SeaCube Container Leasing Ltd.
Form 10-K
March 10, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

R ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010
or
£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission File Number 001-34931

SeaCube Container Leasing Ltd.
(Exact name of registrant as specified in its charter)

Bermuda	98-0655416
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1 Maynard Drive Park Ridge, New Jersey	07656
(Address of principal executive offices)	(Zip Code)

(201) 391-0800
(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
x

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the voting common shares held by non-affiliates of the registrant on June 30, 2010 is not applicable as the registrant was not publicly traded as of that date. As of December 31, 2010, the last business day of the Registrant's most recently completed fiscal quarter, the aggregate market value of shares held by non-affiliates (based upon the closing sale price of such shares on the New York Stock Exchange on December 31, 2010) was approximately $154,974,000.

The number of outstanding shares of the Registrant's Common Stock as of February 28, 2011 was 20,142,812.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 25, 2011, to be filed within 120 days after the close of the Registrant's fiscal year, are incorporated by reference into Part II, Item 5 and Part III of this Annual Report on Form 10-K.

SEACUBE CONTAINER LEASING LTD.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that involve substantial risks and uncertainties. All statements, other than statements of historical facts, including statements regarding our strategy, future operations, future financial position, future revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. You can identify these forward-looking statements by the use of forward-looking words such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “cou “approximately,” “predicts,” “intends,” “plans,” “estimates,” “anticipates,” “target,” “projects,” “contemplates” or the negativ those words or other comparable words. Any forward-looking statements contained in this annual report are based upon our historical performance and on our current plans, estimates and expectations in light of information currently available to us. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business, prospects, growth strategy and liquidity. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to, a decrease in the overall demand for leased container assets, the economic condition of the global container asset leasing industry and the ability of our lessees and potential lessees to make operating lease payments to us, the condition of the global economy and world financial markets, changes in the values of our assets, acquisition risks, competitive pressures within the industry, risks related to the geographic markets in which we and our lessees operate, our ability to retain key personnel, the impact of new or existing regulations, whether we are replaced as manager of any containers that we manage for third parties and other factors described in the section entitled “Item 1A – Risk Factors”.

The forward-looking statements made in this annual report relate only to events as of the date on which the statements are made. We do not undertake any obligation to publicly update or review any forward-looking statement except as required by law, whether as a result of new information, future developments or otherwise. We caution you not to unduly rely on the forward-looking statements when evaluating the information presented this report.

WEBSITE AND ACCESS TO COMPANY’S REPORTS

Our Internet website can be found at www.seacubecontainers.com. Our annual reports on Forms 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) are available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. Our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and Board of Directors committee charters (including the charters of the Audit Committee, Compensation Committee, and Nominating, Corporate Governance and Conflicts Committee) are also available on our website.

The information on our website is not part of, or incorporated by reference, into this report, or any other report we file with, or furnish to, the SEC.

PART I

ITEM 1. BUSINESS

Our Company

We are one of the world's largest container leasing companies based on total assets. Containers are the primary means by which products are shipped internationally because they facilitate the secure and efficient movement of goods via multiple transportation modes, including ships, rail and trucks. The principal activities of our business include the acquisition, leasing, re-leasing and subsequent sale of refrigerated and dry containers and generator sets. We lease our containers primarily under long-term contracts to a diverse group of the world's leading shipping lines. As of December 31, 2010, we employed 75 people in seven offices worldwide, and we had total assets of $1.1 billion. We operate in a single segment.

Formation and Corporate History

We were incorporated by Seacastle Operating Company Ltd. (our "Initial Shareholder") in Bermuda in March 2010. Our Initial Shareholder is a subsidiary of Seacastle Inc. ("Seacastle"). Seacastle is owned by private equity funds that are managed by an affiliate of Fortress Investment Group LLC ("Fortress") and by employees of Seacastle and other shareholders. Container Leasing International, LLC (d/b/a SeaCube Containers, LLC), the entity through which we conduct all of our operations ("CLI"), was founded in 1993 and was acquired by an affiliate of our Initial Shareholder in 2006.

In March 2010, in preparation of our initial public offering ("IPO"), we and our Initial Shareholder formed SeaCube Container Holdings Ltd., SeaCube Container Investment LLC and SeaCube Operating Company Ltd. and entered into a series of intercompany transactions to finalize the separation of our container leasing business from the other businesses of Seacastle and to establish the appropriate organizational structure for us (the "Structure Formation"). Among other things, the formation of SeaCube Container Holdings Ltd. and SeaCube Container Investment LLC helped to simplify certain tax reporting obligations and eliminated the need for public shareholders to make certain additional tax elections that might otherwise need to be made when SeaCube formed a new subsidiary. In March 2010, all of the equity interests in CLI were transferred to one of our wholly owned subsidiaries and we continue to conduct all of our operations through CLI and its operating subsidiaries.

On October 27, 2010, the U.S. Securities and Exchange Commission (the "SEC") declared effective the registration statement relating to the Company's IPO of 10,925,000 shares at a price to the public of $10.00 per share. The Company issued 3,450,000 shares in the offering (inclusive of the underwriters' over-allotment), which less underwriting discounts and expenses resulted in net proceeds of approximately $27.3 million. The Initial Shareholder sold 7,475,000 of previously outstanding shares (inclusive of the underwriters' over-allotment).

Competitive Strengths –

We believe that the key competitive strengths that will enable us to execute our strategy include:

Leading Market Position. We are one of the world's largest container lessors and the world's largest lessor of refrigerated containers, or reefers, with approximately 27% of the refrigerated container market share based on TEUs as of December 31, 2010 (twenty foot equivalent units, or TEUs, is the international standards measure of containers). Reefers have historically demonstrated greater stability in underlying demand, pricing and lease rates than other types of containers. We believe that our strength in the reefer market provides us with certain utilization, cost, marketing and capability advantages relative to other container leasing companies with lower reefer market share.

High and Stable Utilization. For the two years ended December 31, 2010, our utilization rate averaged 96.9%. In 2009, during the first period of decline in global container trade since 1980, our utilization rate averaged 96.5% of total units. As of December 31, 2010, approximately 88.8% of our owned assets based on net book value were on long-term lease to our customers. The average remaining term of our existing lease portfolio, including both short and long-term operating leases as well as direct finance leases, was approximately 3.7 years. We believe that our focus on reefers as well as our focus on long-term and direct finance leases has enabled us to maintain high and consistent utilization rates.

Our Assets Generate Significant Cash Flow. Our assets generate significant and predictable revenues and operating cash flow that reflects our high and stable asset utilization, low customer defaults and high recovery rates, strong operating profit margins and low working capital requirements. As of December 31, 2010, our existing leases provided for approximately $882 million of contracted cash flow through the life of the remaining leases.

Long-Standing Relationships with High Quality Customers. We have an extensive history with our customers which provide us with strong relationships at senior levels of management. In addition, we have built a reputation for service, reliability and quality. We lease our containers to a diversified customer base of over 160 shipping lines throughout the world, including all of the world's 20 largest international shipping lines. Our top customers include APL, CMA-CGM, CSAV, Hanjin, MSC and Maersk Line. We believe that our customer relationships are some of the best in the industry and will enable us to continue to grow our business.

Access to Significant Amounts of Capital to Expand our Business. As of December 31, 2010, we had over $200 million of available capital to invest in new containers and pursue sale/leaseback transactions. In addition, we manage containers for a number of third-party owners and we believe that these relationships may provide us with opportunities to grow our managed fleet. We believe that our access to capital and our relationships with third-party owners will provide us with a competitive advantage and enable us to grow our business.

Experienced Management, Global and Scaleable Business Platform. Our management team has extensive experience in the acquisition, leasing, financing, technical management and sale of containers. Our key officers have an average of 12 years of related industry experience. We operate globally, using modern asset management systems designed for container leasing companies and are capable of handling a significantly larger asset portfolio without a proportional increase in overhead costs.

Growth Strategy

We plan to leverage our competitive strengths to grow our fleet and earnings by employing the following business strategies:

Continue to Invest in New Container Assets. We believe that the current industry dynamics support significant growth opportunities. Demand for containers is driven by global trade growth and slow-steaming (running containerships at slower speeds to reduce fuel costs), which means that shipping lines require more containers to deliver the same amount of cargo. Furthermore, due to the extensive capital requirements for their containership fleets, we believe that a number of shipping lines will increase the percentage of containers they lease rather than own in the near- to medium-term.

Continue to Maintain Disciplined Lease Terms. We plan to continue to target attractive returns on our assets over their life cycle by concentrating on long-term leases with a disciplined pricing structure in order to maximize our profitability and fleet utilization. Over the last three years, our renewal rate has averaged 85.0% of total units. Furthermore, we plan to continue to maintain strict underwriting standards as well as proactive credit monitoring to minimize any future credit write-offs. Over the last five years, we had net write-offs of less than $8.0 million on total billings of approximately $2.0 billion, representing approximately 0.4% of such billings.

Opportunistically Pursue Growth Opportunities. We may pursue strategic acquisitions of container leasing companies, container fleets (both on an owned and managed basis), and sale/leaseback transactions with liner companies. We believe that each of these types of transactions can allow us to grow our fleet profitably. Our management team has proven its ability to successfully execute transactions of this nature and we have confidence that we can execute more of these transactions over time. We believe that our existing management platform and expertise can support more assets without significant increases to our infrastructure or expense base due to the scalable nature of our operations.

Industry Trends

The market for container leasing is characterized by the following key trends:

Strong Growth in Container Trade. Container trade is an important component of the movement of goods through the global economy. According to Harrison Consulting, worldwide container trade has grown at an annual rate of more than 8% for over 30 years. In 2009, container trade decreased for the first time in over 30 years, with a decline of approximately 7%. Beginning in late 2009 and into 2010, trade volumes recovered. Harrison Consulting believes that worldwide containerized trade growth will revert to historical levels in the future.

Limited Supply of Existing Containers. In late 2008 and throughout 2009, new container production was limited as shipping lines and container leasing companies virtually ceased ordering new equipment. As a result, according to Harrison Consulting, the world fleet of containers shrank by approximately 4%. Furthermore, while reduced demand for containers led to declining utilization rates during the first half of 2009, utilization rates for container leasing companies began to increase in the fourth quarter of 2009, and continued to increase in 2010 for most of our peer companies.

Significant Use of Leased Equipment. Approximately 45% of the global container fleet of over 28 million TEUs is owned or managed by container leasing companies according to Harrison Consulting. We believe that the reliance on operating lessors increased in 2010 and that this is continuing into 2011 as our customers look for alternative sources of capital as well as the operational flexibility of leasing.

Our Assets

Our fleet of equipment consists of three types of container assets: refrigerated containers, dry freight containers and generator sets. These assets are either owned or managed by us on behalf of other third party owners. We lease our equipment to a diversified customer base of the world's leading shipping lines. As of December 31, 2010, we operated approximately 520,113 containers and generator sets, representing 819,184 TEUs of containers and generator sets. As of December 31, 2010, the average age of our owned container fleet is 5.1 years.

Refrigerated Containers. Refrigerated containers, or reefers, are insulated containers that include an integrated cooling machine. These containers are typically used to carry perishable cargo such as fresh and frozen produce, meat, poultry, fish and other temperature sensitive products.

Dry Containers. A dry container is essentially a steel box with a set of doors on one end. Dry containers are the least-expensive type of intermodal container and are used to carry most types of freight.

Generator Sets. Generator sets, or gensets, are portable diesel fueled generators used to power reefers. They can be used when reefers are transported by trucks. When a reefer is carried on a containership, it is usually plugged in to the containership's main power supply.

Our containers are either owned by us or owned by third-parties and managed by us. The table below summarizes the composition of our total fleet by the type of unit as of December 31, 2010:

Container Fleet by Units

	Refrigerated	Dry	Gensets	Total
Operating Leases	29,912	52,464	2,773	85,149
Direct Finance Leases	17,870	217,375	2,655	237,900

Total Owned	47,782	269,839	5,428	323,049
Managed	29,911	165,735	1,418	197,064
Total Fleet	77,693	435,574	6,846	520,113

The table below summarizes the composition of our owned fleet by net book value as of December 31, 2010:

Container Fleet by Net Book Value ($ in thousands)

	Refrigerated	Dry	Gensets	Total
Operating Leases	$ 332,976	$ 128,916	$ 14,674	$ 476,566
Direct Finance Leases	165,496	334,891	15,771	516,158
Total Fleet	$ 498,472	$ 463,807	$ 30,445	$ 992,724

Lease Overview

We focus on leasing our containers on long-term leases. Substantially all of our new equipment is initially leased for terms of five to eight years and approximately 88.8% of our owned assets were on long-term and direct finance leases as measured by net book value. Approximately 6.2% of our assets as measured by net book value are leased on a short-term basis to satisfy customers' peak or seasonal requirements, generally at higher rates than under long-term leases to reflect the added flexibility that short-term leases provide to our customers. As of December 31, 2010, the average remaining duration of the leases on our owned containers was 3.7 years, and our existing leases provided for total contractual cash flow of approximately $882 million (assuming early terminations only for which there are no penalties and no renewals).

We offer our customers both long-term operating leases as well as direct finance leases. Long-term operating leases are triple net leases (lessee pays rent as well as taxes, insurance and maintenance expenses that arise from the use of the leased equipment) with fixed per diems and typically have an initial term of five to eight years. Under operating leases, we bear the re-leasing and residual value risks. Long-term operating leases for our assets can contain an early termination provision allowing the lessee to return equipment prior to expiration of the lease upon payment of an early termination fee or a retroactively applied increase in lease payments. We have experienced minimal early returns of our equipment under our long-term leases, primarily because of the penalties involved. Additionally, customers may bear substantial costs related to repositioning and repair upon return of the equipment.

Under a direct finance lease, the customer commits to a fixed lease term and typically receives a bargain purchase option at the expiration of the lease. Under this type of lease, the substantive risks and rewards of equipment ownership are transferred to the lessee. The lease payments are segregated into principal and interest components similar to a loan. The interest component, calculated using the effective interest method over the term of the lease, is recognized by us as finance revenue. The principal component of the lease payments is reflected as a reduction to the net investment in the direct finance lease asset in our cash flow statement. As a result, we do not bear utilization or residual value risk for assets that are subject to direct finance leases.

Frequently, a lessee will retain long-term leased equipment well beyond the initial lease term. In these cases, long-term leases will be renewed at the then prevailing market rate, for one to five- year periods or as a direct finance lease. Over the last three years, our renewal rate averaged 85.0% of total units.

We believe that our fleet of reefers as well as our portfolio of long-term and direct finance leases has enabled us to maintain high and consistent historical utilization rates. The average utilization rates for our total fleet as measured in units are as follows:

Average Utilization (Units)

	Q1	Q2	Q3	Q4	Year