

September 10, 2013

Mr. Hans Hoogervorst, Chairman International Accounting Standards Board 30 Cannon Street London EC4M 6XH United Kingdom

Mr. Russell Golden, Chairman Financial Accounting Standards Board 401 Merritt 7, PO Box 5116 Norwalk, CT 06856 United States

Dear Gentlemen,

Thank you for the opportunity to offer comments on the proposed changes to the financial recording of leases contained in the FASB/IASB Lease Re-Exposure Draft (RED) issued on May 16, 2013. This letter represents our updated views from our previous comment letter dated December 2, 2010 on the initial Exposure Draft issued on August 17, 2010.

## Background on TRAC Intermodal:

TRAC Intermodal (Trac) is the world's largest provider of marine and domestic chassis operating throughout the United States, Canada and Mexico. Our principal business is providing marine and domestic chassis on both long and short-term leases or rental agreements to a diversified customer base including the world's leading shipping lines, Class 1 railroads, major U.S. intermodal transportation companies and motor carriers. The Company's operations include long term leasing, short term rentals through extensive chassis pool programs and pool/fleet management through the utilization of the Company's proprietary PoolStat® system. TRAC Intermodal's active fleet consists of approximately 277,000 chassis. We are the leader in providing chassis solutions to the intermodal industry. While the industry leader, we are a medium-sized company with approximately 386 associates and accordingly, limited resources to measure the financial reporting complexities expressed in the RED.

We principally serve as lessor of intermodal chassis, although we also lease-in chassis to supplement our asset base as needed. Such leased-in chassis are subsequently leased out to customers thereby introducing a sub-lease relationship. Traditionally, our business model has focused on long-term leasing arrangements with several of the large steamship companies and to a lesser degree individual trucking companies. We currently have approximately 800 leasing contracts (as lessor) under our long term, short term (chassis pool) and management service offerings.

A recent shift in the intermodal transportation industry has involved steamship companies opting to relinquish their ownership and/or management of chassis (which was unique in the United States) and move to a model whereby chassis providers, such as Trac would provide chassis to and contract directly with individual truckers (the "Trucker model"). This change has profound implications on the way in which chassis will be provided in the marketplace for which significant additional resources and system enhancements will be required. Under this new model, it is not unreasonable to assume that the number of contracts we currently serve as lessor will quadruple in number.

## Chassis Leasing Model and General Commentary Regarding the RED:

Revenue in the chassis leasing business is represented by a string of lease payments, with chassis damage and other positioning costs treated separately. Such annuitized and predictable earnings stream has been viewed as one of the key characteristics of equipment leasing companies, which has afforded them access to capital for future growth. Lending practices, in turn, particularly with regard to asset-based loans rely on relatively straight-forward valuation of a leasing company's equipment in determining its eligible borrowing base. Under the proposals offered in the RED, most assets relating to Type A equipment (non-real estate assets) will be de-recognized and substituted with "rights and obligations" whose value is "clouded" by subjective estimates including contingent rentals, renewal options, fair / residual value determinations, etc. thereby resulting in more complex valuations. Consequently, we believe such recharacterization of the substance of leasing transactions proposed in the RED detracts from the transparency it seeks to achieve in this regard.

We believe the proposals offered by the RED have the potential of undermining the equipment leasing business model. There are many legitimate reasons why companies opt to lease certain assets versus purchasing them outright. Examples of factors influencing lease vs. buy decisions include a lack or alternative use of available capital, cyclical nature of a lessee's business, risk or carrying cost avoidance, etc. While we appreciate the need to address some of the structural abuses by companies seeking to avoid capitalizing leases on their balance sheet under existing rules, we believe the proposals in the RED over-reach in addressing such abuses. With the exception of short-term leases and real estate (Type B assets), in addition to rather subjective criteria that may cause an arrangement to not qualify as a lease in the first place, the proposals offered in the RED effectively "force" all leasing arrangements to be accounted for as a financing arrangement, i.e. in substance purchase. We don't believe this "one size fits all" view serves to improve the financial reporting model and should therefore be revisited. While expanded disclosures introduced over the years have served to address many of shortcomings of existing leasing rules, we would prefer that any additional requirements be addressed similarly through additional disclosure versus a re-characterization of the basic construct of leasing transactions.

Other areas of concern regarding the RED include the following:

Further to the above points, we do not believe amounts pertaining to possible renewal options or contingent rentals should be recorded as assets / liabilities. Only contractual obligations should be recorded as such (with few exceptions). The valuation of renewal options and contingent rent would be subjective and arbitrary. Estimates would have to be reviewed and adjusted at each reporting date within the lease period. This would increase workloads significantly with little perceived benefit. The use of estimates on lease renewals could significantly overstate assets and liabilities. By significantly increasing the amount of debt recorded, covenants may be violated even though there has been no substantive change in financial conditions. This could result in restrictions on how much a company is able to borrow which in turn will have a negative impact on its ability to conduct business.

The divergent accounting treatment afforded lessors of real estate (Type B assets) versus equipment (Type A assets) leasing arrangements is a step in the right direction in recognizing that not all leasing arrangements are in substance financing transactions. The RED also discusses an example of a leasing arrangement involving a railcar that has a 50 year useful life being treated similar to real estate assets due to the relatively significant preservation of value retained by the lessor at the end of a typical lease term, but offers no guidance to allow equipment leasing companies with similar long-lived assets to arrive at their own such determination. The useful lives of intermodal chassis can extend beyond twenty years with lease terms ranging from less than a year to ten years. We believe, in the spirit of principles-based accounting versus overly-prescriptive rules, that equipment leasing companies (versus financing companies that lease equipment) be given latitude to apply the general principles described in the RED to their specific leasing practices. Discussion of the classification and accounting treatment for different types of leasing transactions would be disclosed in "Summary of Significant Accounting Policies" section with traditional (and possibly enhanced) disclosure separately made. Over time, the equipment leasing industry will find acceptable norms for their lease classifications and related accounting treatment thereby enhancing comparability among peer companies.

We believe a distinction should be made to exclude small (non-core) assets, such as office copiers, vehicles and postal machines that exist in nearly all businesses and for which there doesn't appear to be confusion among financial statement readers.

Overall, we believe the initial and on-going cost of implementing the RED, particularly for small and medium-sized companies will be disproportionate to the benefits perceived by their users. The judgments and estimates required to account

for leases under the RED would demand in depth knowledge from accounting personnel, treasury, business operations, legal, IT and tax. Therefore a costly cross-functional project team may be required to gather the data needed to identify and initially record the lease, perform the required periodic reassessments of lease payments and discount rate and assess the impact of lease modifications. Additionally companies would need to evaluate their existing lease processes to determine where lease information is maintained and the level of completeness and accuracy of the information. While existing spreadsheets and programs may include some lease information, they are unlikely to have all of the information required to facilitate the calculations and judgments necessary to comply with the RED, thus requiring potentially costly system enhancements. Additionally, due to the complexity of the rules and the amount of judgments involved, it is likely that expenses will increase for the use of outside consultants and invariably, the cost of external audits and reviews will become more expensive. We believe the proposed rules will create an incredibly costly administrative burden on lessees and lessors with little additional value to the users of the financial statements.

The RED would result in additional costly tax-related considerations. Companies will need to understand the impact of the lease accounting changes on existing tax positions, initial adjustments to deferred taxes, and tracking book/tax differences. Companies may be required to keep separate records for tax and for lenders for compliance purposes since the accounting will be out of sync with the legal and tax regimes which are based on existing GAAP.

From a lessee operating performance perspective, we believe rent expense to be a logical and well-understood operating expense category. We don't believe substituting amortization and interest expense for rent expense adds to one's understanding of the underlying performance of a company's operations.

Certain loan covenants may be in technical default as a result of grossing up a company's balance sheet (affecting leverage ratios) and changing the definition of EBITDA (affecting net worth covenants) as required under the RED. A technical default has numerous (costly) implications to a company beginning with having to assess its ability to continue as a "going concern" to having to renegotiate new covenants with its banking partner taking into account all of the unknowns required by the RED. Even if successful in renegotiating its covenants, banks typically charge significant fees to reset covenants.

This consequence represents a significant hardship for lessors in particular that rely on lenders to finance growth in the business. Staff reductions could result if adequate cash for working capital becomes too expensive for small to medium-sized companies.

## Concerns re: the RED Specific to Trac Intermodal:

As noted above, Trac currently has approximately 800 contracts as lessor. As we continue to transition to the previously discussed "Trucker model", we anticipate this number will continue to grow. Estimates of total contracts under the Trucker model approximate 3,000 in the near term. Performing the on-going analysis required by the RED on this population of contracts would be cost prohibitive with little, if any perceived benefit to the users of Trac's financial statements.

As a debt only filer, the users of Trac's financial statements are primarily the banks and bondholders with whom we have outstanding debt and the Company's private equity owners. Both groups of interested parties understand the nature of Trac's business model and, in our opinion, would not view the changes required by the RED as value-added.

The Company enters into contractual relationships with its customers in a variety of ways. The most basic contractual arrangement involves a term lease of chassis for a finite number of years. Current accounting for these types of arrangements primarily qualify as operating leases under existing GAAP, with a smaller portion qualifying as direct financing leases.

The Company also enters into arrangements with customers under managed pool programs, whereby chassis are contributed to various pools and can be drawn by truckers authorized under such programs without entering into specific contracts each and every time. Such arrangements require interpretation of the conditions of a lease discussed in the RED, particularly with regard to the use of a specific asset, i.e. physically distinct, substitution rights and degree of control transferred to the lessee – as assets under such arrangement are considered fungible. We believe lessors operating under a managed pool model (unique to the intermodal industry) should be afforded a special provision in the RED which would define the beginning of the lease contractual relationship as commencing when the asset is drawn from the pool and end upon return to the pool. Such arrangements typically average five days in length and accordingly would be excluded from the RED. To account for such short-term arrangement any other way is counter intuitive and non-value added, in our opinion.

From a business perspective, we have a concern regarding the effect these proposed changes will have on how our customers do business. The reporting burden for our customers and ourselves would be significant. Shorter term leases may be favored. It is likely discussions of lease renewals will migrate from the inception of the lease to the end of the lease thus creating more risk and uncertainty. And most troublesome is that our customers may opt to purchase equipment outright

rather than lease our equipment. These proposed accounting changes could have a devastating effect on small to medium-sized equipment leasing companies.

Thank you for your consideration in these matters.

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