COMMUNITY FIRST BANCORP
Form DEF 14A
March 31, 2008

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934.
(Amendment No.)

Filed by the Registrant [X]
Filed by a Party other than the Registrant [ ]
Check the appropriate box:
[ ] Preliminary Proxy Statement
[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)
[X] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Material Pursuant to ss. 240.14a-12

COMMUNITY FIRST BANCORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

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[X] No Fee Required.
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1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

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4) Proposed maximum aggregate value of transaction:

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5) Total fee paid

[ ] Fee paid previously with preliminary materials

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

COMMUNITY FIRST BANCORPORATION
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO OUR SHAREHOLDERS:

The Annual Meeting of the Shareholders of Community First Bancorporation will be held at the Seneca Office of Community First Bank, 449 Highway 123 Bypass, Seneca, South Carolina, on Tuesday, April 29, 2008, at 1:30 p.m., for the following purposes:

(1) To elect three directors to each serve a three-year term; and

(2) To act upon other such matters as may properly come before the meeting or any adjournment thereof.

You are only entitled to notice of and to vote at the meeting if you were a shareholder of record at the close of business on March 1, 2008. In order that the meeting can be held, and a maximum number of shares can be voted, whether or not you plan to be present at the meeting in person, please fill in, date, sign and promptly return the enclosed form of proxy. The Company's Board of Directors unanimously recommends a vote FOR approval of all of the proposals presented.

Returning the signed proxy will not prevent a record owner of shares from voting in person at the meeting.

Our 2008 Proxy Statement and 2007 Annual Report to Shareholders are enclosed with this notice.

By Order of the Board of Directors

March 31, 2008

Frederick D. Shepherd, Jr.
President

COMMUNITY FIRST BANCORPORATION

449 Highway 123 ByPass
Seneca, South Carolina 29678
(864) 886-0206

PROXY STATEMENT

We are providing this proxy statement in connection with the solicitation of proxies by the Board of Directors of Community First Bancorporation for use at our Annual Meeting of Shareholders to be held at 1:30 p.m. on Tuesday, April 29, 2008 in Community First Bank's Seneca Office, 449 Highway 123 Bypass, Seneca, South Carolina. Throughout this Proxy Statement, we use terms such as "we," "us," "our" and "our Company" to refer to Community First Bancorporation, and terms such as "you" and "your" to refer to our shareholders.

A Notice of Annual Meeting is attached to this Proxy Statement, and a form of proxy is enclosed. We first began mailing this proxy statement to our shareholders on or about March 31, 2008. We are paying the costs of this solicitation. The only method of solicitation we plan to use, other than this proxy statement, is personal contact, including contact by telephone or other electronic means, by our directors and regular employees, who will not be specially compensated for their services.

ANNUAL REPORT

The Annual Report to Shareholders covering our fiscal year ended December 31, 2007, including financial statements, is enclosed with this proxy statement. The Annual Report to Shareholders does not form any part of the material for the solicitation of proxies.

VOTING PROCEDURES

Voting

If you hold your shares of record in your own name, you can vote your shares by marking the enclosed proxy form, dating it, signing it, and returning it to us in the enclosed postage-paid envelope. If you are a shareholder of record, you can also attend the Annual Meeting and vote in person. If you hold your shares in street name with a broker or other nominee, you can direct your vote by submitting voting instructions to your broker or nominee in accordance with the procedure on the voting card provided by your broker or nominee. If you hold your shares in street name, you may attend the Annual Meeting, but you may not vote in person without a proxy appointment from a shareholder of record.

Revocation of Proxy

If you are a record shareholder and execute and deliver a proxy, you have the right to revoke it at any time before it is voted by delivering to Frederick D. Shepherd, Jr., President, Community First Bancorporation, 449 Highway 123 Bypass, Seneca, South Carolina 29678, or by mailing to Mr. Shepherd at Post Office Box 459, Seneca, South Carolina 29679, an instrument which by its terms revokes the proxy. If you are a record shareholder, you may also revoke your proxy by delivering to us a duly executed proxy bearing a later date. Written notice of your revocation of a proxy or delivery of a later dated proxy will be effective when we receive it. Your attendance at the Annual Meeting will not in itself constitute revocation of a proxy. However, if you are a record shareholder and desire to do so, you may attend the meeting and vote in person in which case the proxy will not be used. If you hold your shares in street name with a broker or other nominee, you may change or revoke your proxy instructions by submitting new voting instructions to the broker or other nominee.

Quorum and Method of Counting Votes

At the close of business on March 1, 2008, there were outstanding 3,359,203 shares of our common stock (no par value). Each share outstanding will

be entitled to one vote upon each matter submitted at the meeting. You are only entitled to notice of and to vote at the meeting if you were a stockholder of record at the close of business on March 1, 2008 (the "Record Date").

A majority of the shares entitled to be voted at the annual meeting constitutes a quorum. If a share is represented for any purpose at the annual meeting by the presence of the registered owner or a person holding a valid proxy for the registered owner, it is deemed to be present for purposes of establishing a quorum. Therefore, valid proxies which are marked "Abstain" or "Withhold" and shares that are not voted, including proxies submitted by brokers that are the record owners of shares (so-called "broker non-votes"), will be included in determining the number of votes present or represented at the annual meeting. If a quorum is not present or represented at the meeting, the shareholders entitled to vote, present in person or represented by proxy, have the power to adjourn the meeting from time to time. If the meeting is to be reconvened within thirty days, we will not give any notice of the reconvened meeting other than an announcement at the adjourned meeting. If the meeting is to be adjourned for thirty days or more, we will give notice of the reconvened meeting as provided in the Bylaws. At any reconvened meeting at which a quorum is present or represented, any business may be transacted that might have been transacted at the meeting as originally noticed.

If a quorum is present at the Annual Meeting, directors will be elected by a plurality of the votes cast by shares present and entitled to vote at the annual meeting. "Plurality" means that if there are more nominees than positions to be filled, the individuals who receive the largest number of votes cast for the positions to be filled will be elected as directors. Cumulative voting is not permitted. Votes that are withheld or that are not voted in the election of directors will have no effect on the outcome of election of directors. If a quorum is present, all other matters that may be considered and acted upon at the Annual Meeting will be approved if the number of shares of our common stock voted in favor of the matter exceeds the number of shares of our common stock voted against the matter.

Actions to be Taken by the Proxies

Our Board of Directors selected the persons named as proxies. When the form of proxy enclosed is properly executed and returned, the shares that it represents will be voted at the meeting. Unless you otherwise specify therein, your proxy will be voted "FOR" the election of the persons named in this Proxy Statement as the Board of Directors' nominees for election to the Board of Directors. In each case where you have appropriately specified how the proxy is to be voted, it will be voted in accordance with your specifications. Our Board of Directors is not aware of any other matters that may be presented for action at the Annual Meeting of Shareholders, but if other matters do properly come before the meeting, the persons named in the proxy intend to vote on such matters in accordance with their best judgment.

SHAREHOLDER PROPOSALS

If you wish to submit proposals for the consideration of the shareholders at the 2009 Annual Meeting, you may do so by mailing them in writing to Frederick D. Shepherd, Jr., President, Community First Bancorporation, Post Office Box 459, Seneca, South Carolina 29679, or by delivering them in writing to Mr. Shepherd at our main office, 449 Highway 123 Bypass, Seneca, South Carolina 29678. You must send or deliver such written proposals in time for us to receive them prior to December 1, 2008, if you want us to include them, if otherwise appropriate, in our proxy statement and form of proxy relating to that meeting. If we do not receive notice of a shareholder proposal prior to February 15, 2009, the persons named as proxies in the proxy materials relating to that meeting will use their discretion in voting the proxies when the proposal is raised at the meeting.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The table below shows information as of March 1, 2008 about our common stock owned by directors and executive officers. Other than as shown in the table below, no persons are known to us to be beneficial owners of 5% or more of our common stock. Except as otherwise indicated in the footnotes to the table, to the knowledge of management, all shares are owned directly with sole voting power.

Name and Address of 5% owners	Amount and Nature of Beneficial Ownership	% of Class
Larry S. Bowman, M.D.	107,959 (1)	3.19%
William M. Brown	98,258 (2)	2.91%
Robert H. Edwards	125,303 (3)	3.70%
Blake L. Griffith	163,453 (4)	4.82%
John R. Hamrick	111,366 (5)	3.31%
James E. McCoy.	126,729 (6)	3.74%
Frederick D. Shepherd, Jr. 449 Highway 123 Bypass Seneca, S.C. 29678	289,088 (7)	8.44%
Gary V. Thrift	92,598 (8)	2.73%
James E. Turner P. O. Box 367 Seneca, S.C. 29679	216,984 (9)	6.42%
Charles L. Winchester P. O. Box 456 Salem, S.C. 29676	171,307 (10)	5.06%
All Directors, nominees and executive officers as a group (10 persons)	1,503,045 (11)	41.24%

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(1) Includes 41,698 shares jointly owned with Mary M. Bowman, Dr. Bowman's wife; 16,728 shares owned by Mrs. Bowman; 11,733 shares held as trustee for Dr. Bowman's children; and 23,045 shares subject to currently exercisable options.

(2) Includes 3,790 shares owned by Annie B. Brown, Mr. Brown's wife; and 23,045

shares subject to currently exercisable options.

(3) Includes 30,055 shares jointly owned with Ruth D. Edwards, Mr. Edward's wife; 7,035 shares owned by Mrs. Edwards; 11,222 shares owned by Robert H. Edwards LLC; and 30,180 shares subject to currently exercisable options.

(4) Includes 19,477 shares owned by Susan P. Griffith, Mr. Griffith's wife; 113,622 shares jointly owned with Mrs. Griffith; and 30,180 shares subject to currently exercisable options.

(5) Includes 33,547 shares jointly owned with Frances R. Hamrick, Mr. Hamrick's wife; 6,839 shares owned by Mrs. Hamrick; and 4,735 shares subject to currently exercisable options.

(6) Includes 85,714 shares jointly owned with Charlotte B. McCoy, Mr. McCoy's wife, and 30,180 shares subject to currently exercisable options. Of the total shares beneficially owned by Mr. McCoy, 67,330 have been pledged as security.

(7) Includes presently exercisable options to purchase 67,653 shares. Of the total shares beneficially owned by Mr. Shepherd, 74,443 have been pledged as security.

(8) Includes 30,180 shares subject to currently exercisable options.

(9) Includes 22,636 shares owned by Patricia S. Turner, Mr. Turner's wife; and 23,045 shares subject to currently exercisable options.

(10) Includes 46,643 shares jointly owned with Joan O. Winchester, Mr. Winchester's wife; 3,460 shares owned by Mrs. Winchester; 1,906 shares held as custodian for Mr. Winchester's grandchildren; and 23,045 shares subject to currently exercisable options.

(11) Includes currently exercisable options to purchase 285,288 shares.

ELECTION OF DIRECTORS

At the Annual Meeting, three directors are to be elected to hold office for the next three years. Pursuant to our bylaws, our Board of Directors acts as a nominating committee. Our Board has nominated James E. McCoy, James E. Turner and Charles L. Winchester each to serve a three year term with their terms expiring at the annual meeting of shareholders in 2011. Directors serve until their successors are elected and qualified to serve. The nominees are currently serving as our directors. Any other nominations must be made in writing and delivered to the President of the Company in accordance with the procedures set forth below under "GOVERNANCE MATTERS - Director Nomination Process."

The persons named in the enclosed form of proxy intend to vote for the election of Messrs. McCoy, Turner and Winchester as directors. Unless you indicate a contrary specification, your proxy will be voted FOR each such nominee. In the event that a nominee is not available by reason of any unforeseen contingency, the persons acting under the proxy intend to vote for the election, in his stead, of such other person as our Board of Directors may recommend. Our Board of Directors has no reason to believe that any nominee will be unable or unwilling to serve if elected.

MANAGEMENT OF THE COMPANY

Directors

The table below shows as to each of our directors and director nominees his name, positions he holds with us, the period during which he has served as our director, and his business experience for the past five years. Terms shown include service as a director of Community First Bank prior to our acquiring it in 1997. Our directors serve until the annual meeting for the year indicated or until their successors are elected and qualified to serve.

Name (and age)	Positions with the Company	Director Since	Business Experience for the Past Five Year
Nominees for re-election to our Board of Directors for terms of office to continue until the Annual Meeting of Shareholders in 2011 are:			
James E. McCoy (70) Walhalla, S.C.	Chairman of our Board of Directors	1989	Plant Manager of Timken Comp
James E. Turner (71) Seneca, S.C.	Director	1989	Chairman of the Board of Tur Jewelers, Inc.
Charles L. Winchester (67) Sunset, S.C.	Director	1989	President, Winchester Lumber Salem, South Carolina; Vice Lumber Company.
Members of our Board of Directors whose terms of office will continue until the Annual Meeting of Shareholders in 2010 are:			
Robert H. Edwards (77) Walhalla, S.C.	Director	1989	President of Edwards Auto Sa
Blake L. Griffith (72) Walhalla, S.C.	Director	1995*	President of Griffith Proper
Gary V. Thrift (47) Seneca, S.C.	Director	1995**	President, Thrift Developmen (general contractor), since President, Thrift Group, Inc supplies), since July, 2001.

Name (and age)	Positions with the Company	Director Since	Business Experience for the Past Five Year
Members of our Board of Directors whose terms of office will continue until the Annual Meeting of Shareholders in 2009 are:			
Larry S. Bowman, M.D. (59) Seneca, S.C.	Vice Chairman of our Board of Directors	1989	Orthopedic surgeon with Blue Association, P.A.
William M. Brown (62) Salem, S.C.	Director and Secretary	1989	President and Chief Executiv Lindsay Oil Company, Inc.
John R. Hamrick (60) Seneca, S.C.	Director	1989	President of Lake Keowee Rea President of John Hamrick Re
Frederick D. Shepherd, Jr. (67) Seneca, S.C.	Director, President, Chief Executive Officer, Chief Financial Officer and Treasurer	1989	President, Chief Executive O Financial Officer and Treasu First Bank since 1989; Presi Executive Officer, Chief Fin Treasurer of the Company sin

*Mr. Griffith previously served on the Board of Directors from 1989 to 1993.
**Mr. Thrift previously served on the Board of Directors from 1989 to 1992.

Neither our principal executive officer nor any of our directors are related by blood, marriage or adoption in the degree of first cousin or closer.

Executive Officer

Frederick D. Shepherd, Jr., our Chief Executive Officer and Chief Financial Officer, is our only executive officer. Information about Mr. Shepherd is set forth above under the caption "--Directors."

GOVERNANCE MATTERS

Director Independence

Our Board of Directors has determined that none of Messrs. Bowman, Brown, Edwards, Griffith, Hamrick, McCoy, Thrift, Turner, or Winchester has a relationship which, in the opinion of our Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director, and that each such director is independent as defined in The Nasdaq Stock Market, Inc. Marketplace Rules, as modified or supplemented (the "Nasdaq Rules"). As disclosed under "Certain Relationships and Related Transactions" our independent directors and some of their affiliates from time to time have loan and deposit relationships with our Bank. These relationships are not considered by our Board to compromise their independence.

Meetings of the Board of Directors and Director Attendance at the Annual Meeting of Shareholders

During the last full fiscal year, ending December 31, 2007, our Board of Directors met 14 times, including regular and special meetings. Each director attended at least 75% of the total number of meetings of our Board of Directors and committees of which he was a member.

We encourage, but do not require, our directors to attend annual meetings of shareholders. Last year, all of our directors attended the annual meeting of shareholders.

Committees of our Board of Directors

Nominating Committee

Our Board of Directors does not have a separate nominating committee. Rather, our entire Board of Directors acts as nominating committee. Based on our size, the small geographic area in which we do business and the desirability of directors being a part of the communities we serve and familiar with our customers, our Board of Directors does not believe we would derive any significant benefit from a separate nominating committee. Mr. Shepherd is the only member of our Board of Directors who is not independent as defined in the Nasdaq Rules. We do not have a Nominating Committee charter.

Audit Committee

We have an Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The Audit Committee is responsible for seeing that audits of our financial statements are conducted annually. An independent registered public accounting firm is employed for that purpose by our Board of Directors upon recommendation of the Audit Committee. Reports on these audits are reviewed by the Committee upon receipt and a report thereon is made to the Board at its next meeting. Our Audit Committee is comprised of Messrs. Edwards, Hamrick, Thrift and Winchester, each of whom is independent as defined in the Nasdaq Rules. The Audit Committee met four times in 2007. The Audit Committee does not have a written charter.

Compensation Committee

We have a Compensation Committee that makes recommendations to our Board of Directors concerning director compensation and compensation of Mr. Shepherd, our Chief Executive and Chief Financial Officer and the Chief Executive Officer and Chief Financial Officer of our Bank. The final decisions as to Mr. Shepherd's compensation are made by the full Board of Directors. Mr. Shepherd negotiates his compensation with the Compensation Committee on a regular basis, and makes recommendations relating thereto. The Committee may take these recommendations into consideration in setting his compensation. Mr. Shepherd does not, however, meet with the full Board of Directors to discuss his compensation. The Compensation Committee does not delegate its authority to any other persons. However, the Committee does delegate responsibility for administering parts of our compensation programs to our Human Resources Department.

The Compensation Committee consults with Calvert & Associates, a compensation consulting firm, with respect to Mr. Shepherd's compensation. Calvert & Associates is engaged by management, but also advises the Board and meets with the Board and the Compensation Committee without Mr. Shepherd being present.

The Compensation Committee is comprised of Messrs. McCoy (chair), Brown, Bowman and Winchester, each of whom is independent as defined in the Nasdaq Rules. The Compensation Committee met three times in 2007. The Compensation Committee does not have a written charter.

Director Nomination Process

In recommending director candidates, our Board takes into consideration such factors as it deems appropriate based on our current needs. These factors may include diversity, age, skills such as understanding of banking and general finance, decision-making ability, inter-personal skills, experience with businesses and other organizations of comparable size, community activities and relationships, and the interrelationship between the candidate's experience and business background, and our other Board members' experience and business background, as well as the candidate's ability to devote the required time and effort to serve on the Board.

Our Board will consider for nomination by the Board director candidates recommended by shareholders if the shareholders comply with the following requirements. If you wish to recommend a director candidate to our Board for consideration as a Board of Directors' nominee, you must submit in writing to our Board the recommended candidate's name, a brief resume setting forth the recommended candidate's business and educational background and qualifications for service, and a notarized consent signed by the recommended candidate stating

the recommended candidate's willingness to be nominated and to serve. This information must be delivered to our Chairman of the Board at our address and we must receive it no later than January 15 in any year for a person to be considered as a potential Board of Directors' nominee at the Annual Meeting of Shareholders for that year. Our Board may request further information if it determines a potential candidate may be an appropriate nominee. Our Board will give director candidates recommended by shareholders that comply with these requirements the same consideration that our Board's candidates receive.

Our Board will not consider director candidates recommended by shareholders as potential Board of Directors' nominees if we receive the shareholder recommendations later than January 15 in any year. However, shareholders may also nominate director candidates as shareholder nominees for election at the annual meeting, but no person who is not already a director may be elected at an annual meeting of shareholders unless that person is nominated in writing not less than 14 days nor more than 50 days prior to the meeting. Such nominations, other than those made by or on behalf of the existing management of the Company, must be made in writing and must be delivered or mailed to the President of the Company, not less than 14 days prior to any meeting of shareholders called for the election of Directors. Such notification must contain the following information to the extent known to the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the total number of shares of our common stock that will be voted for each proposed nominee; (d) the name and residence address of the notifying shareholder; and (e) the number of shares of our common stock owned by the notifying shareholder. The presiding officer of the meeting may disregard nominations not made in accordance with these requirements, and upon his instructions, the vote tellers will disregard all votes cast for each such nominee.

Shareholder Communications with the Board of Directors

If you wish to send communications to our Board of Directors, you should mail them addressed to the intended recipient by name or position in care of: Corporate Secretary, Community First Bancorporation, 449 Highway 123 Bypass, Seneca South Carolina 29678. Upon receipt of any such communications, our Corporate Secretary will determine the identity of the intended recipient and whether the communication is an appropriate shareholder communication. Our Corporate Secretary will send all appropriate shareholder communications to the intended recipient. An "appropriate shareholder communication" is a communication from a person claiming to be a shareholder in the communication the subject of which relates solely to the sender's interest as a shareholder and not to any other personal or business interest.

In the case of communications addressed to the Board of Directors, our Corporate Secretary will send appropriate shareholder communications to the Chairman of the Board. In the case of communications addressed to the independent or outside directors, our Corporate Secretary will send appropriate shareholder communications to the Chairman of our Audit Committee. In the case of communications addressed to committees of the board, our Corporate Secretary will send appropriate shareholder communications to the Chairman of such committee if a committee exists, or to the Chairman of the Board if no committee exists.

MANAGEMENT COMPENSATION

Overview of Executive Officer Compensation

Mr. Shepherd is our only executive officer. The sections below discuss Mr. Shepherd's 2007 compensation arrangements and factors considered by our Compensation Committee in setting his 2007 compensation, as well as changes that have been made to his compensation arrangements for 2008.

Our Board of Directors has historically set Mr. Shepherd's compensation based on recommendations of our Compensation Committee, which negotiates regularly with Mr. Shepherd. See "GOVERNANCE MATTERS - Committees of our Board of Directors - Compensation Committee" for information about processes and procedures followed by our Compensation Committee. We have historically followed an informal policy of providing Mr. Shepherd with a total compensation package consisting of salary, insurance and other benefits, and opportunities for bonuses, incentive compensation and stock options. The Committee's objectives in setting Mr. Shepherd's compensation are:

- to set salary and benefits and, historically, to award options, at competitive levels designed to encourage Mr. Shepherd to perform at his highest level in order to increase earnings and value to shareholders;

- where appropriate, to award bonuses and/or incentive compensation, and increase salary to reward Mr. Shepherd for performance; and

- to retain Mr. Shepherd as our Chief Executive Officer.

Compensation is designed to reward Mr. Shepherd both for his personal performance and for performance of our Company with respect to growth in assets and earnings, expansion and increases in shareholder value. The Committee makes its decisions about allocations between long-term and current compensation, allocations between cash and non-cash compensation, and allocations among various forms of compensation, in its discretion based on its subjective assessment of how these allocations will best meet our overall compensation goals outlined above.

Factors Considered in Setting Compensation

Use of Market Surveys and Peer Group Data

To remain competitive in the executive workforce marketplace, we believe it is important to consider comparative market information about compensation paid to executive officers of other financial institutions in our market area. We want to be able to retain Mr. Shepherd as our executive officer and, to do so, we believe we must be able to compensate him at a level that is competitive with compensation offered by other companies in our business and geographic marketplace that seek similarly skilled and talented executives. Accordingly, we have taken into consideration publicly available information about compensation paid to executive officers at other financial institutions in our market area in making our decisions about Mr. Shepherd's compensation. Prior to 2007, we did not attempt to maintain a certain target percentile within a peer group or otherwise rely on that information to determine Mr. Shepherd's compensation. In 2007, however, we entered into an employment agreement with Mr. Shepherd that changes this practice.

We believe the financial institutions we have included in our considerations were an appropriate group to use for compensation comparisons because they aligned well with our asset levels, the nature of our business and workforce, and the talent and skills required for successful operations.

Other Factors Considered

In addition to considering compensation paid to executive officers of other financial institutions in our market area, we have considered Mr. Shepherd's knowledge, skills, scope of authority and responsibilities, job performance and tenure with us as an executive officer, and his long history in the banking industry. Mr. Shepherd has over 40 years of experience as a banker. He was an original organizer of our Bank and our holding company, and has served as Chief Executive Officer and Chief Financial Officer of each since its organization. The Committee believes that Mr. Shepherd has demonstrated that he has been to a large extent personally responsible for our growth and success to date, and that it is appropriate to compensate him accordingly. The Committee has also considered recommendations from Mr. Shepherd in setting his compensation.

We have historically reviewed our compensation program and levels of compensation paid to Mr. Shepherd annually and made adjustments based on the foregoing factors as well as other subjective factors.

2007 Components of Executive Compensation

During 2007, Mr. Shepherd's compensation consisted primarily of two key components: base salary and an opportunity for short-term incentive compensation. We also provide various additional benefits to Mr. Shepherd,

including health, life and disability insurance, an automobile allowance, and perquisites. For 2007, base salary comprised approximately 85% of Mr. Shepherd's total compensation, and perquisites and other benefits not provided to other employees comprised approximately 15% of Mr. Shepherd's compensation. As further discussed below under the caption "--Base Salary and Short-term Incentive Compensation," Mr. Shepherd did not receive a bonus or any short-term incentive compensation for 2007. The Committee based its decision to allocate Mr. Shepherd's compensation in this manner on its subjective assessment of how such allocation would meet our goals of remaining competitive and of linking compensation to our corporate performance and his individual performance.

The Board did not award options to Mr. Shepherd in 2007 and has no plans to award further options in the foreseeable future.

Base Salary and Short-term Incentive Compensation

We believe it is appropriate to set Mr. Shepherd's base salary at a reasonable level that will provide him with a predictable income base on which to structure his personal budget. As noted above, in setting salary, the Committee has historically reviewed market data about salaries paid to executives of other financial institutions. The Committee has also taken into consideration the overall condition of our Company, its level of success in recent years and its goals and budget for the current year, and Mr. Shepherd's personal performance in furthering our goals, and then made a subjective determination of the amount at which to set Mr. Shepherd's salary. Historically, Mr. Shepherd's salary has fallen at approximately the midpoint of the market survey data, as was the case in 2007.

The Committee set Mr. Shepherd's base salary for 2007 according to the informal practices discussed above. However, for 2008 base salary, pursuant to the Employment Agreement we entered into with Mr. Shepherd in 2007, our Board is required to undertake a more formal market review. The Agreement requires our Board to review Mr. Shepherd's salary annually by reference to a peer group of banks and bank holding companies that are headquartered in South Carolina and North Carolina, have total assets between $250 million and $1 billion, have been existence for five or more years, and have equity securities registered under the Securities Exchange Act of 1934. The peer group criteria may be modified no more frequently than annually to eliminate financial institutions that operate in markets the Board or Compensation Committee considers to be sufficiently different from our market such that a comparison would produce distorted results. The Compensation Committee is required by the agreement to determine annually from reports filed with the Securities and Exchange Commission the return on average assets ("ROAA"), return on average equity ("ROAE") and efficiency ratio of each institution in the peer group for the preceding year, and to set Mr. Shepherd's salary for the following year at not less than the average salary for chief executive officers within our percentile rank in the peer group.

Pursuant to the Employment Agreement, a new short term incentive arrangement was effective for Mr. Shepherd in 2007. Under the Agreement, Mr. Shepherd will be entitled to an annual cash incentive award for each year we achieve ROAA of 1.0% or more. The award will be equal to 15% of Mr. Shepherd's base salary plus a percentage of his base salary equal to the difference between our ROAA and 1.0%. Additionally, for each year in which we achieve ROAE of 10.0% or more, Mr. Shepherd will be entitled to a cash award equal to 15% of his base salary plus a percentage of his base salary equal to the difference between our ROAE and 10.0%. In calculating our ROAA and ROAE, the Board or the Compensation Committee may exclude the impact of extraordinary and non-recurring items. The Committee believes that this incentive compensation arrangement is appropriate in that it continues to align Mr. Shepherd's compensation with our successful operations. Mr. Shepherd did not receive any short-term incentive compensation for 2007.

The other terms of the Employment Agreement with Mr. Shepherd are further discussed under the caption "--Employment Agreement."

Stock Options

Historically, the Committee has set stock option awards at levels believed appropriate to advancing our goal of retaining Mr. Shepherd, as well as levels believed to appropriately align Mr. Shepherd's interests with the interests of our shareholders. Options have been granted with exercise prices set at fair market value of our common stock on the date of grant, so Mr.

Shepherd can only benefit from the options if the price of our stock increases. The Committee has not awarded options to Mr. Shepherd every year, and did not do so in 2006 or 2007. Mr. Shepherd currently holds a significant number of exercisable options.

Other Benefits

We provide Mr. Shepherd with insurance benefits provided to all other employees and make contributions to our 401(k) plan on his behalf on the same basis as contributions are made for all other employees. In addition, we pay Mr. Shepherd director's fees for his service on our Board and the Board of our Bank. We also pay country club dues for Mr. Shepherd, and provide him with an automobile for business and personal use. The Committee has determined that these benefits play an important role in Mr. Shepherd's business development activities on our behalf. All of the foregoing other elements of compensation awarded to Mr. Shepherd were set at levels believed to be competitive with other financial institutions of similar size in South Carolina.

Noncompetition, Severance and Employment Agreement, Salary Continuation Agreement and Split-dollar Life Insurance

In 2007, we entered into an employment agreement and salary continuation agreement with Mr. Shepherd. These agreements are described under the captions "- Employment Agreement" and "Salary Continuation Agreement." As discussed in those sections, the agreements provide, among other things, for payments to Mr. Shepherd upon our termination of his employment other than for cause or his voluntary termination of his employment for good reason as defined in the agreements. The events set forth as triggering events for the payments were selected because they are events similar to those provided for in many employment agreements for executive officers of financial institutions throughout South Carolina. It has become increasingly common for community financial institutions to provide for such payments under such conditions in order to retain key personnel.

We also provide split-dollar life insurance for Mr. Shepherd and reimburse him for the taxes on such insurance, as discussed under "--Death Benefits - Split Dollar Life Insurance."

Tax and Accounting Considerations

We expense salary, bonus and incentive compensation and benefit costs as they are incurred for tax and accounting purposes. Salary, bonus and incentive compensation, and some benefit payments are taxable to the recipient as ordinary income. The tax and accounting treatment of the various elements of compensation is not a major factor in our decision making with respect to compensation.

Timing of Executive Compensation Decisions

Annual salary reviews and adjustments, bonus and short-term incentive compensation awards, and option awards are routinely made each year at the first regularly scheduled Board meeting. The Committee does not time any form of compensation award, including equity-based awards, to coincide with the release of material non-public information.

Security Ownership Guidelines and Hedging

We do not have any formal security ownership guidelines for Mr. Shepherd or our directors, but they all own a significant number of shares, and are among our largest shareholders. We do not have any policies regarding our executive officer's or directors' hedging the economic risk of ownership of our shares.

Financial Restatement

The Board of Directors does not have a policy with respect to adjusting retroactively any cash or equity based incentive compensation paid to our executive officer where payment was conditioned on achievement of certain financial results that were subsequently restated or otherwise adjusted in a

manner that would reduce the size of an award or payment, or with respect to recovery of any amount determined to have been inappropriately received by an individual executive. If such a restatement were ever to occur, the Board would expect to address such matters on a case-by-case basis in light of all of the relevant circumstances.

Summary Compensation Table

The following table provides information about compensation awarded to, earned by or paid to Frederick D. Shepherd, our Chief Executive Officer and Chief Financial Officer, for his services during 2007 and 2006. Mr. Shepherd is our only executive officer. We did not award a bonus or any options or other equity compensation to Mr. Shepherd in 2007 or 2006.

Name and Principal Position	Year	Salary	Non-Equity	All Oth

		($)	Incentive Plan Compensation ($)	Compensa ($)(1
	----	------	----------	-------
Frederick D. Shepherd, Jr. President, Chief Executive Officer and Chief Financial Officer	2007	$293,000	$ -0-	$52,16
	2006	$255,000	$15,000	$68,76

(1) Includes our 2007 contributions to the Bank's 401(k) Plan, premiums for medical insurance, disability insurance and life insurance (including split dollar life), directors' fees, automobile allowance and other benefits in the amounts shown:

	Insurance					
401(k)	Medical	Disability	Life	Director's Fees	Automobile	Cl Du
$ 7,500	$ 3,500	$ 1,316	$ 2,734	$ 8,600	$ 2,425	$

Employment Agreement

Term and Compensation. We have entered into an Employment Agreement with Mr. Shepherd. The agreement is for an initial term of three years. Beginning on the first anniversary, and on each subsequent annual anniversary, the agreement is automatically extended for an additional year unless the Bank's board of directors determines that the term should not be extended and prompt notice to that effect is given to Mr. Shepherd. The agreement provides for a base salary; eligibility for bonuses and participation in incentive compensation plans as determined by the Board; benefits such as club dues, use of an automobile, disability and long-term care insurance, reimbursement of employment related expenses, vacation and participation in other benefits generally provided to Company employees. In addition, Mr. Shepherd's agreement provides for an annual cash incentive award in the event we reach certain financial goals outlined in the agreement. All of these elements of compensation are discussed above under "--Base Salary and Short-term Incentive Compensation." The agreement also provides for the payment of benefits after termination of Mr. Shepherd's employment under the circumstances discussed below.

Death, Disability or Termination for Cause. The agreement provides that if we terminate Mr. Shepherd's employment as a result of disability or if he dies while employed by us, we will have no obligation to make any payments to him except with respect to vested rights or benefits, and, in the case of disability, certain insurance benefits. The agreement also provides that, if we may terminate Mr. Shepherd's employment for cause (as defined in the agreement) following the procedures set forth in the agreement, we will have no obligation to make any payments to him except with respect to vested rights or benefits, unless we terminate his employment for cause after a change of control.

Termination in the Absence of a Change of Control. If we terminate Mr. Shepherd's employment in the absence of a change of control, and such termination is not for cause or as a result of disability or his death, Mr. Shepherd will be entitled to receive for the unexpired term of the agreement the base salary in effect at termination of his employment and an annual bonus equal to the bonus Mr. Shepherd earned the year prior to termination. Mr. Shepherd will not be entitled to continued participation in any of our retirement or stock-based benefit plans.

Change of Control. If a change of control occurs during the term of the agreement, we will be required to pay Mr. Shepherd a lump-sum payment in an amount equal to the compensation and benefits discussed above under " - Term and Compensation" that would otherwise be payable over the three years subsequent to his termination. We will also cause Mr. Shepherd to become fully vested in any non-qualified plans that do not address the change of control. If we terminate Mr. Shepherd's employment without cause following the announcement of a change of control but before the change of control occurs, we will be required to pay him the compensation outlined above on the later of the date of the change of control or the first day of the seventh month in which his employment terminates, in either case with interest but less any amounts otherwise paid to him in connection with termination pursuant to this agreement. If Mr. Shepherd receives the lump sum payment under this section in the event of a change in control and acceleration of any benefits under any other benefit plans and such payment and benefits are subject to the excise tax, we will pay him an amount equal to the excise tax he would be required to pay on the benefits and the amount necessary to pay the excise tax net of all income, payroll and excise taxes.

The agreement defines "change of control" as any of the following: (a) accumulation by any one person or group of our stock constituting more than 50% of the total fair market value or total voting power of our stock; (b) acquisition by any one person or group within a 12-month period of ownership of our stock constituting 30% or more of the total voting power of our stock; (c) replacement of a majority of our Board during any 12-month period by directors whose appointment or election is not endorsed in advance by a majority of our directors; (d) acquisition by any one person or group in a 12-month period of our assets having a total gross fair market value equal to or exceeding 40% of the total gross fair market value of all of our assets immediately before the acquisition

Termination of Employment by Mr. Shepherd without Good Reason. If Mr. Shepherd terminates his employment without good reason, we will have no obligation to make any payments to him except with respect to vested rights or benefits.

Voluntary Termination by Mr. Shepherd with Good Reason. If Mr. Shepherd terminates his employment for good reason, Mr. Shepherd will be entitled to receive for the unexpired term of the agreement, the base salary in effect at termination of his employment and an annual bonus equal to the bonus Mr. Shepherd earned the year prior to termination. Mr. Shepherd will not be entitled to continued participation in any of our retirement or stock-based benefit plans.

The agreement provides that a voluntary termination will be considered for good reason if the following conditions are satisfied: (a) the occurrence without Mr. Shepherd's written consent of (i) a material diminution in salary, (ii) a material diminution in authority, duty or responsibilities, (iii) a material diminution in the authority, duty or responsibilities of Mr. Shepherd's supervisor, including a requirement that Mr. Shepherd report to a corporation officer or employee instead of our Board, (iv) a material diminution in the budget over which Mr. Shepherd has authority, (v) a material change in the geographic location at which Mr. Shepherd must perform his services, or (vi) any other action or inaction that constitutes a material breach by us of the agreement; and (b) Mr. Shepherd has given us notice of the existence of one or more of the conditions set forth in clause (a) above within 90 days of the initial existence of the conditions and has provided us with 30 days to remedy the conditions. In addition, Mr. Shepherd's voluntary termination for one of the conditions listed in clause (a) above must occur within 24 months of the initial existence of the condition.

Insurance coverage following termination of employment. If we terminate Mr. Shepherd's employment, other than for cause, or if Mr. Shepherd terminates his employment for good reason, or if Mr. Shepherd's employment terminates because of disability, we will, at our expense, continue or cause to be continued, Mr. Shepherd's medical insurance benefits, long-term care insurance benefit and disability insurance benefit as outlined in the agreement, in accordance with the schedule prevailing in the two years preceding termination.

The medical and insurance benefits shall continue until the first to occur of (i) Mr. Shepherd's return to employment with us or another employer, (ii) Mr. Shepherd's reaching the age of 70, (iii) Mr. Shepherd's death, or (iv) the end of the remaining term of the agreement. The long-term care benefit shall continue until the policy is fully paid and if such benefits constitute taxable income to Mr. Shepherd, we will reimburse him for taxes attributable to maintenance of the long-term coverage.

Confidentiality and non-competition. The agreement requires Mr. Shepherd to maintain the confidentiality of our confidential business information during the term of his employment with us or the Bank. The agreement provides that Mr. Shepherd may not, for one year following termination of his employment, solicit the services of any officer or employee of the Bank or engage directly or indirectly in certain competitive activities, including: (i) providing financial products or services on behalf of any financial institution within a 15 mile radius of any of our offices; (ii) assisting any financial institution in providing financial products or services to any person residing within a 15 mile radius of any of our offices; or (iii) inducing or attempting to induce any person who was our customer at the time of termination of Mr. Shepherd's employment to seek financial products or services from another financial institution.

The foregoing is merely a summary of certain provisions of the Employment Agreement, and is qualified in its entirety by reference to such Agreement, which has been filed with the Securities and Exchange Commission as an Exhibit to our Form 8-K filed August 6, 2007. This summary does not create any rights in any person.

Salary Continuation Agreement

We have entered into a Salary Continuation Agreement with Mr. Shepherd. The agreement provides for payments of benefits to him upon termination of his employment with us.

Normal Retirement Benefit. Unless Mr. Shepherd's employment is terminated prior to his reaching the age of 71 and unless Mr. Shepherd receives a benefit after a change in control, when Mr. Shepherd reaches the age of 71, he will receive an annual benefit of $210,000. The benefit is payable in monthly installments beginning in the month after his reaching 71 and continuing for 239 additional months (a total of 240 months). If Mr. Shepherd's employment is thereafter terminated for cause or the agreement is terminated in accordance with its terms no further benefits will be paid.

Early Retirement Benefit. In the event Mr. Shepherd's employment is terminated prior to his reaching the age of 71 for any reason other than cause, death or disability or a change in control, the agreement provides for an early termination retirement benefit in the amount that fully amortizes the accrual balance existing at the end of the month immediately before the month in which termination occurs, amortizing the accrual balance over 20 years and taking into account interest at the discount rate. The benefit is payable in monthly installments beginning in the later of (i) the seventh month after the month in which termination occurs or (ii) the month immediately after the month in which Mr. Shepherd reaches 71, and continuing for 239 additional months (a total of 240 months).

Disability Benefit. In the event Mr. Shepherd's employment is terminated because of disability prior to his reaching the age of 71, except after a change of control, the agreement provides for a retirement benefit in the amount that fully amortizes the accrual balance existing at the end of the month immediately before the month in which termination occurs, amortizing the accrual balance over 20 years and taking into account interest at the discount rate. The benefit is payable in monthly installments beginning in the later of (i) the seventh month after the month in which termination occurs or (ii) the month immediately after the month in which Mr. Shepherd reaches 71, and continuing for 239 additional months (a total of 240 months).

Change in Control Benefit. In the event a change in control occurs prior to Mr. Shepherd's reaching the age of 71, and before termination of his employment, the agreement provides for a benefit in the amount of the accrual balance that would be required in the event Mr. Shepherd had reached the age of 71. The benefit is payable in a lump sum three days after the change in control. In the event of involuntary termination of Mr. Shepherd's employment without cause after a change in control is announced but before the change in control occurs, Mr. Shepherd will be entitled to the benefit described in this paragraph in lieu of any other benefit described in the agreement. The benefit is payable in a lump sum on the later of (i) the first day of the seventh month after the month in which the termination actually occurs or (ii) the day of the change in control.

Upon occurrence of the change of control, if Mr. Shepherd is receiving the normal retirement age benefit, we are required to pay the remaining benefits to him in a lump sum on the date of the change in control. If Mr. Shepherd is receiving or is entitled to receive the early retirement benefit or disability benefit at the time of the change in control, we are required to pay the remaining benefits to him in a lump sum on the later of (i) the date of the change in control or (ii) the first day of the seventh month after the month in which termination occurs.

The definition of "change in control" under the Salary Continuation Agreement is the same definition used in Mr. Shepherd's employment agreement discussed above.

If Mr. Shepherd receives acceleration of any benefits under the Salary Continuation Agreement or under any other benefit plans as a result of a change in control and such payment and benefits are subject to the excise tax, we will pay Mr. Shepherd a payment equal to the excise tax payable by Mr. Shepherd on the benefits and a payment equal to the amount necessary to pay the excise tax net of all income, payroll and excise taxes.

Death Benefits. In the event Mr. Shepherd dies before termination of his employment, at his death, his designated beneficiary shall be entitled to an amount in cash equal to the accrual balance existing at his death, unless benefits have been paid in the event of a change in control. The benefit is payable in a lump sum 90 days after Mr. Shepherd's death. In the event Mr. Shepherd dies after termination of his employment and termination was not for cause, at his death, his designated beneficiary shall be entitled to an amount in cash equal to the accrual balance existing at his death, unless benefits have been paid in the event of a change in control. The benefit is payable in a lump sum 90 days after Mr. Shepherd's death.

Termination for Cause. The agreement provides that we will not be required to pay Mr. Shepherd any benefits if his employment is terminated for cause (as defined in the agreement) pursuant to the procedures set forth in the agreement.

The foregoing is merely a summary of certain provisions of the Salary Continuation Agreement, and is qualified in its entirety by reference to such Agreement, which has been filed with the Securities and Exchange Commission as an Exhibit to our Form 8-K filed August 6, 2007. This summary does not create any rights in any person.

Death Benefits -- Split-Dollar Life Insurance

We provide Mr. Shepherd with a life insurance policy and have entered into a Split-Dollar Insurance Agreement with him relating thereto. Mr. Shepherd is the owner of the policy. Upon his death, the agreement requires payment to his designated beneficiary of proceeds equal to greater of (a) the cash value of the policy as of the date to which premiums have been paid, or (b) the aggregate premiums paid by him pursuant to the agreement. Any remaining amount of proceeds are required to be paid to us. Any indebtedness on the policy or any indebtedness secured by the cash value of the policy must first be deducted from the proceeds payable to Mr. Shepherd's beneficiary. Policy dividends are required to be applied to purchase additional paid-up life insurance. We are required to pay a portion of the annual premiums equal to the value of the economic benefit attributable to the life insurance protection provided to us under the split-dollar agreement, calculated in accordance with rulings of the Internal Revenue Service.

The foregoing is merely a summary of the Split-Dollar Life Insurance Agreement, and is qualified in its entirety by reference to the agreement itself, which is filed with the Securities and Exchange Commission. This summary does not create any rights in any person.

Outstanding Equity Awards At 2007 Fiscal Year-End

The following table provides information, on an award-by-award basis, about options to purchase shares of our common stock Mr. Shepherd held at the end of 2007. We have not granted any other equity based awards to Mr. Shepherd. All of these options have vested.

		Option Awards	
Name	Number of Securities Underlying	Option Exercise Price ($)	Option Ex Dat

	Unexercised Options (#) Exercisable		
Frederick D. Shepherd, Jr.	17,837	5.12	02/1
	7,135	5.19	06/1
	12,486	11.21	02/2
	3,243	11.10	10/1
	7,722	11.66	01/0
	3,089	10.68	12/2
	7,354	11.22	01/0
	2,942	11.22	11/2
	8,404	12.11	04/1
	8,004	12.74	04/2
	7,277	15.67	04/2

1989 Stock Option Plan and 1998 Stock Option Plan

We have adopted two stock option plans, both of which were approved by our shareholders. The 1989 Stock Option Plan ("1989 Plan") reserved 498,654 shares of our common stock for issuance to eligible employees upon exercise of options. The 1998 Stock Option Plan ("1998 Plan") reserved 713,467 shares of our common stock for issuance to our eligible employees and directors upon exercise of options. Under both plans, our Board of Directors or a committee appointed by our Board of Directors, determined the persons to whom options would be granted and set the terms of the options within the parameters of the plans. Both the 1989 Plan and the 1998 Plan had ten year terms, and have, therefore, terminated and no further options may be awarded under either plan. Options outstanding under both plans continue to be exercisable until the earlier of the termination date set forth in individual award agreements or ten years from the date of grant. At December 31, 2007, options to purchase 415,016 shares of common stock were outstanding under the 1998 Plan, all of which were exercisable, with an average exercise price of $12.14 per share, and options to purchase 35,105 shares of common stock were outstanding under the 1989 Plan, all of which were exercisable, with an average exercise price of $5.12 per share. The foregoing numbers of shares and average exercise price have been adjusted to reflect stock dividends and stock splits effective through December 31, 2007.

COMPENSATION OF DIRECTORS

We pay our directors fees of $700 for each meeting of the Board of Directors attended. All of our directors are also directors of our Bank, and the Bank pays its directors $600 for each monthly meeting of the Bank's board of directors attended. We do not pay, and the Bank does not pay, retainer fees or committee fees. In previous years, all non-employee directors also received an annual grant under the 1998 Stock Option Plan of options to purchase shares of the Company's common stock at an exercise price equal to the market value at the date of grant, but no options were granted in 2007.

The table below provides information about compensation we paid to each of our directors for their service to the Company and the Bank in 2007. Information about director's fees we paid to Mr. Shepherd is provided in the Summary Compensation Table.

2007 Director Compensation

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)(1)	Total ($)
Larry S. Bowman, M.D.	$8,600		$8,600
William M. Brown	$8,600		$8,600
Robert H. Edwards	$8,600		$8,600
Blake L. Griffith	$8,600		$8,600
John R. Hamrick	$8,600		$8,600
James E. McCoy	$8,600		$8,600
Gary V. Thrift	$8,600		$8,600
James E. Turner	$8,600		$8,600
Charles L. Winchester	$8,600		$8,600

(1) Information about options outstanding for each director is included in the notes to the "Security Ownership of Certain Beneficial Owners and Management" table.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Our Bank, in the ordinary course of its business, makes loans to, accepts deposits from, and provides other banking services to our directors, officers, principal shareholders, and their associates. Loans are made on substantially the same terms, including rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collectibility or present other unfavorable features. Rates paid on deposits and fees charged for other banking services, and other terms of these transactions, are also the same as those prevailing at the time for comparable transactions with other persons. Our Bank expects to continue to enter into transactions in the ordinary course of business on similar terms with our directors, officers, principal stockholders, and their associates. The aggregate dollar amount of loans outstanding to such persons at December 31, 2007 was $5,356,855 and at December 31, 2006, was $6,238,430. During 2007 and 2006, respectively, $691,347 and $1,119,779 of new loans were made and repayments totaled $1,572,922 and $2,720,782. None of such loans have been on non-accrual status, 90 days or more past due, or restructured at any time.

The Board of Directors of our Bank has established formal procedures for approval of the types of loan transactions described above pursuant to which the Board approves all loans to insiders at each meeting. We generally do not enter into other non-banking types of business transactions or arrangements for services with our directors, officers, principal shareholders or their associates.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under Section 16(a) of the Securities Exchange Act of 1934, our directors, executive officers and certain individuals are required to report periodically their ownership of our common stock and any changes in ownership to the Securities and Exchange Commission. Based on a review of Section 16(a) reports available to us and written representations of the persons subject to Section 16(a), it appears that the Company failed to timely file on behalf of each of Messrs. Bowman, Brown, Hamrick, Turner and Winchester, one Form 4 with respect to exercise of options.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our Board has again selected J. W. Hunt and Company, LLP, Certified Public Accountants with offices in Columbia, South Carolina, to serve as our independent registered public accounting firm for 2008. We expect that representatives from this firm will be present and available to answer appropriate questions at the annual meeting, and will have the opportunity to make a statement if they desire to do so.

Fees Paid to Independent Auditors

Set forth below is information about fees billed by our independent auditors for audit services rendered in connection with our consolidated financial statements and reports for the years ended December 31, 2007 and 2006, and for other services rendered during such years, on our behalf and on behalf of our Bank, as well as all out-of-pocket expenses incurred in connection with these services, which have been billed to us.

Audit Fees

Audit fees include fees billed for professional services rendered for the audit of our consolidated financial statements and review of our interim condensed consolidated financial statements included in our quarterly reports, and services that are normally provided by our independent auditors in connection with statutory and regulatory filings or engagements, and attest services, except those not required by statute or regulation. For the years ended December 31, 2007 and 2006, respectively, J. W. Hunt and Company, LLP billed us an aggregate of $49,750 and $48,750 for audit fees.

Audit-Related Fees

Audit-related fees include fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under "Audit Fees". These services would include employee benefit plan audits, attest services that are not required by statute or regulation, and consultations concerning financial accounting and reporting standards. For the years ended December 31, 2007 and 2006, respectively, J. W. Hunt and Company, LLP did not bill us for any audit-related fees.

Tax Fees

Tax fees include fees for tax compliance/preparation and other tax services. Tax compliance/preparation fees include fees billed for professional services related to federal and state tax compliance. Fees for other tax services include fees billed for other miscellaneous tax consulting and planning. For the years ended December 31, 2007 and 2006, respectively, J. W. Hunt and Company, LLP, billed us an aggregate of $7,375 and $6,750 for tax fees.

All Other Fees

All other fees would include fees for all services other than those reported above. For the years ended December 31, 2007 and 2006, J. W. Hunt and Company, LLP, did not bill us for any other fees.

In making its decision to recommend appointment of J. W. Hunt and Company, LLP as our independent auditors for the fiscal year ending December 31, 2008, our Audit Committee considered whether services other than audit and audit-related services provided by that firm are compatible with maintaining the independence of J. W. Hunt and Company, LLP.

Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

Our Audit Committee pre-approves all audit and permitted non-audit services (including the fees and terms thereof) provided by our independent auditors, subject to limited exceptions for non-audit services described in Section 10A of the Securities Exchange Act of 1934, which are approved by the

Audit Committee prior to completion of the audit. The Committee may delegate to one or more designated members of the Committee the authority to pre-approve audit and permissible non-audit services, provided such pre-approval decision is presented to the full Committee at its next scheduled meeting.

General pre-approval of certain audit, audit-related and tax services is granted by our Audit Committee. The Committee subsequently reviews fees paid. Specific pre-approval is required for all other services. During 2007, all audit and permitted non-audit services were pre-approved by the Committee.

AUDIT COMMITTEE REPORT

The Audit Committee of our Board of Directors has reviewed and discussed with our management our audited financial statements for the year ended December 31, 2007. Our Audit Committee has discussed with our independent auditors, J. W. Hunt and Company, LLP, the matters required to be discussed by Statement on Accounting Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1 AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. Our Audit Committee has also received the written disclosures and the letter from J. W. Hunt and Company, LLP, required by Independence Standards Board Standard No. 1, (Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees), as adopted by the Public Company Accounting Oversight Board in Rule 3600T, and has discussed with J. W. Hunt and Company, LLP, their independence. Based on the review and discussions referred to above, our Audit Committee recommended to our Board of Directors that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2007 for filing with the Securities and Exchange Commission.

Robert H. Edwards	Gary V. Thrift
John R. Hamrick	Charles L. Winchester

OTHER MATTERS

Our Board of Directors knows of no other business to be presented at the meeting of shareholders. If matters other than those described herein should properly come before the meeting, the persons named in the enclosed form of proxy intend to vote at such meeting in accordance with their best judgment on such matters.

INCORPORATION BY REFERENCE

The Audit Committee Report shall not be deemed to be filed with the Securities and Exchange Commission, nor deemed incorporated by reference into any of our prior or future filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent we specifically incorporate such information by reference.

AVAILABILITY OF ANNUAL REPORT ON FORM 10-K

You may obtain copies of our Annual Report on Form 10-K required to be filed with the Securities and Exchange Commission for the year ended December 31, 2007, free of charge by requesting such form in writing from Frederick D. Shepherd, Jr., President, Community First Bancorporation, Post Office Box 459, Seneca, South Carolina 29679. You may also download copies from the Securities and Exchange Commission website at http://www.sec.gov.

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PROXY

COMMUNITY FIRST BANCORPORATION

PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS
FOR ANNUAL MEETING OF SHAREHOLDERS - TUESDAY, APRIL 29, 2008

Frederick D. Shepherd or Benjamin L. Hiott, or either of them, with full power of substitution, are hereby appointed as agent(s) of the undersigned to vote as proxies for the undersigned at the Annual Meeting of Shareholders to be held on April 29, 2008, and at any adjournment thereof, as follows:

1.	ELECTION OF DIRECTORS TO HOLD OFFICE FOR THREE YEAR TERMS	[ ] FOR all nominees listed below (except any I have written below)	[ ] WITHHOLD AUTHORITY to vote for all nominees below

James E. McCoy, James E. Turner and Charles L. Winchester

INSTRUCTIONS: TO WITHHOLD AUTHORITY TO VOTE FOR ANY INDIVIDUAL(S) WRITE THE NOMINEE'S(S') NAME(S) ON THE LINE BELOW.

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2. And, in the discretion of said agents, upon such other business as may properly come before the meeting, and matters incidental to the conduct of the meeting. (Management at present knows of no other business to be brought before the meeting.)

THE PROXIES WILL BE VOTED AS INSTRUCTED. IF NO CHOICE IS INDICATED WITH RESPECT TO A MATTER WHERE A CHOICE IS PROVIDED, THIS PROXY WILL BE VOTED "FOR" SUCH MATTER.

Please sign exactly as name appears below. When signing as attorney, executor, administrator, trustee, or guardian, please give full title. If more than one trustee, all should sign. All joint owners must sign.

Dated: -------------------   ------------------------------------

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>Other comprehensive income -- -- -- -- -- 2,454 2,454 2,454 Comprehensive income $ 55,764 Stock incentive plans 5 1 202 -- -- -- 203 Warrant reclassification -- -- 58,440 -- -- -- 58,440 Accretion of preferred stock in a consolidated subsidiary -- -- -- -- (835)-- (835)Cash dividends declared: Common stock, $0.08 per share -- -- -- -- (2,280)-- (2,280)

BALANCE, March 31, 2006 28,500 $29 $ 215,773 $(16,632)$ 340,301 $5,439 $ 544,910

INTERPOOL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)
(Unaudited)

Note 1 Nature of Operations and Significant Accounting Policies

A. Basis of Presentation

The Condensed Consolidated Financial Statements of Interpool, Inc. and Subsidiaries (the "Company") as of March 31, 2006, (unaudited) and December 31, 2005 and for the three months ended March 31, 2006 (unaudited) and 2005 (unaudited) (the "Condensed Consolidated Financial Statements") included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. The Company has made certain reclassifications to prior balances to conform to the current year presentation. It is suggested that these Condensed Consolidated Financial Statements be read in conjunction with the Consolidated Financial Statements and the notes thereto included in the Company's December 31, 2005 Annual Report on Form 10-K, (the "2005 Form 10-K"). These Condensed Consolidated Financial Statements reflect, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the results for the interim periods. The results of operations for such interim periods are not necessarily indicative of the results for the full year.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses during the reporting period and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

B. Nature of Operations

The Company and its subsidiaries conduct business principally in a single industry segment, the leasing of intermodal dry freight standard containers, chassis and other transportation related equipment. Within this single industry segment, the majority of the Company's operations comes from two reportable segments: container leasing and domestic intermodal equipment leasing. The container leasing segment specializes primarily in the leasing of intermodal dry freight standard containers, while the domestic intermodal equipment segment specializes primarily in the leasing of intermodal container chassis. The Company leases its containers principally to international container shipping lines located throughout the world. The customers for the Company's chassis are a large number of domestic companies, many of which are domestic subsidiaries or branches of international shipping lines, as well as major U.S. railroads. Equipment is purchased directly or acquired through conditional sales contracts and lease agreements, many of which qualify as capital leases.

The Company's container leasing operations are primarily conducted through a wholly-owned subsidiary, incorporated in Barbados, as well as through Container Applications International, Inc. ("CAI"), the Company's consolidated subsidiary, of which the Company owns a 50% common equity interest and currently appoints a majority of the members of the board of directors. Profits of the Company's Barbados subsidiaries from international container leasing operations are exempt from federal taxation in the United States to the extent such profits are retained outside the United States. These profits are subject to Barbados tax at rates that are substantially lower than the applicable rates in the United States.

C. Basis of Consolidation

The Company's Condensed Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles. The Condensed Consolidated Financial Statements include the accounts of the Company and subsidiaries more than 50% owned or otherwise controlled by the Company. All significant intercompany transactions have been eliminated in consolidation. Minority interest in equity of subsidiaries represents the minority stockholders' proportionate share of the equity in the income/(losses) of the subsidiaries.

Certain investments in which the Company does not own a majority interest or otherwise control, but where it has the ability to exercise significant influence over the investee, have historically been accounted for using the equity method of accounting. In September 2005, a non-transportation company in which the Company held a minority equity position since 1997 was sold. As of September 30, 2005, the Company no longer held any investments which are accounted for using the equity method of accounting.

D. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of shares outstanding during the period (which is net of treasury shares). Diluted income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The dilutive effect of stock options and warrants and the un-vested portion of restricted stock grants is computed using the treasury stock method, which assumes the repurchase of common shares at the average market price for the period. Stock options and warrants that do not have a dilutive effect (because the exercise price is above the market price) are not included in the diluted income per share. For the three months ended March 31, 2006, options to purchase 35,585 shares were not dilutive and were not included in diluted earnings per share while the warrants to acquire common shares were dilutive. For the three months ended March 31, 2005, all stock options and warrants to acquire common shares were dilutive. Unvested restricted stock grants were dilutive for the three months ended March 31, 2006 and 2005. The convertible redeemable subordinated debentures were dilutive for the three months ended March 31, 2006 and 2005.

A reconciliation of the numerator and denominator of basic EPS with that of diluted EPS is presented below:

	Three Months Ended March 31,	
	2006	**2005**
Numerator		
Net Income - Basic EPS	$53,310	$20,388
Interest expense on convertible debentures, net of tax of $344 in both periods	516	516
Net Income - Diluted EPS	$53,826	$20,904
Denominator		
Weighted average common shares outstanding-Basic	28,500	27,638
Dilutive stock options and warrants	2,535	4,058
Dilutive convertible debentures	1,487	1,487
Dilutive restricted stock grants	5	10
Weighted average common shares outstanding-Diluted	32,527	33,193
Earnings per common share		
Basic	$ 1.87	$ 0.74
Diluted	$ 1.65	$ 0.63

E. Comprehensive Income

Comprehensive income consists of net income or loss for the current period and gains or losses that have been previously excluded from the income statement and were only reported as a component of equity.

The components of the change in accumulated comprehensive income are as follows:

	Before Tax Amount	**Tax Effect**	**Net of Tax Amount**
Three Months Ended March 31, 2006			
Unrealized holding gains/(losses) arising during the period:			
Cumulative foreign currency translation adjustment	$ (23)	$ 8	$ (15)
Swap agreements	3,799	(1,330)	2,469
	$ 3,776	$(1,322)	$ 2,454

	Before Tax Amount	**Tax Effect**	**Net of Tax Amount**
Three Months Ended March 31, 2005			
Unrealized holding gains/(losses) arising during the period:			

	Before Tax Amount	Tax Effect	Net of Tax Amount
Three Months Ended March 31, 2005			
Marketable Securities	$ (3)	$ 1	$ (2)
Cumulative foreign currency translation adjustment	(92)	33	(59)
Swap agreements	7,922	(2,702)	5,220
	$ 7,827	$(2,668)	$ 5,159

The components of accumulated other comprehensive income, net of taxes, are as follows:

	March 31, 2006	December 31, 2005
Marketable securities	$ 1	$ 1
Cumulative foreign currency translation adjustment	(58)	(43)
Swap agreements	5,496	3,027
	$ 5,439	$ 2,985

F. Stock-Based Compensation

Stock Options

At March 31, 2006, the Company had four stock option plans as described below:

The Company's 2004 Stock Option Plan for Key Employees and Directors (the "2004 Plan"), was adopted by the Board of Directors, and approved by the stockholders at the Company's Annual Meeting of Stockholders, on December 15, 2004. A total of 1,500,000 shares of common stock have been reserved for issuance under the 2004 Plan. Options may be granted under the 2004 Plan, at the discretion of the Compensation Committee of the Board of Directors (the "Compensation Committee"), to key employees and directors (whether or not they are employees) of Interpool, Inc. and its subsidiaries. Options granted under the plan will be exercisable at such times and under such conditions as may be determined by the Compensation Committee at the time of grant; however, options may not be granted for terms in excess of ten years. The number of shares that may be the subject of options granted during any calendar year to any one individual cannot exceed 250,000 shares. At March 31, 2006, a total of 350,000 options were outstanding under this plan with options for 1,150,000 shares available for future grant.

Previously, the Company maintained a 1993 Stock Option Plan for Executive Officers and Directors (the "1993 Stock Option Plan"). At March 31, 2006, a total of 2,663,063 fully vested options were outstanding under the 1993 Stock Option Plan. No further options may be granted under the 1993 Stock Option Plan.

The Company's 2004 Nonqualified Stock Option Plan for Non-Employee, Non-Officer Directors (the "2004 Directors Plan"), was also adopted by the Board of Directors, and approved by the stockholders at the Company's 2004 Annual Meeting of Stockholders on December 15, 2004. A total of 250,000 shares of common stock have been reserved for issuance under the 2004 Directors Plan. Options granted under the 2004 Directors Plan are granted with an exercise price per share equal to the fair market value of the Company's common stock on the date on which the option is granted. The options granted pursuant to the 2004 Directors Plan may be exercised at the rate of one-third of the shares on each anniversary of the options' grant date, subject to applicable holding periods required under rules of the Securities and Exchange Commission. Options granted pursuant to the 2004 Directors Plan expire ten years from their grant date.

The 2004 Directors Plan provides for the automatic grant of nonqualified options to non-employee non-officer directors. Under the 2004 Directors Plan, each person who was not an employee or officer and who served as a member of the Board of Directors received a grant of options for 15,000 shares of common stock on the business day following the 2004 Annual Meeting. In addition, each person who becomes a non-employee non-officer director following the 2004 Annual Meeting will automatically receive a grant of options for 15,000 shares on the first business day after becoming a director. The 2004 Directors Plan also provides for additional automatic grants of options for 5,000 shares on an annual basis to each continuing director, other than an employee or officer, on the first business day following each future annual meeting, beginning with the annual meeting held during 2005. At March 31, 2006, a total of 120,000 options were outstanding under this plan with options for 130,000 shares available for future grant.

Previously, the Company maintained the 1993 Non-Qualified Stock Option Plan for Non-Employee, Non-Consultant Directors (the "1993 Directors Plan"). A total of 45,000 fully vested options were outstanding under the 1993 Directors Plan at March 31, 2006. No further options may be granted under the 1993 Directors Plan.

Effective January 1, 2006, the Company began recording compensation expense associated with stock options in accordance with SFAS No. 123(R), Share-Based Payment, ("SFAS 123(R)"). Prior to January 1, 2006, the Company accounted for stock-based compensation related to stock options under the recognition and measurement principles of Accounting Principles Board Opinion No. 25; therefore, the Company measured compensation expense for its stock option plans using the intrinsic value method, that is, as the excess, if any, of the fair market value of the Company's stock at the grant date over the amount required to be paid to acquire the stock, and provided the disclosures required by SFAS No. 123, Accounting for Stock-Based Compensation, ("SFAS 123") and SFAS No. 148, Accounting for Stock-Based Compensation, ("SFAS 148"). The Company has adopted the modified prospective transition method provided by SFAS 123(R), and as a result, has not retroactively adjusted results from prior periods. Under this transition method, compensation expense associated with stock options recognized in the first three months of 2006 includes expense related to the remaining unvested portion of all stock option awards granted prior to January 1, 2006 based on the grant date fair value estimated in accordance with the original provision of SFAS 123. No options were granted during the first quarter of 2006; however, compensation expense will be recorded for all future awards based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R).

As a result of the adoption of SFAS 123(R), the Company's net income for the three months ended March 31, 2006 included $182 of compensation expense and $73 of income tax benefits related to the Company's stock options. The compensation expense related to all of the Company's stock-based compensation arrangements is recorded as a component of lease operating and administrative expenses in the Condensed Consolidated Statements of Income. For the three months ended March 31, 2006, there was no impact on basic or diluted earnings per share as a result of adoption.

Prior to the adoption of SFAS 123(R), the Company presented all tax benefits related to deductions resulting from the exercise of stock options as cash flows from operating activities in the Condensed Consolidated Statements of Cash Flows. SFAS 123(R) requires that cash flows resulting from tax benefits related to tax deductions in excess of the cumulative compensation expense recognized for those options (excess tax benefits) be classified as cash inflows from financing activities and cash outflows from operating activities. There were no stock options exercised during the three months ending March 31, 2006; however, all future excess tax benefits will be presented as financing cash inflows.

For stock options granted prior to the adoption of SFAS123(R), the following table illustrates the pro forma effect on net income and earnings per share as if the Company had accounted for all employee stock options granted prior to January 1, 2006 under the fair valued based accounting method of SFAS 123:

	Three Months Ended

	March 31, 2005
Net income, as reported	$20,388
Add/(Deduct): Stock based employee compensation expense/(income) included in net income, net of related tax effects	(78)
Add/(Deduct): Total stock-based employee compensation (expense)/income determined under fair value based method for all awards, net of related tax effects	26
Pro forma net income	$20,336
Earnings per share:	
Basic-as reported	$0.74
Basic-pro forma	$0.74
Diluted-as reported	$0.63
Diluted-pro forma	$0.63

No options were granted by the Company during the first quarter of 2006 or the first quarter of 2005. The Company plans to continue to use the Black-Scholes option valuation model in estimating the fair value of stock option awards issued under SFAS 123(R).

A summary of the Company's stock option activity for the three months ended March 31, 2006 for the combined plans were as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2006	3,178,063	$ 11.75	3.7	--
Granted	--	--	--	--
Forfeited or Expired	--	--	--	--
Exercised	--	--	--	--
Outstanding at March 31, 2006	3,178,063	$ 11.75	3.5	$27,083
Vested and expected to vest in the future at March 31, 2006	3,178,063	$ 11.75	3.5	$27,083
Exercisable at March 31,	3,013,063	$ 11.24	3.2	$27,042
Available for grant at March 31,	1,280,000			

As of March 31, 2006, there was $718 of unamortized compensation cost (net of tax) related to 165,000 non-vested stock option awards with a weighted average grant date fair value of $9.12. The unvested shares were unchanged from December 31, 2005 since there were no grants, vesting or forfeitures during the first quarter of 2006. Approximately $329 will be recorded during the remainder of 2006 with $342 and $47 to be recorded in 2007 and 2008, respectively.

Deferred Bonus Plan

In November 2002, the Company's Board of Directors approved a Deferred Bonus Plan (the "Plan") under which employees of the Company and its affiliates who received discretionary year-end bonuses of greater than $50 received such bonuses partly in cash and partly in the form of an award of Interpool common stock. Although the Board of Directors terminated the Deferred Bonus Plan in September 2004, all stock previously granted under this plan will continue to be subject to the terms of the Plan.

Under the Plan, the first $50 of a participant's bonus amount was paid in cash. Any amount which exceeded $50 but was less than $150 was paid 50% in cash and 50% in stock. Any bonus amount which exceeded $150 was paid 100% in stock. Bonus stock awards under this Plan cliff vest in equal installments over a five-year period, unless the recipient elected to have the award vest over a ten-year period or the Board of Directors specified another period. The unvested portion of any bonus stock award will vest immediately if a change in control of Interpool occurs, if the employee is terminated without cause, if the employee resigns for a good reason, if the employee dies or becomes permanently disabled, or in any other circumstance deemed appropriate by the Board of Directors. If a recipient resigns voluntarily without a good reason or is terminated for cause, the employee will forfeit any unvested portion of any bonus stock award.

The number of shares of stock awarded was calculated by dividing the dollar value of the stock portion of the bonus by the average stock price for the last ten trading days ending on December 31 of the grant year.

Additional stock was awarded based on the vesting period selected by the employee. If a five year vesting period was selected, the shares were increased by 10%. If a ten year vesting period was selected the shares awarded were increased by 30%. Under the Plan, each employee granted a bonus stock award has a right from time to time to require the Company to purchase a total number of shares of stock equal to the number of shares of stock underlying the Participant's Bonus Stock Award. The shares may be vested shares or shares which were otherwise acquired by the participant providing that all shares were beneficially owned by the participant for at least 6 months. The purchase price shall be equal to the fair market value of a share of stock on the trading day preceding the date of such purchase.

Compensation expense related to restricted stock awards is recognized ratably over the service vesting period. During the three months ended March 31, 2006 and 2005, the Company recorded compensation expense of $20 and $50, respectively which is recorded as a component of lease operating and administrative expenses in the Condensed Consolidated Statements of Income.

At March 31, 2006, 28,535 restricted stock awards were outstanding. In accordance with SFAS 123(R), the fair value of restricted stock awards were estimated based on the closing market value of the Company's stock price at date of grant. As of March 31, 2006, there was $422 of unamortized compensation costs related to non-vested restricted stock awards, which is expected to be recognized over the remaining vesting period ending in 2013. The unamortized compensation costs related to non-vested restricted stock awards was recorded as unearned stock-based compensation in shareholder's equity at December 31, 2005. As part of the adoption of SFAS 123(R), such unamortized compensation cost was reclassified as a component of additional paid-in capital.

Stock Appreciation Rights

In connection with employment agreements with certain executive officers, the Company granted common stock appreciation rights ("SARS") that provided for the grantees to receive cash payments measured by any appreciation in the market price of the common stock over a specified base price. The Company granted such stock appreciation rights with respect to a total of 275,000 share units at a base price of $14.05. Under the terms of the employment agreements, as amended, a total of 266,666 of these stock appreciation rights vested in 2005 with the remaining 8,334 rights vesting on December 31, 2006. Upon vesting, these stock appreciation rights were to be exercisable at any time prior to the expiration of the earlier of 10 days following the termination of the employee or

June 30, 2014. Financial Accounting Standards Board ("FASB") Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans, required interim calculations of the amount of compensation expense inherent in the SARS (variable plan accounting). This amount was equal to the increase in the quoted market price since date of grant or award multiplied by the total number of rights outstanding. Compensation expense was recognized ratably over the vesting periods during which the related employee service was rendered. At March 31, 2005, the quoted market price of the Company's common stock was $22.10 per share. Compensation expense for the three months ended March 31, 2005 was reduced by $188. This decrease was the result of the decline in the market value of the Company's common stock from $24.00 per share at December 31, 2004 to $22.10 per share at March 31, 2005 partially offset by additional vesting. This credit was included in lease operating and administrative expense on the Condensed Consolidated Statements of Income.

On November 18, 2005, the Compensation Committee of the Board of Directors agreed to an arrangement with the holders of these SARS whereby all SARS granted to such executive officers would be voluntarily cancelled. In connection with the cancellation of these SARS, each of these executive officers was granted new stock options under the Company's 2004 Stock Option Plan for Executive Officers and Directors for the same number of shares as the cancelled SARS. The 275,000 stock options granted on November 18, 2005 have an exercise price of $18.77 per share (the closing price of the Company's common stock on the date of grant) and similar terms to those of the cancelled SARS. At December 31, 2005, 266,666 of these options were vested with the remaining 8,334 scheduled to vest on December 31, 2006. These options expire June 30, 2014. In addition, in connection with the cancellation of the SARS, each of these executive officers became entitled to receive from the Company a cash amount equal to the difference between the $18.77 exercise price of the new stock options and the $14.05 exercise price of the cancelled SARS, multiplied by the number of SARS (vested and unvested) previously held by the executive officer. The liability for amounts due to executive officers amounting to $711 at March 31, 2006 is expected to be paid in June, 2006.

G. Credit Risk

At March 31, 2006, approximately 44% (44% at December 31, 2005) of accounts receivable and 75% (73% at December 31, 2005) of the net investment in direct financing leases were from customers outside of the United States.

During the three months ended March 31, 2006, the Company's top 25 customers represented approximately 79% of its consolidated billings, with no single customer accounting for more than 8.4%. For the same period in the prior year, the Company's top 25 customers represented approximately 77% of its consolidated billings with no single customer accounting for more than 8.1%.

H. Adoption of New Accounting Standards

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections,* ("SFAS 154"). This new standard replaces Accounting Principles Board Opinion 20, *Accounting Changes*, and FASB No. 3, *Reporting Accounting Changes in Interim Financial Statements*. Among other changes, SFAS 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented using the new accounting principle, unless it is impracticable to do so. SFAS 154 also provides that (1) a change in method of depreciating or amortizing a long-lived non-financial asset be accounted for as a change in estimate (prospectively) that was effected by a change in accounting principle, and (2) correction of errors in previously issued financial statements should be termed a "restatement." The new standard is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The adoption of the provisions of SFAS 154 did not have an impact on our results of operations, financial position or liquidity.

Effective January 1, 2006, the Company began recording compensation expense associated with stock options in accordance with SFAS No. 123(R), *Share-Based Payment*, ("SFAS 123(R)"). Prior to January 1, 2006, the

Company accounted for stock-based compensation related to stock options under the recognition and measurement principles of Accounting Principles Board Opinion No. 25; therefore, prior to January 1, 2006, the Company measured compensation expense for its stock option plans using the intrinsic value method, that is, as the excess, if any, of the fair market value of the Company's stock at the grant date over the amount required to be paid to acquire the stock, and provided the disclosures required by SFAS Nos. 123, *Accounting for Stock-Based Compensation*, ("SFAS 123") and SFAS No. 148, *Accounting for Stock-Based Compensation*, ("SFAS 148"). The Company has adopted the modified prospective transition method provided by SFAS 123(R), and as a result, has not retroactively adjusted results from prior periods. Under this transition method, compensation expense associated with stock options recognized in the first three months of 2006 includes expense related to the remaining unvested portion of all stock option awards granted prior to January 1, 2006 based on the grant date fair value estimated in accordance with the original provision of SFAS No. 123. No options were granted during the first quarter of 2006; however, compensation expense will be recorded for all future awards based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R).

I. Reclassifications

Certain reclassifications have been made to the 2005 amounts in order to conform to the 2006 presentation.

Note 2 Debt and Capital Lease Obligations

The following table summarizes the Company's debt and capital lease obligations as of March 31, 2006 and December 31, 2005:

Total Debt and Capital Lease Obligations	**March 31, 2006**	**December 31, 2005**
2005 Fortis Facility - Secured container equipment financing facility, interest at 6.41% at December 31, 2005,	$ ---	$ 463,186
2005 DVB Facility - Secured container equipment financing facility, interest at 6.37% at March 31, 2006 and 6.55% at December 31, 2005	202,060	250,718
Chassis Securitization Facility, interest at 5.69% at March 31, 2006 and 5.94% at December 31, 2005		
Warehouse facility	--	8,416
Debt obligation	16,825	24,144
Capital lease obligation	385,997	388,422
Revolving credit facility for chassis, interest at 6.21% at March 31, 2006 and 5.64% at December 31, 2005, revolving period ending September 9, 2010	15,000	15,000
Notes and loans repayable with various rates ranging from 5.75% to 7.90% and maturities from 2006 to 2010	19,977	22,049
Capital lease obligations payable in varying amounts through 2015	299,300	284,849
Revolving credit facility CAI, interest at 6.36% and 5.97% at March 31, 2006 and December 31, 2005, respectively	51,000	64,000
6.00% Notes due 2014 (unsecured) net of unamortized discount of $30,714 at March 31, 2006 and $31,342 at December 31,		

Total Debt and Capital Lease Obligations	March 31, 2006	December 31, 2005
2005	199,286	198,658
7.35% Notes due 2007 (unsecured)	91,450	94,160
7.20% Notes due 2007 (unsecured)	37,465	37,875
9.25% Convertible redeemable subordinated debentures, mandatory redemption 2022 (unsecured)	37,182	37,182
9.875% Preferred capital securities due 2027 (unsecured)	75,000	75,000
Total Debt and Capital Lease Obligations	1,430,542	1,963,659
Less Current Maturities	139,443	229,112
Total Non-Current Debt and Capital Lease Obligations	$1,291,099	$1,734,547

New Financings: During February 2006, the Company entered into a capital lease obligation transaction with a U.S. financial institution for $23,834, with a fixed interest rate of 6.11%, which continues until March 2014. The Company has a bargain fixed purchase option at that time that it expects to exercise. This amount remained outstanding at March 31, 2006.

Debt Repayment: On March 29, 2006, in connection with the March 2006 Container Sale, the Company paid off the remaining outstanding debt balance of $433,902 associated with the 2005 Fortis Facility and terminated the facility, which included eliminating the commitment for future financing under the facility. Additionally, the Company accelerated a principal payment of $28,526 associated with the 2005 DVB Facility. In connection with these and other debt repayments, the Company wrote off $8,153 in deferred financing fees which are included in loss on retirement of debt on the Condensed Consolidated Statements of Income.

Covenants: At March 31, 2006, under the Company's 2005 DVB Facility, the chassis revolving credit facility established during September 2005, and most of its other debt instruments, the Company is required to maintain covenants (as defined in each agreement) for tangible net worth (the most stringent of which required the Company to maintain tangible net worth of at least $300,000), a fixed charge coverage ratio of at least 1.5 to 1 and a funded debt to tangible net worth ratio of not more than 4.0 to 1. For the most restrictive covenants, tangible net worth includes stockholders' equity plus any "warrant liability", the Company's 9.875% preferred capital securities and its 9.25% convertible redeemable subordinated debentures and any future subordinated debt, and is reduced by goodwill and adjusted to eliminate the impact of adjustments associated with derivative instruments. Funded debt excludes the portion of debt and capital lease obligations due within one year, the Company's 9.875% preferred capital securities and its 9.25% convertible redeemable subordinated debentures, and any future subordinated debt. Fixed charges include interest expense, excluding that related to the Company's 9.875% preferred capital securities and its 9.25% convertible redeemable subordinated debentures and any future subordinated debt, and lease rentals. Earnings available for fixed charges include income before depreciation and income taxes, excluding the impact of any non-cash fair value adjustments for warrants, plus fixed charges, plus interest expense associated with the Company's 9.875% preferred capital securities and its 9.25% convertible redeemable subordinated debentures and any future subordinated debt. As of March 31, 2006, the Company was in compliance with all covenants.

A servicing agreement to which the Company is a party requires that the Company maintain a tangible net worth (including its 9.875% preferred capital securities due 2027) of at least $375,000 plus 50% of any positive net income reported from October 1, 2004 forward.

At March 31, 2006, under a restriction in its 6.0% Note Indenture, approximately $36,006 of retained earnings were available for dividends.

Note 3 Segment and Geographic Data

The Company and its subsidiaries conduct business principally in a single industry segment, the leasing of intermodal dry freight standard containers, chassis and other transportation related equipment. Within this single industry segment, the majority of the Company's operations come from two reportable segments: container leasing and domestic intermodal equipment leasing. The container leasing segment specializes primarily in the leasing of intermodal dry freight standard containers, while the domestic intermodal equipment segment specializes primarily in the leasing of intermodal container chassis.

The accounting policies of the segments are the same as those described in Note 1. The Company evaluates performance based on profit or loss before income taxes. The Company's reportable segments are strategic business units that offer different products and services. All significant transactions between segments have been eliminated. Historically, funds have been borrowed by Interpool, Inc., Trac Lease, Inc. ("Trac Lease"), and Interpool Limited (or their subsidiaries). Interpool, Inc. has borrowed all of the Company's public debt. Trac Lease and Interpool, Inc. comprise the Company's domestic intermodal equipment segment. Interpool Limited (and its subsidiaries), along with ICL and CAI, comprise the container leasing segment. For purposes of segment reporting, the outstanding debt and related interest expense are recorded by the borrowing entity. Advance rates for secured loans have been approximately the same for both chassis and containers, and have generally been in the 75-85% range. To the extent that we lease chassis equipment in from other parties, the effective advance rate is generally 100%.

Segment Information:

Three Months Ended March 31, 2006	**Container Leasing**	**Domestic Intermodal Equipment**	**Totals**
Equipment leasing revenue	$ 40,804	$ 56,044	$ 96,848
Other revenue	2,783	3,356	6,139
Lease operating and administrative expenses	10,956	32,572	43,528
Provision for doubtful accounts	427	74	501
Fair value adjustment for derivative instruments	(1,081)	(577)	(1,658)
Fair value adjustment for warrants	--	5,209	5,209
Depreciation and amortization of leasing equipment	13,711	9,422	23,133
Impairment of leasing equipment	6,790	422	7,212
Loss on retirement of debt	7,705	448	8,153
Gain on sale of leasing equipment	(68,229)	(261)	(68,490)
Other (income), net and minority interest expense	983	598	1,581
Interest expense	14,078	20,296	34,374
Interest income	(655)	(4,221)	(4,876)
Income before income taxes	58,902	(4,582)	54,320
Net investment in DFL's	309,779	77,486	387,265
Leasing equipment, net	229,964	1,044,704	1,274,668
Equipment purchases and investment in DFL's	17,762	35,075	52,837
Total segment assets	$ 685,906	$ 1,513,385	$ 2,199,291

Three Months Ended March 31, 2005	**Container Leasing**	**Domestic Intermodal Equipment**	**Totals**
Equipment leasing revenue	$ 43,821	$ 51,321	$ 95,142
Other revenue	2,482	2,403	4,885
Lease operating and administrative expenses	10,485	26,451	36,936
Provision for doubtful accounts	348	390	738

Three Months Ended March 31, 2005	Container Leasing	Domestic Intermodal Equipment	Totals
Fair value adjustment for derivative instruments	(208)	(467)	(675)
Fair value adjustment warrants	--	(6,858)	(6,858)
Depreciation and amortization of leasing equipment	13,676	8,317	21,993
Impairment of leasing equipment	375	523	898
Income for investments under equity method	--	(57)	(57)
Gain on sale of leasing equipment	(2,950)	(178)	(3,128)
Other (income), net and minority interest expense	1,152	150	1,302
Interest expense	8,190	21,183	29,373
Interest income	(609)	(3,351)	(3,960)
Income before income taxes	15,844	7,621	23,465
Net investment in DFL's	285,621	85,006	370,627
Leasing equipment, net	721,547	921,923	1,643,470
Equipment purchases and investment in DFL's	44,510	46,054	90,564
Total segment assets	$ 1,166,324	$ 1,262,520	$ 2,428,844

The Company's shipping line customers utilize international containers in world trade over many varied and changing trade routes. In addition, most large shipping lines have many offices in various countries involved in container operations. The Company's revenue from international containers is earned while the containers are used in service carrying cargo around the world, while certain other equipment is utilized in the United States. Accordingly, the international information presented below represents our international container leasing operation conducted through Interpool Limited and ICL, Barbados corporations, while the United States information presented below represents our domestic intermodal equipment leasing segment, as well as those revenues and assets relative to CAI which is headquartered in the United States of America. Such presentation is consistent with industry practice.

Geographic Information:

	Three Months Ended March 31,	
	2006	2005
EQUIPMENT LEASING REVENUE		
United States	$ 64,834	$ 62,340
International	32,014	32,802
	$ 96,848	$ 95,142
LEASING EQUIPMENT, NET:		
United States	$1,160,278	$1,090,733
International	114,390	552,737
	$1,274,668	$1,643,470
ASSETS:		
United States	$1,676,248	$1,471,663
International	523,043	957,181
	$2,199,291	$2,428,844

Note 4 Derivative Instruments

The Company employs derivative financial instruments (limited to interest rate swap agreements) to effectively convert certain floating rate debt instruments into fixed rate instruments and thereby manage its exposure to fluctuations in interest rates.

As of March 31, 2006 and December 31, 2005, included in accounts payable and accrued expenses in the accompanying Condensed Consolidated Balance Sheets are liabilities of $707 and $3,246, respectively, representing the market value of the Company's interest rate swap contracts.

The unrealized pre-tax income on cash flow hedges for the three months ended March 31, 2006 of $3,799 and the related income tax effect of $1,330 have been recorded by the Company as a component of accumulated other comprehensive income on the Condensed Consolidated Balance Sheets.

The unrealized pre-tax income on cash flow hedges for the year ended December 31, 2005 of $13,190 and the related income tax effect of $4,353 have been recorded by the Company as a component of accumulated other comprehensive income on the Condensed Consolidated Balance Sheets.

On March 31, 2005, the Company entered into three interest rate swap contracts with original notional amounts totaling $204,858. These three interest rate swap contracts are a result of the November 2004 Fortis facility, as amended, which required that the Company enter into interest rate swap contracts in order to effectively convert at least seventy percent of the debt associated with operating lease equipment and ninety percent of the debt associated with direct financing leases from floating rate debt to fixed rate debt. During December 2005, borrowings under the November 2004 Fortis facility were repaid with the proceeds from a new facility with Fortis. These interest rate swap contracts (which were accounted for as freestanding derivative instruments) were reassigned to the 2005 Fortis facility. During the three months ended March 31, 2006, the Company paid off the remaining outstanding debt balance associated with the 2005 Fortis facility and, as a result, the Company terminated these three interest rate swap contracts with outstanding notional amounts totaling $174,304. As a result of terminating these swap contracts, the Company recognized a pre-tax gain of $1,081 which is included in fair value adjustment for derivative instruments in the Condensed Consolidated Statements of Income.

As of March 31, 2006, the Company held interest rate swap agreements with an aggregate notional balance of $281,477.

For the three months ended March 31, 2006, the Company reported $1,658 of pre-tax income in the Condensed Consolidated Statements of Income primarily due to changes in the fair value of interest rate swap agreements which were terminated or amended and did not qualify as cash flow hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"). This compares to $675 of pre-tax income for the three months ended March 31, 2005.

The Company may, at its discretion, terminate or redesignate any such interest rate swap agreements prior to maturity. At that time, any gains or losses previously reported in accumulated other comprehensive loss on termination would continue to amortize into interest expense or interest income to correspond to the recognition of interest expense or interest income on the hedged debt. If such debt instrument was also to be terminated, the gain or loss associated with the terminated derivative included in accumulated other comprehensive loss at the time of termination of the debt would be recognized in the Condensed Consolidated Statement of Income at that time.

In addition to the amounts included in the fair value adjustment for derivative instruments related to changes in the fair value of interest rate swap agreements, a change in the fair value of the warrants issued during September 2004 in connection with the 6.0% Notes, which was classified as a liability at December 31, 2005 on the accompanying Condensed Consolidated Balance Sheets, resulted in a non-cash expense of $5,209 for the three months ended March 31, 2006 (for which no tax benefit was derived). This compares to non cash income of $6,858 for the three months ended March 31, 2005 (for which no tax expense was derived). These amounts are included in fair value adjustment for warrants on the accompanying Condensed Consolidated Statements of Income.

On February 21, 2006, the registration statement for the warrants was declared effective by the SEC, satisfying the final condition required under EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock ("EITF 00-19") for classification of the warrants as equity (as opposed to a liability) on the Company's Condensed Consolidated Balance Sheets. A final valuation of the warrants as of February 21, 2006 was obtained from an independent third party. The fair value at February 21, 2006 was determined to be $58,440 as compared with a fair value of $53,231 as of December 31, 2005. The increase in value of $5,209, for which no tax benefit is derived, was primarily related to an increase in the market price of the Company's common stock during 2006, and was recorded in the Condensed Consolidated Statements of Income for the quarter ending March 31, 2006 as discussed above. No further valuation of the warrants will be required in the future. Therefore, no further fair value adjustment for warrants will be recorded in the Condensed Consolidated Statements of Income after the period ended March 31, 2006.

Note 5 Income Taxes

The Company's container leasing business is primarily conducted through its wholly-owned Barbados subsidiary, Interpool Containers Limited ("ICL"). Under the terms of an income tax convention between the United States and Barbados (the "Tax Treaty"), ICL's leasing income is fully taxable by Barbados, but exempt from U.S. Federal taxation. Barbados uses a regressive tax rate system whereby a 2.5% maximum tax rate applies to the first $5,000 of taxable income and gradually regresses to a minimum 1% tax rate on taxable income in excess of $15,000.

On March 29, 2006, ICL completed the sale of approximately 273,300 standard dry marine cargo containers, representing approximately 74% of the containers owned by ICL at December 31, 2005. See Note 6 for further information. This sale, combined with the application of the Barbados regressive tax rate system, resulted in an adjustment to deferred Barbados taxes, accrued at the maximum 2.5% rate, and the booking of a current Barbados tax at the minimum 1% tax rate since the sale resulted in a Barbados taxable gain in excess of $15,000. The net effect resulted in a Barbados tax benefit of $2,333.

Note 6 March 2006 Sale of Containers

On March 29, 2006, the Company's wholly owned container leasing subsidiary, Interpool Containers Limited ("ICL"), completed the sale of approximately 273,300 standard dry marine cargo containers (the "March 2006 Container Sale"), together with an assignment of all rights of ICL under existing operating leases for these containers with its customers, to a newly formed subsidiary of an investor group based in Switzerland (the "Purchaser"), pursuant to a Sale Agreement dated March 14, 2006 (the "Sale Agreement"). Although the sale was completed on March 29, 2006, the Sale Agreement stipulates that the Purchaser will be entitled to the net operating income attributable to the containers sold to the Purchaser from and after April 1, 2006. The aggregate cash purchase price paid by the Purchaser was approximately $515,869. The containers sold represented approximately 74% of the standard dry marine cargo containers owned by the Company at December 31, 2005 that were in its operating lease fleet, including most of the containers managed for the Company by CAI. The sale did not include containers subject to existing direct financing leases with customers.

In connection with the Sale Agreement, the Company and CAI entered into management agreements with the Purchaser (the "Management Agreements") under which they agreed to perform management services on behalf of the Purchaser with respect to the containers sold, including billing, collecting, lease renewal, operations and disposition activities, in consideration of a management fee equal to 4% of the net operating income attributable to containers under long-term operating leases, and 9% of the net operating income attributable to containers under short-term operating leases, as defined in the Management Agreements. The Management Agreements designate ICL to serve as sub-manager of the containers currently under long-term lease for such period of time as the Company elects, up to the respective dates when the containers are returned by their current lessees. During that period, ICL will be entitled to receive the management fees described above. The duration of the Management Agreements will be ten years from the closing date, subject to extension for up to two additional years at the Purchaser's option. The Company's existing agreements with CAI are being modified to reflect these new arrangements.

The Company intends to continue to make container acquisitions in the future and will continue to be engaged in the business of leasing containers and related equipment to its customers under both operating and direct financing leases. Neither the Sale Agreement nor the Management Agreements restrict the Company from engaging in any business in the future or from acquiring containers for lease to customers.

The Sale Agreement does not contain any provision that would require the Company to repurchase the containers from the Purchaser based upon the occurrence of future events.

The Company has used a portion of the proceeds from the sale of the containers to reduce container related indebtedness amounting to $462,428. The remaining proceeds will be used to further reduce indebtedness or for equipment acquisitions and other general corporate purposes.

A portion of the gain relating to the sale has been deferred and will be amortized over the period in which the Company is obligated to provide management services. After considering this deferral, the Company reported a gain resulting from these transactions of $60,780 ($60,172 net of tax), net of the write-off of deferred financing fees and commissions and the termination of swaps relating to the assets sold.

Note 7 Impairment Charge

Beginning in late 2005 and continuing into the first quarter of 2006, one of the Company's larger shipping line customers began returning a significant number of containers under operating leases entered into during 1999 and 2000 that had expired. Based upon an analysis of the quantity of containers involved, then-existing conditions in the short-term leasing market and expenses associated with the return of this equipment, the Company entered into negotiations with this customer regarding the parties' on-going and future business relationships. Following extensive discussions, the Company reached an agreement with the customer whereby the operating leases for these containers would be converted to direct financing leases by extending the lease terms and by providing the customer with a bargain purchase option. As a result of this modification to the lease terms, the Company concluded that it would be necessary under U.S. generally accepted accounting principles to record an impairment charge for these assets. The amount of the impairment charge recorded in the first quarter of 2006 was $6,736 ($6,669 net of tax) and is included in impairment of leasing equipment on the Condensed Consolidated Statements of Income. No portion of this impairment charge will result in any cash expenditures by the Company. The agreement also provides that the customer has the right to extend this agreement to containers that it had previously returned if they do so prior to June 30, 2006. To the extent that additional containers are added to this agreement, the Company will incur an additional impairment charge. This impairment charge will be recorded in the period in which the containers are placed back on hire to the customer. In April 2006, this agreement was extended to cover approximately 3,900 containers which will result in an additional impairment charge of approximately $754 which will be recorded in the quarter ended June 30, 2006. The customer has the ability to extend this agreement to approximately 1,800 additional containers prior to June 30, 2006, but the Company is unable to determine if this will, in fact, take place.

Note 8 Contingencies and Commitments

At March 31, 2006 commitments for capital expenditures totaled approximately $155,950 with approximately $145,570 committed for the remainder of fiscal 2006 and $10,380 committed for 2007.

The Company is engaged in various legal proceedings from time to time incidental to the conduct of its business. Such proceedings may relate to claims arising out of equipment accidents that occur from time to time which involve death and injury to persons and damage to property. Accordingly, the Company requires all of its lessees to indemnify the Company against any losses arising out of such accidents or other occurrences while the equipment is on-hire to the lessees. In addition lessees are generally required to maintain a minimum of $2,000 in general liability insurance coverage, which is standard in the industry. In addition, the Company maintains a general liability policy of $255,000, in the event that the above lessee coverage is insufficient. While the Company believes that such coverage should be adequate to cover current claims, there can be no guarantee that future claims will never exceed such amounts. Nevertheless, the Company believes that no current or potential claims of which it is aware will have a material adverse effect on its financial condition or results of operations and that the Company is adequately insured against such claims.

Pending Governmental Investigations

Following the Company's announcement in July 2003 that its Audit Committee had commissioned an internal investigation by special counsel into its accounting, the Company was notified that the SEC had opened an informal investigation of Interpool. As the Company had anticipated, this investigation was converted to a formal investigation later in 2003. The Company has fully cooperated with this investigation. During 2003 and 2004, the New York office of the SEC received a copy of the written report of the internal investigation and received documents and information from the Company, its Audit Committee and certain other parties pursuant to SEC subpoenas. During late 2003, the Company was also advised that the United States Attorney's office for the District of New Jersey received a copy of the written report of the internal investigation by its Audit Committee's special counsel and opened an investigation focusing on certain matters described in the report. The Company was informed that Interpool was neither a subject nor a target of the investigation by the U.S. Attorney's office. The Company has not had any communications with either the SEC or the U.S. Attorney's office relating to their respective investigations since 2004 and it does not have any information regarding the current status of either of these investigations. Therefore, the Company cannot predict the final outcome of either of these investigations and cannot be assured that they may not result in the taking of some action that may be adverse to the Company.

Stockholder Litigation

In February and March 2004, several lawsuits were filed in the United States District Court for the District of New Jersey, by purchasers of the Company's common stock naming the Company and certain of its present and former executive officers and directors as defendants. The complaints alleged violations of the federal securities laws relating to the Company's reported Consolidated Financial Statements for the years ended December 31, 2000 and 2001 and the nine months ended September 30, 2002, which the Company announced in March 2003 would require restatement. Each of the complaints purported to be a class action brought on behalf of persons who purchased the Company's securities during a specified period. In April 2004, the lawsuits, which seek unspecified amounts of compensatory damages and costs and expenses, including legal fees, were consolidated into a single action with lead plaintiffs and lead counsel having been appointed. The plaintiffs filed a consolidated amended complaint in September 2004, which includes allegations of purported misstatements and omissions in the Company's public disclosures throughout an expanded purported class period from March 31, 1999 through December 26, 2003. In November 2004, the Company filed a motion to dismiss the amended complaint. The motion to dismiss was granted by the District Court on August 18, 2005, dismissing the plaintiffs' claims in their entirety and with prejudice. On September 19, 2005, the plaintiffs filed a notice of appeal of the dismissal order, thereby initiating a review of the District Court's decision by the United States Court of Appeals for the Third Circuit.

In view of the costs and uncertainties described above and which are inherent in the litigation process, the Company elected to participate in the Third Circuit's mediation program through which a settlement of this litigation was negotiated. Following the conclusion of these negotiations, the Company received a letter dated December 8, 2005 from the Director of the Appellate Mediation Program for the United States Court of Appeals for the Third Circuit, confirming the settlement terms for this class action litigation, to which all parties have agreed, which are: (1) a cash payment on behalf of defendants in the total amount of $1,000, inclusive of all of the fees and expenses of plaintiffs' counsel, and (2) the dismissal of all claims against the Company and the other defendants on a class-wide basis. The entire $1,000 payment will be funded by the Company's insurance carrier. The agreed settlement terms have been embodied in a formal settlement agreement that has been submitted to the United States District Court for the District of New Jersey, and will be subject to approval by the District Court. The Court of Appeals has remanded the case to the District Court for consideration of the settlement.

In the event that the settlement is not approved and if the appeal were thereby revived and if the District Court's decision granting the Company's motion to dismiss is reversed, the Company would expect to incur additional defense costs typical of this type of class action litigation, which should be substantially recoverable under the Company's insurance policies. If the Company is required to defend this lawsuit, the Company intends to do so vigorously but is unable at this time to ascertain the impact the litigation may have on its financial condition and results of operations. On the other hand, if the settlement is approved or the District Court's decision is affirmed after full appellate review, the case and its associated litigation costs will be concluded.

At March 31, 2006, the following guarantees were issued and outstanding:

Indemnifications

In the ordinary course of business, the Company executes contracts involving indemnifications standard in the industry and indemnifications specific to a transaction such as an assignment and assumption agreement. These indemnifications might include claims related to any of the following: tax matters and governmental regulations, and contractual relationships. Performance under these indemnities would generally be triggered by a breach of terms of the contract or by a third party claim. The Company regularly evaluates the probability of having to incur costs associated with these indemnifications and has accrued for any expected losses that are probable. The types of indemnifications for which payments are possible are as follows:

Taxes

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

Contractual Relationships

The Company entered into a number of operating leases as lessee during 2000 and 2002 in which it guaranteed a portion of the residual value of the leased equipment to the lessor. These leases have terms that expire between 6 and 9 years. If, at the end of the lease term, the fair market value of the equipment is below the guaranteed residual value in the agreement, the Company is liable for a percentage of the deficiency. The total of these guarantees is $12,405 of which $8,012 could be due in 2 to 3 years, $3,793 could be due in 4 to 5 years, and the remaining $600 potentially due in greater than 5 years. As of March 31, 2006 and December 31, 2005, included in accounts payable and accrued expenses in the accompanying Condensed Consolidated Balance Sheets are liabilities of $243 and $232, respectively, representing the accrual for the estimated exposure under these guarantees.

During the second quarter of 2003, the Company arranged a leasing transaction between one of its major customers and a financial institution for up to 3,000 containers. As part of this transaction, the Company agreed to provide certain guarantees related to the fair value of the equipment if the lessee terminated the lease or if the lessee was unable to meet its obligations under the terms of the lease. In addition, if the lessee agreed to extend the lease, the Company agreed to purchase the equipment from the financial institution at a stated value and lease it to the lessee for this additional period at a stated lease rate. The Company further agreed to provide the lessee with a purchase option at the end of the extended lease period that would be less than the fair market value of the equipment at the date the lessee could exercise its option (the "Bargain Purchase Option").

In return for the arrangement of the transaction on behalf of the financial institution and the guarantees discussed above, the Company was paid an arrangement fee and a portion of the initial rent for each container included in the lease. During the year ended December 31, 2003, 2,076 containers were delivered to the lessee and the Company received payments amounting to $1,240. The remaining 924 containers were purchased by the Company and leased to the customer under the terms of a direct financing lease.

The estimated fair value of these containers at the end of the lease term guaranteed by the Company amounts to approximately $4,360. The Company has estimated that its potential liability related to these guarantees is less than the estimated potential liability related to the Bargain Purchase Option granted to the lessee. As such, the Company has accrued for the estimated value of its liability for this Bargain Purchase Option amounting to $1,017 that could be due in greater than 5 years. All fees collected from the lessor have been deferred by the Company and included in accounts payable and accrued expenses on the accompanying Condensed Consolidated Balance Sheets. The fees received from the lessor, net of the estimated liability for the Bargain Purchase Option, are being recognized by the Company over the term of the residual guarantee.

Standby Letters of Credit

As of March 31, 2006, CAI had an outstanding letter of credit totaling $263, which guarantees its obligations under an operating lease agreement. This letter of credit expires in December 2006.

Note 9 Subsequent Events:

Completion of Exchange Offer

During April 2006, the Company announced the successful completion of an exchange offer for all of the Company's outstanding 6% Senior Notes due 2014. Pursuant to the exchange offer, the entire $230,000 principal amount of 6% Senior Notes due 2014 (the "6% Private Senior Notes") was tendered prior to the expiration of the exchange offer and exchanged for the same principal amount of Interpool 6% Senior Notes due 2014 (the "6% Exchange Senior Notes"), which have been registered under the Securities Act. The 6% Private Senior Notes were originally issued and sold in 2004, in transactions exempt from registration under the Securities Act. The 6% Exchange Senior Notes issued in the exchange offer have identical terms and conditions as the unregistered 6% Private Senior Notes, except that the 6% Exchange Senior Notes are not subject to the restrictions on resale or transfer, which applied to the unregistered 6% Private Senior Notes.

Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our historical financial condition and results of operations should be read in conjunction with the historical consolidated financial statements and the notes thereto and the other financial information appearing elsewhere in this report. *(All fleet statistics including the size of the fleet, utilization of the leasing equipment or the rental rates per day that are set forth in this Quarterly Report on Form 10-Q include our equipment, including that portion of our equipment managed by CAI. To the extent that our equipment is managed by CAI, the equipment is considered fully utilized since it is not available for us to put on hire regardless of whether all of the units are generating equipment leasing revenue. All equipment owned by CAI or managed by CAI (with the exception of equipment owned by us and managed by CAI), is excluded from all statistics, unless otherwise indicated. In addition, all of our chassis assigned to chassis pools are considered fully utilized. This exclusion of information* *relative to CAI, unless indicated otherwise, provides a focus on the drivers which are critical to our core business.)*

The information in this Quarterly Report on Form 10-Q contains certain "forward-looking statements" within the meaning of the securities laws. These forward-looking statements reflect the current view of the Company with respect to future events and financial performance and are subject to a number of risks and uncertainties, many of which are beyond our control. All statements other than statements of historical facts included in this report, including the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations," regarding our strategy, future operations, financial position, estimated revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this report, the words "will," "believe," "anticipate," "intend," "estimate," "expect," "project" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

All forward-looking statements speak only as of the date of this report. We do not undertake any obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this report are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved. Future economic and industry trends that could potentially impact revenues and profitability are difficult to predict.

Certain reclassifications have been made to the 2005 amounts in order to conform to the 2006 presentation.

We suggest that this quarterly report be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2005 Form 10-K.

March 2006 Sale of Containers

On March 29, 2006, our wholly owned container leasing subsidiary, Interpool Containers Limited ("ICL"), completed the sale of approximately 273,300 standard dry marine cargo containers (the "March 2006 Container Sale"), together with an assignment of all rights of ICL under existing operating leases for these containers with our customers, to a newly formed subsidiary of an investor group based in Switzerland (the "Purchaser"), pursuant to a Sale Agreement dated March 14, 2006 (the "Sale Agreement"). Although the sale was completed on March 29, 2006, the Sale Agreement stipulates that the Purchaser will be entitled to the net operating income attributable to the containers sold to the Purchaser from and after April 1, 2006. The aggregate cash purchase price paid by the Purchaser was approximately $515.9 million. The containers sold represented approximately 74% of the standard dry marine cargo containers owned by us at December 31, 2005 that were in our operating lease fleet, including most of the containers managed for us by Container Applications International, Inc. ("CAI"), our consolidated subsidiary, of which we own a 50% common equity interest and currently appoint a majority of the members of the board of directors. The sale did not include containers subject to existing direct financing leases with customers.

In connection with the Sale Agreement, both we and CAI entered into management agreements with the Purchaser (the "Management Agreements") under which CAI agreed to perform management services on behalf of the Purchaser with respect to the containers sold, including billing, collecting, lease renewal, operations and disposition activities, in consideration of a management fee equal to 4% of the net operating income attributable to containers under long-term operating leases, and 9% of the net operating income attributable to containers under short-term operating leases, as defined in the Management Agreements. The Management Agreements designate ICL to serve as sub-manager of the containers currently under long-term lease for such period of time as we may elect, up to the respective dates when the containers are returned by their current lessees. During that period, ICL will be entitled to receive the management fees described above. The duration of the Management Agreements will be ten years from the closing date, subject to extension for up to two additional years at the Purchaser's option. Our existing agreements with CAI are being modified to reflect these new arrangements.

We intend to continue to make container acquisitions in the future and will continue to be engaged in the business of leasing containers and related equipment to our customers under both operating and direct financing leases. Neither the Sale Agreement nor the Management Agreements restricts us from engaging in any business in the future or from acquiring containers for lease to customers.

The Sale Agreement does not contain any provision that would require us to repurchase the containers from the Purchaser based upon the occurrence of future events.

We have used a portion of the proceeds from the March 2006 Container Sale to reduce container related indebtedness amounting to $462.4 million. The remaining proceeds will be used to further reduce our indebtedness for equipment acquisitions and other general corporate purposes.

A portion of the gain related to the sale has been deferred and will be amortized over the period in which we are obligated to provide management services. After considering this deferral, we reported a gain resulting from these transactions of $60.8 million ($60.2 million net of tax), net of the write-off of deferred financing fees and commissions and the termination of swaps related to the assets sold. Effective April 1, 2006, we will no longer record leasing revenue relating to the containers sold to the Purchaser, but we or CAI will, instead, record management fee revenue earned under the Management Agreements.

Impairment Charge

Beginning in late 2005 and continuing into the first quarter of 2006, one of our larger shipping line customers began returning a significant number of containers under operating leases entered into during 1999 and 2000 that had expired. Based upon an analysis of the quantity of containers involved, then-existing conditions in the short-term leasing market and expenses associated with the return of this equipment, we entered into negotiations with this customer regarding the parties' on-going and future business relationships. Following extensive discussions, we reached an agreement with the customer whereby the operating leases for these containers would be converted to direct financing leases by extending the lease terms and by providing the customer with a bargain purchase option. As a result of this modification to the lease terms, we concluded that it would be necessary under U.S. generally accepted accounting principles to record an impairment charge for these assets. The amount of this impairment charge recorded in the first quarter of 2006 was $6.7 million ($6.7 million net of tax) and is included in impairment of leasing equipment on the Condensed Consolidated Statements of Income. No portion of this impairment charge will result in any cash expenditures by us. The agreement also provides that the customer has the right to extend this agreement to containers that it had previously returned if they do so prior to June 30, 2006. To the extent that additional containers are added to this agreement, we will incur an additional impairment charge. This impairment charge will be recorded in the period in which the containers are placed back on hire to the customer. In April 2006, this agreement was extended to cover approximately 3,900 containers which will result in an additional impairment charge of approximately $0.8 million which will be recorded in the quarter ended June 30, 2006. The customer has the ability to extend this agreement to approximately 1,800 additional containers prior to June 30, 2006 but we are unable to determine if this will, in fact, take place

General

Interpool is one of the world's leading suppliers of equipment and services to the intermodal transportation industry. We believe we are the world's largest lessor of intermodal container chassis and a leading lessor of international dry freight standard containers used in international trade.

Our primary sources of equipment leasing revenue are derived from operating leases and income earned on direct financing leases. We generate this revenue through leasing transportation equipment, primarily intermodal container chassis and intermodal dry freight standard containers. Operating lease equipment (operating leases) and direct financing leases are the two major asset types that generate this revenue. In the case of operating lease equipment, we retain the substantive risks and rewards of equipment ownership. In the case of direct financing leases, the lessee generally has the substantive risks and rewards of equipment ownership and the right to purchase the equipment at the end of the lease term. This equipment leasing revenue is supplemented by other sources of revenue such as fees charged to the lessee for handling, delivery and repairs earned under contractual agreement with the lease customer. Equipment leasing revenue derived from an operating lease generally consists of the monthly lease payments from the customer. For direct financing leases, the lessee's payment is segregated into principal and interest components much like a loan. The interest component, calculated using the effective interest method over the term of the lease, is recognized by us as equipment leasing revenue. The principal component of the direct financing lease payment is reflected as a reduction to the net investment in the direct financing lease. Other revenues consist primarily of fees charged to the lessee for handling of our equipment, and repairs for which the customer is responsible under the terms of their lease agreement. In addition, CAI manages equipment for third party investors. In doing so, CAI generally records a gain on the sale of this equipment to the third party investors and earns management fees from these investors based upon the financial performance of the equipment. In addition, as a result of our March 2006 Container Sale, the size of the fleet we manage for third parties will increase beginning in April, 2006.

Our mix of operating and direct financing leases is a function of customer preference and demand and our success in meeting those customer requirements. An operating lease, during its initial lease term, will generally be more profitable than a direct financing lease, primarily due to the return of principal inherent in a direct financing lease, which is usually greater than the depreciation expense associated with an operating lease. However, after the initial term (and any renewal) of an operating lease expires, the operating lease will have redeployment costs and related risks that are avoided under a direct financing lease. In evaluating the revenue performance of our operating lease portfolio, the primary factors considered are utilization and daily rental rates.

Chassis have been leased in pooled arrangements at marine ports since the mid 1980 s. Chassis pools are locations where a lessor provides a group of chassis in a single port terminal location to be rented on a daily basis. A customer who signs our pool agreement and has appropriate credit is allowed to rent any chassis in the pool at any time. The industry term for this type of chassis pool is called a "neutral" pool, because the chassis are provided by a neutral third party rather than the shipping lines themselves. A shipping line notifies a trucker to pick up a chassis from the pool and then proceed to pick up the designated container for movement. The chassis is returned by the trucker to the pool when the move is complete. The shipping line or other customer pays only for the number of days it uses the chassis. Pool rental rates are higher than term lease rates because the customer pays only when the chassis is in use (and we may experience some idle, unpaid period between uses of the chassis) and because the customer generally does not pay for any maintenance and repair the costs being also bundled into the overall chassis pool rate.

Recently, we have established two more advanced "neutral" chassis pools. These pools are clusters of locations in a region. We call them "metro pools" and such pools have been established in the New York metropolitan area, and the Houston metropolitan area. These pools differ from traditional neutral pools in that customers are able to pick up chassis in one location and return them to other locations that are all in the "network." The logistics of the networking process are managed by our proprietary "PoolStat" software, which also manages the inventory and billing functions of the pools. This form of neutral pool is growing, and should see continued rapid growth in the next several years.

In 2000, we acquired the North American Intermodal Division of Transamerica Leasing, Inc. which included chassis pool operations at railroad terminals. This program has continued to expand, and today we have neutral chassis pools at over 40 rail terminals across the United States. Some of these terminals are linking up with the metro pools to create a more integrated marine/rail pool network.

In addition to neutral chassis pools involving the rental of Trac Lease chassis, Trac Lease also provides management services to the shipping lines who want to pool only their chassis in a port terminal for increased efficiency. The industry terms for these pools are "cooperative" or "co-op" chassis pools. The participating shipping lines contribute the chassis under their control to the overall pool. Once in the pool, any contributor can use any other contributor's chassis. Trac Lease's "PoolStat" software performs a number of complex management functions, including keeping track of the number of chassis used per day by a contributor versus the number of chassis contributed. Cooperative pools like neutral pools are growing in popularity with our customer base.

During the three months ended March 31, 2006, our chassis fleet (including equipment on both operating and direct financing leases) increased from 226,000 chassis to 227,000 chassis. Utilization of our chassis fleet was 93% at December 31, 2005 and March 31, 2006.

Lease rates for both new and used chassis rose steadily during the first half of 2005 due to the increased cost of new equipment, overall limitations in production space and the depletion of used chassis inventories. Demand for new and used chassis remained strong in the second half of 2005 as well as the first quarter of 2006. Lease rates during this period have remained relatively unchanged and we expect this to continue throughout 2006.

We anticipate that industry demand for chassis will remain generally strong through 2006. In part this is due to the increased volume of cargo movement in and out of railroad terminals, causing the railroads to reconfigure the patterns of container and chassis activity in the terminals. In a growing number of locations, they are requiring empty containers to be moved off of the terminal, a process that requires additional chassis to service the additional container movements. Railroads are also increasing the use of neutral chassis pooling operated by leasing companies to aid efficiency. Marine ports are experiencing similar congestion, and are beginning to take similar measures, including the use of cooperative chassis pools, to ease this congestion. Overall, more chassis will be needed to service these anti-congestion efforts.

During the three months ended March 31, 2006, our fleet of containers (including the containers included in the March 2006 Container Sale) decreased from 832,000 twenty foot equivalent units ("TEU's") at December 31, 2005 to 828,000 TEU's at March 31, 2006. Utilization of our container fleet (including equipment on both operating and direct financing leases) was 97% at December 31, 2005 compared to 98% at March 31, 2006.

Beginning in the second quarter of 2005, an excess supply of new containers developed in China. This resulted in a slowing of new production, a reduction in new container prices and, in turn, also resulted in softness in leasing demand and daily rental rates for long-term leases of new equipment. During the second quarter of 2005, the number of new containers we had available for long-term lease increased, as customer demand for new on-hires was below demand expectations. However, a significant portion was subsequently placed on lease during the second half of 2005 and we have received leasing commitments for the remainder of this equipment in 2006. In addition, daily rental rates for used containers have been and remain very competitive and expiring operating leases are often renewed at daily rates that are lower than the rental rates during the initial lease term. However, we have recently experienced an increase in demand for our containers. We have also noted an increase in industry demand for containers as indicated by increases in container factory orders as well as new container prices.

Periods of fluctuation in leasing demand can occur. We anticipate that industry demand for chassis and containers will continue to grow. This expectation is supported by continued anticipation of a major expansion of the world cellular container ship fleet through 2008 as evidenced by recent reports that the major shipyards are experiencing large order backlogs through 2008. As reported in the Containerisation International Yearbook 2006, the world container fleet (excluding vessels to be scrapped) is expected to increase by 15.7% in 2006 and 15.5% in 2007 and beyond. As of November 1, 2005, the total container ship order book was comprised of approximately 1,165 ships with a total capacity of approximately 4.4 million TEU, for an increase of approximately 55.3% of the world cellular container ship capacity. We are not able to predict when, or if, this anticipated growth will impact demand for chassis and containers.

We believe a number of factors have contributed to the high utilization of equipment in the industry. From 2003 to 2004, according to the Containerisation International Yearbook 2006, global containerized traffic increased by 12.6%, from 299.3 million TEU in 2003 to 336.9 million TEU in 2004, increasing demand for transportation equipment generally. In addition, several major shipping lines started to bring new, very large 8,000-9,000 TEU ships to the West Coast of the United States in the fall of 2004. When ships of this size are unloaded, they require the use of a larger number of chassis to move the containers to local railroad terminals or their final destinations. The large quantity of vessels on order will also require additional containers to support them. Demand for chassis has also been affected by the inability of the larger, fully loaded ships to pass through the Panama Canal. These ships typically discharge their cargo on the West Coast of the United States, with the cargo being moved by "land bridges", by truck and rail, inland and across the country, using chassis at various stages during this process. At the same time, the demand for chassis, along with increased congestion at many of the rail and marine facilities around the country, has fueled an increase in the pooling of chassis for greater efficiencies. Correspondingly, we have experienced an increase in demand for our "PoolStat" based chassis management services as more shipping lines are entering into these chassis sharing arrangements. In addition, we have continued to experience high demand in our own Trac Lease neutral chassis pools at railroads and marine terminals. As a result of these factors, pool revenues increased significantly during 2005 and we expect them to do so again in 2006.

On March 29, 2006, in connection with the March 2006 Container Sale, as indicated in Note 2 to the Condensed Consolidated Financial Statement, we paid our 2005 Fortis Facility in full and terminated the facility, which included eliminating the commitment for future financing under the facility. At March 31, 2006, (excluding $123.7 million available under CAI's revolving credit facility), we have a total of $107.5 million of unused financing commitments available for growth, to re-finance existing secured debt or for other working capital requirements. Our interest expense was $5.0 million higher during the first quarter of 2006 than it was during the first quarter of 2005 as we experienced a higher level of interest rates in general, coupled with an increase in borrowings. We regularly evaluate financing proposals which, when coupled with available cash balances and funds available under commitments mentioned above, could be used for growth, for refinancing existing facilities and for working capital.

As of March 31, 2006, our commitments for future capital expenditures totaled approximately $156.0 million with approximately $145.6 million committed for the remainder of fiscal 2006. Our available liquidity at March 31, 2006, including $107.5 million available under credit facilities, was $486.3 million excluding $21.5 million of restricted cash and $123.7 million available under the CAI revolving credit facility. Required debt repayments and capital lease payments for the next 12 months totaled $139.4 million. Based on our existing cash balances, financings closed, and our financial projections of operating cash flow for the future, we believe that we will have sufficient liquidity to grow our portfolio while meeting our obligations and commitments as they become due.

Other than interest expense and depreciation expense on our operating lease equipment, our primary expenses are corporate administrative and lease operating expenses, which include maintenance and repair expense, as well as storage and positioning expense. Our lessees are generally responsible for lease operating expenses during the term of their lease. Our corporate administrative expenses are primarily employee related costs such as salary expense, costs of employee benefits, information technology expenses and travel and entertainment costs, as well as expenses incurred for outside services such as legal, consulting and audit related fees. During the first three months of 2006, lease operating and administrative expenses as a percentage of total revenues were 42.3%, as compared to 36.9% during the same period in 2005. This increase was primarily due to an increase in salary expense, maintenance and repair costs, storage expenses, and the write-off of deferred sales commissions resulting from the March 2006 Container Sale. These increases were partially offset by a decrease in legal and consulting fees and equipment rental costs. The additional personnel and systems enhancements we are adding to improve our internal controls, as well as additional procedures being implemented to comply with the requirements of the Sarbanes-Oxley Act, have also added incremental administrative expenses during the current year.

Non-performing receivables totaled $10.5 million at March 31, 2006 compared with $11.5 million at December 31, 2005. Reserves of $10.2 million and $11.5 million, respectively, have been established against these non-performing receivables. During the first three months of 2006, receivable write-offs net of recoveries totaled $1.7 million as compared with $0.8 million for the same period in 2005.

We conduct business with shipping line customers throughout the world and are therefore subject to the risks of operating in disparate political and economic conditions including those associated with increasing oil prices. Offsetting this risk is the worldwide nature of the shipping business and the ability of our shipping line customers to shift their operations from areas of unfavorable political and/or economic conditions to more promising areas. Approximately 99% of our revenues are billed and paid in U.S. dollars. We believe these factors substantially mitigate foreign currency rate risks.

Our container leasing operations are primarily conducted through our Barbados subsidiaries, previously Interpool Limited, and beginning November 30, 2005, ICL, as well as through our consolidated subsidiary CAI, of which we own a 50% common equity interest and currently appoint a majority of the members of the board of directors. Our effective U.S. federal tax rate benefits substantially from the application of an income tax convention, pursuant to which the profits of Interpool Limited and beginning November 30, 2005, ICL from international container leasing operations are exempt from federal taxation in the United States. These profits are subject to Barbados tax at rates that are significantly lower than the applicable rates in the United States. For further information regarding the United States and Barbados Tax Treaty, see Note 5 to the Consolidated Financial Statements and the "United States Federal Income Tax" section of Management's Discussion and Analysis in our 2005 Form 10-K.

Results of Operations

The sections that follow analyze our results of operations by financial statement caption and provide a more detailed discussion of our performance for the three months ended March 31, 2006 as compared to three months ended March 31, 2005.

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Equipment Leasing Revenue. Our equipment leasing revenues increased to $96.8 million for the three months ended March 31, 2006, from $95.1 million in the three months ended March 31, 2005, an increase of $1.7 million or 2%.

Container leasing segment revenues decreased to $40.8 million for the three months ended March 31, 2006, from $43.8 million in the three months ended March 31, 2005, a decrease of $3.0 million or 7%. The decrease was primarily attributable to a reduction in container operating lease revenues of $3.3 million, partially offset by an increase in direct financing lease revenue of $0.3 million. The decrease in container operating lease revenues was primarily due to a decrease in utilization rates brought about by an oversupply of equipment in the container leasing industry and a reduction in the daily rental rates for the overall container fleet. Utilization rates of our container fleet have historically been calculated assuming containers managed by CAI were 100% utilized since they were not available to us to put on hire regardless of whether all of these units are generating revenue. Under this method, utilization rates of our container operating lease fleet were 97% and 99% at March 31, 2006 and 2005, respectively. The utilization rates of our operating lease container fleet, considering CAI's actual utilization rates for our operating lease containers managed by CAI, were 93% and 96% at March 31, 2006 and 2005, respectively.

Domestic intermodal equipment segment revenues increased to $56.0 million for the three months ended March 31, 2006, from $51.3 million in the three months ended March 31, 2005, an increase of $4.7 million or 9%. The increase was primarily attributable to an increase in chassis operating lease revenues of $4.8 million, partially offset by a decrease in direct financing lease revenues of $0.1 million. The incremental chassis operating lease revenues were primarily due to an increase in our chassis operating lease fleet of 9% and an increase in the size and the performance of our chassis pool fleet which generally earns a higher daily rental rate, partially offset by a decrease in utilization rates. The utilization rates of our domestic intermodal chassis operating lease fleet were 92% and 96% at March 31, 2006 and 2005, respectively. The lower utilization in 2006 was primarily the result of an increased inventory of newly acquired equipment not yet on lease.

Other Revenue. Our other revenues increased to $6.1 million for the three months ended March 31, 2006, from $4.9 million for the three months ended March 31, 2005, an increase of $1.2 million or 24%.

Container leasing segment other revenues increased to $2.8 million for the three months ended March 31, 2006, compared to $2.5 million for the three months ended March 31, 2005 an increase of $0.3 million or 12%. The increase was primarily attributable to an increase in billable repairs to our lessees at the termination of a lease of $0.3 million.

Domestic intermodal equipment segment other revenues increased to $3.4 million for the three months ended March 31, 2006, from $2.4 million for the three months ended March 31, 2005, an increase of $1.0 million or 42%. The increase was primarily attributable to an increase in billable repairs to our lessees at the termination of a lease of $0.9 million

Lease Operating and Administrative Expenses. Our lease operating and administrative expenses increased to $43.5 million for the three months ended March 31, 2006 from $36.9 million in the three months ended March 31, 2005, an increase of $6.6 million or 18%.

The increase was primarily due to:

A $4.0 million increase in salary expense, of which $2.3 million is attributable to an accrual for our Chief Executive Officer's 2006 bonus which, in part, is dependent upon changes in our 2006 net income as compared to prior years. This accrual is based upon the substantial increase in our first quarter 2006 net income as compared to our first quarter 2005 net income, due to the gain recorded in connection with the March 2006 Container Sale. The actual amount of the 2006 bonus will be determined based upon our net income for the full year ending December 31, 2006. In addition, an increase in headcount and other employee related costs also contributed to the increase in salary expense for the first quarter of 2006. The additional personnel are being added to improve our corporate infrastructure and our internal control environment.

An increase in maintenance and repair costs of $3.2 million primarily due to an increase in chassis assigned to chassis pools which generate higher daily rental rates and higher repair expenses. In addition, we experienced an increase in the number of chassis that were refurbished or remanufactured during the current period which resulted in an increase to maintenance and repairs costs

An increase in commission expense of $1.1 million primarily related to the write-off of deferred sales commissions resulting from the March 2006 Container Sale of approximately 273,300 standard dry marine cargo containers as discussed earlier within this section.

An increase in storage costs of $1.0 million primarily due to a reduction in utilization experienced within our container and chassis product lines.

An increase in positioning and handling expense for our equipment of $0.7 million which was primarily due to the repositioning of equipment to chassis pool locations.

A decrease in equipment rental costs of $2.4 million primarily due to the buyout of leases related to container equipment which had previously been leased-in by CAI.

A decrease in legal services provided by outside counsel amounting to $0.6 million.

A decrease in consulting fees of $0.6 million primarily due to a reduction in consulting services associated with our financial planning and analysis activities which was previously outsourced partially offset by increased consulting services to facilitate the development of our new IT systems.

A further breakdown of the lease operating and administrative expense variances, as compared to the prior period, by reportable segment is as follows:

Container leasing segment lease operating and administrative expenses increased to $11.0 million for the three months ended March 31, 2006 from $10.5 million in the three months ended March 31, 2005, an increase of $0.5 million or 5%. The increase can be summarized as follows:

(Dollars in millions)	**Container Leasing**
Equipment rental expense	$ (2.3)
Commission expense	1.1
Legal fees	0.5
Storage expense	0.4
Salary expense	0.4
Other, net	0.4
Total	$ 0.5

Domestic intermodal equipment segment lease operating and administrative expenses increased to $32.6 million for the three months ended March 31, 2006 from $26.4 million in the three months ended March 31, 2005, an increase of $6.2 million or 23%. This increase can be summarized as follows:

(Dollars in millions)	**Domestic Intermodal Equipment**
Salary expense	$ 3.6
Maintenance and repairs expense	3.4
Positioning and handling expense	0.8
Storage expense	0.6
Legal and consulting fees	(2.0)
Other, net	(0.2)
Total	$ 6.2

Provision for Doubtful Accounts. Our provision for doubtful accounts decreased to $0.5 million for the three months ended March 31, 2006 from $0.7 million for the three months ended March 31, 2005. During the three months ended March 31, 2006, our non-performing receivables decreased $1.0 million ($10.5 million at March 31, 2006 and $11.5 million at December 31, 2005). As of March 31, 2006 and December 31, 2005, our non-performing receivables, net of applicable reserves, were 0.32% and 0.05%, respectively, of accounts receivable, net. Our provision for doubtful accounts is provided based upon a quarterly review of the receivables. This review is based on the risk profile of the receivables, credit quality indicators such as the level of past-due amounts and economic conditions, as well as the value of underlying collateral in the case of direct financing lease receivables.

Fair Value Adjustment for Derivative Instruments. Our fair value adjustment for derivative instruments amounted to income of $1.7 million for the three months ended March 31, 2006 as compared to income of $0.7 million for the three months ended March 31, 2005. The income for the three months ended March 31, 2006, as well as the prior year period, was primarily due to the change in the fair value of interest rate swap agreements held which do not qualify as cash flow hedges. During 2006, three of these interest rate swap agreements were terminated as the result of the March 2006 Container Sale and the repayment of debt instruments used to finance this equipment.

Fair Value Adjustment for Warrants. Our non-cash fair value adjustment for warrants amounted to an expense of $5.2 million for the three months ended March 31, 2006, as compared to income of $6.9 million for the three months ended March 31, 2005. The expense for the three months ended March 31, 2006 was limited to the change in the fair value of these warrants between December 31, 2005 and February 21, 2006, the date the registration statement for the warrants was declared effective by the SEC. This was the final criteria to be met under EITF 00-19 for re-classification of the warrants from a liability to equity in accordance with U.S. generally accepted accounting principles. During this period, the fair market value of these warrants increased from $53.2 million at December 31, 2005 to $58.4 million at February 21, 2006. This increase in the fair value of the warrants resulted primarily from the change in the market value of our common stock. This amount was then reclassified to equity. For further information on the warrants and their re-classification to equity, see Note 4 to the Condensed Consolidated Financial Statements. Since these warrants are now classified as equity, the value of the warrants will no longer be adjusted for changes to their fair value, as they had been when classified as a liability. Therefore, our earnings will no longer be subject to the volatility related to these changes in fair value.

Depreciation and Amortization of Leasing Equipment. Our depreciation and amortization expense increased to $23.1 million for the three months ended March 31, 2006, from $22.0 million for the three months ended March 31, 2005, an increase of $1.1 million or 5%. This increase was primarily due to additions to our chassis and container operating lease fleet, partially offset by reductions in the CAI operating lease fleet resulting from third party sales.

Impairment of Leasing Equipment. Our expense related to the impairment of leasing equipment increased to $7.2 million for the three months ended March 31, 2006, from $0.9 million for the three months ended March 31, 2005, an increase of $6.3 million. This increase was primarily due to a $6.7 million non-cash impairment charge resulting from the conversion of operating leases with a specific customer to direct financing leases. This conversion resulted in the extension of the term of the leases and it provided the customer with a bargain purchase option for the equipment. This increase was partially offset by a reduction in impairment losses for idle equipment ($0.2 million), as well as a reduction in impairment losses related to damaged equipment that was subsequently remanufactured ($0.2 million).

Income for Investments Accounted for Under the Equity Method. The decrease in income for investments accounted for under the equity method of $0.1 million during the three months ended March 31, 2006 is the result of the sale of our equity investment during the third quarter of 2005.

Loss on Retirement of Debt. During the three months ended March 31, 2006, in connection with the early repayment of certain debt instruments through the use of the proceeds from the March 2006 Container Sale, we wrote off approximately $8.2 million of previously deferred financing fees.

Gain on Sale of Leasing Equipment. We had a gain on sale of leasing equipment of $68.5 million during the three months ended March 31, 2006 compared to $3.1 million for the three months ended March 31, 2005. The increase is primarily due to the March 2006 Container Sale ($66.5 million), partially offset by a decrease of $0.6 million in gains on equipment sales to third party investors recognized by CAI, as well as a decrease in gains on our container sales ($0.7 million). The decrease in gains on equipment sales recognized by CAI was primarily due to a decrease in volume of units sold to third party investors during the current year period as well as a decrease in the margin recognized by CAI on sales to third parties. The decrease in gains on our container equipment sales was predominantly due to unfavorable market conditions we experienced in the resale sector for containers as compared to the prior year period.

Other Income, Net. We had other income of $0.4 million during the three months ended March 31, 2006 compared to $0.6 million of other income for the three months ended March 31, 2005. The decrease of $0.2 million was primarily due to a reduction in fee income as compared to the prior year period.

Interest Expense. Our interest expense increased to $34.4 million in the three months ended March 31, 2006 from $29.4 million in the three months ended March 31, 2005, an increase of $5.0 million or 17%. This increase was primarily attributable to increased borrowings ($3.6 million) and increased interest rates ($1.1 million).

Interest Income. Our interest income increased to $4.9 million in the three months ended March 31, 2006 from $4.0 million in the three months ended March 31, 2005, an increase of $0.9 million. The increase in interest income was primarily due to an increase in average invested cash balances and higher interest rates on the invested cash balances. These increases were partially offset by the receipt during the three months ended March 31, 2005 of $1.6 million of past due interest received on a note receivable which was previously accounted for as non-performing.

Minority Interest Expense, Net. Minority interest expense, net was essentially unchanged for the three months ended March 31, 2006 as compared to the prior year.

Provision for Income Taxes. We recorded an income tax provision of $1.0 million for the three months ended March 31, 2006 as compared to $3.1 million for the three months ended March 31, 2005. This decrease resulted despite a net increase in pre-tax income of $42.9 million, after adjusting for the permanent tax difference that arose from the non-cash expense/income pertaining to the warrant liability in both 2006 and 2005, respectively. The decrease in the income tax provision resulted principally from (i) a lower proportion of the pre-tax income realized during the three months ended March 31, 2006 from United States sourced income, and (ii) a $2.3 million tax benefit realized on the March 29, 2006 sale of approximately 273,300 standard dry marine cargo containers by Interpool Containers Limited ("ICL"). The sale combined with the application of the Barbados regressive tax rate system resulted in an adjustment to deferred Barbados taxes, accrued at the maximum 2.5% rate, and the booking of a current Barbados tax at the minimum 1% tax rate since the sale resulted in a Barbados taxable gain in excess of $15.0 million. See Note 5 to the Condensed Consolidated Financial Statements for more information.

ICL's pre-tax income (international sourced income) is taxed at a low rate (approximately 1% to 2.5%) due to the income tax convention between the United States and Barbados. The domestic intermodal division's pre-tax income (United States sourced income), including corporate activities and the results of operations of CAI, is taxed at the higher United States tax rates. During the three months ended March 31, 2006, 7% of taxable income was generated from United States sources as compared to 27% during the three months ended March 31, 2005, thus contributing to the net decrease in the provision for income taxes.

Net Income. As a result of the factors described above, our net income increased to $53.3 million in the three months ended March 31, 2006 from $20.4 million in the three months ended March 31, 2005.

Liquidity and Capital Resources

Historically, we have used funds from various sources to meet our corporate obligations and to finance the acquisition of equipment for lease to customers. The primary funding sources have been cash provided by operations, borrowings (generally from banks), securitization of lease receivables, the issuance of capital lease obligations, and the sale of our securities. In addition, we have generated cash from the sale of equipment being retired from our fleet. In general, we have sought to meet debt service requirements from the leasing revenue generated by our equipment. We had $378.8 million of unrestricted cash and cash equivalents on hand and had unused financing commitments totaling $107.5 million available for future use as of March 31, 2006 (excluding $123.7 million available under CAI's revolving credit facility). Further, as described in the Liquidity and Capital Resources section of our 2005 Form 10-K, the combination of unrestricted cash and marketable securities as of December 31, 2005 plus scheduled payments due to us under operating and direct financing lease agreements with our lessees during 2006 and 2007 is significantly more than our scheduled capital lease and debt service payments (principal and estimated interest) for those years even after taking into account the recent sale of a substantial portion of our container operating lease portfolio.

We have usually funded a significant portion of the purchase price for new containers and chassis through secured borrowings from financial institutions under various credit facilities. However, from time to time we have funded new equipment acquisitions through the use of working capital and may finance this equipment through debt facilities at a later date. On March 29, 2006, in connection with the March 2006 Container Sale, as indicated in Note 2 to the Condensed Consolidated Financial Statements, we paid our 2005 Fortis Facility in full and terminated the facility, which included eliminating the commitment for future financings under the facility. As of March 31, 2006, a total of $107.5 million of financing commitments was available to us for future use (excluding $123.7 million available under CAI's revolving credit facility). We are currently in negotiations with other potential lenders with regard to additional financings to support business growth.

Cash Flow

Net cash provided by operating activities amounted to $8.9 million for the three months ended March 31, 2006 as compared to $27.4 million for the same period last year. While net income for the three months ended March 31, 2006 was $32.9 million higher than net income for the prior year period, the change in cash provided by these activities was affected by the following:

Net income for the three months ended March 31, 2006 included a gain associated with the March 2006 Container Sale of $60.8 million ($60.2 million, net of tax).

2006 net income included a non-cash expense of $5.2 million related to the adjustment of the estimated fair value of warrants issued by us in the third quarter of 2004 as compared to non-cash income of $6.9 million reported in 2005 net income.

2006 net income included a non-cash impairment expense of $7.2 million ($6.7 million, net of tax) which is primarily related to the conversion of operating leases with a specific customer to direct financing leases which resulted in the extension of the term of the leases and provided the customer with a bargain purchase option for the equipment. This compares to an impairment expense of $0.9 million ($0.7 million, net of tax) reported in 2005 net income.

2006 net income included a loss on retirement of debt of $8.2 million ($7.7 million, net of tax) in connection with the early repayment of certain debt instruments of which $5.4 million ($5.2 million, net of tax) is included in the calculation of the $60.2 million gain (net of tax) recognized as a result of the March 2006 Container Sale.

Excluding the items noted above, net cash provided by these activities decreased $6.7 million for the three months ended March 31, 2006 as compared to the prior year period. The remaining change in cash provided by operating activities resulted primarily from the following:

An increase in cash used to pay income taxes ($14.5 million) during the three months ended March 31, 2006 associated with the December 2005 repatriation of cash from our Barbados subsidiary, Interpool Limited.

The remainder of the change in net cash provided by operating activities was primarily due to changes in other operating assets and liabilities in the ordinary course of business.

Net cash provided by investing activities amounted to $503.6 million for the three months ended March 31, 2006 as compared to $36.4 million of net cash used for investing activities for the same period last year. The change was primarily due to the following:

an increase in the proceeds from disposition of leasing equipment ($504.1 million) which is primarily associated with the March 2006 Container Sale,

a decrease in acquisition of leasing equipment ($19.1 million), and
a decrease in the investment in direct financing leases ($18.6 million).

Net cash used for financing activities amounted to $539.5 million for the three months ended March 31, 2006 as compared to $34.1 million for the same period last year. The increase in net cash used for financing activities was primarily due to the following:

an increase in repayment of long term debt and capital lease obligation ($510.3 million) primarily due to the use of the proceeds from the March 2006 Container Sale and an increase in repayment of revolving credit lines ($12.5 million), partially offset by
an increase in the proceeds from the issuance of debt ($15.4 million).

Debt and Capital Lease Obligations:

The following table summarizes our debt and capital lease obligations as of March 31, 2006 and December 31, 2005:

	(Dollars in Millions)	
Total Debt and Capital Lease Obligations	**March 31, 2006**	**December 31, 2005**
2005 Fortis Facility - Secured container equipment financing facility, interest at 6.41% at December 31, 2005	$ ---	$ 463.2
2005 DVB Facility - Secured container equipment financing facility, interest at 6.37% at March 31, 2006 and 6.55% at December 31, 2005	202.1	250.7
Chassis Securitization Facility, interest at 5.69% at March 31, 2006 and 5.94% at December 31, 2005		
Warehouse facility	--	8.4
Debt obligation	16.8	24.1
Capital lease obligation	386.0	388.4
Revolving credit facility for chassis, interest at 6.21% at March 31, 2006 and 5.64% at December 31, 2005, revolving period ending September 9, 2010	15.0	15.0
Notes and loans repayable with various rates ranging from 5.75% to 7.90% and maturities from 2006 to 2010	19.9	22.0
Capital lease obligations payable in varying amounts through 2015	299.3	284.9
Revolving credit facility CAI, interest at 6.36% at March 31, 2006 and 5.97% at December 31, 2005	51.0	64.0
6.00% Notes due 2014 (unsecured) net of unamortized discount of $30.7 at March 31, 2006 and $31.3 at December 31, 2005	199.3	198.7
7.35% Notes due 2007 (unsecured)	91.4	94.2
7.20% Notes due 2007 (unsecured)	37.5	37.9

	(Dollars in Millions)	
9.25% Convertible redeemable subordinated debentures, mandatory redemption 2022 (unsecured)	37.2	37.2
9.875% Preferred capital securities due 2027 (unsecured)	75.0	75.0
Total Debt and Capital Lease Obligations	1,430.5	1,963.7
Less Current Maturities	139.4	229.1
Total Non-Current Debt and Capital Lease Obligations	$ 1,291.1	$ 1,734.6

Our debt consisted of loans, capital lease obligations and notes with installments payable in varying amounts through 2027, with a weighted average interest rate of 6.9% for the three months ended March 31, 2006 and 6.8% for the year ended December 31, 2005. The principal amount of debt and capital lease obligations payable under fixed rate contracts was $1,069.4 million at March 31, 2006. Remaining debt and capital lease obligations of $361.1 million were payable under floating rate arrangements, of which $281.5 million was effectively converted to fixed rate debt through the use of interest rate swap agreements. At March 31, 2006 and December 31, 2005, most of our debt and capital lease obligations were secured by a substantial portion of our leasing equipment, direct financing leases, and accounts receivable. Approximately $440.4 million of debt was unsecured at March 31, 2006 compared to $443.0 million at December 31, 2005. For further information on the accounting treatment for interest rate swap contracts see Note 4 to the Condensed Consolidated Financial Statements.

New Financings: During February 2006, we entered into a capital lease obligation transaction with a U.S. financial institution for $23.8 million, with a fixed interest rate of 6.11%, which continues until March 2014. We have a bargain fixed purchase option at that time that we expect to exercise. This amount remained outstanding at March 31, 2006.

Debt Repayment: On March 29, 2006, in connection with the March 2006 Container Sale, we paid off the remaining outstanding debt balance of $433.9 million associated with the 2005 Fortis Facility and terminated the facility, which included eliminating the commitment for future financing under the facility. Additionally, we accelerated a principal payment of $28.5 million associated with the 2005 DVB Facility. In connection with these and other debt repayments, we wrote off $8.2 million in deferred financing fees which are included in loss on retirement of debt on the Condensed Consolidated Statements of Income.

Covenants: At March 31, 2006, under our 2005 DVB Facility, our chassis revolving credit facility established during September 2005, and most of our other debt instruments, we are required to maintain covenants (as defined in each agreement) for tangible net worth (the most stringent of which required us to maintain tangible net worth of at least $300.0 million), a fixed charge coverage ratio of at least 1.5 to 1 and a funded debt to tangible net worth ratio of not more than 4.0 to 1. For the most restrictive covenants, tangible net worth includes stockholders' equity plus any "warrant liability", our 9.875% preferred capital securities and our 9.25% convertible redeemable subordinated debentures and any future subordinated debt, and is reduced by goodwill and adjusted to eliminate the impact of adjustments associated with derivative instruments. Funded debt excludes the portion of debt and capital lease obligations due within one year, our 9.875% preferred capital securities and our 9.25% convertible redeemable subordinated debentures, and any future subordinated debt. Fixed charges include interest expense, excluding that related to our 9.875% preferred capital securities and our 9.25% convertible redeemable subordinated debentures and any future subordinated debt, and lease rentals. Earnings available for fixed charges include income before depreciation and income taxes, excluding the impact of any non-cash fair value adjustments for warrants, plus fixed charges, plus interest expense associated with our 9.875% preferred capital securities and our 9.25% convertible redeemable subordinated debentures and any future subordinated debt. As of March 31, 2006, we were in compliance with all covenants.

A servicing agreement to which we are a party requires that we maintain a tangible net worth (including its 9.875% preferred capital securities due 2027) of at least $375.0 million plus 50% of any positive net income reported from October 1, 2004 forward.

At March 31, 2006, under a restriction in its 6.0% Note Indenture, approximately $36.0 million of retained earnings were available for dividends.

Critical Accounting Policies and Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to use judgment in making estimates and assumptions that affect reported amounts of assets and liabilities, the reported amounts of income and expense during the reporting period and the disclosure of contingent assets and liabilities at the date of the financial statements. We have identified the policies and estimates below as critical to our business operations and the understanding of our results of operations. For a detailed discussion on these and other significant accounting policies, see Note 1 to the Consolidated Financial Statements included in our December 31, 2005 Annual Report on Form 10-K. 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 management. Management's estimates are based on the relevant information available at the end of each period.

- the allowance for doubtful accounts,
- accounting for leasing equipment,
- lease residual values,
- goodwill,
- accounting for customer defaults,
- warrant valuation,
- income taxes,
- derivative financial instruments.

In consultation with our Audit Committee, we have reviewed and approved these significant accounting policies, which are further described in our 2005 Form 10-K.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Risk Management

Interest Rate Risk

The nature of our business exposes us to market risk arising from changes in interest rates. We manage interest rate risk to protect margins on existing transactions. Interest rate risk is the risk of earnings volatility attributable to changes in interest rates. Additionally, we consider interest rate swap contracts as an integral part of our borrowing transactions. We seek to mitigate our exposure by entering into amortizing interest rate swap contracts, which coincide with the principal and maturity of the underlying debt instruments hedged. We do not use leveraged swaps and do not use leverage in any of our investment activities that would put principal capital at risk.

The following table sets forth principal cash flows and related weighted average interest rates by expected maturity dates for debt and capital lease obligations at March 31, 2006:

(Dollars in Thousands)	Total Obligation	0-12 months	13-24 months	25-36 months	37-48 months	49-60 months	Thereafter
Variable rate facilities	$ 79,663	$ 2,200	$ 2,318	$ 53,443	$ 6,702	$ 15,000	--
Average interest rate %		6.4%	6.4%	6.3%	6.2%	6.6%	--
Fixed rate facilities(1)	1,350,879	137,243	249,161	112,892	87,187	46,771	717,625
Average interest rate %		6.8%	6.8%	6.9%	7.0%	7.1%	7.1%
Total Debt	$1,430,542	$ 139,443	$ 251,479	$ 166,335	$ 93,889	$ 61,771	$ 717,625
Average interest rate %		6.8%	6.8%	6.8%	7.0%	7.1%	7.1%

(1) These fixed rate facilities include variable instruments that have been effectively converted to fixed rate debt through the use of interest rate swap agreements.

The principal amount of debt and capital lease obligations payable under fixed rate contracts was $1,069.4 million at March 31, 2006. Remaining debt and capital lease obligations of $361.1 million were payable under floating rate arrangement, of which $281.5 million was effectively converted to fixed rate debt through the use of interest rate swap agreements.

Based on outstanding debt balances at March 31, 2006 of variable rate facilities, which have not been effectively converted to fixed rate debt through the use of interest rate swaps, a 10% change in variable interest rates would have resulted in a $0.1 million change in pre-tax earnings.

Credit Risk

We maintain detailed credit records about our customers. Our credit policy sets different maximum exposure limits for our customers. Credit criteria may include, but are not limited to, customer trade route, country, social and political climate, assessments of net worth, asset ownership, bank and trade credit references, credit bureau reports, operational history and financial strength.

We seek to reduce credit risk by maintaining insurance coverage against customer insolvency and related equipment losses. We maintain contingent physical damage, recovery and loss of revenue insurance, which provides coverage upon the occurrence of a customer's insolvency, bankruptcy or default giving rise to our demand for return of all of our equipment. The policy covers the cost of recovering our equipment from the customer, including repositioning cost, damage to the equipment and the value of equipment which could not be located or was uneconomical to recover. It also covers a portion of the equipment leasing revenues that we might lose as a result of the customer's default (i.e., up to 180 days of lease payments following an occurrence under the policy). Our current policy, which commenced April 30, 2006, and expires April 30, 2007, includes coverage of $18.0 million per occurrence with a $2.0 million deductible, per occurrence. There can be no assurance that this or similar coverage will be available in the future or that such insurance will cover the entirety of any loss.

Beginning January 31, 2006, we also maintain credit insurance which provides complementary coverage upon the occurrence of a customer's insolvency, bankruptcy or default giving rise to our demand for return of all our equipment. The policy covers a portion of the equipment leasing revenues we might lose as a result of the customer's default (i.e., up to 90 days of lease payments that accrue prior to an occurrence under the policy). Our current policy includes coverage of $10.0 million with a $0.2 million deductible per year, in the aggregate. The policy has a one-year term. There can be no assurance that this or similar coverage will be available in the future or that such insurance will cover the entirety of any loss.

At March 31, 2006 approximately 44% of accounts receivable and 75% of the net investment in direct financing leases were from customers outside of the United States.

At March 31, 2006, our top 25 customers represented approximately 79% of consolidated billings, with no single customer accounting for more than 8.4%.

Allowance for Doubtful Accounts

The allowance for doubtful accounts includes our estimate of allowances necessary for receivables on both operating and direct financing lease receivables. The allowance for doubtful accounts is developed based on two key components (1) specific reserves for receivables which are impaired for which management believes full collection is doubtful and (2) reserves for estimated losses inherent in the receivables based upon historical trends. We believe our allowance for doubtful accounts is adequate to provide for credit losses inherent in our accounts receivable. The allowance for doubtful accounts is intended to provide for losses inherent in the 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. In addition, changes in economic conditions or other events may necessitate additions or deductions to the allowance for doubtful accounts. Direct financing leases are evaluated on a case by case basis. When evaluating our operating and direct financing lease receivables for impairment, we consider, among other things, the level of past-due amounts of the respective receivable, the borrower's financial condition, credit quality indicators of the borrower, the value of underlying collateral and third party credit enhancements such as guarantees and insurance policies. Once a direct financing lease is determined to be non-performing, our procedures provide for the following events to take place in order to evaluate collectibility:

- The past due amounts are reclassified to accounts receivable,
- The equipment value supporting such direct financing lease is reclassified to leasing equipment, and
- Collectibility is evaluated, taking into consideration equipment book value and the total outstanding receivable, as well as the likelihood of collection through the recovery of equipment.

The adequacy of our allowance for doubtful accounts is provided based upon a quarterly review of the collectibility of our receivables. This review is based on the risk profile of the receivables, credit quality indicators such as the level of past-due amounts and economic conditions, as well as the value of underlying collateral in the case of direct financing lease receivables.

Item 4: CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted pursuant to the Securities Exchange Act of 1934, as amended ("Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that information required to be disclosed by the Company in its Exchange Act reports is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of its management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) and 15d-15(e) as of March 31, 2006. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of such date due to the material weaknesses described below.

In light of these material weaknesses, in preparing its consolidated financial statements as of and for the fiscal quarter ended March 31, 2006, the Company performed additional analyses and other post-closing procedures to ensure that the Company's Condensed Consolidated Financial Statements included in its Report on Form 10-Q for the fiscal quarter ended March 31, 2006 have been prepared in accordance with U.S. generally accepted accounting principles.

Technical accounting expertise. The Company and its 50%-owned consolidated subsidiary were not adequately staffed with accounting personnel possessing an appropriate level of technical expertise in U.S generally accepted accounting principles, as further described below:

Interest rate swap transactions. The Company did not have personnel possessing sufficient technical expertise related to accounting for derivative instruments and hedging activities in accordance with generally accepted accounting principles.

Accounting for debt modification. The Company did not have personnel possessing sufficient technical expertise related to the accounting for the modification of revolving debt facilities. This deficiency results in more than a remote likelihood that a material misstatement of the Company's annual or interim consolidated financial statements would not be prevented or detected.

Accounting for stock compensation. The Company's 50%-owned consolidated subsidiary, CAI, did not have personnel possessing sufficient technical expertise related to the accounting for redeemable convertible preferred stock in accordance with generally accepted accounting principles.

Review of subsidiary financial statements. The Company did not have adequate policies and procedures in place to provide for the review of the financial statements of its 50%-owned consolidated subsidiary, CAI, at a sufficient level of detail.

Security of information technology. The Company's information systems lacked security policies and procedures, including appropriate encryption and standard security settings. Additionally, the Company did not have system access controls over access to its equipment leasing system and certain spreadsheets supporting financial information.

Monitoring of internal control over financial reporting. The Company lacked adequate procedures relating to monitoring of its internal control over financial reporting, including procedures related to the timely evaluation of internal controls to ensure that appropriate personnel regularly obtain evidence that controls are functioning effectively

(b) Changes to Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the three months ended March 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, except as described below.

The Company has taken, or plans to take, various corrective actions to remediate the material weaknesses noted above. By their nature, such actions require a period of time to become fully effective. The remedial actions associated with these material weaknesses are as follows:

> ***Technical accounting expertise***. Effective January 1, 2006, the Company has assigned responsibility for its interest rate swap transactions to two individuals with significant prior experience in this area. During 2006, the Company will continue to review its staffing levels, as will CAI, and will continue to evaluate whether the skill sets of its employees are adequate to meet its financial reporting needs and to ensure that it has a strong and effective control environment. The Company and CAI will monitor this area closely, make any necessary staffing changes, and will also ensure that additional training is made available to their staffs as required.
>
> ***Review of subsidiary financial statements***. The Company will dedicate additional resources to reviewing and analyzing the financial statements of its 50%-owned consolidated subsidiary, CAI, and is currently developing plans to do so.
>
> ***Security of information technology***. As of March 2006, employees located outside the Company's three main offices connect to the Company's data center using either virtual private network or secure socket layer technology. Employees located within the Company's three main offices utilize direct, point-to-point, network connections to the Company's data center. The final evaluation and migration of critical spreadsheets to a controlled environment will take place during 2006. Interim changes required to system access controls are currently being addressed with further access controls to be implemented as the Company develops its new asset management system, which is currently in process.
>
> ***Monitoring of internal control over financial reporting***. The Company intends to implement additional procedures during 2006 that will facilitate the monitoring of internal control over financial reporting throughout the year, and will review the results of these additional procedures with its audit committee periodically during the year.

Management believes that the actions described above, when fully implemented and tested, will be effective in remediation of the material weaknesses discussed above.

The Company has assigned the highest priority to the short and long-term correction of the internal control deficiencies that have been identified and has initiated the steps necessary to analyze and monitor its control environment and to address any weaknesses and deficiencies. In addition to the weakness mentioned above, the Company has identified other, less significant, deficiencies that it does not consider to be "material weaknesses" but which it nonetheless believes should be remedied. These significant deficiencies have been disclosed to the Company's Audit Committee and to its independent auditors. Management has discussed its remedial action plans with the Audit Committee and will continue to provide periodic updates to the Audit Committee on progress made.

As of the date of this filing, the Company is satisfied that actions implemented to date and those in progress will remediate the material weaknesses and significant deficiencies in internal control over financial reporting and information systems that have been identified. The Company notes that, like other companies, any system of internal controls, however well designed and operated, can provide only reasonable assurance, and not absolute assurance, that the objectives of the internal control system will be met. The design of any control system is based, in part, upon the benefits of the control system relative to its costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of control. In addition, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of the limitations inherent in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

Pending Governmental Investigations

Following the Company's announcement in July 2003 that its Audit Committee had commissioned an internal investigation by special counsel into its accounting, the Company was notified that the SEC had opened an informal investigation of Interpool. As the Company had anticipated, this investigation was converted to a formal investigation later in 2003. The Company has fully cooperated with this investigation. During 2003 and 2004, the New York office of the SEC received a copy of the written report of the internal investigation and received documents and information from the Company, its Audit Committee and certain other parties pursuant to SEC subpoenas. During late 2003, the Company was also advised that the United States Attorney's office for the District of New Jersey received a copy of the written report of the internal investigation by its Audit Committee's special counsel and opened an investigation focusing on certain matters described in the report. The Company was informed that Interpool was neither a subject nor a target of the investigation by the U.S. Attorney's office. The Company has not had any communications with either the SEC or the U.S. Attorney's office relating to their respective investigations since 2004 and it does not have any information regarding the current status of either of these investigations. Therefore, the Company cannot predict the final outcome of either of these investigations and cannot be assured that they may not result in the taking of some action that may be adverse to the Company.

Stockholder Litigation

In February and March 2004, several lawsuits were filed in the United States District Court for the District of New Jersey, by purchasers of the Company's common stock naming the Company and certain of its present and former executive officers and directors as defendants. The complaints alleged violations of the federal securities laws relating to the Company's reported Consolidated Financial Statements for the years ended December 31, 2000 and 2001 and the nine months ended September 30, 2002, which the Company announced in March 2003 would require restatement. Each of the complaints purported to be a class action brought on behalf of persons who purchased the Company's securities during a specified period. In April 2004, the lawsuits, which seek unspecified amounts of compensatory damages and costs and expenses, including legal fees, were consolidated into a single action with lead plaintiffs and lead counsel having been appointed. The plaintiffs filed a consolidated amended complaint in September 2004, which includes allegations of purported misstatements and omissions in the Company's public disclosures throughout an expanded purported class period from March 31, 1999 through December 26, 2003. In November 2004, the Company filed a motion to dismiss the amended complaint. The motion to dismiss was granted by the District Court on August 18, 2005, dismissing the plaintiffs' claims in their entirety and with prejudice. On September 19, 2005, the plaintiffs filed a notice of appeal of the dismissal order, thereby initiating a review of the District Court's decision by the United States Court of Appeals for the Third Circuit.

In view of the costs and uncertainties described above and which are inherent in the litigation process, the Company elected to participate in the Third Circuit's mediation program through which a settlement of this litigation was negotiated. Following the conclusion of these negotiations, the Company received a letter dated December 8, 2005 from the Director of the Appellate Mediation Program for the United States Court of Appeals for the Third Circuit, confirming the settlement terms for this class action litigation, to which all parties have agreed, which are: (1) a cash payment on behalf of defendants in the total amount of $1,000, inclusive of all of the fees and expenses of plaintiffs' counsel, and (2) the dismissal of all claims against the Company and the other defendants on a class-wide basis. The entire $1,000 payment will be funded by the Company's insurance carrier. The agreed settlement terms have been embodied in a formal settlement agreement that has been submitted to the United States District Court for the District of New Jersey, and will be subject to approval by the District Court. The Court of Appeals has remanded the case to the District Court for consideration of the settlement.

In the event that the settlement is not approved and if the appeal were thereby revived and if the District Court's decision granting the Company's motion to dismiss is reversed, the Company would expect to incur additional defense costs typical of this type of class action litigation, which should be substantially recoverable under the Company's insurance policies. If the Company is required to defend this lawsuit, the Company intends to do so vigorously but is unable at this time to ascertain the impact the litigation may have on its financial condition and results of operations. On the other hand, if the settlement is approved or the District Court's decision is affirmed after full appellate review, the case and its associated litigation costs will be concluded.

ITEM 6. Exhibits

Exhibits:		
Exhibit 10:	Material Contracts	
	None	
Exhibits 31/32:	Certifications:	
	31.1	Certification of Martin Tuchman.
	31.2	Certification of James F. Walsh.
	32.1	Certification of Martin Tuchman.
	32.2	Certification of James F. Walsh.
Exhibit 99:	Press Releases dated:	
	March 15, 2006	Interpool To Sell Majority Of Container Operating Lease Assets To Investor Group.
	March 17, 2006	Interpool, Inc. To Pay Cash Dividend On Common Stock.
	March 31, 2006	Interpool Completes The Sale Of A Majority Of Its Container Operating Lease Assets To An Investor

	Group.
March 31, 2006	Interpool Files December 2005 Form 10-K With Securities And Exchange Commission
April 15, 2006	Interpool, Inc. Consummates Exchange Offer For 100% of 6% Senior Notes Due 2014.

SIGNATURES

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

Dated: May 4, 2006

INTERPOOL, INC.

By /s/ James F. Walsh
James F. Walsh
Executive Vice President and
Chief Financial Officer

INDEX TO EXHIBITS

Filed with Interpool, Inc.
Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2006

31.1- Certification of Martin Tuchman.

31.2- Certification of James F. Walsh.

32.1- Certification of Martin Tuchman.

32.2- Certification of James F. Walsh.

99.1- Press Release dated March 15, 2006

99.2- Press Release dated March 17, 2006

99.3- Press Release dated March 31, 2006

99.4- Press Release dated March 31, 2006

99.5- Press Release dated April 15, 2006