

TEXTAINER GROUP HOLDINGS LTD
Form 6-K
May 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO
RULE 13a-16 OR 15d-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

Commission File Number 001-33725

Textainer Group Holdings Limited

(Translation of Registrant's name into English)

Century House

16 Par-La-Ville Road

Hamilton HM 08

Bermuda

(441) 296-2500

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934. Yes No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): Not applicable

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2). Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

This report contains the quarterly report of Textainer Group Holdings Limited for the three months ended March 31, 2018.

Exhibits

Exhibits

1. Quarterly Report of Textainer Group Holdings Limited for the Three Months Ended March 31, 2018.

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Exhibit 1

TEXTAINER GROUP HOLDINGS LIMITED

Quarterly Report on Form 6-K for the Three Months Ended March 31, 2018

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INFORMATION REGARDING FORWARD-LOOKING STATEMENTS; CAUTIONARY LANGUAGE

This Quarterly Report on Form 6-K, including the section entitled Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, contains forward-looking statements within the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements that are not statements of historical facts and may relate to, but are not limited to, expectations or estimates of future operating results or financial performance, capital expenditures, regulatory compliance, plans for growth and future operations, as well as assumptions relating to the foregoing. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “pre,” “potential,” “continue” or the negative of these terms or other similar terminology. The forward-looking statements contained in this Quarterly Report on Form 6-K include, but are not limited to, statements regarding (i) factors that are likely to continue to affect our performance and (ii) our belief that, assuming that our lenders remain solvent that our cash flow from operations, proceeds from the sale of containers and borrowing availability under our debt facilities are sufficient to meet our liquidity needs, including for the payment of dividends, for the next twelve months.

Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy, and actual results may differ materially from those we anticipated due to a number of uncertainties, many of which cannot be foreseen. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including, among others, the risks we face that are described in the section entitled Item 3, “Key Information -- Risk Factors” included in our Annual Report on Form 20-F for the fiscal year ended December 31, 2017 filed with the U.S. Securities and Exchange Commission (the “SEC”) on March 14, 2018 (our “2017 Form 20-F”).

We believe that it is important to communicate our expectations about the future to potential investors, shareholders and other readers. However, there may be events in the future that we are not able to accurately predict or control and that may cause actual events or results to differ materially from the expectations expressed in or implied by our forward-looking statements. The risk factors listed in Item 3, “Key Information -- Risk Factors” included in our 2017 Form 20-F, as well as any cautionary language in this Quarterly Report on Form 6-K, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Before you decide to buy, hold or sell our common shares, you should be aware that the occurrence of the events described in Item 3, “Key Information -- Risk Factors” included in our 2017 Form 20-F and elsewhere in this Quarterly Report on Form 6-K could negatively impact our business, cash flows, results of operations, financial condition and share price. Potential investors, shareholders and other readers are cautioned not to place undue reliance on our forward-looking statements.

Forward-looking statements regarding our present plans or expectations for fleet size, management contracts, container purchases, sources and availability of financing, and growth involve risks and uncertainties relative to return expectations and related allocation of resources, and changing economic or competitive conditions, as well as the negotiation of agreements with container investors, which could cause actual results to differ from present plans or expectations, and such differences could be material. Similarly, forward-looking statements regarding our present expectations for operating results and cash flow involve risks and uncertainties related to factors such as utilization rates, per diem rates, container prices, demand for containers by container shipping lines, supply and other factors discussed under Item 3, “Key Information -- Risk Factors” included in our 2017 Form 20-F or elsewhere in this Quarterly Report on Form 6-K, which could also cause actual results to differ from present plans. Such differences could be material.

All future written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. New risks and uncertainties arise from time to time, and we cannot predict those events or how they may affect us. The forward-looking statements contained in this Quarterly Report on Form 6-K speak only as of, and are based on information available to us on, the date of the filing of this Quarterly Report on Form 6-K. We assume no obligation

to, and do not plan to, update any forward-looking statements after the date of this Quarterly Report on Form 6-K as a result of new information, future events or developments, except as expressly required by U.S. federal securities laws. You should read this Quarterly Report on Form 6-K and the documents that we reference and have furnished as exhibits with the understanding that we cannot guarantee future results, levels of activity, performance or achievements and that actual results may differ materially from what we expect.

In this Quarterly Report on Form 6-K, unless otherwise specified, all monetary amounts are in U.S. dollars. To the extent that any monetary amounts are not denominated in U.S. dollars, they have been translated into U.S. dollars in accordance with our accounting policies as described in Item 18, "Financial Statements" included in our 2017 Form 20-F.

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss)

Three Months Ended March 31, 2018 and 2017

(Unaudited)

(All currency expressed in United States dollars in thousands, except per share amounts)

Three Months Ended March 31,
 2018 2017

Revenues:		
Lease rental income	\$ 120,222	\$ 107,617
Management fees	3,988	3,222
Trading container sales proceeds	2,401	1,800
Gain on sale of containers, net	6,627	4,048
Total revenues	133,238	116,687
Operating expenses:		
Direct container expense	13,696	19,659
Cost of trading containers sold	2,105	1,289
Depreciation expense	56,334	60,608
Container impairment	832	3,811
Amortization expense	1,822	948
General and administrative expense	8,104	7,345
Short-term incentive compensation expense	938	1,360
Long-term incentive compensation expense	1,358	1,376
Bad debt (recovery) expense, net	(607)	252
Total operating expenses	84,582	96,648
Income from operations	48,656	20,039
Other (expense) income:		
Interest expense	(31,619)	(28,913)
Interest income	303	128
Realized gains (losses) on interest rate swaps, collars and caps,		
net	1,184	(1,162)
Unrealized gains on interest rate swaps, collars		
and caps, net	2,263	2,294
Other, net	2	(14)
Net other expense	(27,867)	(27,667)
Income (loss) before income tax and noncontrolling interests	20,789	(7,628)
Income tax expense	(560)	(447)
Net income (loss)	20,229	(8,075)
Less: Net (income) loss attributable to the noncontrolling		
interests	(1,511)	1,101
Net income (loss) attributable to Textainer Group Holdings	\$ 18,718	\$ (6,974)

Limited common shareholders		
Net income (loss) attributable to Textainer Group Holdings Limited		
common shareholders per share:		
Basic	\$0.33	\$(0.12)
Diluted	\$0.33	\$(0.12)
Weighted average shares outstanding (in thousands):		
Basic	57,099	56,790
Diluted	57,530	56,790
Other comprehensive income (loss):		
Foreign currency translation adjustments	106	32
Comprehensive income (loss)	20,335	(8,043)
Comprehensive (income) loss income attributable to the		
noncontrolling interests	(1,511)	1,101
Comprehensive income (loss) attributable to Textainer Group Holdings		
Limited common shareholders	\$18,824	\$(6,942)

See accompanying notes to condensed consolidated financial statements.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

March 31, 2018 and December 31, 2017

(Unaudited)

(All currency expressed in United States dollars in thousands)

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$180,685	\$137,894
Accounts receivable, net of allowance for doubtful accounts of \$5,001 and \$5,775, respectively	85,654	78,312
Net investment in direct financing and sales-type leases	57,186	56,959
Trading containers	9,445	10,752
Containers held for sale	26,011	22,089
Prepaid expenses and other current assets	12,957	12,243
Insurance receivable	14,922	15,909
Due from affiliates, net	1,323	1,134
Total current assets	388,183	335,292
Restricted cash	91,985	99,675
Containers, net of accumulated depreciation of \$1,209,766 and \$1,172,355, respectively	3,968,240	3,791,610
Net investment in direct financing and sales-type leases	126,399	125,665
Fixed assets, net of accumulated depreciation of \$11,040 and \$10,788, respectively	2,155	2,151
Intangible assets, net of accumulated amortization of \$41,534 and \$44,279, respectively	9,283	11,105
Interest rate swaps, collars and caps	10,020	7,787
Deferred taxes	1,569	1,563
Other assets	5,137	5,494
Total assets	\$4,602,971	\$4,380,342
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$6,822	\$6,867
Accrued expenses	10,751	13,365
Container contracts payable	158,793	131,087
Other liabilities	228	235
Due to owners, net	6,523	11,131
Debt, net of unamortized deferred financing costs of \$6,278 and \$3,989, respectively	243,703	233,681
Total current liabilities	426,820	396,366
Debt, net of unamortized deferred financing costs of \$18,628 and \$20,045, respectively	2,926,440	2,756,627
Interest rate swaps, collars and caps	51	81
Income tax payable	9,184	9,081
Deferred taxes	6,359	5,881
Other liabilities	1,971	2,024
Total liabilities	3,370,825	3,170,060
Equity:		
Textainer Group Holdings Limited shareholders' equity:		

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Common shares, \$0.01 par value. Authorized 140,000,000 shares; 57,729,249 shares issued and

57,099,249 shares outstanding at 2018; 57,727,220 shares issued and 57,097,220 shares

outstanding at 2017	578	578
Additional paid-in capital	399,350	397,821
Treasury shares, at cost, 630,000 shares	(9,149)	(9,149)
Accumulated other comprehensive loss	(203)	(309)
Retained earnings	782,319	763,601
Total Textainer Group Holdings Limited shareholders' equity	1,172,895	1,152,542
Noncontrolling interests	59,251	57,740
Total equity	1,232,146	1,210,282
Total liabilities and equity	\$4,602,971	\$4,380,342

See accompanying notes to condensed consolidated financial statements.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Three Months Ended March 31, 2018 and 2017

(Unaudited)

(All currency expressed in United States dollars in thousands)

	Three Months Ended March	
	31,	2017 (1)
	2018	2017 (1)
Cash flows from operating activities:		
Net income (loss)	\$ 20,229	\$ (8,075)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	56,334	60,608
Container impairment	832	3,811
Bad debt (recovery) expense, net	(607)	252
Unrealized gains on interest rate swaps, collars and caps, net	(2,263)	(2,294)
Amortization of unamortized deferred debt issuance costs and		
accretion of bond discount	2,213	4,639
Amortization of intangible assets	1,822	948
Gain on sale of containers, net	(6,627)	(4,048)
Share-based compensation expense	1,504	1,597
Changes in operating assets and liabilities	(8,339)	(10,743)
Total adjustments	44,869	54,770
Net cash provided by operating activities	65,098	46,695
Cash flows from investing activities:		
Purchase of containers and fixed assets	(253,619)	(8,898)
Proceeds from sale of containers and fixed assets	32,639	31,741
Receipt of payments on direct financing and sales-type leases, net of income earned	12,893	17,616
Net cash (used in) provided by investing activities	(208,087)	40,459
Cash flows from financing activities:		
Proceeds from debt	714,000	30,000
Principal payments on debt	(533,367)	(88,976)
Debt issuance costs	(2,674)	(7,480)
Issuance of common shares upon exercise of share options	25	—
Net cash provided by (used in) financing activities	177,984	(66,456)
Effect of exchange rate changes	106	32
Net increase in cash, cash equivalents and restricted cash	35,101	20,730
Cash, cash equivalents and restricted cash, beginning of the year	237,569	142,123
Cash, cash equivalents and restricted cash, end of period	\$ 272,670	\$ 162,853

(1)

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Certain amounts for the three months ended March 31, 2017 have been restated for the adoption of Accounting Standards Update No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments and Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The Company adopted ASU 2016-15 and ASU 2016-18 on April 1, 2017.

See accompanying notes to condensed consolidated financial statements.

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TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Three Months Ended March 31, 2018 and 2017

(Unaudited)

(All currency expressed in United States dollars in thousands)

	Three Months Ended March 31,	
	2018	2017
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest expense and realized losses on interest rate swaps, collars and caps, net	\$ 27,755	\$ 25,130
Net income taxes paid	\$ 14	\$ 160
Supplemental disclosures of noncash investing activities:		
Increase (decrease) in accrued container purchases	\$ 27,706	\$ (7,330)
Containers placed in direct financing and sales-type leases	\$ 14,335	\$ 1,337
Decrease in insurance receivable due to a decrease in estimated unrecoverable containers	\$ 1,246	\$ —

See accompanying notes to condensed consolidated financial statements.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(All currency expressed in United States dollars in thousands, except per share amounts)

(1) Nature of Business

Textainer Group Holdings Limited (“TGH”) is incorporated in Bermuda. TGH is the holding company of a group of companies, consisting of TGH and its subsidiaries (collectively, the “Company”), involved in the purchase, management, leasing and resale of a fleet of marine cargo containers. The Company manages and provides administrative support to the affiliated and unaffiliated owners (the “Owners”) of the containers and structures and manages container leasing investment programs.

The Company conducts its business activities in three main areas: Container Ownership, Container Management and Container Resale (see Note 8 “Segment Information”).

(2) Accounting Policies and Recent Accounting Pronouncements

(a) Basis of Accounting

Certain information and footnote disclosure normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 20-F for the fiscal year ended December 31, 2017 filed with the Securities and Exchange Commission on March 14, 2018.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal and recurring adjustments) necessary to present fairly the Company’s condensed consolidated financial position as of March 31, 2018, and the Company’s condensed consolidated results of operations for the three months ended March 31, 2018 and 2017 and condensed consolidated cash flows for the three months ended March 31, 2018 and 2017. These condensed consolidated financial statements are not necessarily indicative of the results of operations or cash flows that may be reported for the remainder of the fiscal year ending December 31, 2018.

The condensed consolidated financial statements of the Company include TGH and all of its subsidiaries. All material intercompany balances have been eliminated in consolidation.

(b) Principles of Consolidation and Variable Interest Entity

The condensed consolidated financial statements of the Company include TGH and all of its subsidiaries in which the Company has a controlling financial interest. All significant intercompany accounts and balances have been eliminated in consolidation.

TAP Funding Ltd. (“TAP Funding”) (a Bermuda company) is a joint venture between the Company’s wholly-owned subsidiary, Textainer Limited (“TL”) (a Bermuda company) and TAP Ltd. (“TAP”) in which TL owns 50.1%, TAP owns 49.9% of the common shares of TAP Funding, and TAP Funding is a voting interest entity (“VME”). The Company

consolidates TAP Funding as the Company has a controlling financial interest in TAP Funding.

The Company has determined that it has a variable interest in TW Container Leasing, Ltd. (“TW”) (a Bermuda company), a joint venture between the Company’s wholly-owned subsidiary, TL, and Wells Fargo Container Corp (“WFC”) in which TL owns 25% and WFC owns 75% of the common shares of TW, and that TW is a variable interest entity (“VIE”). The Company has determined that it is the primary beneficiary of TW by its equity ownership in the entity and by virtue of its role as manager, namely that the Company has the power to direct the activities of TW that most significantly impact TW’s economic performance.

The equity owned by TAP and WFC in TAP Funding and TW, respectively, is shown as noncontrolling interests on the Company’s condensed consolidated balance sheets and the net income (loss) attributable to the noncontrolling interests’ operations is shown as net (income) loss attributable to the noncontrolling interests on the Company’s condensed consolidated statements of comprehensive income (loss).

(c) Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents are comprised of interest-bearing deposits or money market securities with original maturities of three months or less. The Company maintains cash and cash equivalents and restricted cash (see Note 9 “Commitments and Contingencies—Restricted Cash”) with various financial institutions. Restricted cash is excluded from cash and cash equivalents and is included in long-term assets.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(All currency expressed in United States dollars in thousands, except per share amounts)

The Company adopted Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (“ASU 2016-18”) in April 2017, which resulted in a \$10,757 decrease in net cash used in financing activities and the inclusion of restricted cash balances of \$58,078 and \$68,835 to the beginning of the year and end of period cash, cash equivalents and restricted cash, respectively, in the Company’s condensed consolidated statements of cash flows for the three months ended March 31, 2017.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported in the condensed consolidated balance sheets that sum to the amounts shown in the condensed consolidated statements of cash flows:

	March	
	31, 2018	December 31, 2017
Cash and cash equivalents	\$180,685	\$ 137,894
Restricted cash included in long-term assets	91,985	99,675
Cash, cash equivalents and restricted cash, end of period	\$272,670	\$ 237,569

(d) Containers

Capitalized container costs include the container cost payable to the manufacturer and the associated transportation costs incurred in moving the containers from the manufacturer to the containers’ first destined port. Containers are depreciated using the straight-line method over their estimated useful lives to an estimated dollar residual value. Used containers are depreciated based upon their remaining useful lives at the date of acquisition to an estimated dollar residual value.

The cost, accumulated depreciation and net book value of the Company’s container leasing equipment by equipment type as of March 31, 2018 and December 31, 2017 were as follows:

	March 31, 2018			December 31, 2017		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Dry containers other than folding flat rack and open top						

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containers:						
20' standard	\$1,589,312	\$(356,075)	\$1,233,237	\$1,497,557	\$(347,910)	\$1,149,647
40' standard	210,752	(72,124)	138,628	223,916	(75,610)	148,306
40' high cube	2,160,537	(492,318)	1,668,219	2,043,253	(476,238)	1,567,015
45' high cube dry van	28,396	(8,835)	19,561	29,010	(8,494)	20,516
Refrigerated containers:						
20' standard	23,821	(5,763)	18,058	24,062	(5,394)	18,668
20' high cube	5,094	(2,399)	2,695	5,139	(2,327)	2,812
40' high cube	1,015,650	(244,045)	771,605	1,002,843	(229,465)	773,378
Floating flat rack and open top containers:						
20' folding flat rack	16,547	(3,673)	12,874	16,595	(3,525)	13,070
40' folding flat rack	45,218	(14,716)	30,502	43,334	(14,394)	28,940
20' open top	10,799	(1,310)	9,489	10,837	(1,237)	9,600
40' open top	26,565	(4,650)	21,915	26,690	(4,469)	22,221
Tank containers	45,315	(3,858)	41,457	40,729	(3,292)	37,437
	\$5,178,006	\$(1,209,766)	\$3,968,240	\$4,963,965	\$(1,172,355)	\$3,791,610

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(All currency expressed in United States dollars in thousands, except per share amounts)

Impairment of Container Rental Equipment

The Company reviews its containers for impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. The Company compares the carrying value of the containers to the expected future undiscounted cash flows for the purpose of assessing the recoverability of the recorded amounts. If the carrying value exceeds expected future undiscounted cash flows, the assets are reduced to fair value. There was no such impairment for the three months ended March 31, 2018 and 2017.

The Company evaluates the recoverability of the recorded amount of container rental equipment that is unlikely to be recovered from lessees in default. During the three months ended March 31, 2017, container impairment included \$852 for containers that were unlikely to be recovered from lessees in default. There was no such impairment for the three months ended March 31, 2018.

Impairment of Containers Held for Sale

The Company records impairment to write-down the value of containers held for sale to their estimated fair value less cost to sell. The fair value was estimated based on recent gross sales proceeds for sales of similar containers. When containers are retired or otherwise disposed of, the cost and related accumulated depreciation is removed and any resulting gain or loss is recognized. Any subsequent increase in fair value less costs to sell is recognized as a reversal of container impairment but not in excess of the cumulative loss previously recognized.

During the three months ended March 31, 2018 and 2017, container impairment included \$1,260 and \$7,669, respectively, to write down the value of containers held for sale to their estimated fair value less cost to sell. During the three months ended March 31, 2018 and 2017, container impairment included \$428 and \$4,710, respectively, to record the reversal of previously recorded impairments on containers held for sale due to rising used container prices.

(e) Concentrations

The Company's customers are mainly international shipping lines, which transport goods on international trade routes. Once the containers are on-hire with a lessee, the Company does not track their location. The domicile of the lessee is not indicative of where the lessee is transporting the containers. The Company's business risk in its foreign concentrations lies with the creditworthiness of the lessees rather than the geographic location of the containers or the domicile of the lessees.

Except for the lessees noted in the tables below, no other single lessee made up greater than 10% of the Company's lease rental income for the three months ended March 31, 2018 and 2017, as well as there is no other single lessee that accounted for more than 10% of the Company's gross accounts receivable as of March 31, 2018 and December 31, 2017:

	Three Months Ended	
	March 31,	
Lease Rental Income	2018	2017
Customer A	14.2%	14.9%
Customer B	13.3%	13.4%

	March	
	31,	December 31,
Gross Accounts Receivable	2018	2017
Customer B	16.7%	12.9%
Customer A	13.3%	13.1%

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(All currency expressed in United States dollars in thousands, except per share amounts)

(f) Net Income (Loss) Attributable to Textainer Group Holdings Limited Common Shareholders Per Share
Basic earnings per share (“EPS”) is computed by dividing net income (loss) attributable to Textainer Group Holdings Limited common shareholders by the weighted average number of shares outstanding during the applicable period. Diluted EPS reflects the potential dilution that could occur if all outstanding share options were exercised for, and all outstanding restricted share units were converted into, common shares. Potentially dilutive share options and restricted share units that were anti-dilutive under the treasury stock method were excluded from the computation of diluted EPS. A reconciliation of the numerator and denominator of basic EPS with that of diluted EPS is presented as follows:

Share amounts in thousands	Three Months Ended March 31,	
	2018	2017
Numerator:		
Net income (loss) attributable to Textainer Group Holdings Limited		
common shareholders	\$ 18,718	\$ (6,974)
Denominator:		
Weighted average common shares outstanding - basic	57,099	56,790
Dilutive share options and restricted share units	431	—
Weighted average common shares outstanding - diluted	57,530	56,790
Net income (loss) attributable to Textainer Group Holdings Limited		
common shareholders per		

common share			
Basic	\$	0.33	\$ (0.12)
Diluted	\$	0.33	\$ (0.12)
Anti-dilutive share options and restricted share units, excluded from the computation of diluted EPS because they were anti-dilutive			
		1,213	1,225

Given that the Company had a net loss attributable to Textainer Group Holdings Limited common shareholders for the three months ended March 31, 2017, there was no dilutive effect of share options and restricted share units.

(g) Fair Value Measurements

The Company measures the fair value of its \$1,222,343 notional amount of interest rate swaps, collars and caps using observable (Level 2) market inputs. The valuation also reflects the credit standing of the Company and the counterparties to the interest rate swaps, collars and caps. The valuation technique utilized by the Company to calculate the fair value of the interest rate swaps, collars and caps is the income approach. This approach represents the present value of future cash flows based upon current market expectations. The Company's interest rate swap, collar and cap agreements had a fair value asset and a fair value liability of \$10,020 and \$51 as of March 31, 2018, respectively, and a fair value asset and a fair value liability of \$7,787 and \$81 as of December 31, 2017, respectively, which are inclusive of counterparty risk. The credit valuation adjustment was determined to be \$11 (a reduction to the net asset) and \$31 (an addition to the net liability) as of March 31, 2018 and December 31, 2017, respectively. The change in fair value for the three months ended March 31, 2018 and 2017 of \$2,263 and \$2,294, respectively, was recorded in the condensed consolidated statements of comprehensive income (loss) as unrealized gains on interest rate swaps, collars and caps, net.

When the Company is required to write down the cost basis of its containers held for sale to fair value less cost to sell, the Company measures the fair value of its containers held for sale under a Level 2 input. The Company relies on its recent sales prices for identical or similar assets in markets, by geography, that are active. The Company's containers held for sale had a fair value asset of \$7,530 and \$8,984 as of March 31, 2018 and December 31, 2017, respectively. The Company recorded impairments to write down the value of containers identified for sale to their estimated fair value less cost to sell. Subsequent additions or reductions to the fair values of these written down assets are recorded as adjustments to the carrying value of the equipment held for sale. Any subsequent increase in fair value less costs to sell is recognized as a reversal of container impairment but not in excess of the cumulative loss previously recognized.

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The Company's financial instruments include cash and cash equivalents, restricted cash, accounts receivable and payable, net investment in direct financing and sales-type leases, due from affiliates, net, container contracts payable, due to owners, net, debt and interest rate swaps, collars and caps.

At March 31, 2018 and December 31, 2017, the fair value of the Company's financial instruments approximated the related book value of such instruments except that, the fair value of net investment in direct financing and sales-type leases (including the short-term balance) was approximately \$180,859 and \$183,305 at March 31, 2018 and December 31, 2017, respectively, compared to book values of \$183,585 and \$182,624 at March 31, 2018 and December 31, 2017, respectively, and the fair value of long-term debt (including current maturities) based on the borrowing rates available to the Company was approximately \$3,164,225 and \$2,995,190 at March 31, 2018 and December 31, 2017, respectively, compared to book values of \$3,170,143 and \$2,990,308 at March 31, 2018 and December 31, 2017, respectively.

(h) Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). This new standard replaces all current U.S. GAAP guidance on this topic and eliminates industry-specific guidance. Leasing revenue recognition is specifically excluded from ASU 2014-09, and therefore, the new standard only applies to sales of equipment portfolios, dispositions of used equipment and management service agreements. The new guidance defines a five-step process to achieve the core principle of ASU 2014-09, which is to recognize revenues when promised goods or services are transferred to customers in amounts that reflect the consideration to which an entity expects to be entitled for those goods or services.

The Company adopted the new revenue standards on the effective date of January 1, 2018 using the modified retrospective method. The adoption of ASU 2014-09 did not have an impact on the timing of revenue recognition or on its consolidated financial statements and related disclosures. The components of the Company's revenue as presented in the condensed consolidated statements of comprehensive income (loss) and in Note 8 "Segment Information" are as follows:

Lease Rental Income

Leasing income arises principally from the renting of containers owned by the Company to various international shipping lines. Revenue is recorded when earned according to the terms of the container rental contracts. These contracts are typically for terms of three to five years, but can vary from one to eight years, and are generally classified as operating leases. Where minimum lease payments vary over the lease term, revenue is recognized on a straight-line basis over the term of the lease. Lease rental income comprises daily per diem rental charges due under the lease agreements, together with payments for other charges set forth in the leases, such as handling fees, drop-off charges, pick-up charges, and charges for a damage protection plan.

The Company enters into finance leases, which provide lessees with an alternative method to finance their container acquisitions and ordinarily provide lessees with a right to purchase the subject containers for a nominal amount at the end of the lease term. Finance lease income is recognized using the effective interest method, which generates a constant rate of interest over the period of the lease. Gain on sale of containers, net, also includes gains and losses recognized at the inception of sales-type leases, representing the excess of the estimated fair value of containers placed on sales-type leases over their book value.

Management Fee Revenue

Under the Company's management service agreements with container investors, management fee revenue is earned for the management, acquisition, and disposition of containers under management. Management fees earned under management agreements are typically calculated as a fixed percentage of net operating income, which is revenue from the containers under management minus direct operating expenses related to those containers. The Company's acquisition fees and sales commissions are generally calculated as a fixed percentage of the cost of the managed containers purchased and the proceeds from the sale of managed containers, respectively. Revenue is recognized over time as services are provided and billed to the customers on a monthly basis.

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Container Resale Revenue

The Company's trading container sales proceeds revenue arise from the resale of used containers to a wide variety of buyers. The Company also generally sells containers at the end of their useful lives or when it is financially attractive to do so. Revenue is recorded at a point in time following the transfer of control of the containers to the customer, which typically occurs upon delivery to, or pick-up by, the customer and when collectability is reasonably assured. The related expenses represent the cost of trading containers sold as well as other selling costs that are recognized as incurred.

(i) Recently Issued Accounting Standards

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 will replace all current U.S. GAAP guidance on this topic. Under ASU 2016-02, lessors will account for leases using an approach that is substantially equivalent to existing U.S. GAAP for sales-type leases, direct financing leases and operating leases and lessors should be precluded from recognizing selling profit and revenue at lease commencement for a lease that does not transfer control of the underlying asset to the lessees.

ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early application permitted. ASU 2016-02 requires the use of the modified retrospective method for all periods presented, with certain practical expedients available to simplify the transition to the new standard. The Company expects to apply the practical expedients to assist in implementation of ASU 2016-02, such as follows:

- An entity may elect to apply the provisions of the new lease guidance at the effective date, without adjusting the comparative periods presented.
- A lessor may elect by class of underlying asset to not separate non-lease components of a contract from the lease component to which they relate when specific criteria are met.

The Company plans to adopt ASU 2016-02 effective January 1, 2019 and is continuing to analyze and evaluate the potential impact on its current accounting practices, consolidated financial statements and related disclosures. The Company expects the adoption of ASU 2016-02 will not have a material impact on our consolidated financial statements. The accounting for capital leases will remain substantially unchanged upon adoption of ASU 2016-02. The Company expects to complete its assessment of the impact of ASU 2016-02 in fiscal year 2018.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, Financial Instruments – Credit Losses (Topic 326) (“ASU 2016-13”). This guidance affects trade receivables and net investments in leases and the amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses. The guidance requires the measurement of expected credit losses to be based on relevant information from past events, current conditions, and reasonable and supportable information that affect collectability. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years and with early adoption permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the potential impact on its consolidated financial statements and related disclosures. The Company expects to complete its assessment of the impact of ASU 2016-13 in fiscal year 2019.

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(3) Insurance Receivable and Impairment

In August 2016, one of the Company's customers filed for bankruptcy. The Company maintains insurance that covers a portion of the exposure related to the value of containers that are unlikely to be recovered from this customer, the cost to recover containers, up to 183 days of lost lease rental income and defaulted accounts receivable. The Company reassessed its estimate of unrecoverable containers to actual amount of loss commensurate with the insurance claim filing and accordingly, the Company recorded a \$1,246 reduction to the insurance receivable and addition to the containers, net, during the three months ended March 31, 2018. For the three months ended March 31, 2018 and 2017, insurance receivable of \$259 and \$21,088 was recorded for recovery costs as a reduction to direct container expense. Insurance receivable on the Company's owned fleet related to this bankrupt customer are as follows:

Insurance receivable associated with bankruptcy customer as of December 31, 2017	\$ 15,909
Recovery costs	259
Reassessment associated with its estimate of unrecoverable containers to actual amount of loss commensurate with the insurance claim filing	(1,246)
Insurance receivable associated with bankruptcy customer as of March 31, 2018	\$ 14,922

(4) Transactions with Affiliates and Owners

Amounts due from affiliates, net generally result from cash advances and the payment of affiliated companies' administrative expenses by the Company on behalf of such affiliates. Balances are generally paid within 30 days.

Management fees, including acquisition fees and sales commissions for the three months ended March 31, 2018 and 2017 were as follows:

	Three Months Ended	
	March 31,	
	2018	2017
Fees from affiliated owner	\$ 921	\$ 658
Fees from unaffiliated owners	2,575	2,086

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Fees from owners	3,496	2,744
Other fees	492	478
Total management fees	\$ 3,988	\$ 3,222

Due to owners, net represents lease rentals collected on behalf of and payable to Owners, net of direct expenses and management fees and reimbursement of equipment purchases paid by the Company. Due to owners, net at March 31, 2018 and December 31, 2017 consisted of the following:

	March 31, 2018	December 31, 2017
Affiliated owner	\$(2,707)	\$ 1,409
Unaffiliated owners	9,230	9,722
Total due to owners, net	\$6,523	\$ 11,131

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(5) Direct Financing and Sales-type Leases

The Company leases containers under direct financing and sales-type leases. The Company had 112,832 and 111,059 containers on direct financing and sales-type leases as of March 31, 2018 and December 31, 2017, respectively.

The components of the net investment in direct financing and sales-type leases, which are reported in the Company's Container Ownership segment in the condensed consolidated balance sheets as of March 31, 2018 and December 31, 2017 were as follows:

	March 31, 2018	December 31, 2017
Future minimum lease payments receivable	\$210,698	\$204,451
Residual value of containers	4,937	4,885
Less unearned income	(32,050)	(26,712)
Net investment in direct financing and sales-type leases	\$183,585	\$182,624
Amounts due within one year	\$57,186	\$56,959
Amounts due beyond one year	126,399	125,665
Net investment in direct financing and sales-type leases	\$183,585	\$182,624

The Company maintains detailed credit records about its container lessees. The Company's credit committee sets different maximum exposure limits for its container lessees. The Company uses various credit criteria to set maximum exposure limits rather than a standardized internal credit rating. The Company monitors its container lessees' performance and its lease exposures on an ongoing basis, and its credit management processes are aided by the long payment experience the Company has had with most of its container lessees and the Company's broad network of long-standing relationships in the shipping industry that provide the Company current information about its container lessees.

If the aging of current billings for the Company's direct financing and sales-type leases included in accounts receivable, net were applied to the related balances of the unbilled future minimum lease payments receivable component of the Company's net investment in direct financing leases and sales-type leases as of March 31, 2018, the aging would be as follows:

1-30 days	\$15,883
31-60 days	—
61-90 days	2,279
Greater than 90 days	329
Sub total	18,491
Current	192,207
Total future minimum lease payments	\$210,698

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The Company maintains allowances, if necessary, for doubtful accounts and estimated losses resulting from the inability of its lessees to make required payments under direct financing and sales-type leases based on, but not limited to, each lessee's payment history, management's current assessment of each lessee's financial condition and the adequacy of the fair value of containers that collateralize the leases compared to the book value of the related net investment in direct financing and sales-type leases. The changes in the carrying amount of the allowance for doubtful accounts related to billed amounts under direct financing and sales-type leases and included in accounts receivable, net, during the three months ended March 31, 2018 are as follows:

Balance as of December 31, 2017	\$247
Additions charged to expense	10
Balance as of March 31, 2018	\$257

The following is a schedule by year of future minimum lease payments receivable under these direct financing and sales-type leases as of March 31, 2018:

Twelve months ending March 31:	
2019	\$67,326
2020	44,337
2021	29,796
2022	34,625
2023 and thereafter	34,614
Total future minimum lease payments receivable	\$210,698

Lease rental income includes income earned from direct financing and sales-type leases in the amount of \$3,020 and \$3,703 for the three months ended March 31, 2018 and 2017, respectively.

(6) Income Taxes

The Company's effective tax rates were 2.69% and -5.86% for the three months ended March 31, 2018 and 2017, respectively. The Company's tax rate is affected by recurring items, such as tax rates in foreign jurisdictions and the relative amounts of income the Company earns in those jurisdictions. It is also affected by discrete items that may occur in any given period. The increase in the effective tax rate is primarily due to an increase in our projected pre-tax

earnings. For the three months ended March 31, 2017, the Company was reflecting an income tax expense due to projected relative increase in the U.S. activity resulting in the re-measurement of the Company's deferred tax liabilities.

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(7) Debt and Derivative Instruments

The following represents the Company's debt obligations as of March 31, 2018 and December 31, 2017:

Secured Debt Facilities, Revolving Credit Facilities,
Term Loans and

Bonds Payable	March 31, 2018		December 31, 2017		Final Maturity
	Outstanding	Average Interest	Outstanding	Average Interest	
TMCL II Secured Debt Facility (1)	\$753,463	3.68 %	\$659,714	3.38 %	August 2024
TMCL IV Secured Debt Facility	—	—	132,885	4.00 %	February 2020
TL Revolving Credit Facility	511,970	3.88 %	568,403	3.56 %	June 2020
TL Revolving Credit Facility II	181,013	3.88 %	150,906	3.55 %	July 2020
TAP Funding Revolving Credit Facility					December
	158,466	3.73 %	163,276	3.43 %	2021
TW Credit Facility					September
	80,313	3.69 %	97,148	3.38 %	2026
TL Term Loan	342,839	4.30 %	352,555	3.69 %	April 2019
TMCL VI Term Loan	294,941	4.30 %	—	—	February 2038
2017-1 Bonds	381,243	3.91 %	390,013	3.91 %	May 2042
2017-2 Bonds	465,895	3.73 %	475,408	3.73 %	June 2042
Total debt obligations	\$3,170,143		\$2,990,308		
Amount due within one year	\$243,703		\$233,681		
Amounts due beyond one year	\$2,926,440		\$2,756,627		

(1) Final maturity of the TMCL II Secured Debt Facility is based on the assumption that the facility will not be extended on its associated conversion date.

In January 2018, the TMCL IV Secured Debt Facility was terminated and the unpaid debt amount was fully repaid by \$124,608 proceeds from the TL Revolving Credit Facility and TMCL IV's available cash of \$4,792.

In February 2018, Textainer Marine Containers VI Limited (“TMCL VI”) (a Bermuda Company), one of the Company’s wholly-owned subsidiaries completed a \$300,000 fixed rate term loan (the “TMCL VI Term Loan”) that represents a partially-amortizing term loan based on defined repayment schedules until February 15, 2025 and after that, repayment will be based on available cash. It has a legal final maturity date on February 15, 2038. The proceeds of TMCL VI Term Loan were primarily used to repay \$159,480 and \$122,910 of the outstanding principal balance of TMCL II Secured Debt Facility and TL Revolving Credit Facility, respectively.

The Company’s debt agreements contain various restrictive financial and other covenants and the Company was in full compliance with these restrictive covenants at March 31, 2018.

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The following is a schedule of future scheduled repayments, by year, and borrowing capacities, as of March 31, 2018,

	Twelve months ending March 31,					2023 and thereafter	Total Borrowing	Current and Available		Total Commitment
	2019	2020	2021	2022	Available Borrowing, as limited by the Borrowing Base			Borrowing, as limited by the Borrowing Base		
TMCL II Secured Debt Facility ⁽¹⁾	\$37,017	\$65,575	\$63,942	\$62,812	\$528,689	\$758,035	\$28,175	\$786,210	\$1,200,000	
TL Revolving Credit Facility	—	—	517,000	—	—	517,000	102,888	619,888	700,000	
TL Revolving Credit Facility II	36,000	36,000	110,000	—	—	182,000	6,481	188,481	190,000	
TAP Funding Revolving Credit Facility	9,192	14,633	14,633	121,342	—	159,800	2,464	162,264	190,000	
TW Credit Facility	24,065	20,373	24,493	11,382	—	80,313	—	80,313	80,313	
TL Term Loan	39,600	304,400	—	—	—	344,000	—	344,000	344,000	
TMCL VI Term Loan	25,500	25,500	25,500	25,500	195,875	297,875	—	297,875	297,875	
	38,144	37,100	42,136	55,352	212,534	385,266	—	385,266	385,266	

2017-1

Bonds

2017-2

Bonds ⁽²⁾	40,463	41,906	45,734	58,676	283,981
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