, filed on August 23, 2013\).](#)
- [10.23*](#) [Amendment No. 1 to Service Agreement, dated March 7, 2017, between Container Applications International \(UK\) Limited and Daniel Hallahan \(incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, filed on May 4, 2017\).](#)
- [10.24*](#) [Employment Agreement, dated October 2, 2019, between CAI International, Inc. and Camille G. Cutino \(incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on October 7, 2019\).](#)
- [10.25‡‡](#) [Multi-Year Railcar Order, dated June 29, 2015, among CAI Rail, Inc., Trinity North America Freight Car, Inc. and Trinity Tank Car, Inc. \(incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2015, filed on August 5, 2015\).](#)
- [10.26](#) [Equity Distribution Sales Agreement, dated October 23, 2017, among CAI International, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Wells Fargo Securities, Inc. \(incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K, filed on October 23, 2017\).](#)

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10.27	At the Market Issuance Sales Agreement, dated May 2, 2018, between CAI International, Inc. and B. Riley FBR, Inc. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on May 2, 2018).
21.1#	Subsidiaries of CAI International, Inc.
23.1#	Consent of KPMG LLP.
31.1#	Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a).
31.2#	Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a).
32.1†	Certification of Chief Executive Officer Furnished Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2†	Certification of Chief Financial Officer Furnished Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial statements, formatted in XBRL: (i) Consolidated Balance Sheets as of December 31, 2019 and 2018, (ii) Consolidated Statements of Income for the years ended December 31, 2019, 2018 and 2017; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018 and 2017; (iv) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2019, 2018 and 2017; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017; and (vi) Notes to Consolidated Financial Statements.

Filed herewith.

† Furnished hereto.

* Management contract or compensatory plan.

‡ Confidential treatment granted as to portions of this exhibit. Confidential information has been omitted and filed separately with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 5, 2020

CAI INTERNATIONAL, INC.

By: /s/ VICTOR M. GARCIA
Victor M. Garcia
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant, in the capacities indicated, on the 5th day of March, 2020.

<u>Signature</u>	<u>Title(s)</u>
<u> /s/ VICTOR M. GARCIA </u> Victor M. Garcia	President and Chief Executive Officer, Director (Principal Executive Officer)
<u> /s/ TIMOTHY B. PAGE </u> Timothy B. Page	Chief Financial Officer (Principal Financial and Accounting Officer)
<u> /s/ DAVID REMINGTON </u> David Remington	Chairman of the Board of Directors
<u> /s/ KATHRYN G. JACKSON </u> Kathryn G. Jackson	Director
<u> /s/ GARY M. SAWKA </u> Gary M. Sawka	Director
<u> /s/ ANDREW OGAWA </u> Andrew Ogawa	Director
<u> /s/ JOHN WILLIFORD </u> John Williford	Director

DESCRIPTION OF SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

CAI International, Inc. (the “Company,” “we,” “our,” or “us”) has three classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: our common stock, par value \$0.0001 per share (our “common stock”); our Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Stock, par value \$0.0001 per share (our “Series A Preferred Stock”); and our Series B Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Stock, par value \$0.0001 per share (our “Series B Preferred Stock”).

DESCRIPTION OF CAPITAL STOCK

General

The following description of our capital stock is intended as a summary only. This description is based upon, and is qualified by reference to, our Amended and Restated Certificate of Incorporation, as amended to date (our “certificate of incorporation”), our Certificate of Designations of Rights and Preferences of 8.50% Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Stock (our “Series A Preferred Stock certificate of designations”), our Certificate of Designations of Rights and Preferences of 8.50% Series B Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Stock (our “Series B Preferred Stock certificate of designations”), our Amended and Restated Bylaws, as amended to date (our “bylaws”), and applicable provisions of the General Corporation Law of the State of Delaware (the “DGCL”). This summary is not complete. You should read our [certificate of incorporation](#) (including the certificate of amendment thereto), our Series A certificate of designations, our Series B certificate of designations and our bylaws, which are incorporated by reference as exhibits to this Annual Report on Form 10-K, for the provisions that are important to you.

Authorized Capital Stock

Our authorized capital stock consists of 84,000,000 shares of common stock and 10,000,000 shares of preferred stock, \$0.0001 par value per share.

Common Stock

The holders of common stock are entitled to one vote per share on all matters to be voted on by the common stockholders. The holders of our common stock are not entitled to cumulative voting in the election of our directors, which means that the holders of a majority of the outstanding shares of our common stock will be entitled to elect all of the directors standing for election. As discussed below under “—Anti-Takeover Effects of Certain Provisions of our Certificate of Incorporation, Bylaws and Delaware Law—Classified Board of Directors; Election and Removal of Directors,” our certificate of incorporation and our bylaws include provisions classifying our board of directors into three classes with staggered three-year terms. Subject to preferences of any outstanding shares of preferred stock, the holders of common stock are entitled to receive ratably any dividends our board of directors may declare out of funds legally available for the payment of dividends. If we are liquidated, dissolved or wound up, the holders of common stock are entitled to share pro rata all assets remaining after payment of or provision for our liabilities and liquidation preferences of any outstanding shares of preferred stock. Holders of common stock have no preemptive rights or rights to convert their common stock into any other securities. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and nonassessable.

Preferred Stock

Our board of directors has the authority, without further action by the stockholders, to issue up to 10,000,000 shares of preferred stock from time to time in one or more series. The board of directors also has the authority to fix the designations, voting powers, preferences, privileges and relative rights and the limitations of any series of preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights of the common stock. The board of directors, without stockholder approval, can issue preferred stock with voting, conversion or other rights that could adversely affect the voting power and other rights of the holders of common stock. Preferred stock could thus be issued quickly with

terms that could delay or prevent a change of control of us or make removal of management more difficult. Additionally, the issuance of preferred stock may decrease the market price of the common stock and may adversely affect the voting, economic and other rights of the holders of common stock.

For more information on our Series A Preferred Stock and our Series B Preferred Stock, please see “Description of Series A Preferred Stock” and “Description of Series B Preferred Stock,” respectively.

Anti-Takeover Effects of Certain Provisions of our Certificate of Incorporation, Bylaws and Delaware Law

Provisions of our certificate of incorporation, our bylaws and Delaware law could have the effect of delaying or preventing a third party from acquiring us, even if the acquisition would benefit our stockholders. These provisions may delay, defer or prevent a tender offer or takeover attempt of our company that a stockholder might consider in his or her best interest, including those attempts that might result in a premium over the market price for the shares held by our stockholders. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by the board of directors and to discourage types of transactions that may involve our actual or threatened change of control. These provisions are designed to reduce our vulnerability to an unsolicited proposal for a takeover that does not contemplate the acquisition of all of our outstanding shares, or an unsolicited proposal for the restructuring or sale of all or part of us.

Authorized but Unissued Shares of Common Stock and Preferred Stock. Our authorized but unissued shares of common stock and preferred stock are available for our board of directors to issue without stockholder approval. As noted above, our board of directors, without stockholder approval, has the authority under our certificate of incorporation to issue preferred stock with rights superior to the rights of the holders of common stock. As a result, preferred stock could be issued quickly and easily, could adversely affect the rights of holders of common stock and could be issued with terms calculated to delay or prevent a change of control or make removal of management more difficult. We may use the additional authorized shares of common or preferred stock for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of our authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of our company by means of a proxy contest, tender offer, merger or other transaction.

Classified Board of Directors; Election and Removal of Directors. Our certificate of incorporation provides for the division of our board of directors into three classes, as nearly as equal in number as possible, with the directors in each class serving for three-year terms, and one class being elected each year by our stockholders. In addition, our directors are removable only for cause by the holders of not less than a majority of the shares entitled to vote at the election of directors. Furthermore, any vacancies on the board of directors may be filled only by the affirmative vote of a majority of the directors then in office and only the board of directors may increase the size of the board of directors. Because this system of electing, appointing and removing directors generally makes it more difficult for stockholders to replace a majority of the board of directors, it may discourage a third party from making a tender offer or otherwise attempting to gain control of us and may maintain the incumbency of the board of directors.

No Cumulative Voting. Under Delaware law, the right to vote cumulatively does not exist unless the certificate of incorporation specifically authorizes cumulative voting. Our certificate of incorporation does not provide for cumulative voting. Accordingly, a holder or group of holders of a majority of the shares of our common stock are able to elect all of the directors.

Stockholder Action; Special Meetings of Stockholders. Our certificate of incorporation eliminates the ability of stockholders to act by written consent. Our bylaws provide that special meetings of our stockholders may be called only by the Chairman of the board of directors or by a majority of our board of directors.

Advance Notice Requirements for Stockholders Proposals and Director Nominations. Our bylaws provide that stockholders seeking to bring business before an annual meeting of stockholders, or to nominate candidates for election as directors at an annual meeting of stockholders, must provide us with timely written notice of their proposal. Our bylaws also specify requirements as to the form and content of a stockholder’s notice. These

provisions may preclude stockholders from bringing matters before an annual meeting of stockholders or from making nominations for directors at an annual meeting of stockholders.

Amendment of Bylaws. Our directors are expressly authorized to amend our bylaws. The affirmative vote of the holders of not less than 66 $\frac{2}{3}$ % of the voting power of all of the then-outstanding shares entitled to vote generally in the election of directors, considered as a single class, is required for stockholders to amend our bylaws.

Delaware Anti-Takeover Statute. We are subject to the provisions of Section 203 of the Delaware General Corporation Law, an anti-takeover law. Subject to exceptions, the statute prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, unless:

- prior to such date, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding, those shares owned: (1) by persons who are directors and also officers; and (2) by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- on or after such date, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders and not by written consent, by the affirmative vote of at least 66 $\frac{2}{3}$ % of the outstanding voting stock which is not owned by the interested stockholder.

For purposes of Section 203, a “business combination” includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder, with an “interested stockholder” being defined as a person who, together with affiliates and associates, owns, or within three years prior to the date of determination whether the person is an “interested stockholder,” did own, 15% or more of the corporation’s voting stock.

Transfer Agent and Registrar

The transfer agent and registrar for the common stock is Computershare Trust Company, N.A.

New York Stock Exchange Listing

Our common stock is listed on the New York Stock Exchange under the symbol “CAI.”

DESCRIPTION OF SERIES A PREFERRED STOCK

The terms of the Series A Preferred Stock are contained in the Series A certificate of designations that amended our certificate of incorporation. The following description is a summary of the material provisions of the Series A Preferred Stock and the Series A certificate of designations. This summary is not complete. You should read the Series A certificate of designations, which is filed as an exhibit to this Annual Report on Form 10-K, and incorporated by reference herein, for the provisions that are important to you.

General

Our board of directors has adopted our Series A certificate of designations establishing the number and fixing the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption of our Series A Preferred Stock. The Series A certificate of designations initially authorizes 4,000,000 shares of Series A Preferred Stock. Our board of directors may authorize and issue additional shares of Series A Preferred Stock, from time to time, without obtaining consent of the holders of shares of Series A Preferred Stock.

The Series A Preferred Stock is listed on the NYSE under the symbol “CAI PR A.” The Series A Preferred Stock is maintained in book-entry form registered in the name of the nominee of The Depository Trust Company (“DTC”), Cede & Co. and we expect any additional shares of the Series A Preferred Stock that we sell will be issued and maintained in book-entry form registered in the name of the nominee of DTC, Cede & Co. See “— Book-Entry Procedures.”

The transfer agent, registrar and dividend disbursing agent for the Series A Preferred Stock is Computershare Trust Company, N.A.

Maturity

The Series A Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption. Shares of the Series A Preferred Stock will remain outstanding indefinitely unless we decide to redeem or otherwise repurchase them or they become convertible and are converted as described below under “— Limited Conversion Rights Upon a Change of Control.” We are not required to set apart for payment the funds to redeem the Series A Preferred Stock.

The Series A Preferred Stock ranks: (i) senior to all of our common stock and any other equity securities that we may issue in the future, the terms of which specifically provide that such equity securities rank junior to the Series A Preferred Stock, in each case with respect to payment of dividends and amounts upon liquidation, dissolution or winding up, which we refer to as “Junior Stock;” (ii) equal to our Series B Preferred Stock and any shares of equity securities that we may issue in the future, the terms of which specifically provide that such equity securities rank on par with such Series A Preferred Stock, in each case with respect to payment of dividends and amounts upon liquidation, dissolution or winding up, which we refer to as “Parity Stock;” (iii) junior to all other equity securities we issue, the terms of which specifically provide that such equity securities rank senior to the Series A Preferred Stock, in each case with respect to payment of dividends and amounts upon liquidation, dissolution or winding up (any such issuance would require the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series A Preferred Stock), which we refer to as “Senior Stock;” and (iv) junior to all of our existing and future indebtedness.

Dividend Rate

Holders of shares of the Series A Preferred Stock are entitled to receive, when, as and if declared by our board of directors, out of funds legally available for the payment of dividends, cumulative cash dividends at an annual rate of 8.50% of the \$25.00 liquidation preference per annum (the “Fixed Dividend Rate”) during the Fixed Rate Period (as defined below). The Fixed Dividend Rate accrues from, and including, the date of original issuance to, but not including, April 15, 2023 (the “Fixed Rate Period”). On and after April 15, 2023 (the “Floating Rate Period”), dividends on the Series A Preferred Stock shall accrue at an annual rate equal to the sum of (a) Three-Month LIBOR

(as defined below) as calculated on each applicable Date of Determination (as defined below) and (b) 5.82% of the \$25.00 liquidation preference per share of Series A Preferred Stock (the "Floating Dividend Rate").

The term "Three-Month LIBOR" means, on the second Business Day (as defined below) in London immediately preceding the first day of each relevant Dividend Period for the Series A Preferred Stock or, if applicable, the redemption date each a ("Date of Determination"):

- the rate (expressed as a percentage per year) for deposits in U.S. dollars having an index maturity of three months, in amounts of at least \$1,000,000, as such rate appears on "Bloomberg, L.P. page US0003M" at approximately 11:00 a.m. (London time) on such Date of Determination; or
- if no such rate appears on "Bloomberg, L.P. page US0003M" or if the "Bloomberg, L.P. page US0003M" is not available at approximately 11:00 a.m. (London time) on the relevant Date of Determination, then we will select four nationally-recognized banks in the London interbank market and request that the principal London offices of those four selected banks provide us with their offered quotation for deposits in U.S. dollars for a period of three months, commencing on the first day of the applicable Dividend Period, to prime banks in the London interbank market at approximately 11:00 a.m. (London time) on that Date of Determination for the applicable Dividend Period. Offered quotations must be based on a principal amount equal to an amount that, in our discretion, is representative of a single transaction in U.S. dollars in the London interbank market at that time. If at least two quotations are provided, the Three-Month LIBOR Rate for such Dividend Period will be the arithmetic mean (rounded upward if necessary, to the nearest 0.00001 of 1%) of those quotations. If fewer than two quotations are provided, the Three-Month LIBOR Rate for such Dividend Period will be the arithmetic mean (rounded upward if necessary, to the nearest 0.00001 of 1%) of the rates quoted at approximately 11:00 a.m. (New York City time) on that Date of Determination for such Dividend Period by three nationally-recognized banks in New York, New York selected by us, for loans in U.S. dollars to nationally-recognized European banks (as selected by us), for a period of three months commencing on the first day of such Dividend Period. The rates quoted must be based on an amount that, in our discretion, is representative of a single transaction in U.S. dollars in that market at that time. If fewer than three New York City banks selected by us do not quote rates in the manner described above, the Three-Month LIBOR Rate for the applicable Dividend Period will be the same as for the immediately preceding Dividend Period, or, if there was no such Dividend Period, the dividend shall be calculated at the dividend rate in effect for the immediately preceding Dividend Period.

"Business Day" shall mean any day, other than a Saturday or Sunday, that is neither a legal holiday in the United States nor a day on which banking institutions in New York, New York are authorized or required by law, regulation or executive order to close. Dividends on the Series A Preferred Stock accrue daily and are cumulative from, and including, the date of original issue and payable quarterly on the 15th day of each of April, July, October and January (each, a "Dividend Payment Date"); provided that if any Dividend Payment Date is not a Business Day, then the dividend which would otherwise have been payable on that Dividend Payment Date may be paid on the next succeeding Business Day, and no interest, additional dividends or other sums will accrue on the amount so payable for the period from and after that Dividend Payment Date to that next succeeding Business Day. Holders of the Series A Preferred Stock are entitled to receive the full amount of all dividends payable in respect of the Series A Preferred Stock after the Dividend Payment Date immediately preceding the date of original issuance of such shares. Holders of the shares of Series A Preferred Stock are not entitled to receive dividends paid on any Dividend Payment Date if such shares were not issued and outstanding on the record date for such dividend. Any dividend payable on the Series A Preferred Stock, including dividends payable for any partial Dividend Period, will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear in our stock records for the Series A Preferred Stock at the close of business on the applicable record date, which shall be the 1st day of each of April, July, October and January, whether or not a Business Day, in which the applicable Dividend Payment Date falls (each, a "Dividend Record Date").

No dividends on shares of Series A Preferred Stock shall be authorized by our board of directors or paid or set apart for payment by us at any time when the payment thereof would be unlawful under the laws of the State of Delaware, or when the terms and provisions of any agreement of ours, including any agreement relating to our indebtedness (the "Limiting Documents"), prohibit the authorization, payment or setting apart for payment thereof

or provide that the authorization, payment or setting apart for payment thereof would constitute a breach of the Limiting Documents or a default under the Limiting Documents, or if the authorization, payment or setting apart for payment shall be restricted or prohibited by law.

Notwithstanding the foregoing, dividends on the Series A Preferred Stock will accrue regardless of whether (i) the terms of any Senior Stock we may issue or agreements we may enter into, including any documents governing our indebtedness, at any time prohibit the current payment of dividends, (ii) we have earnings, (iii) there are funds legally available for the payment of such dividends; or (iv) such dividends are declared by our board of directors. No interest, or sum in lieu of interest, will be payable in respect of any dividend payment or payments on the Series A Preferred Stock which may be in arrears, and holders of the Series A Preferred Stock will not be entitled to any dividends in excess of full cumulative dividends described above. Any dividend payment made on the Series A Preferred Stock shall first be credited against the earliest accumulated but unpaid dividend due with respect to those shares.

Future dividends on our common stock and preferred stock, including the Series A Preferred Stock, will be at the discretion of our board of directors, and will depend on, among other things, our results of operations, cash flow from operations, financial condition and capital requirements, any debt service requirements and any other factors our board of directors deems relevant. Accordingly, we cannot guarantee that we will be able to pay cash dividends on our preferred stock or what the actual dividends will be for any future period.

Unless full cumulative dividends on the Series A Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past Dividend Periods, no dividends shall be declared or paid or set aside for payment upon shares of any Junior Stock or Parity Stock we may issue, nor shall any other dividend be declared or made upon such shares of Junior Stock or Parity Stock. In addition, no shares of any Junior Stock or Parity Stock shall be redeemed, purchased or otherwise acquired for any consideration (or any moneys paid to or made available for a sinking fund for the redemption of any such shares) by us (except as mandatorily required by the terms of such equity security or by conversion into or exchange for shares of Junior Stock we may issue).

When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series A Preferred Stock and the shares of any other series of preferred stock that we may issue ranking on parity as to dividends with the Series A Preferred Stock, all dividends declared upon the Series A Preferred Stock and any other series of preferred stock ranking on parity that we may issue as to dividends with the Series A Preferred Stock shall be declared pro rata so that the amount of dividends declared per share of Series A Preferred Stock and such other series of preferred stock that we may issue shall in all cases bear to each other the same ratio that accrued dividends per share on the Series A Preferred Stock and such other series of preferred stock that we may issue (which shall not include any accrual in respect of unpaid dividends for prior Dividend Periods if such preferred stock does not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on the Series A Preferred Stock which may be in arrears.

Liquidation Preference

Upon the voluntary or involuntary liquidation, dissolution or winding up of our affairs, then, before any distribution or payment shall be made to the holders of any common stock or any other class or series of Junior Stock, the holders of Series A Preferred Stock shall be entitled to receive out of its assets legally available for distribution to stockholders, liquidating distributions in the amount of the liquidation preference, or \$25.00 per share, plus an amount equal to all dividends (whether or not declared) accrued and unpaid thereon to and including the date of payment. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series A Preferred Stock will have no right or claim to any of our remaining assets. In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, our available assets are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series A Preferred Stock and the corresponding amounts payable on all Senior Stock and Parity Stock, then after payment of the liquidating distribution on all outstanding Senior Stock, the holders of the Series A Preferred Stock and all other such classes or series of Parity Stock shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled. For such purposes, our consolidation or merger with or into any other entity, or the sale, lease or conveyance of all or substantially all of our property or business, or

a statutory share exchange or the occurrence of a Change of Control shall not be deemed to constitute our voluntary or involuntary liquidation, dissolution or winding up.

The Series A certificate of designations does not contain any provision requiring funds to be set aside to protect the liquidation preference of the Series A Preferred Stock.

Redemption

Optional Redemption

On and after April 15, 2023, we may, at our option, upon not less than thirty (30) days' nor more than sixty (60) days' written notice, redeem the Series A Preferred Stock, in whole or in part, at any time or from time to time, for cash, at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends thereon to, but not including, the date fixed for redemption. If we elect to redeem any shares of Series A Preferred Stock as described in this paragraph, we may use any available cash to pay the redemption price.

Special Optional Redemption

Upon the occurrence of a Change of Control, subject to any restrictions imposed by any Limiting Document, we may, at our option, upon not less than thirty (30) days' nor more than sixty (60) days' written notice, redeem the Series A Preferred Stock, in whole or in part, within one hundred twenty (120) days after the first date on which such Change of Control occurred, for cash, at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends thereon to, but not including, the date fixed for redemption. If, prior to the Change of Control Conversion Date (as defined below and as described below under "—Limited Conversion Rights Upon a Change of Control"), we have provided notice of our election to redeem some or all of the shares of Series A Preferred Stock (whether pursuant to our optional redemption right described above under "— Optional Redemption" or this special optional redemption right), the holders of shares of Series A Preferred Stock will not have the Change of Control Conversion Right (as defined below and as described below under "— Limited Conversion Rights Upon a Change of Control") with respect to the shares called for redemption. If we elect to redeem any shares of the Series A Preferred Stock as described in this paragraph, we may use any available cash to pay the redemption price.

A "Change of Control" is deemed to occur when, after the original issuance of the Series A Preferred Stock, the following have occurred:

- the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger, arrangement, amalgamation or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its subsidiaries, taken as a whole, to any "person" (as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")); or
- the consummation of any transaction or series of related transactions (including, without limitation, any merger, arrangement, amalgamation or consolidation), the result of which is that any "person" (as defined above) becomes the beneficial owner, directly or indirectly, of more than 50% of the total voting power of all of our common stock entitled to vote generally in the election of our directors; and provided, that such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition.

Redemption Procedures

A notice of redemption will be mailed at least thirty (30) days but not more than sixty (60) days before the redemption date to each holder of record of Series A Preferred Stock at the address shown on our share transfer books maintained by the transfer agent, registrar and dividend disbursing agent at the address of such holders shown therein. Each notice shall state: (i) the redemption date, (ii) the number of shares of Series A Preferred Stock to be redeemed, (iii) the redemption price of \$25.00 per share of Series A Preferred Stock, plus any accrued and unpaid

dividends to and including the date fixed for redemption, (iv) the place or places where any certificates issued for Series A Preferred Stock other than through DTC book-entry described below, are to be surrendered for payment of the redemption price, (v) that dividends on the Series A Preferred Stock will cease to accrue on such redemption date, and (vi) any other information required by law or by the applicable rules of any exchange upon which the Series A Preferred Stock may be listed or admitted for trading. If fewer than all outstanding shares of Series A Preferred Stock are to be redeemed, the notice mailed to each such holder thereof shall also specify the number of shares of Series A Preferred Stock to be redeemed from each such holder and the number of shares of Series A Preferred Stock to be redeemed from each such holder will be determined by us, and such shares of Series A Preferred Stock will be redeemed by such method of selection as DTC shall determine, pro rata or by lot, with adjustments to avoid redemption of fractional shares.

At our election, on or prior to the redemption date, we may irrevocably deposit the redemption price (including accrued and unpaid dividends) of the Series A Preferred Stock so called for redemption in trust for the holders thereof with a bank or trust company, in which case the notice to holders of shares of Series A Preferred Stock will (i) state the date of such deposit, (ii) specify the office of such bank or trust company as the place of payment of the redemption price, and (iii) require such holders to surrender any certificates issued for shares of Series A Preferred Stock other than through the DTC book-entry described below at such place on or about the date fixed in such redemption notice (which may not be later than such redemption date) against payment of the redemption price (including all accrued and unpaid dividends to the redemption date). Any interest or other earnings earned on the redemption price (including all accrued and unpaid dividends) deposited with a bank or trust company will be paid to us. Any monies so deposited that remain unclaimed by the holders of shares of Series A Preferred Stock at the end of six months after the redemption date will be returned to us by such bank or trust company. If we make such a deposit, shares of Series A Preferred Stock shall not be considered outstanding for purposes of voting or determining shares entitled to vote on any matter on or after the date of such deposit.

On or after the date fixed for redemption, each holder of shares of Series A Preferred Stock that holds a certificate, other than through the DTC book-entry procedures described below under “— Book-Entry Procedures,” must present and surrender each certificate representing his or her Series A Preferred Stock to us at the place designated in the applicable notice of redemption and thereupon the redemption price of such shares will be paid to or on the order of the person whose name appears on such certificate representing the Series A Preferred Stock as the owner thereof, each surrendered certificate will be canceled and the shares will be retired and restored to the status of undesignated, authorized shares of Preferred Stock.

If we redeem any shares of Series A Preferred Stock and if the redemption date occurs after a Dividend Record Date and on or prior to the related Dividend Payment Date, the dividend payable on such Dividend Payment Date with respect to such shares called for redemption shall be payable on such Dividend Payment Date to the holders of record at the close of business on such Dividend Record Date and shall not be payable as part of the redemption price for such shares.

Limited Conversion Rights Upon a Change of Control

Upon the occurrence of a Change of Control, each holder of shares of Series A Preferred Stock will have the right (unless, prior to the Change of Control Conversion Date, we have provided or provide irrevocable notice of our election to redeem the Series A Preferred Stock as described above under “— Redemption — Optional Redemption,” or “— Redemption — Special Option Redemption,” in which case such holder will only have the right with respect to the shares of Series A Preferred Stock not called for redemption (unless we default in the payment of the redemption price and accumulated and unpaid dividends in which case such holder will again have a conversion right with respect to the shares of Series A Preferred Stock subject to such default in payment)) to convert some or all of the shares of Series A Preferred Stock held by such holder (the “Change of Control Conversion Right”) on the Change of Control Conversion Date into a number of shares of our common stock per share of Series A Preferred Stock (the “Common Stock Conversion Consideration”), which is equal to the lesser of:

- the quotient obtained by dividing (i) the sum of the \$25.00 liquidation preference per share of Series A Preferred Stock plus the amount of any accumulated and unpaid dividends (whether or not declared) to, but not including, the Change of Control Conversion Date (unless the Change of Control Conversion Date is after a record date for a Series A Preferred Stock dividend payment and prior to the

corresponding Dividend Payment Date, in which case no additional amount for such accumulated and unpaid dividend will be included in this sum) by (ii) the Common Stock Price (such quotient, the "Conversion Rate"); and

- 2.30521 shares of common stock (the "Share Cap"), subject to certain adjustments described below. The Share Cap was derived by dividing the \$25.00 liquidation preference by \$10.845 (50% of the last sale price of our common stock as reported on the NYSE on March 21, 2018).

The Share Cap is subject to pro rata adjustments for any share splits (including those effected pursuant to a distribution of our common stock), subdivisions or combinations (in each case, a "Share Split") with respect to our common stock as follows: the adjusted Share Cap as the result of a Share Split will be the number of shares of our common stock that is equivalent to the product obtained by multiplying (i) the Share Cap in effect immediately prior to such Share Split by (ii) a fraction, the numerator of which is the number of shares of our common stock outstanding after giving effect to such Share Split and the denominator of which is the number of shares of our common stock outstanding immediately prior to such Share Split.

In the case of a Change of Control pursuant to which our common stock will be converted into cash, securities or other property or assets (including any combination thereof) (the "Alternative Form Consideration"), a holder of Series A Preferred Stock will receive upon conversion of such Series A Preferred Stock the kind and amount of Alternative Form Consideration which such holder would have owned or been entitled to receive upon the Change of Control had such holder held a number of shares of our common stock equal to the Common Stock Conversion Consideration immediately prior to the effective time of the Change of Control (the "Alternative Conversion Consideration," and the Common Stock Conversion Consideration or the Alternative Conversion Consideration, as may be applicable to a Change of Control, is referred to as the "Conversion Consideration").

If the holders of our common stock have the opportunity to elect the form of consideration to be received in the Change of Control, the Conversion Consideration will be deemed to be the kind and amount of consideration actually received by holders of a majority of our common stock that voted for such an election (if electing between two types of consideration) or holders of a plurality of our common stock that voted for such an election (if electing between more than two types of consideration), as the case may be, and will be subject to any limitations to which all holders of our common stock are subject, including, without limitation, pro rata reductions applicable to any portion of the consideration payable in the Change of Control.

We will not issue fractional shares of common stock upon the conversion of shares of Series A Preferred Stock. Instead, we will pay the cash value of such fractional shares.

If we provide a redemption notice, whether pursuant to our special optional redemption right in connection with a Change of Control as described above under "— Redemption — Special Optional Redemption" or our optional redemption right as described above under "— Redemption — Optional Redemption," holders of shares of Series A Preferred Stock will not have any right to convert such shares of Series A Preferred Stock that we have so elected to redeem or subsequently selected for redemption, and any such shares of Series A Preferred Stock that have been surrendered for conversion pursuant to the Change of Control Conversion Right will be redeemed on the related redemption date instead of converted on the Change of Control Conversion Date. If we elect to redeem shares of Series A Preferred Stock that would otherwise be converted into the applicable Conversion Consideration on a Change of Control Conversion Date, such shares of Series A Preferred Stock will not be so converted and the holders of such shares will be entitled to receive on the applicable redemption date \$25.00 per share of Series A Preferred Stock, plus any accumulated and unpaid dividends thereon to, but not including, the redemption date.

Notwithstanding the foregoing, the holders of shares of Series A Preferred Stock will not have the Change of Control Conversion Right if (i) the acquiror has shares listed or quoted on a National Exchange (as defined below) or listed or quoted on an exchange or quotation system that is a successor to a National Exchange, and (ii) the Series A Preferred Stock remains continuously listed or quoted on a National Exchange or listed or quoted on an exchange or quotation system that is a successor to a National Exchange.

Within fifteen (15) days following the occurrence of a Change of Control, we will provide to holders of shares of Series A Preferred Stock a notice of occurrence of the Change of Control that describes the resulting Change of Control Conversion Right. This notice will state the following:

- the events constituting the Change of Control;
- the date of the Change of Control;
- the last date on which the holders of shares of Series A Preferred Stock may exercise their Change of Control Conversion Right;
- the method and period for calculating the Common Stock Price;
- the Change of Control Conversion Date;
- that if, prior to the Change of Control Conversion Date, we have provided or provide irrevocable notice of our election to redeem all or any shares of our Series A Preferred Stock, holders will not be able to convert their shares of Series A Preferred Stock designated for redemption and such shares will be redeemed on the related redemption date, even if such shares have already been tendered for conversion pursuant to the Change of Control Conversion Right (unless we default in payment of the redemption price and all accumulated and unpaid dividends);
- if applicable, the type and amount of Alternative Conversion Consideration entitled to be received per share of Series A Preferred Stock;
- the name and address of the paying agent and the conversion agent;
- the procedures that the holders of shares of Series A Preferred Stock must follow to exercise the Change of Control Conversion Right; and
- the last date on which holders of shares of Series A Preferred Stock may withdraw shares surrendered for conversion and the procedures such holders must follow to effect such a withdrawal.

We will issue a press release for publication on the Dow Jones & Company, Inc., Business Wire, PR Newswire or Bloomberg Business News (or, if these organizations are not in existence at the time of issuance of the press release, such other news or press organization as is reasonably calculated to broadly disseminate the relevant information to the public), or post a notice on our website, in any event prior to the opening of business on the first Business Day following any date on which we provide the notice described above to the holders of shares of Series A Preferred Stock.

To exercise the Change of Control Conversion Right, the holders of shares of Series A Preferred Stock will be required to deliver, on or before the close of business on the Change of Control Conversion Date, the certificates (if any) representing the shares of Series A Preferred Stock to be converted, duly endorsed for transfer, together with a written conversion notice completed, to our transfer agent, or, in the case of shares of Series A Preferred Stock held in global form, comply with the applicable procedures of DTC. The conversion notice must state:

- the relevant Change of Control Conversion Date;
- the number of shares of Series A Preferred Stock to be converted; and
- that such shares of Series A Preferred Stock are to be converted pursuant to the applicable provisions of the Series A Preferred Stock.

The “Change of Control Conversion Date” is the date the shares of Series A Preferred Stock are to be converted, which will be a Business Day that is no fewer than twenty (20) days nor more than thirty-five (35) days after the date on which we provide the notice described above to the holders of shares of Series A Preferred Stock.

The “Common Stock Price” will be (i) if the consideration to be received in the Change of Control by the holders of shares of our common stock is solely cash, the amount of cash consideration per share of our common stock or (ii) if the consideration to be received in the Change of Control by holders of shares of our common stock is other than solely cash (x) the average of the closing sale prices per share of our common stock (or, if no closing sale price is reported, the average of the closing bid and ask prices or, if more than one in either case, the average of the average closing bid and the average closing ask prices) for the ten consecutive trading days immediately preceding, but not including, the effective date of the Change of Control as reported on the principal U.S. securities exchange on which our common stock is then traded, or (y) the average of the last quoted bid prices for our common stock in the over-the-counter market as reported by OTC Market Group Inc. or similar organization for the ten (10) consecutive trading days immediately preceding, but not including, the effective date of the Change of Control, if our common stock is not then listed for trading on a U.S. securities exchange.

Holders of shares of Series A Preferred Stock may withdraw any notice of exercise of a Change of Control Conversion Right (in whole or in part) by a written notice of withdrawal delivered to our transfer agent prior to the close of business on the Business Day prior to the Change of Control Conversion Date. The notice of withdrawal must state:

- the number of withdrawn shares of Series A Preferred Stock;
- if certificated Series A Preferred Stock has been issued, the certificate numbers of the withdrawn shares of Series A Preferred Stock; and
- the number of shares of Series A Preferred Stock, if any, which remain subject to the conversion notice.

Notwithstanding the foregoing, if the shares of Series A Preferred Stock are held in global form, the conversion notice and/or the notice of withdrawal, as applicable, must comply with applicable procedures of DTC.

Shares of Series A Preferred Stock as to which the Change of Control Conversion Right has been properly exercised and for which the conversion notice has not been properly withdrawn will be converted into the applicable Conversion Consideration in accordance with the Change of Control Conversion Right on the Change of Control Conversion Date, unless prior to the Change of Control Conversion Date we have provided or provide notice of our election to redeem such shares of Series A Preferred Stock.

We will deliver amounts owing upon conversion no later than the third Business Day following the Change of Control Conversion Date.

In connection with the exercise of any Change of Control Conversion Right, we will comply with all federal, provincial and state securities laws and stock exchange rules in connection with any conversion of Series A Preferred Stock into shares of our common stock or other property.

The Change of Control conversion feature may make it more difficult for a party to take over our company or discourage a party from taking over us.

Except as provided above in connection with a Change of Control, shares of Series A Preferred Stock are not convertible into or exchangeable for any other securities or property.

Voting Rights

Except as indicated below, the holders of the Series A Preferred Stock will have no voting rights.

If either a Dividend Penalty Event or Delisting Event has occurred, the number of directors then constituting our board of directors will be increased by two (if not already increased pursuant to this provision or by reason of similar types of provisions with respect to other classes or series of voting preferred stock) and the holders of the Series A Preferred Stock, voting together as a single class with the holders of any other series of Parity Stock upon which like voting rights have been conferred and are exercisable (any such other series, the “voting preferred stock”), will have the right to elect these two additional directors (if not already increased pursuant to this provision or by reason of similar types of provisions with respect to other classes or series of voting preferred stock) at an annual meeting of stockholders or a properly called special meeting of the holders of the Series A Preferred Stock and such voting preferred stock and at each subsequent annual meeting of stockholders until the Dividend Penalty Event or Delisting Event, as the case may be, has been cured. A Dividend Penalty Event will be cured whenever all arrears in dividends on the Series A Preferred Stock and the voting preferred stock then outstanding have been paid and full dividends on the Series A Preferred Stock and the voting preferred stock for the then current Dividend Period have been paid in full or declared and set apart for payment in full.

The two additional directors shall serve in accordance with the provisions of our certificate of incorporation and our amended and restated bylaws, and for the avoidance of doubt, such additional directors shall serve as a special class of directors. A Delisting Event will be cured once the Series A Preferred Stock has been listed for trading on a National Exchange or listed or quoted on an exchange or quotation system that is a successor to a National Exchange for a period of one hundred eighty (180) consecutive days. Once the Dividend Penalty Event or Delisting Event, as the case may be, has been cured, then the right of the holders of the Series A Preferred Stock and the voting preferred stock to elect these two additional directors will cease, the terms of office of these two directors will forthwith terminate, the special class designation will be terminated and the number of directors constituting our board of directors will be reduced accordingly. However, the right of the holders of the Series A Preferred Stock and the voting preferred stock to elect two additional directors will again vest if a subsequent Dividend Penalty Event or Delisting Event shall occur.

A “Dividend Penalty Event” shall have occurred whenever dividends on any shares of Series A Preferred Stock are in arrears for six or more Dividend Periods, whether or not consecutive.

A “Delisting Event” shall have occurred if the Series A Preferred Stock is not listed for trading on the NYSE, the NYSE American or NASDAQ (each a “National Exchange”) or listed or quoted on an exchange or quotation system that is a successor to a National Exchange for a period of one hundred eighty (180) consecutive days.

Unless we have received the approval of two-thirds of the votes entitled to be cast by the holders of outstanding Series A Preferred Stock, voting separately as a class, either at a meeting of stockholders or by written consent, we will not:

- amend, alter or repeal any provisions of our certificate of incorporation or the share designation relating to the Series A Preferred Stock whether by merger, consolidation or otherwise, to affect materially and adversely the rights, preferences, privileges or voting powers of the holders of the Series A Preferred Stock; or
- authorize, create or increase the authorized amount of, any class or series of beneficial interest having rights senior to the Series A Preferred Stock with respect to the payment of dividends or amounts upon liquidation, dissolution or winding up.

For purposes of the foregoing voting requirements, neither of the following shall be deemed to materially and adversely affect the rights, preferences or voting powers of the Series A Preferred Stock:

- the amendment of provisions of the certificate of incorporation so as to authorize or create or to increase the authorized amount of, any Junior Stock or any Parity Stock, including additional shares of Series A Preferred Stock; nor
- any filing with the Delaware Secretary of State by us, including in connection with a merger, consolidation or otherwise, in which (1) we are the surviving entity and the Series A Preferred Stock

remains outstanding with the terms thereof materially unchanged in any respect adverse to the holders thereof; (2) the resulting, surviving or transferee entity is organized under the laws of any state and substitutes or exchanges the Series A Preferred Stock for other preferred equity or shares having preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption thereof identical to that of the Series A Preferred Stock (except for changes that do not materially and adversely affect the Series A Preferred Stock); or (3) upon effectiveness of such merger, consolidation or other transaction giving rise to the filing (and if such effectiveness occurs before April 15, 2023, a Change of Control shall have occurred on or prior to such effectiveness), the Series A Preferred Holders would be entitled to receive in exchange for their Series A Preferred Stock without further action by such holder cash consideration equal to the redemption price described under “— Redemption — Optional Redemption” above including all accumulated and unpaid dividends (whether or not declared) to, but not including, the date of such effectiveness and funds sufficient to pay the redemption price for all shares of Series A Preferred Stock will be set aside for payment.

The above voting provisions will not apply with respect to shares of Series A Preferred Stock if, at or before the time when the act with respect to which the vote would otherwise be required is effected, such outstanding shares of Series A Preferred Stock either are subject to (1) a notice of redemption pursuant to the provisions described above under “— Redemption — Optional Redemption” or “— Redemption — Special Optional Redemption” above and funds sufficient to pay the applicable redemption price, including accumulated and unpaid dividends, for all of such shares of Series A Preferred Stock called for redemption have been set aside for payment or (2) a Change of Control Conversion Right which has been properly exercised and not withdrawn.

When the Series A Preferred Stock is entitled to vote, such shares are entitled to one vote per share. In any matter in which the Series A Preferred Stock may vote as a single class with any other series of our preferred stock (as described herein or as may be required by law), each share of Series A Preferred Stock shall be entitled to one vote per \$25.00 of stated liquidation preference.

However, we may create additional series or classes of Parity Stock and Junior Stock, increase the authorized number of shares of Parity Stock (including the Series A Preferred Stock and the Series B Preferred Stock) and Junior Stock and issue additional series of Parity Stock and Junior Stock without the consent of any holder of the Series A Preferred Stock.

The holders of Series A Preferred Stock are not entitled to vote separately as a class or series on an amendment to our certificate of incorporation, except as would be unlawful under the laws of the State of Delaware.

Information Rights

During any period in which we are not subject to Section 13 or 15(d) of the Exchange Act and any shares of Series A Preferred Stock are outstanding, we will: (i) transmit by mail to all holders of shares of Series A Preferred Stock, as their names and addresses appear in our record books, and without cost to such holders, copies of the annual reports and quarterly reports that we would have been required to file with the Securities and Exchange Commission (the “SEC”) pursuant to Section 13 or 15(d) of the Exchange Act if we were subject to such sections (other than any exhibits that would have been required); and (ii) promptly upon written request, supply copies of such reports to any prospective holder of shares of Series A Preferred Stock. We will mail the reports to the holders of shares of Series A Preferred Stock within fifteen (15) days after the respective dates by which we would have been required to file the reports with the SEC if we were subject to Section 13 or 15(d) of the Exchange Act.

Preemptive Rights

No holders of Series A Preferred Stock will, as holders of Series A Preferred Stock, have any preemptive rights to purchase or subscribe for our common stock or any of our other securities.

Book-Entry Procedures

DTC acts as securities depository for the Series A Preferred Stock. We issued one or more fully registered global securities certificates in the name of DTC's nominee, Cede & Co. These certificates represent the total aggregate number of shares of Series A Preferred Stock. We deposited these certificates with DTC or a custodian appointed by DTC. We will not issue certificates to you for shares of Series A Preferred Stock that you purchase, unless DTC's services are discontinued as described below.

Title to book-entry interests in the Series A Preferred Stock will pass by book-entry registration of the transfer within the records of DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the securities may be transferred within DTC in accordance with procedures established for these purposes by DTC.

Each person owning a beneficial interest in the Series A Preferred Stock must rely on the procedures of DTC and the participant through which such person owns its interest to exercise its rights as a holder of the Series A Preferred Stock.

DTC has advised us that it is a limited-purpose trust company organized under the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered under the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants, referred to as Direct Participants, deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the NASDAQ Amex, and the Financial Industry Regulatory Authority, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly, referred to as "Indirect Participants." The rules applicable to DTC and its Direct and Indirect Participants are on file with the SEC.

When you purchase shares of Series A Preferred Stock within the DTC system, the purchase must be made by or through a Direct Participant. The Direct Participant will receive a credit for the shares of Series A Preferred Stock on DTC's records. You, as the actual owner of such shares of Series A Preferred Stock, are the "beneficial owner." Your beneficial ownership interest will be recorded on the Direct and Indirect Participants' records, but DTC will have no knowledge of your individual ownership. DTC's records reflect only the identity of the Direct Participants to whose accounts Series A Preferred Stock are credited.

You will not receive written confirmation from DTC of your purchase. The Direct or Indirect Participants through whom you purchased your shares of Series A Preferred Stock should send you written confirmations providing details of your transactions, as well as periodic statements of your holdings. The Direct and Indirect Participants are responsible for keeping an accurate account of the holdings of their customers like you.

Transfers of ownership interests held through Direct and Indirect Participants will be accomplished by entries on the books of Direct and Indirect Participants acting on behalf of the beneficial owners.

The laws of some states may require that specified purchasers of securities take physical delivery of shares of Series A Preferred Stock in definitive form. These laws may impair the ability to transfer beneficial interests in the global certificates representing the Series A Preferred Stock.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

We understand that, under DTC's existing practices, in the event that we request any action of holders, or an owner of a beneficial interest in a global security such as you desires to take any action which a holder is entitled to take under our certificate of incorporation, as amended or supplemented, DTC would authorize the Direct

Participants holding the relevant shares to take such action, and those Direct Participants and any Indirect Participants would authorize beneficial owners owning through those Direct and Indirect Participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Redemption notices will be sent to Cede & Co. If less than all of the outstanding shares of Series A Preferred Stock are being redeemed, DTC will reduce each Direct Participant's holdings of shares of Series A Preferred Stock in accordance with its procedures.

In those instances where a vote is required, neither DTC nor Cede & Co. itself will consent or vote with respect to the Series A Preferred Stock. Under its usual procedures, DTC would mail an omnibus proxy to us as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series A Preferred Stock is credited on the record date, which are identified in a listing attached to the omnibus proxy.

Dividends on the Series A Preferred Stock will be paid directly to DTC. DTC's practice is to credit participants' accounts on the relevant payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on that payment date.

Payments by Direct and Indirect Participants to beneficial owners such as you will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name." These payments will be the responsibility of the participant and not of DTC, us or any agent of ours.

DTC may discontinue providing its services as securities depository with respect to the Series A Preferred Stock at any time by giving us reasonable notice. Additionally, we may decide to discontinue the book-entry only system of transfers with respect to the Series A Preferred Stock. In that event, we will print and deliver certificates in fully registered form for all issued and outstanding shares of Series A Preferred Stock. If DTC notifies us that it is unwilling to continue as securities depository, or if it is unable to continue or ceases to be a clearing agency registered under the Exchange Act and we do not appoint a successor depository within ninety (90) days after receiving such notice or becoming aware that DTC is no longer so registered, we will issue shares of Series A Preferred Stock in definitive form, at our expense, upon registration of transfer of, or in exchange for, such global security.

According to DTC, the foregoing information with respect to DTC has been provided to the financial community for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

Initial settlement for shares of Series A Preferred Stock will be made in immediately available funds. Secondary market trading between DTC's participants will occur in the ordinary way in accordance with DTC's rules and will be settled in immediately available funds using DTC's Same-Day Funds Settlement System.

Direct Registration System

The Series A Preferred Stock is registered in book-entry form through the Direct Registration System (the "DRS"). The DRS is a system administered by DTC pursuant to which the depository may register the ownership of uncertificated shares, which ownership shall be evidenced by periodic statements issued by the depository to the holders of shares of Series A Preferred Stock entitled thereto. This direct registration form of ownership allows investors to have securities registered in their names without requiring the issuance of a physical stock certificate, eliminates the need for you to safeguard and store certificates and permits the electronic transfer of securities to effect transactions without transferring physical certificates.

DESCRIPTION OF SERIES B PREFERRED STOCK

The terms of the Series B Preferred Stock are contained in the Series B certificate of designations that amended our certificate of incorporation. The following description is a summary of the material provisions of the Series B Preferred Stock and the Series B certificate of designations. This summary is not complete. You should read the Series B certificate of designations, which is filed as an exhibit to this Annual Report on Form 10-K, and incorporated by reference herein, for the provisions that are important to you.

General

Our board of directors has adopted our Series B certificate of designations establishing the number and fixing the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption of our Series B Preferred Stock. The Series B certificate of designations initially authorizes 4,000,000 shares of Series B Preferred Stock. Our board of directors may authorize and issue additional shares of Series B Preferred Stock, from time to time, without obtaining consent of the holders of shares of Series B Preferred Stock.

The Series B Preferred Stock is listed on the NYSE under the symbol “CAI PR B.” The Series B Preferred Stock is maintained in book-entry form registered in the name of the nominee of The Depository Trust Company (“DTC”), Cede & Co. and we expect any additional shares of the Series B Preferred Stock that we sell will be issued and maintained in book-entry form registered in the name of the nominee of DTC, Cede & Co. See “— Book-Entry Procedures.”

The transfer agent, registrar and dividend disbursing agent for the Series B Preferred Stock is Computershare Trust Company, N.A.

Maturity

The Series B Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption. Shares of the Series B Preferred Stock will remain outstanding indefinitely unless we decide to redeem or otherwise repurchase them or they become convertible and are converted as described below under “—Limited Conversion Rights Upon a Change of Control.” We are not required to set apart for payment the funds to redeem the Series B Preferred Stock.

The Series B Preferred Stock ranks: (i) senior to all of our common stock and any other equity securities that we may issue in the future, the terms of which specifically provide that such equity securities rank junior to the Series B Preferred Stock, in each case with respect to payment of dividends and amounts upon liquidation, dissolution or winding up, which we refer to as “Junior Stock;” (ii) equal to our Series A Preferred Stock and any shares of equity securities that we may issue in the future, the terms of which specifically provide that such equity securities rank on par with such Series B Preferred Stock, in each case with respect to payment of dividends and amounts upon liquidation, dissolution or winding up, which we refer to as “Parity Stock;” (iii) junior to all other equity securities we issue, the terms of which specifically provide that such equity securities rank senior to the Series B Preferred Stock, in each case with respect to payment of dividends and amounts upon liquidation, dissolution or winding up (any such issuance would require the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series B Preferred Stock), which we refer to as “Senior Stock;” and (iv) junior to all of our existing and future indebtedness.

Dividend Rate

Holders of shares of the Series B Preferred Stock are entitled to receive, when, as and if declared by our board of directors, out of funds legally available for the payment of dividends, cumulative cash dividends at an annual rate of 8.50% of the \$25.00 liquidation preference per annum (the “Fixed Dividend Rate”) during the Fixed Rate Period (as defined below). The Fixed Dividend Rate accrues from, and including, the date of original issuance to, but not including, August 15, 2023 (the “Fixed Rate Period”). On and after August 15, 2023 (the “Floating Rate Period”), dividends on the Series B Preferred Stock shall accrue at an annual rate equal to the sum of (a) Three-Month LIBOR

(as defined below) as calculated on each applicable Date of Determination (as defined below) and (b) 5.687% of the \$25.00 liquidation preference per share of Series B Preferred Stock (the "Floating Dividend Rate").

The term "Three-Month LIBOR" means, on the second London Business Day (as defined below) immediately preceding the first day of each relevant Dividend Period for the Series B Preferred Stock or, if applicable, the redemption date each a ("Date of Determination"):

- the rate (expressed as a percentage per year) for deposits in U.S. dollars having an index maturity of three months, in amounts of at least \$1,000,000, as such rate appears on "Bloomberg, L.P. page US0003M" at approximately 11:00 a.m. (London time) on such Date of Determination; or
- if no such rate appears on "Bloomberg, L.P. page US0003M" or if the "Bloomberg, L.P. page US0003M" is not available at approximately 11:00 a.m. (London time) on the relevant Date of Determination, except as provided in the clause immediately following this clause, then we will select four nationally-recognized banks in the London interbank market and request that the principal London offices of those four selected banks provide us with their offered quotation for deposits in U.S. dollars for a period of three months, commencing on the first day of the applicable Dividend Period, to prime banks in the London interbank market at approximately 11:00 a.m. (London time) on that Date of Determination for the applicable Dividend Period. Offered quotations must be based on a principal amount equal to an amount that, in our discretion, is representative of a single transaction in U.S. dollars in the London interbank market at that time. If at least two quotations are provided, the Three-Month LIBOR for such Dividend Period will be the arithmetic mean (rounded upward if necessary, to the nearest 0.00001 of 1%) of those quotations. If fewer than two quotations are provided, the Three-Month LIBOR for such Dividend Period will be the arithmetic mean (rounded upward if necessary, to the nearest 0.00001 of 1%) of the rates quoted at approximately 11:00 a.m. (New York City time) on that Date of Determination for such Dividend Period by three nationally-recognized banks in New York, New York selected by us, for loans in U.S. dollars to nationally-recognized European banks (as selected by us), for a period of three months commencing on the first day of such Dividend Period. The rates quoted must be based on an amount that, in our discretion, is representative of a single transaction in U.S. dollars in that market at that time. If fewer than three New York City banks selected by us do not quote rates in the manner described above, the Three-Month LIBOR for the applicable Dividend Period will be the same as for the immediately preceding Dividend Period, or, if there was no such Dividend Period, the dividend shall be calculated at the dividend rate in effect for the immediately preceding Dividend Period.

Notwithstanding the clause immediately preceding this clause, if we or the calculation agent determine that Three-Month LIBOR has been permanently discontinued, the calculation agent will use, as a substitute for Three-Month LIBOR (the "Alternative Rate") and for each future interest determination date, the alternative reference rate selected by the central bank, reserve bank, monetary authority or any similar institution (including any committee or working group thereof) that is consistent with accepted market practice. As part of such substitution, the calculation agent will, after consultation with us, make such adjustments ("Adjustments") to the Alternative Rate or the spread thereon, as well as the business day convention, interest determination dates and related provisions and definitions, in each case that are consistent with accepted market practice for the use of such Alternative Rate. If the calculation agent determines, and following consultation with us, that there is no clear market consensus as to whether any rate has replaced Three-Month LIBOR in customary market usage, we will appoint, in our sole discretion, a new calculation agent, who may be our affiliate, to replace the calculation agent, solely in its role as calculation agent in respect of the Series B Preferred Stock, to determine the Alternative Rate and make any Adjustments thereon, and whose determinations will be binding on us and the holders of the Series B Preferred Stock. If, however, the calculation agent determines that Three-Month LIBOR has been discontinued, but for any reason an Alternative Rate has not been determined, Three-Month LIBOR will be equal to such rate on the interest determination date when Three-Month LIBOR was last available on the "Bloomberg, L.P. page US0003M", as determined by the calculation agent.

We will appoint a calculation agent for the Series B Preferred Stock at least five London Business Days prior to the commencement of the Floating Rate Period and will keep a record of such appointment at our principal office, which will be available to any holders of the Series B Preferred Stock upon request.

“Business Day” means any day, other than a Saturday or Sunday, that is neither a legal holiday in the United States nor a day on which banking institutions in New York, New York are authorized or required by law, regulation or executive order to close.

“London Business Day” means any day on which dealings in deposits in U.S. dollars are transacted in the London interbank market.

Dividend Payment Dates

The “Dividend Payment Dates” for the Series B Preferred Stock are the 15th day of January, April, July and October (each a “Dividend Period”). Dividends accumulate in each such Dividend Period from and including the preceding Dividend Payment Date to, but excluding, the applicable Dividend Payment Date for such Dividend Period, and dividends will accrue on accumulated distributions at the Fixed Dividend Rate or the Floating Dividend Rate, as applicable.

Fixed Rate Period

During the Fixed Rate Period, if any Dividend Payment Date is not a Business Day, then the dividend which would otherwise have been payable on such Dividend Payment Date will be paid on the next succeeding Business Day, and no additional dividends or other sums will accrue on the amount so payable for the period from and after such Dividend Payment Date to that next succeeding Business Day.

Floating Rate Period

During the Floating Rate Period, if any Dividend Payment Date is not a Business Day, then the Dividend Payment Date will be postponed to the next succeeding Business Day, and all associated dividends and other sums will continue to accrue to, but excluding, the postponed Dividend Payment Date.

Payment of Dividends

During the Fixed Rate Period, distributions on the Series B Preferred Stock will be payable based on a 360-day year consisting of twelve 30-day months. During the Floating Rate Period, distributions on the Series B Preferred Stock will be computed by multiplying the Floating Dividend Rate by a fraction, the numerator of which will be the actual number of days elapsed during that distribution period (determined by including the first day of the distribution period and excluding the last day, which is the Dividend Payment Date), and the denominator of which will be 360, and by multiplying the result by the aggregate liquidation preference of the Series B Preferred Stock. Dividends will be payable to holders of record as they appear in our stock records for the Series B Preferred Stock at the close of business on the applicable record date, which shall be the 1st day of each of January, April, July and October, whether or not a Business Day, in which the applicable Dividend Payment Date falls (each, a “Dividend Record Date”).

No dividends on shares of Series B Preferred Stock shall be authorized by our board of directors or paid or set apart for payment by us at any time when the payment thereof would be unlawful under the laws of the State of Delaware, or when the terms and provisions of any agreement of ours, including any agreement relating to our indebtedness (the “Limiting Documents”), prohibit the authorization, payment or setting apart for payment thereof or provide that the authorization, payment or setting apart for payment thereof would constitute a breach of the Limiting Documents or a default under the Limiting Documents, or if the authorization, payment or setting apart for payment shall be restricted or prohibited by law.

Notwithstanding the foregoing, dividends on the Series B Preferred Stock will accrue regardless of whether (i) the terms of any Senior Stock we may issue or agreements we may enter into, including any documents governing our indebtedness, at any time prohibit the current payment of dividends, (ii) we have earnings, (iii) there are funds legally available for the payment of such dividends; or (iv) such dividends are declared by our board of directors. No interest, or sum in lieu of interest, will be payable in respect of any dividend payment or payments on the Series B Preferred Stock which may be in arrears, and holders of the Series B Preferred Stock will not be entitled

to any dividends in excess of full cumulative dividends described above. Any dividend payment made on the Series B Preferred Stock shall first be credited against the earliest accumulated but unpaid dividend due with respect to those shares.

Future dividends on our common stock and preferred stock, including the Series B Preferred Stock, will be at the discretion of our board of directors, and will depend on, among other things, our results of operations, cash flow from operations, financial condition and capital requirements, any debt service requirements and any other factors our board of directors deems relevant. Accordingly, we cannot guarantee that we will be able to pay cash dividends on our preferred stock or what the actual dividends will be for any future period.

Unless full cumulative dividends on the Series B Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past Dividend Periods, no dividends shall be declared or paid or set aside for payment upon shares of any Junior Stock or Parity Stock we may issue, nor shall any other dividend be declared or made upon such shares of Junior Stock or Parity Stock. In addition, no shares of any Junior Stock or Parity Stock shall be redeemed, purchased or otherwise acquired for any consideration (or any moneys paid to or made available for a sinking fund for the redemption of any such shares) by us (except as mandatorily required by the terms of such equity security or by conversion into or exchange for shares of Junior Stock we may issue).

When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series B Preferred Stock and the shares of any other series of preferred stock that we may issue ranking on parity as to dividends with the Series B Preferred Stock, all dividends declared upon the Series B Preferred Stock and any other series of preferred stock ranking on parity that we may issue as to dividends with the Series B Preferred Stock shall be declared pro rata so that the amount of dividends declared per share of Series B Preferred Stock and such other series of preferred stock that we may issue shall in all cases bear to each other the same ratio that accrued dividends per share on the Series B Preferred Stock and such other series of preferred stock that we may issue (which shall not include any accrual in respect of unpaid dividends for prior Dividend Periods if such preferred stock does not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on the Series B Preferred Stock which may be in arrears.

Liquidation Preference

Upon the voluntary or involuntary liquidation, dissolution or winding up of our affairs, then, before any distribution or payment shall be made to the holders of any common stock or any other class or series of Junior Stock, the holders of Series B Preferred Stock shall be entitled to receive out of its assets legally available for distribution to stockholders, liquidating distributions in the amount of the liquidation preference, or \$25.00 per share, plus an amount equal to all dividends (whether or not declared) accrued and unpaid thereon to and including the date of payment. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series B Preferred Stock will have no right or claim to any of our remaining assets. In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, our available assets are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series B Preferred Stock and the corresponding amounts payable on all Senior Stock and Parity Stock, then after payment of the liquidating distribution on all outstanding Senior Stock, the holders of the Series B Preferred Stock and all other such classes or series of Parity Stock shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled. For such purposes, our consolidation or merger with or into any other entity, or the sale, lease or conveyance of all or substantially all of our property or business, or a statutory share exchange or the occurrence of a Change of Control shall not be deemed to constitute our voluntary or involuntary liquidation, dissolution or winding up.

The Series B certificate of designations does not contain any provision requiring funds to be set aside to protect the liquidation preference of the Series B Preferred Stock.

Redemption

Optional Redemption

On and after August 15, 2023, we may, at our option, upon not less than thirty (30) days' nor more than sixty (60) days' written notice, redeem the Series B Preferred Stock, in whole or in part, at any time or from time to time, for cash, at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends thereon to, but not including, the date fixed for redemption. If we elect to redeem any shares of Series B Preferred Stock as described in this paragraph, we may use any available cash to pay the redemption price.

Special Optional Redemption

Upon the occurrence of a Change of Control, subject to any restrictions imposed by any Limiting Document, we may, at our option, upon not less than thirty (30) days' nor more than sixty (60) days' written notice, redeem the Series B Preferred Stock, in whole or in part, within one hundred twenty (120) days after the first date on which such Change of Control occurred, for cash, at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends thereon to, but not including, the date fixed for redemption. If, prior to the Change of Control Conversion Date (as defined below and as described below under "—Limited Conversion Rights Upon a Change of Control"), we have provided notice of our election to redeem some or all of the shares of Series B Preferred Stock (whether pursuant to our optional redemption right described above under "—Optional Redemption" or this special optional redemption right), the holders of shares of Series B Preferred Stock will not have the Change of Control Conversion Right (as defined below and as described below under "—Limited Conversion Rights Upon a Change of Control") with respect to the shares called for redemption. If we elect to redeem any shares of the Series B Preferred Stock as described in this paragraph, we may use any available cash to pay the redemption price.

A "Change of Control" is deemed to occur when, after the original issuance of the Series B Preferred Stock, the following have occurred:

- the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger, arrangement, amalgamation or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its subsidiaries, taken as a whole, to any "person" (as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")); or
- the consummation of any transaction or series of related transactions (including, without limitation, any merger, arrangement, amalgamation or consolidation), the result of which is that any "person" (as defined above) becomes the beneficial owner, directly or indirectly, of more than 50% of the total voting power of all of our common stock entitled to vote generally in the election of our directors; and provided, that such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition.

Redemption Procedures

A notice of redemption will be mailed at least thirty (30) days but not more than sixty (60) days before the redemption date to each holder of record of Series B Preferred Stock at the address shown on our share transfer books maintained by the transfer agent, registrar and dividend disbursing agent at the address of such holders shown therein. Each notice shall state: (i) the redemption date, (ii) the number of shares of Series B Preferred Stock to be redeemed, (iii) the redemption price of \$25.00 per share of Series B Preferred Stock, plus any accrued and unpaid dividends to and including the date fixed for redemption, (iv) the place or places where any certificates issued for Series B Preferred Stock other than through DTC book-entry described below, are to be surrendered for payment of the redemption price, (v) that dividends on the Series B Preferred Stock will cease to accrue on such redemption date, and (vi) any other information required by law or by the applicable rules of any exchange upon which the Series B Preferred Stock may be listed or admitted for trading. If fewer than all outstanding shares of Series B Preferred Stock are to be redeemed, the notice mailed to each such holder thereof shall also specify the number of shares of Series B Preferred Stock to be redeemed from each such holder and the number of shares of Series B Preferred Stock to be redeemed from each such holder will be determined by us, and such shares of Series B Preferred Stock will be redeemed by such method of selection as DTC shall determine, pro rata or by lot, with adjustments to avoid redemption of fractional shares.

At our election, on or prior to the redemption date, we may irrevocably deposit the redemption price (including accrued and unpaid dividends) of the Series B Preferred Stock so called for redemption in trust for the holders thereof with a bank or trust company, in which case the notice to holders of shares of Series B Preferred Stock will (i) state the date of such deposit, (ii) specify the office of such bank or trust company as the place of payment of the redemption price, and (iii) require such holders to surrender any certificates issued for shares of Series B Preferred Stock other than through the DTC book-entry described below at such place on or about the date fixed in such redemption notice (which may not be later than such redemption date) against payment of the redemption price (including all accrued and unpaid dividends to the redemption date). Any interest or other earnings earned on the redemption price (including all accrued and unpaid dividends) deposited with a bank or trust company will be paid to us. Any monies so deposited that remain unclaimed by the holders of shares of Series B Preferred Stock at the end of six months after the redemption date will be returned to us by such bank or trust company. If we make such a deposit, shares of Series B Preferred Stock shall not be considered outstanding for purposes of voting or determining shares entitled to vote on any matter on or after the date of such deposit.

On or after the date fixed for redemption, each holder of shares of Series B Preferred Stock that holds a certificate, other than through the DTC book-entry procedures described below under “—Book-Entry Procedures,” must present and surrender each certificate representing his or her Series B Preferred Stock to us at the place designated in the applicable notice of redemption and thereupon the redemption price of such shares will be paid to or on the order of the person whose name appears on such certificate representing the Series B Preferred Stock as the owner thereof, each surrendered certificate will be canceled and the shares will be retired and restored to the status of undesignated, authorized shares of Preferred Stock.

If we redeem any shares of Series B Preferred Stock and if the redemption date occurs after a Dividend Record Date and on or prior to the related Dividend Payment Date, the dividend payable on such Dividend Payment Date with respect to such shares called for redemption shall be payable on such Dividend Payment Date to the holders of record at the close of business on such Dividend Record Date and shall not be payable as part of the redemption price for such shares.

Limited Conversion Rights Upon a Change of Control

Upon the occurrence of a Change of Control, each holder of shares of Series B Preferred Stock will have the right (unless, prior to the Change of Control Conversion Date, we have provided or provide irrevocable notice of our election to redeem the Series B Preferred Stock as described above under “—Redemption—Optional Redemption,” or “—Redemption—Special Option Redemption,” in which case such holder will only have the right with respect to the shares of Series B Preferred Stock not called for redemption (unless we default in the payment of the redemption price and accumulated and unpaid dividends in which case such holder will again have a conversion right with respect to the shares of Series B Preferred Stock subject to such default in payment)) to convert some or all of the shares of Series B Preferred Stock held by such holder (the “Change of Control Conversion Right”) on the Change of Control Conversion Date into a number of shares of our common stock per share of Series B Preferred Stock (the “Common Stock Conversion Consideration”), which is equal to the lesser of:

- the quotient obtained by dividing (i) the sum of the \$25.00 liquidation preference per share of Series B Preferred Stock plus the amount of any accumulated and unpaid dividends (whether or not declared) to, but not including, the Change of Control Conversion Date (unless the Change of Control Conversion Date is after a record date for a Series B Preferred Stock dividend payment and prior to the corresponding Dividend Payment Date, in which case no additional amount for such accumulated and unpaid dividend will be included in this sum) by (ii) the Common Stock Price; and
- 2.00 shares of common stock (the “Share Cap”), subject to certain adjustments described below. The Share Cap was derived by dividing the \$25.00 liquidation preference by \$25.00 (50% of the last sale price of our common stock as reported on the NYSE on August 3, 2018).

The Share Cap is subject to pro rata adjustments for any share splits (including those effected pursuant to a distribution of our common stock), subdivisions or combinations (in each case, a “Share Split”) with respect to our common stock as follows: the adjusted Share Cap as the result of a Share Split will be the number of shares of our

common stock that is equivalent to the product obtained by multiplying (i) the Share Cap in effect immediately prior to such Share Split by (ii) a fraction, the numerator of which is the number of shares of our common stock outstanding after giving effect to such Share Split and the denominator of which is the number of shares of our common stock outstanding immediately prior to such Share Split.

In the case of a Change of Control pursuant to which our common stock will be converted into cash, securities or other property or assets (including any combination thereof) (the “Alternative Form Consideration”), a holder of Series B Preferred Stock will receive upon conversion of such Series B Preferred Stock the kind and amount of Alternative Form Consideration which such holder would have owned or been entitled to receive upon the Change of Control had such holder held a number of shares of our common stock equal to the Common Stock Conversion Consideration immediately prior to the effective time of the Change of Control (the “Alternative Conversion Consideration,” and the Common Stock Conversion Consideration or the Alternative Conversion Consideration, as may be applicable to a Change of Control, is referred to as the “Conversion Consideration”).

If the holders of our common stock have the opportunity to elect the form of consideration to be received in the Change of Control, the Conversion Consideration will be deemed to be the kind and amount of consideration actually received by holders of a majority of our common stock that voted for such an election (if electing between two types of consideration) or holders of a plurality of our common stock that voted for such an election (if electing between more than two types of consideration), as the case may be, and will be subject to any limitations to which all holders of our common stock are subject, including, without limitation, pro rata reductions applicable to any portion of the consideration payable in the Change of Control.

We will not issue fractional shares of common stock upon the conversion of shares of Series B Preferred Stock. Instead, we will pay the cash value of such fractional shares.

If we provide a redemption notice, whether pursuant to our special optional redemption right in connection with a Change of Control as described above under “—Redemption—Special Optional Redemption” or our optional redemption right as described above under “—Redemption—Optional Redemption,” holders of shares of Series B Preferred Stock will not have any right to convert such shares of Series B Preferred Stock that we have so elected to redeem or subsequently selected for redemption, and any such shares of Series B Preferred Stock that have been surrendered for conversion pursuant to the Change of Control Conversion Right will be redeemed on the related redemption date instead of converted on the Change of Control Conversion Date. If we elect to redeem shares of Series B Preferred Stock that would otherwise be converted into the applicable Conversion Consideration on a Change of Control Conversion Date, such shares of Series B Preferred Stock will not be so converted and the holders of such shares will be entitled to receive on the applicable redemption date \$25.00 per share of Series B Preferred Stock, plus any accumulated and unpaid dividends thereon to, but not including, the redemption date.

Notwithstanding the foregoing, the holders of shares of Series B Preferred Stock will not have the Change of Control Conversion Right if (i) the acquiror has shares listed or quoted on a National Exchange (as defined below) or listed or quoted on an exchange or quotation system that is a successor to a National Exchange, and (ii) the Series B Preferred Stock remains continuously listed or quoted on a National Exchange or listed or quoted on an exchange or quotation system that is a successor to a National Exchange.

Within fifteen (15) days following the occurrence of a Change of Control, we will provide to holders of shares of Series B Preferred Stock a notice of occurrence of the Change of Control that describes the resulting Change of Control Conversion Right. This notice will state the following:

- the events constituting the Change of Control;
- the date of the Change of Control;
- the last date on which the holders of shares of Series B Preferred Stock may exercise their Change of Control Conversion Right;
- the method and period for calculating the Common Stock Price;

- the Change of Control Conversion Date;
- that if, prior to the Change of Control Conversion Date, we have provided or provide irrevocable notice of our election to redeem all or any shares of our Series B Preferred Stock, holders will not be able to convert their shares of Series B Preferred Stock designated for redemption and such shares will be redeemed on the related redemption date, even if such shares have already been tendered for conversion pursuant to the Change of Control Conversion Right (unless we default in payment of the redemption price and all accumulated and unpaid dividends);
- if applicable, the type and amount of Alternative Conversion Consideration entitled to be received per share of Series B Preferred Stock;
- the name and address of the paying agent and the conversion agent;
- the procedures that the holders of shares of Series B Preferred Stock must follow to exercise the Change of Control Conversion Right; and
- the last date on which holders of shares of Series B Preferred Stock may withdraw shares surrendered for conversion and the procedures such holders must follow to effect such a withdrawal.

We will issue a press release for publication on the Dow Jones & Company, Inc., Business Wire, PR Newswire or Bloomberg Business News (or, if these organizations are not in existence at the time of issuance of the press release, such other news or press organization as is reasonably calculated to broadly disseminate the relevant information to the public), or post a notice on our website, in any event prior to the opening of business on the first Business Day following any date on which we provide the notice described above to the holders of shares of Series B Preferred Stock.

To exercise the Change of Control Conversion Right, the holders of shares of Series B Preferred Stock will be required to deliver, on or before the close of business on the Change of Control Conversion Date, the certificates (if any) representing the shares of Series B Preferred Stock to be converted, duly endorsed for transfer, together with a written conversion notice completed, to our transfer agent, or, in the case of shares of Series B Preferred Stock held in global form, comply with the applicable procedures of DTC. The conversion notice must state:

- the relevant Change of Control Conversion Date;
- the number of shares of Series B Preferred Stock to be converted; and
- that such shares of Series B Preferred Stock are to be converted pursuant to the applicable provisions of the Series B Preferred Stock.

The “Change of Control Conversion Date” is the date the shares of Series B Preferred Stock are to be converted, which will be a Business Day that is no fewer than twenty (20) days nor more than thirty-five (35) days after the date on which we provide the notice described above to the holders of shares of Series B Preferred Stock.

The “Common Stock Price” will be (i) if the consideration to be received in the Change of Control by the holders of shares of our common stock is solely cash, the amount of cash consideration per share of our common stock or (ii) if the consideration to be received in the Change of Control by holders of shares of our common stock is other than solely cash (x) the average of the closing sale prices per share of our common stock (or, if no closing sale price is reported, the average of the closing bid and ask prices or, if more than one in either case, the average of the average closing bid and the average closing ask prices) for the ten consecutive trading days immediately preceding, but not including, the effective date of the Change of Control as reported on the principal U.S. securities exchange on which our common stock is then traded, or (y) the average of the last quoted bid prices for our common stock in the over-the-counter market as reported by OTC Market Group Inc. or similar organization for the ten (10) consecutive trading days immediately preceding, but not including, the effective date of the Change of Control, if our common stock is not then listed for trading on a U.S. securities exchange.

Holders of shares of Series B Preferred Stock may withdraw any notice of exercise of a Change of Control Conversion Right (in whole or in part) by a written notice of withdrawal delivered to our transfer agent prior to the close of business on the Business Day prior to the Change of Control Conversion Date. The notice of withdrawal must state:

- the number of withdrawn shares of Series B Preferred Stock;
- if certificated Series B Preferred Stock has been issued, the certificate numbers of the withdrawn shares of Series B Preferred Stock; and
- the number of shares of Series B Preferred Stock, if any, which remain subject to the conversion notice.

Notwithstanding the foregoing, if the shares of Series B Preferred Stock are held in global form, the conversion notice and/or the notice of withdrawal, as applicable, must comply with applicable procedures of DTC.

Shares of Series B Preferred Stock as to which the Change of Control Conversion Right has been properly exercised and for which the conversion notice has not been properly withdrawn will be converted into the applicable Conversion Consideration in accordance with the Change of Control Conversion Right on the Change of Control Conversion Date, unless prior to the Change of Control Conversion Date we have provided or provide notice of our election to redeem such shares of Series B Preferred Stock.

We will deliver amounts owing upon conversion no later than the third Business Day following the Change of Control Conversion Date.

In connection with the exercise of any Change of Control Conversion Right, we will comply with all federal, provincial and state securities laws and stock exchange rules in connection with any conversion of Series B Preferred Stock into shares of our common stock or other property.

The Change of Control conversion feature may make it more difficult for a party to take over our company or discourage a party from taking over us.

Except as provided above in connection with a Change of Control, shares of Series B Preferred Stock are not convertible into or exchangeable for any other securities or property.

Voting Rights

Except as indicated below, the holders of the Series B Preferred Stock will have no voting rights.

If either a Dividend Penalty Event or Delisting Event has occurred, the number of directors then constituting our board of directors will be increased by two (if not already increased pursuant to this provision or by reason of similar types of provisions with respect to other classes or series of voting preferred stock) and the holders of the Series B Preferred Stock, voting together as a single class with the holders of any other series of Parity Stock upon which like voting rights have been conferred and are exercisable (any such other series, the "voting preferred stock"), will have the right to elect these two additional directors (if not already increased pursuant to this provision or by reason of similar types of provisions with respect to other classes or series of voting preferred stock) at an annual meeting of stockholders or a properly called special meeting of the holders of the Series B Preferred Stock and such voting preferred stock and at each subsequent annual meeting of stockholders until the Dividend Penalty Event or Delisting Event, as the case may be, has been cured. A Dividend Penalty Event will be cured whenever all arrears in dividends on the Series B Preferred Stock and the voting preferred stock then outstanding have been paid and full dividends on the Series B Preferred Stock and the voting preferred stock for the then current Dividend Period have been paid in full or declared and set apart for payment in full.

The two additional directors shall serve in accordance with the provisions of our certificate of incorporation and our amended and restated bylaws, and for the avoidance of doubt, such additional directors shall serve as a special

class of directors. A Delisting Event will be cured once the Series B Preferred Stock has been listed for trading on a National Exchange or listed or quoted on an exchange or quotation system that is a successor to a National Exchange for a period of one hundred eighty (180) consecutive days. Once the Dividend Penalty Event or Delisting Event, as the case may be, has been cured, then the right of the holders of the Series B Preferred Stock and the voting preferred stock to elect these two additional directors will cease, the terms of office of these two directors will forthwith terminate, the special class designation will be terminated and the number of directors constituting our board of directors will be reduced accordingly. However, the right of the holders of the Series B Preferred Stock and the voting preferred stock to elect two additional directors will again vest if a subsequent Dividend Penalty Event or Delisting Event shall occur.

A “Dividend Penalty Event” shall have occurred whenever dividends on any shares of Series B Preferred Stock are in arrears for six or more Dividend Periods, whether or not consecutive.

A “Delisting Event” shall have occurred if the Series B Preferred Stock is not listed for trading on the NYSE, the NYSE American or NASDAQ (each a “National Exchange”) or listed or quoted on an exchange or quotation system that is a successor to a National Exchange for a period of one hundred eighty (180) consecutive days.

Unless we have received the approval of two-thirds of the votes entitled to be cast by the holders of outstanding Series B Preferred Stock, voting separately as a class, either at a meeting of stockholders or by written consent, we will not:

- amend, alter or repeal any provisions of our certificate of incorporation or the share designation relating to the Series B Preferred Stock whether by merger, consolidation or otherwise, to affect materially and adversely the rights, preferences, privileges or voting powers of the holders of the Series B Preferred Stock; or
- authorize, create or increase the authorized amount of, any class or series of beneficial interest having rights senior to the Series B Preferred Stock with respect to the payment of dividends or amounts upon liquidation, dissolution or winding up.

For purposes of the foregoing voting requirements, neither of the following shall be deemed to materially and adversely affect the rights, preferences or voting powers of the Series B Preferred Stock:

- the amendment of provisions of the certificate of incorporation so as to authorize or create or to increase the authorized amount of, any Junior Stock or any Parity Stock, including additional shares of Series B Preferred Stock; nor
- any filing with the Delaware Secretary of State by us, including in connection with a merger, consolidation or otherwise, in which (1) we are the surviving entity and the Series B Preferred Stock remains outstanding with the terms thereof materially unchanged in any respect adverse to the holders thereof; (2) the resulting, surviving or transferee entity is organized under the laws of any state and substitutes or exchanges the Series B Preferred Stock for other preferred equity or shares having preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption thereof identical to that of the Series B Preferred Stock (except for changes that do not materially and adversely affect the Series B Preferred Stock); or (3) upon effectiveness of such merger, consolidation or other transaction giving rise to the filing (and if such effectiveness occurs before August 15, 2023, a Change of Control shall have occurred on or prior to such effectiveness), holders of the Series B Preferred Stock would be entitled to receive in exchange for their Series B Preferred Stock without further action by such holder cash consideration equal to the redemption price described under “—Redemption—Optional Redemption” above including all accumulated and unpaid dividends (whether or not declared) to, but not including, the date of such effectiveness and funds sufficient to pay the redemption price for all shares of Series B Preferred Stock will be set aside for payment.

The above voting provisions will not apply with respect to shares of Series B Preferred Stock if, at or before the time when the act with respect to which the vote would otherwise be required is effected, such outstanding shares of Series B Preferred Stock either are subject to (1) a notice of redemption pursuant to the provisions described above under “—Redemption—Optional Redemption” or “—Redemption—Special Optional Redemption” above and funds sufficient to pay the applicable redemption price, including accumulated and unpaid dividends, for all of such shares of Series B Preferred Stock called for redemption have been set aside for payment or (2) a Change of Control Conversion Right which has been properly exercised and not withdrawn.

When the Series B Preferred Stock is entitled to vote, such shares are entitled to one vote per share. In any matter in which the Series B Preferred Stock may vote as a single class with any other series of our preferred stock (as described herein or as may be required by law), each share of Series B Preferred Stock shall be entitled to one vote per \$25.00 of stated liquidation preference.

However, we may create additional series or classes of Parity Stock and Junior Stock, increase the authorized number of shares of Parity Stock (including the Series B Preferred Stock and the Series A Preferred Stock) and Junior Stock and issue additional series of Parity Stock and Junior Stock without the consent of any holder of the Series B Preferred Stock.

The holders of Series B Preferred Stock are not entitled to vote separately as a class or series on an amendment to our certificate of incorporation, except as would be unlawful under the laws of the State of Delaware.

Information Rights

During any period in which we are not subject to Section 13 or 15(d) of the Exchange Act and any shares of Series B Preferred Stock are outstanding, we will: (i) transmit by mail to all holders of shares of Series B Preferred Stock, as their names and addresses appear in our record books, and without cost to such holders, copies of the annual reports and quarterly reports that we would have been required to file with the Securities and Exchange Commission (the “SEC”) pursuant to Section 13 or 15(d) of the Exchange Act if we were subject to such sections (other than any exhibits that would have been required); and (ii) promptly upon written request, supply copies of such reports to any prospective holder of shares of Series B Preferred Stock. We will mail the reports to the holders of shares of Series B Preferred Stock within fifteen (15) days after the respective dates by which we would have been required to file the reports with the SEC if we were subject to Section 13 or 15(d) of the Exchange Act.

Preemptive Rights

No holders of Series B Preferred Stock will, as holders of Series B Preferred Stock, have any preemptive rights to purchase or subscribe for our common stock or any of our other securities.

Book-Entry Procedures

DTC acts as securities depository for the Series B Preferred Stock. We issued one or more fully registered global securities certificates in the name of DTC’s nominee, Cede & Co. These certificates represent the total aggregate number of shares of Series B Preferred Stock. We deposited these certificates with DTC or a custodian appointed by DTC. We will not issue certificates to you for shares of Series B Preferred Stock that you purchase, unless DTC’s services are discontinued as described below.

Title to book-entry interests in the Series B Preferred Stock will pass by book-entry registration of the transfer within the records of DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the securities may be transferred within DTC in accordance with procedures established for these purposes by DTC.

Each person owning a beneficial interest in the Series B Preferred Stock must rely on the procedures of DTC and the participant through which such person owns its interest to exercise its rights as a holder of the Series B Preferred Stock.

DTC has advised us that it is a limited-purpose trust company organized under the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered under the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants, referred to as Direct Participants, deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the NASDAQ Amex, and the Financial Industry Regulatory Authority, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly, referred to as “Indirect Participants.” The rules applicable to DTC and its Direct and Indirect Participants are on file with the SEC.

When you purchase shares of Series B Preferred Stock within the DTC system, the purchase must be made by or through a Direct Participant. The Direct Participant will receive a credit for the shares of Series B Preferred Stock on DTC’s records. You, as the actual owner of such shares of Series B Preferred Stock, are the “beneficial owner.” Your beneficial ownership interest will be recorded on the Direct and Indirect Participants’ records, but DTC will have no knowledge of your individual ownership. DTC’s records reflect only the identity of the Direct Participants to whose accounts Series B Preferred Stock are credited.

You will not receive written confirmation from DTC of your purchase. The Direct or Indirect Participants through whom you purchased your shares of Series B Preferred Stock should send you written confirmations providing details of your transactions, as well as periodic statements of your holdings. The Direct and Indirect Participants are responsible for keeping an accurate account of the holdings of their customers like you.

Transfers of ownership interests held through Direct and Indirect Participants will be accomplished by entries on the books of Direct and Indirect Participants acting on behalf of the beneficial owners.

The laws of some states may require that specified purchasers of securities take physical delivery of shares of Series B Preferred Stock in definitive form. These laws may impair the ability to transfer beneficial interests in the global certificates representing the Series B Preferred Stock.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

We understand that, under DTC’s existing practices, in the event that we request any action of holders, or an owner of a beneficial interest in a global security such as you desires to take any action which a holder is entitled to take under our certificate of incorporation, as amended or supplemented, DTC would authorize the Direct Participants holding the relevant shares to take such action, and those Direct Participants and any Indirect Participants would authorize beneficial owners owning through those Direct and Indirect Participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Redemption notices will be sent to Cede & Co. If less than all of the outstanding shares of Series B Preferred Stock are being redeemed, DTC will reduce each Direct Participant’s holdings of shares of Series B Preferred Stock in accordance with its procedures.

In those instances where a vote is required, neither DTC nor Cede & Co. itself will consent or vote with respect to the Series B Preferred Stock. Under its usual procedures, DTC would mail an omnibus proxy to us as soon as possible after the record date. The omnibus proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Series B Preferred Stock is credited on the record date, which are identified in a listing attached to the omnibus proxy.

Dividends on the Series B Preferred Stock will be paid directly to DTC. DTC's practice is to credit participants' accounts on the relevant payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on that payment date.

Payments by Direct and Indirect Participants to beneficial owners such as you will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name." These payments will be the responsibility of the participant and not of DTC, us or any agent of ours.

DTC may discontinue providing its services as securities depository with respect to the Series B Preferred Stock at any time by giving us reasonable notice. Additionally, we may decide to discontinue the book-entry only system of transfers with respect to the Series B Preferred Stock. In that event, we will print and deliver certificates in fully registered form for all issued and outstanding shares of Series B Preferred Stock. If DTC notifies us that it is unwilling to continue as securities depository, or if it is unable to continue or ceases to be a clearing agency registered under the Exchange Act and we do not appoint a successor depository within ninety (90) days after receiving such notice or becoming aware that DTC is no longer so registered, we will issue shares of Series B Preferred Stock in definitive form, at our expense, upon registration of transfer of, or in exchange for, such global security.

According to DTC, the foregoing information with respect to DTC has been provided to the financial community for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

Initial settlement for shares of Series B Preferred Stock will be made in immediately available funds. Secondary market trading between DTC's participants will occur in the ordinary way in accordance with DTC's rules and will be settled in immediately available funds using DTC's Same-Day Funds Settlement System.

Direct Registration System

The Series B Preferred Stock is registered in book-entry form through the Direct Registration System (the "DRS"). The DRS is a system administered by DTC pursuant to which the depository may register the ownership of uncertificated shares, which ownership shall be evidenced by periodic statements issued by the depository to the holders of shares of Series B Preferred Stock entitled thereto. This direct registration form of ownership allows investors to have securities registered in their names without requiring the issuance of a physical stock certificate, eliminates the need for you to safeguard and store certificates and permits the electronic transfer of securities to effect transactions without transferring physical certificates.

CAI INTERNATIONAL, INC.

LIST OF SUBSIDIARIES

Subsidiary	Jurisdiction
CAI Chile S.p.A	Chile
CAI Consent Sweden AB	Sweden
CAI Intermodal LLC	Washington (U.S.A.)
CAI International GmbH	Germany
CAI Korea Yuhan Hoesa	South Korea
CAI Logistics Inc.	Delaware (U.S.A.)
CAI Luxembourg S.a r.l.	Luxembourg
CAI Management SPC I	Delaware (U.S.A.)
CAI Rail Inc.	Delaware (U.S.A.)
CAL Funding II Limited	Bermuda
CAL Funding III Limited	Bermuda
Challenger Overseas LLC	New Jersey
Container Applications (Malaysia) SDN BHD	Malaysia
Container Applications (Singapore) Pte. Ltd.	Singapore
Container Applications International (Australia) Pty Ltd	Australia
Container Applications International (U.K.) Limited	United Kingdom
Container Applications International Ltd.	Japan
Container Applications Limited	Barbados
General Transportation Services, Inc.	Oregon
Hybrid Logistics, Inc.	Nevada
Sky Container Trading, Ltd.	United Kingdom

Consent of Independent Registered Public Accounting Firm

The Board of Directors
CAI International, Inc.:

We consent to the incorporation by reference in the registration statement (No. 333-143000, 333-159870, 333-176369, 333-187058, 333-206102, 333-212135 and 333-219615) on Form S-8 and (No. 333-217915) on Form S-3 of CAI International, Inc. of our reports dated March 5, 2020, with respect to the consolidated balance sheets of CAI International, Inc. as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and financial statement schedule II (collectively, the "consolidated financial statements"), and the effectiveness of internal control over financial reporting as of December 31, 2019, which reports appear in the December 31, 2019 annual report on Form 10-K of CAI international, Inc.

Our report dated March 5, 2020, on the consolidated financial statements, refers to a change in the method of accounting for leases.

Our report dated March 5, 2020, on the effectiveness of internal control over financial reporting as of December 31, 2019, expresses our opinion that CAI International, Inc. and subsidiaries did not maintain effective internal control over financial reporting as of December 31, 2019 because of the effect of a material weakness on the achievement of the objectives of the control criteria and contains an explanatory paragraph that states a material weakness has been identified and included in management's assessment related to the ineffective design and operation of process level controls over the completeness and accuracy of key assumptions and financial data utilized in estimating the fair value of certain assets. In addition, the Company did not design effective controls that demonstrated a sufficient level of precision used in the review of fair value estimates. The material weakness arose because management's risk assessment process did not appropriately identify risks and design and implement responsive control activities associated with changes in business operations.

/s/ KPMG LLP

San Francisco, California

March 5, 2020

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Victor M. Garcia, certify that:

1. I have reviewed this Annual Report on Form 10-K of CAI International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2020

By: /s/ VICTOR M. GARCIA
Victor M. Garcia
President and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Timothy B. Page, certify that:

1. I have reviewed this Annual Report on Form 10-K of CAI International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2020

By: /s/ TIMOTHY B. PAGE
Timothy B. Page
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of CAI International, Inc. (the "Company") on Form 10-K for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Victor M. Garcia, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 5, 2020

By: /s/ VICTOR M. GARCIA

Victor M. Garcia
President and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE AS SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of CAI International, Inc. (the "Company") on Form 10-K for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Timothy B. Page, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 5, 2020

By: /s/ TIMOTHY B. PAGE

Timothy B. Page
Chief Financial Officer
