

CAI International, Inc.
Form 10-Q
May 03, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 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)

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Delaware 94-3109229
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

Steuart Tower, 1 Market Plaza, Suite 900
San Francisco, California 94105
(Address of principal executive offices) (Zip Code)

415-788-0100

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an 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 Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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If an emerging growth company, indicate by check mark of 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 Rule 12b-2 of the Exchange Act). Yes No

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

Le

Title of each class	Trading symbols	Name of 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

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

Common Stock	April 30, 2019
Common Stock, \$0.0001 par value per share	17,934,992 shares

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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, 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 Quarterly Report on Form 10-Q, 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 in our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission (SEC) on March 5, 2019 and our other reports filed with the 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 other filings with the SEC.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CAI INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share information)

(UNAUDITED)

	March 31, 2019	December 31, 2018
Assets		
Current assets		
Cash	\$ 20,128	\$ 20,104
Cash held by variable interest entities	27,058	25,211
Accounts receivable, net of allowance for doubtful accounts of \$2,839 and \$2,042 at March 31, 2019 and December 31, 2018, respectively	94,729	95,942
Current portion of net investment in sales-type and direct finance leases	74,895	75,975
Prepaid expenses and other current assets	4,422	2,789
Total current assets	221,232	220,021
Restricted cash	29,703	30,668
Rental equipment, net of accumulated depreciation of \$613,838 and \$599,443 at March 31, 2019 and December 31, 2018, respectively	2,176,376	2,265,260
Net investment in sales-type and direct finance leases	465,041	473,792
Goodwill	15,794	15,794
Intangible assets, net of accumulated amortization of \$5,799 and \$5,397 at March 31, 2019 and December 31, 2018, respectively	5,331	5,733
Operating lease right-of-use assets	3,181	-
Furniture, fixtures and equipment, net of accumulated depreciation of \$2,657 and \$2,635 at March 31, 2019 and December 31, 2018, respectively	960	964
Other non-current assets	297	385
Total assets (1)	\$ 2,917,915	\$ 3,012,617
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 7,361	\$ 7,371
Accrued expenses and other current liabilities	19,869	22,460
Due to container investors	670	2,609
Unearned revenue	5,216	7,573

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Current portion of debt	318,664	311,381
Rental equipment payable	56,221	74,139
Total current liabilities	408,001	425,533
Debt	1,764,695	1,847,633
Deferred income tax liability	38,949	38,319
Operating lease liabilities	1,961	-
Total liabilities (2)	2,213,606	2,311,485
Stockholders' equity		
Preferred stock, par value \$0.0001 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, at March 31, 2019 and December 31, 2018	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, at March 31, 2019 and December 31, 2018	48,875	48,875
Common stock, par value \$0.0001 per share; authorized 84,000,000 shares; issued and outstanding 18,207,676 and 18,764,459 shares at March 31, 2019 and December 31, 2018, respectively	2	2
Additional paid-in capital	119,557	132,666
Accumulated other comprehensive loss	(6,594)	(6,513)
Retained earnings	487,479	471,112
Total stockholders' equity	704,309	701,132
Total liabilities and stockholders' equity	\$ 2,917,915	\$ 3,012,617

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- (1) Total assets at March 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, \$27,058 and \$25,211; Net investment in direct finance leases, \$13,486 and \$13,862; and Rental equipment, net of accumulated depreciation, \$126,305, and \$71,958, respectively.
- (2) Total liabilities at March 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, \$47,816 and \$41,066; Debt, \$117,625 and \$67,615, respectively.

See accompanying notes to unaudited consolidated financial statements.

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CAI INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(UNAUDITED)

	Three Months Ended March 31,	
	2019	2018
Revenue		
Container lease revenue	\$ 75,511	\$ 64,634
Rail lease revenue	7,881	9,104
Logistics revenue	27,716	21,636
Total revenue	111,108	95,374
Operating expenses		
Depreciation of rental equipment	31,784	28,847
Storage, handling and other expenses	5,120	4,100
Logistics transportation costs	24,519	18,665
Gain on sale of used rental equipment	(8,832)	(2,195)
Administrative expenses	14,396	11,241
Total operating expenses	66,987	60,658
Operating income	44,121	34,716
Other expenses		
Net interest expense	23,850	16,899
Other expense (income)	38	(35)
Total other expenses	23,888	16,864
Income before income taxes	20,233	17,852
Income tax expense	1,659	714
Net income	18,574	17,138
Preferred stock dividends	2,207	21
Net income attributable to CAI common stockholders	\$ 16,367	\$ 17,117
Net income per share attributable to CAI common stockholders		
Basic	\$ 0.88	\$ 0.84
Diluted	\$ 0.87	\$ 0.83
Weighted average shares outstanding		
Basic	18,555	20,414

Diluted

18,870

20,672

See accompanying notes to unaudited consolidated financial statements.

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CAI INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(UNAUDITED)

	Three Months Ended March 31,	
	2019	2018
Net income	\$ 18,574	\$ 17,138
Other comprehensive (loss) income, net of tax:		
Foreign currency translation adjustments	(81)	310
Comprehensive income before preferred stock dividends	18,493	17,448
Dividends on preferred stock	(2,207)	(21)
Comprehensive income available to CAI common stockholders	\$ 16,286	\$ 17,427

See accompanying notes to unaudited consolidated financial statements.

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CAI INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

(UNAUDITED)

	Preferred Stock		Common Stock		Additional	Accumulated	Retained	Total
	Shares	Amount	Shares	Amount	Paid-In	Other	Earnings	Equity
					Capital	Loss		
Balances as of								
December 31, 2018	4,155	\$ 103,865	18,764	\$ 2	\$ 132,666	\$ (6,513)	\$ 471,112	\$ 701,132
Net income	-	-	-	-	-	-	18,574	18,574
Preferred stock								
dividends,								
\$0.53125/share	-	-	-	-	-	-	(2,207)	(2,207)
Foreign currency								
translation								
adjustment	-	-	-	-	-	(81)	-	(81)
Repurchase of								
common stock	-	-	(595)	-	(13,946)	-	-	(13,946)
Exercise of stock								
options	-	-	27	-	107	-	-	107
Stock based								
compensation -								
options	-	-	-	-	221	-	-	221
Stock based								
compensation -								
restricted stock	-	-	14	-	618	-	-	618
Payment of income								
tax withheld on								
vested								
restricted stock	-	-	(2)	-	(109)	-	-	(109)
Balances as of								
March 31, 2019	4,155	\$ 103,865	18,208	\$ 2	\$ 119,557	\$ (6,594)	\$ 487,479	\$ 704,309

