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Dear Board Members

Invitation to comment – Exposure Draft Leases

We welcome the opportunity to comment on the Exposure Draft “Proposed Accounting Standards Update – Leases (Topic 840)” issued by the Financial Accounting Standards Board on August 17, 2010.

Background:

TRAC Intermodal (Trac) is the world’s largest provider of marine and domestic chassis operating throughout the United States, Canada and Mexico. 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 245,000 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 225 associates and accordingly, limited resources to measure the financial reporting complexities expressed in the Exposure Draft (ED) – Leases (Topic 840) on an on-going basis.

We principally serve as lessor of intermodal chassis, although we also lease-in chassis to supplement our asset base as needed. In many instances, 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 over 900 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 triple in number.

General Observations Regarding the ED:

While we appreciate the need to address some of the structural abuses that may have occurred to allow for operating lease treatment on the part of the lessee, we believe the ED introduces other highly subjective criteria, particularly in the areas of lease term determination (upon renewals) and contingent rental payments which has the potential to cause similar disharmony among parties to a leasing arrangement. With regard to this area, we believe expanded disclosure can be used to supplement the reader with information not currently provided under existing GAAP.

Other areas of concern regarding the ED include the following:

- Further to the above point, 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). Renewal periods extending beyond a reasonable amount of time, e.g. five years are prone to error and can introduce significant volatility in earnings upon subsequent analysis.

- 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 ED, particularly for small and medium-sized companies will be disproportionate to the benefits perceived by their users. Expenses will invariably increase in the areas
of internal personnel, outside consultants, external auditor fees and systems enhancements.

- With regard to lessor accounting, we don’t believe the alleged abuses noted on the lessee side carryover to the lessor. For a company whose principal operations involve leasing assets, existing GAAP appears to address the most critical aspects of financial reporting. The “hybrid” model proposed in the ED, under the performance obligation criteria, would serve to unnecessarily gross-up the balance sheet, while maintaining the asset on the company’s books. This situation is exacerbated in a sub-lease arrangement, whereby the lessor would be required to gross up the asset / liability (as lessee), while potentially having to gross up the balance sheet a second time under the performance obligation criteria (as lessor).

- We question the benefit to a financial statement reader of maintaining a residual asset on a lessor’s records under the derecognition approach, particularly in light of significant risks having passed to the lessee. We also do not believe it appropriate to categorize the residual asset as property, plant and equipment.

- We would be in favor of extending the exclusion of contracts with terms of twelve months or less from the requirements of the ED to three years. We would also favor a “grandfathering” provision given the impracticality of analyzing the provisions of the ED for all years presented in the financial statements.

- From an 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. Further, we believe confusion will be created as EBITDA will change under the ED.

- 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 ED. 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 ED. Even if successful in renegotiating its covenants, banks typically charge significant fees to reset covenants.

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

Concerns re: the ED Specific to Trac Intermodal:

- As noted above, Trac currently has approximately 900 contracts as lessor with steamship companies and large and individual truckers. Under a new “Trucker model”, our existing contractual relationships with approximately 25 large steamship companies would transition to hundreds of individual trucking firms. Estimates of total contracts under the Trucker model range from 2,500 to 3,000. Performing the on-going analysis required by the ED 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 privately-owned company, the users of Trac’s financial statements are primarily the banks 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 ED 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. We believe lessors operating under a managed pool model (unique to the intermodal industry) should be afforded a special provision in the ED 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 span three to five days in length and accordingly would be excluded
from the ED. 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 reaction on the part of lessees in having to capitalize the vast majority of their existing operating leases as proposed by the ED. Necessitating capitalization may cause certain lessees to reconsider their decision to lease equipment and opt to purchase such equipment outright. This phenomenon 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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