TEXTAINER GROUP HOLDINGS LTD
Form 6-K
November 10, 2008
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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 three months ended September 30, 2008

Commission File Number 001-33725

Textainer Group Holdings Limited

(Exact Name of Registrant as Specified in its Charter)

Not Applicable

(Translation of Registrant s name into English)

Century House

16 Par-La-Ville Road

Hamilton HM HX

Bermuda

(441) 296-2500

(Address and telephone number, including area code, of principal executive offices)

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

Form 20-F þ 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 þ

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

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This report contains the quarterly report of Textainer Group Holdings Limited for the three months ended September 30, 2008.

Exhibits

1. Quarterly report of Textainer Group Holdings Limited for the Three Months ended September 30, 2008

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Exhibit 1

TEXTAINER GROUP HOLDINGS LIMITED

Quarterly Report on Form 6-K for the Three Months Ended September 30, 2008

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ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

September 30, 2008 and December 31, 2007

(Unaudited)

(All currency expressed in United States dollars in thousands)

	September 30, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 63,147	$ 69,447
Accounts receivable, net of allowance for doubtful accounts of $5,293 and $3,160 in 2008 and 2007, respectively	52,474	44,688
Net investment in direct financing and sales-type leases	17,097	9,116
Containers held for resale	1,796	3,798
Prepaid expenses and other current assets	3,241	2,527
Deferred taxes	352	352
Due from affiliates, net		9
Total current assets	138,107	129,937
Restricted cash	12,032	16,742
Containers, net of accumulated depreciation of $331,309 and $322,845 in 2008 and 2007, respectively	1,019,872	856,874
Net investment in direct financing and sales-type leases	68,549	48,075
Fixed assets, net of accumulated depreciation of $8,124 and $7,795 in 2008 and 2007, respectively	1,525	1,230
Intangible assets, net of accumulated amortization of $10,615 and $4,700 in 2008 and 2007, respectively	66,838	72,646
Interest rate swaps	1,323	127
Other assets	3,492	2,715
Total assets	$ 1,311,738	$ 1,128,346
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 4,668	$ 4,612
Accrued expenses	10,372	11,115
Container contracts payable	91,866	28,397
Due to owners, net	13,164	18,019
Secured debt facility		6,585
Bonds payable	58,000	58,000
Total current liabilities	178,070	126,728
Revolving credit facilities	32,000	21,500
Secured debt facility	236,070	124,391
Bonds payable	327,667	370,938
Interest rate swaps	3,988	4,409
Long-term income tax payable	17,202	15,733
Deferred taxes	10,818	10,814
Total liabilities	805,815	674,513

Minority interest	58,682	49,717
Shareholders equity:		
Common shares, $0.01 par value. Authorized 140,000,000 shares; issued and outstanding 47,604,640 at 2008 and 2007	476	476
Additional paid-in capital	165,884	163,753
Notes receivable from shareholders		(432)
Accumulated other comprehensive income	246	579
Retained earnings	280,635	239,740
Total shareholders equity	447,241	404,116
Total liabilities and shareholders equity	$ 1,311,738	$ 1,128,346

See accompanying notes to condensed consolidated financial statements.

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TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Statements of Income

Three and Nine Months ended September 30, 2008 and 2007

(Unaudited)

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Revenues:				
Lease rental income	$ 50,914	$ 48,574	$ 147,016	$ 145,223
Management fees	7,610	6,397	22,019	16,538
Trading container sales proceeds	6,716	6,153	30,799	13,315
Gains on sale of containers, net	4,435	4,184	11,683	9,795
Other, net		4		290
Total revenues	69,675	65,312	211,517	185,161
Operating expenses:				
Direct container expense	5,975	7,955	18,899	26,276
Cost of trading containers sold	5,314	4,768	23,533	10,547
Depreciation expense	10,614	12,505	37,264	35,896
Amortization expense	1,670	908	5,314	1,978
General and administrative expense	4,951	4,341	16,190	12,748
Short-term incentive compensation expense	1,287	879	3,063	3,057
Long-term incentive compensation expense	807		2,288	
Bad debt expense, net	2,477	293	3,100	1,289
Total operating expenses	33,095	31,649	109,651	91,791
Income from operations	36,580	33,663	101,866	93,370
Other income (expense):				
Interest expense	(6,307)	(10,127)	(18,552)	(27,378)
Interest income	362	746	1,255	2,123
Realized (losses) gains on interest rate swaps and caps, net	(1,898)	971	(4,177)	2,712
Unrealized gains (losses) on interest rate swaps, net	711	(3,855)	1,617	(4,077)
Gain on lost military containers, net	480	4,639	2,169	4,639
Other, net	(511)	(8)	180	(121)
Net other income (expense)	(7,163)	(7,634)	(17,508)	(22,102)
Income before income tax and minority interest expense	29,417	26,029	84,358	71,268
Income tax expense	(2,019)	(1,903)	(3,079)	(4,678)
Minority interest expense	(2,839)	(4,816)	(8,965)	(13,966)
Net income	$ 24,559	$ 19,310	$ 72,314	$ 52,624

Net income per share:				
Basic	$ 0.52	$ 0.50	$ 1.52	$ 1.37
Diluted	$ 0.51	$ 0.50	$ 1.51	$ 1.36
Weighted average shares outstanding (in thousands):				
Basic	47,605	38,605	47,605	38,531
Diluted	47,875	38,605	47,807	38,583

See accompanying notes to condensed consolidated financial statements.

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TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Nine Months ended September 30, 2008 and 2007

(Unaudited)

(All currency expressed in United States dollars in thousands)

	Nine months ended September 30, 2008	2007
Cash flows from operating activities:		
Net income	$ 72,314	$ 52,624
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	37,264	35,896
Bad debt expense, net	3,100	1,289
Unrealized (gains) losses on interest rate swaps, net	(1,617)	4,077
Amortization of debt issuance costs	1,414	1,013
Amortization of intangible assets	5,314	1,978
Amortization of acquired above-market leases	602	
Gains on sale of containers and lost military containers, net	(13,852)	(14,434)
Share-based compensation expense	2,162	
Minority interest expense	8,965	13,966
Changes in operating assets and liabilities	(12,372)	(22,825)
Total adjustments	30,980	20,960
Net cash provided by operating activities	103,294	73,584
Cash flows from investing activities:		
Purchase of containers and fixed assets	(216,505)	(155,260)
Purchase of intangible assets	(108)	(56,000)
Proceeds from sale of containers and fixed assets	54,583	55,287
Receipt of principal payments on direct financing and sales-type leases	10,159	4,820
Net cash used in investing activities	(151,871)	(151,153)
Cash flows from financing activities:		
Proceeds from revolving credit facility	56,500	43,000
Principal payments on revolving credit facility	(46,000)	(18,000)
Proceeds from secured debt facility	201,500	181,000
Principal payments on secured debt facility	(96,500)	(59,500)
Principal payments on bonds payable	(43,500)	(43,500)
Decrease in restricted cash	4,710	1,933
Debt issuance costs	(3,113)	(297)
Repayments of notes receivable from shareholders	432	1,560
Dividends paid	(31,419)	(37,061)
Net cash provided by financing activities	42,610	69,135
Effect of exchange rate changes	(333)	74

Net decrease in cash and cash equivalents	(6,300)	(8,360)
Cash and cash equivalents, beginning of the year	69,447	41,163
Cash and cash equivalents, end of the period	$ 63,147	$ 32,803

(Continued)

See accompanying notes to condensed consolidated financial statements.

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TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Nine Months ended September 30, 2008 and 2007

(All currency expressed in United States dollars in thousands)

	Nine months ended September 30,	
	2008	**2007**
Supplemental disclosures of noncash investing activities:		
Increase in container purchases payable	$ 63,469	$ 7,025
Containers placed in direct financing and sales-type leases	$ 38,614	$ 14,706

See accompanying notes to condensed consolidated financial statements.

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TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2008 and 2007

(Unaudited)

(All currency expressed in United States dollars in thousands)

(1) Nature of Business

Textainer Group Holdings Limited (TGH) is incorporated in Bermuda. TGH is the holding company of a group of corporations, Textainer Group Holdings Limited and subsidiaries (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.

On September 4, 2007, the Company s shareholders approved a one-for-one share split, effected by way of a share dividend or bonus issue, for shareholders of record as of August 8, 2007. The share split was effected by way of a bonus issue on October 8, 2007. All shares and per share data in the condensed consolidated financial statements, have been adjusted to reflect the share split, effected by way of the bonus issue.

The Company conducts its business activities in four main areas: container ownership, container management, container resale and military management.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Company utilizes the accrual method 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 have been condensed or omitted. The accompanying unaudited condensed interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto in the Company s Annual Report on Form 20-F for the fiscal year ended December 31, 2007.

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 financial position as of September 30, 2008, and the results of operations for the three and nine months ended September 30, 2008 and 2007 and cash flows for the nine months ended September 30, 2008 and 2007. 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, 2008.

(b) Principles of Consolidation

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

(c) Intangible Assets

Intangible assets, consisting primarily of exclusive rights to manage container fleets, are amortized over the expected life of the contracts based on forecasted income to the Company. The contract terms range from 11 to 13 years. Intangible assets are evaluated for impairment by applying the recognition and measurement provisions of the Financial Accounting Standards Board s (FASB) Statement of Financial Accounting Standards (SFAS) No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144). Under SFAS 144, an impairment loss shall be recognized if the carrying amount of the intangible assets is not recoverable and the carrying amount exceeds its fair value.

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On July 23, 2007, the Company purchased the exclusive rights to manage the approximately 500,000 twenty-foot equivalent unit container fleet of Capital Lease Limited, Hong Kong (Capital) for $56,000. The Company began managing the Capital fleet on September 1, 2007. The purchase price will be fully amortized over the expected 13-year life of the contract on a pro-rata basis based on the expected management fees. Amortization expense for the three and nine months ended September 30, 2008 related to the Capital fleet was $1,115 and $3,348, respectively. Amortization expense for the three and nine months ended September 30, 2007 related to the Capital fleet was $372.

The change in the carrying amount of intangible assets during the three and nine months ended September 30, 2008 was primarily attributable to amortization expense of $1,670 and $5,314, respectively.

(d) Lease Rental Income

Lease rental 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 five years or less and are generally classified as operating leases.

Under long-term lease agreements, containers are usually leased from the Company for periods ranging from three to five years. Such leases are generally cancellable with a penalty at the end of each 12-month period. Under master lease agreements, the lessee is not committed to leasing a minimum number of containers from the Company during the lease term and may generally return the containers to the Company at any time, subject to certain restrictions set forth in the lease agreement. Under long-term lease and master lease agreements, revenue is earned and recognized evenly over the period that the equipment is on lease. Under direct financing and sales-type leases, the containers are usually leased from the Company for the remainder of the container s useful life with a bargain purchase option at the end of the lease term. Revenue is earned and recognized on direct financing and, after the initial gain or loss, on sales-type leases over the lease terms so as to produce a constant periodic rate of return on the net investment in the lease.

Container leases do not include step-rent provisions or lease concessions, nor do they depend on indices or rates.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its lessees to make required payments. These allowances are based on management s current assessment of the financial condition of the Company s lessees and their ability to make their required payments. If the financial condition of the Company s lessees were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(e) Containers and Fixed Assets

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 purchased new are depreciated using the straight-line method over their estimated useful lives of 12 years to an estimated dollar residual value. Containers purchased used are depreciated based upon their remaining useful lives at the date of acquisition to an estimated dollar residual value. The Company evaluates the estimated residual values and remaining estimated useful lives on an ongoing basis. The Company has experienced a significant increase in container resale prices over the last few years as a result of (i) a lower number of containers available for sale due to higher utilization and (ii) the increased cost of new containers. Based on this extended period of higher realized container resale prices and the Company s expectation that new equipment prices will remain near current levels, the Company increased the estimated future residual values of its containers used in the calculation of depreciation expense during the third quarter of 2008. The effect of this change for the three and nine months ended September 30, 2008 was a reduction in depreciation expense of $3,600 ($3,260 after tax or $0.07 per diluted share for the three and nine months ended September 30, 2008). Depreciation expense may fluctuate in future periods based on fluctuations in these estimates.

Containers identified for sale are written down to their estimated fair value and the resulting impairment is recorded in depreciation expense. The fair value is estimated based on recent gross sales proceeds. When containers are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized.

Fixed assets are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the assets, ranging from three to seven years.

The Company reviews its containers and fixed assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The Company compares the carrying value of the containers to 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.

(f) Income Taxes

The Company uses the asset and liability method to account for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in the tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded when the realization of a deferred tax asset is unlikely.

As of January 1, 2007, the company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). Under FIN 48, the company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs. Prior to the adoption of FIN 48, the Company recognized the effect of income tax positions only if such positions were probable of being sustained.

The 2004 United States tax return for TGH s subsidiary Textainer Equipment Management (U.S.) Limited and the 2004 and 2005 United States tax returns for TGH s subsidiary Textainer Limited (TL) were examined by the Internal Revenue Service (the IRS). In May 2008, the Company received notification from the IRS that they had completed their examination and made no changes to the amount of tax reported. As a result, the Company reduced the amount of unrecognized tax benefits and recognized a tax provision reduction during the three months ended June 30, 2008. The Company s effective tax rate decreased to 3.6% for the nine months ended September 30, 2008, primarily as a result of the recognition of this $4,480 tax provision reduction.

(g) Damage Protection Plan Repair Cost Reserve

The Company s leases require the lessee to pay for any damage to the containers beyond normal wear and tear at the end of the lease term. The Company offers a Damage Protection Plan (the DPP) to certain lessees of its containers. Under the terms of the DPP, the Company charges lessees an additional amount primarily on a daily basis and the lessees are no longer obligated for certain future repair costs for containers subject to the DPP. It is the Company s policy to recognize these revenues as earned on a daily basis over the related term of its lease. The Company has not recognized revenue and related expense for customers who are billed at the end of the lease term under the DPP or for other lessees who do not participate in the DPP. Based on past history, there is uncertainty as to collectability of these amounts from lessees who are billed at the end of the lease term because the amounts due under the DPP are typically re-negotiated at the end of the lease term or the lease term is extended.

For all containers, the Company uses the direct expense method of accounting for repairs and records maintenance expense when an obligation is incurred.

(h) Concentrations

Although substantially all of the Company s income from operations is derived from assets employed in non-U.S. concentrations, virtually all of this income is denominated in U.S. dollars. The Company does pay some of its expenses in various non-U.S. currencies. For the three months ended September 30, 2008 and 2007, $1,760 (or 32%) and $2,924 (or 37%), respectively, and for the nine months ended September 30, 2008 and 2007, $7,097 (or 37.6%) and $9,975 (or 38%), respectively, of the Company s direct container expenses were paid in 15 different non-U.S. currencies. The Company does not hedge these container expenses as there are no significant payments made in any one non-U.S. currency and the Company s contract with the U.S. military contains a provision to protect it from fluctuations in exchange rates for payments made in non-U.S. currencies.

The Company s customers are 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 non-U.S. concentrations lies with the creditworthiness of the lessees rather than the geographic location of the containers or the domicile of the lessees. For the three months ended September 30, 2008, no single lessee accounted for more than 10% of the Company s revenue. For the three months ended September 30, 2007, revenue from one lessee amounted to $5,409 (or 11%), respectively, of the Company s lease rental income. For the nine months ended September 30, 2008 and 2007, revenue from one lessee amounted to $14,684 (or 10%) and $15,687 (or 11%), respectively, of the Company s lease rental income. No single lessee accounted for more than 10% of the Company s accounts receivable at September 30, 2008 and December 31, 2007.

(i) Derivative Instruments

The Company has entered into various interest rate swap and cap agreements to mitigate its exposure associated with its variable rate debt. The swap agreements involve payments by the Company to counterparties at fixed rates in return for receipts based upon variable rates indexed to the London Inter Bank Offered Rate (LIBOR). The differentials between the fixed and variable rate payments under these agreements are recognized in realized gains (losses) on interest rate swaps and caps, net in the condensed consolidated statements of income.

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As of the balance sheet dates, none of the derivative instruments the Company has entered into qualify for hedge accounting in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (SFAS 133). The fair value of the derivative instruments is measured at each balance sheet date and the change in fair value is recorded in the condensed consolidated statements of income as unrealized gains (losses) on interest rate swaps, net.

(j) Share Options and Restricted Share Units

In accordance with SFAS No. 123R, *Share-Based Payment* (SFAS 123R), the Company estimates the fair value of all employee share options to acquire common shares awarded under its 2007 Share Incentive Plan (the 2007 Plan) on the grant date using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company s condensed consolidated statements of income.

The Company uses the Black-Scholes-Merton (Black-Scholes) option-pricing model as a method for determining the estimated fair value for employee share option awards. Compensation expense for employee share awards is recognized on a straight-line basis over the vesting period of the award. For the three months and nine months ended September 30, 2008, share-based compensation expense of $780 and $2,162, respectively, was recorded as a part of long-term incentive compensation for share options and restricted share units awarded to employees under the 2007 Plan.

(k) Estimates

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company s management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company s management evaluates its estimates on an ongoing basis, including those related to container rental equipment, accounts receivable and accruals.

These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments regarding the carrying values of assets and liabilities. Actual results could differ from those estimates under different assumptions or conditions.

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(l) Net income per share

Basic net income per share for a given period is computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted income per share reflects the potential dilution that could occur if all outstanding share options or other contracts to issue common shares were exercised or converted into common shares. For the three months ended September 30, 2008, 1,028,166 share options to acquire common shares and 764,262 restricted share units were excluded from the computation of diluted earnings per share because they were anti-dilutive under the treasury stock method, in accordance with the FASB s SFAS No. 128 *Earnings Per Share.* For the nine months ended September 30, 2008, 1,032,594 share options to acquire common shares and 831,863 restricted share units were excluded from the computation of diluted earnings per share because they were anti-dilutive under the treasury stock method. For the three months ended September 30, 2007, no share options to acquire common shares were dilutive. For the nine months ended September 30, 2007, all share options to acquire common shares were dilutive. A reconciliation of the numerator and denominator of basic EPS with that of diluted EPS is presented as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Numerator				
Net income - basic and diluted EPS	$ 24,559	$ 19,310	$ 72,314	$ 52,624
Denominator				
Weighted average common shares outstanding - basic	47,605	38,605	47,605	38,531
Dilutive share options and restricted share units	270		202	52
Weighted average common shares outstanding - diluted	47,875	38,605	47,807	38,583
Earnings per common share				
Basic	$ 0.52	$ 0.50	$ 1.52	$ 1.37
Diluted	$ 0.51	$ 0.50	$ 1.51	$ 1.36

(m) Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 establishes a framework for measuring fair value under U.S. generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS 157 utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the reporting entity s own assumptions.

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SFAS 157 retains the exchange price notion in earlier definitions of fair value and clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or transfer a liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. Therefore, the definition focuses on the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). With the exception of a one year deferral for the implementation of SFAS 157 for other nonfinancial assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis, SFAS 157 is effective for financial statements issued for years beginning after November, 15, 2007, and for interim periods within those years with earlier application encouraged.

Effective January 1, 2008, the Company adopted SFAS 157 for the fair value measurement of recurring items, in particular, its containers held for resale and interest rate swaps. The partial adoption of SFAS 157 for financial assets and liabilities had no effect on the Company s consolidated financial position, results of operations or cash flows. The Company does not believe the adoption of the deferred portion of SFAS 157 will have a material effect on the Company s consolidated financial position, results of operations or cash flows.

The Company measures the fair value of its containers held for resale under a Level 2 input as defined by SFAS 157. The company relies on market prices for identical or similar assets in markets that are not active. The Company s containers held for resale had a book value of $1,796 and $3,798 as of September 30, 2008 and December 31, 2007, respectively. During the three months ended September 30, 2008 and 2007, the Company recorded impairments of $74 and $201, respectively, as a part of depreciation expense to write down the value of containers identified for sale to their estimated fair value. During the nine months ended September 30, 2008 and 2007, the Company recorded impairments of $337 and $10, respectively, as a part of depreciation expense to write down the value of containers identified for sale to their estimated fair value.

The Company measures the fair value of its $393,720 notional amount of interest rate swaps under a Level 3 input as defined by SFAS 157. The Company relies on a valuation based on a discounted cash flow analysis using forecasted interest rate yield curves. The Company s interest rate swap agreements had a net fair value liability of $2,665 and $4,282 as of September 30, 2008 and December 31, 2007, respectively. The change in fair value for the three months ended September 30, 2008 and 2007 of $711 and $3,855, respectively, was recorded in the condensed consolidated statement of income as part of unrealized gains (losses) on interest rate swaps, net. The change in fair value for the nine months ended September 30, 2008 and 2007 of $1,617 and $4,077, respectively, was recorded in the condensed consolidated statement of income as part of unrealized gains (losses) on interest rate swaps, net.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 establishes a fair value option under which entities can elect to report certain financial assets and liabilities at fair value with changes in fair value recognized in earnings. However, SFAS No. 159 specifically includes financial assets and financial liabilities recognized under leases (as defined in SFAS No. 13, *Accounting for Leases*), as among those items not eligible for the fair value measurement option except contingent obligations for cancelled leases and guarantees of third-party lease obligations. Effective January 1, 2008 the Company adopted SFAS 159. The Company did not elect the fair value option for any assets or liabilities, therefore the adoption of SFAS 159 had no effect on the Company s consolidated financial position, results of operations or cash flows.

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(n) Recently Issued Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 160 *Noncontrolling Interest in Consolidated Financial Statements-an amendment of ARB No. 51* (SFAS 160). SFAS 160 requires a company to clearly identify and present ownership interests in subsidiaries held by parties other than the company within the equity section of the company s balance sheets but separate from the company s equity. It also requires the amounts of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of income; changes in ownership interest to be accounted for as equity transactions; and when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary and the gain or loss on the deconsolidation of the subsidiary must be measured at fair value. SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 will be effective for the Company as of January 1, 2009. The Company does not believe the adoption of SFAS 160 will have a material effect on the Company s consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R replaced SFAS No. 141, *Business Combinations* (SFAS 141). SFAS 141R retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the *purchase method*) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141R also establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R will apply prospectively to business combinations for which the acquisition date is on or after the Company s fiscal year beginning January 1, 2010. While the Company has not yet evaluated SFAS 141R for the impact, if any, that its adoption will have on the Company s consolidated financial position, results of operations or cash flows, the Company will be required to expense costs related to any acquisitions after December 31, 2009.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS 161). This new standard requires enhanced disclosures for derivative instruments, including those used in hedging activities. SFAS 161 will be effective for the Company as of January 1, 2009. The Company is assessing the potential revisions to disclosures required by SFAS 161.

In May 2008, the FASB issued FASB No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with GAAP for non-governmental entities. For non-governmental entities, the guidance in SFAS 162 replaces that prescribed in Statement on Auditing Standards (SAS) No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles* and becomes effective 60 days following the U.S. Securities and Exchange Commission s approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The Company does not believe the adoption of SFAS 162 will have a material effect on the Company s consolidated financial position, results of operations or cash flows.

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(3) 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 and nine months ended September 30, 2008 and 2007 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Fees from affiliated owners	$ 1,729	$ 1,576	$ 4,708	$ 4,834
Fees from unaffiliated owners	5,429	4,381	15,980	10,412
Fees from owners	7,158	5,957	20,688	15,246
Other fees	452	440	1,331	1,292
Total management fees	$ 7,610	$ 6,397	$ 22,019	$ 16,538

Due to owners, net represents lease rentals collected on behalf of and payable to owners, net of direct expenses and management fees receivable. Due to owners, net at September 30, 2008 and December 31, 2007 consisted of the following:

	September 30, 2008	December 31, 2007
Affiliated owners	$ 1,006	$ 3,695
Unaffiliated owners	12,158	14,324
Total due to owners, net	$ 13,164	$ 18,019

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(4) Revolving Credit Facilities, Bonds Payable and Secured Debt Facility, and Interest Rate Swaps

The following represents the Company s debt obligations as of September 30, 2008 and December 31, 2007:

	September 30, 2008	December 31, 2007
Revolving Credit Facilities, Bonds Payable and Secured Debt Facility		
Revolving Credit Facilities, weighted average interest at 3.81% and 6.42% at September 30, 2008 and December 31, 2007, respectively	$ 32,000	$ 21,500
2005-1 Bonds, interest at 2.74% and 5.28% at September 30, 2008 and December 31, 2007, respectively	385,667	428,938
Secured Debt Facility, weighted average interest at 3.76% and 5.35% at September 30, 2008 and December 31, 2007, respectively	236,070	130,976
Total debt obligations	$ 653,737	$ 581,414
Amount due within one year	$ 58,000	$ 64,585
Amounts due beyond one year	$ 595,737	$ 516,829

Revolving Credit Facilities

On April 22, 2008, TL terminated its then-existing revolving credit facility that provided for an aggregate commitment amount of up to $75,000 (which also included within such amount a $25,000 letter of credit facility) (the Prior Credit Facility). On the same date, TL replaced the Prior Credit Facility with a new credit agreement, (the 2008 Credit Agreement), with the same banks that were party to the Prior Credit Facility, as well as additional banks, to provide a new revolving credit facility (the 2008 Credit Facility) in an aggregate commitment amount of up to $205,000 (which also includes within such amount a $50,000 letter of credit facility). The 2008 Credit Facility provides for payments of interest only during its term beginning on its inception date through April 22, 2013. Interest on the outstanding amount due under the 2008 Credit Facility at September 30, 2008 was based either on the U.S. prime rate or LIBOR plus a spread between 0.5% and 1.5% which varies based on TGH s leverage. Total outstanding principal under the 2008 Credit Facility and the Prior Credit Facility was $32,000 and $21,500 as of September 30, 2008 and December 31, 2007, respectively. The Company had no outstanding letters of credit under the 2008 Credit Facility or the Prior Credit Facility as of September 30, 2008 and December 31, 2007.

The 2008 Credit Facility is secured by the Company s containers and under the terms of the 2008 Credit Facility, the total outstanding principal may not exceed the lesser of the commitment amount and a formula based on the Company s net book value of containers and outstanding debt. The 2008 Credit Facility Maximum was $205,000 as of September 30, 2008.

TGH acts as a guarantor of the 2008 Credit Facility. The 2008 Credit Facility contains restrictive covenants, including limitations on certain liens, indebtedness and investments. In addition, the 2008 Credit Facility contains certain restrictive financial covenants on TGH s tangible net worth, leverage, debt service coverage and on TL s leverage and interest coverage. The Company was in compliance with all such covenants at September 30, 2008. There is a commitment fee of 0.20% to 0.30% on the unused portion of the 2008 Credit Facility, which varies based on the leverage of TGH and is payable in arrears. In addition, there is an agent s fee, which is payable annually in advance.

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Bonds Payable and Secured Debt Facility

In 2005, the Company s subsidiary, Textainer Marine Containers Limited (TMCL), issued $580,000 in variable rate amortizing bonds (the 2005-1 Bonds) to institutional investors. The $580,000 in 2005-1 Bonds represent fully amortizing notes payable on a straight-line basis over a scheduled payment term of 10 years, but not to exceed the maximum payment term of 15 years. Under a 10-year amortization schedule, $58,000 in 2005-1 Bond principal will amortize per year. Under the terms of the 2005-1 Bonds, both principal and interest incurred are payable monthly. TMCL is permitted to make voluntary prepayments of all, or a portion of, the principal balance of the 2005-1 Bonds commencing with the payment date occurring in September 2008. Ultimate payment of the 2005-1 Bond principal has been insured by Ambac Assurance Corporation and the cost, 0.275% on the outstanding principal balance of the 2005-1 Bonds, of this insurance coverage is recognized as incurred on a monthly basis. The interest rate for the outstanding principal balance of the 2005-1 Bonds equals one-month LIBOR plus 0.25%. The target final payment date and legal final payment date are May 15, 2015 and May 15, 2020, respectively.

The Company s primary ongoing container financing requirements are funded by revolving notes issued by TMCL (the Secured Debt Facility). The Secured Debt Facility provides for payments of interest only during the period from its inception until its Conversion Date (as defined in the Indenture governing the 2005-1 Bonds and the Secured Debt Facility), with a provision for the Secured Debt Facility to then convert to a 10-year, but not to exceed the maximum term of 15-year, fully amortizing note payable on the Conversion Date. On July 2, 2008, the Company extended its Secured Debt Facility and amended certain terms thereof, including an increase in the commitment from $300,000 to $475,000. Prior to the July 2, 2008 amendments, the Conversion Date was defined as July 9, 2008. Given such a Conversion Date of July 9, 2008, the first principal payment would have been due on July 15, 2008. Prior to the July 2, 2008 amendments, interest on the outstanding amount due under the Secured Debt Facility, prior to the Conversion Date, equaled LIBOR plus 0.32%. Prior to and following the July 2, 2008 amendments, there was and remains a commitment fee on the unused portion of the Secured Debt Facility, which is payable in arrears. Prior to the July 2, 2008 amendments, the ultimate payment of the Secured Debt Facility principal was insured by Ambac Assurance Corporation. The cost of this insurance coverage was recognized as incurred on a monthly basis.

Following the July 2, 2008 amendments, the interest rate, payable monthly in arrears, is LIBOR plus 1.25% during an initial two-year revolving period. If the Secured Debt Facility is not refinanced or renewed prior to the new Conversion Date of July 1, 2010, the interest rate would increase and the Secured Debt Facility would stop revolving and begin amortizing over a term that is scheduled to be 10 years but not to exceed 15 years. Following the July 2, 2008 amendments, the Secured Debt Facility is no longer insured by Ambac Assurance Corporation. The Secured Debt Facility Maximum was $475,000 as of September 30, 2008.

Under the terms of the 2005-1 Bonds and Secured Debt Facility, the total outstanding principal of these two programs may not exceed an amount (the Asset Base) which is calculated by a formula based on TMCL s book value of equipment, restricted cash and direct financing and sales-type leases. The total obligations under the 2005-1 Bonds and the Secured Debt Facility are secured by a pledge of TMCL s assets. TMCL s total assets amounted to $1,017 as of September 30, 2008. The 2005-1 Bonds and the Secured Debt Facility also contain restrictive covenants regarding the average age of TMCL s container fleet, certain earnings ratios, ability to incur other obligations and to distribute earnings, TGH s container management subsidiary net income and debt levels, and overall Asset Base minimums, in which TMCL and TGH s container management subsidiary were in full compliance at September 30, 2008.

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The following is a schedule by year, of future scheduled repayments, as of September 30, 2008:

	Revolving Credit Facility	2005-1 Bonds (1)	Secured Debt Facility(1)
Twelve months ending September 30:			
2009	$	$ 58,000	$
2010		58,000	5,918
2011		58,000	23,670
2012		58,000	23,670
2013 and thereafter	32,000	154,667	183,442
	$ 32,000	$ 386,667	$ 236,700

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(1) Future scheduled payments for the 2005-1 Bonds and the Secured Debt Facility exclude step acquisition adjustments of $1,000 and $630, respectively, related to the purchase by TL of 3,000 additional shares of TMCL on November 1, 2007. The adjustments were recorded to reduce the balance of both the 2005-1 Bonds and the Secured Debt Facility to an amount that equaled the fair market value of the debt on the date of the acquisition.

The future repayments schedule for the 2008 Credit Facility and the Secured Debt Facility assumes that the facilities would not be extended on the applicable Conversion Date and would then convert into a two-year fully amortizing note payable and ten-year fully amortizing note payable, respectively.

Derivative Instruments

The Company has entered into several interest rate cap and swap agreements with several banks to reduce the impact of changes in interest rates associated with its 2005-1 Bonds and Secured Debt Facility. The following is a summary of the Company s derivative instruments as of September 30, 2008:

Derivative instruments	Notional amount
Interest rate cap contracts with several banks which cap one-month LIBOR rates fixed between 5.46% and 8.12% per annum, non-amortizing notional amounts, with termination dates through November 2015	$ 110,000
Interest rate swap contracts with several banks, with one-month LIBOR rates fixed between 3.37% and 5.32% per annum, amortizing notional amounts, with termination dates through September 2013	393,720
Total notional amount as of September 30, 2008	$ 503,720

During October 2008, the Company entered into an interest rate cap contract with a bank, which caps one-month LIBOR fixed rate at 7.11% per annum, in non-amortizing notional amount of $25,000 and a term from October 15, 2008 through October 15, 2009.

During November 2008, the Company entered into an interest rate cap contract with a bank, which caps one-month LIBOR fixed rate at 4.77% per annum, in non-amortizing notional amount of $65,000 and a term from November 17, 2008 through November 16, 2009.

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During November 2008, the Company entered into an interest rate swap contract with a bank, with a one-month LIBOR rate fixed at 3.36% per annum, in amortizing notional amount with initial notional amount of $46,000 and a term from November 17, 2008 through November 15, 2013.

The Company s interest rate swap agreements had a net fair value liability of $2,665 and $4,282 as of September 30, 2008 and December 31, 2007, respectively. The change in fair value was recorded in the consolidated statement of income as unrealized gains (losses) on interest rate swaps, net.

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(5) Segment Information

As described in Note 1 Nature of Business , the Company operates in four reportable segments: container ownership, container management, container resale and military management. The following tables show segment information for the three and nine months ended September 30, 2008 and 2007, reconciled to the Company s income before taxes as shown in its condensed consolidated statements of income:

Three months ended September 30, 2008	Container Ownership	Container Management	Container Resale	Military Management	Other	Eliminations	Totals
Lease rental income	$ 49,814	$	$	$ 1,100	$	$	$ 50,914
Management fees		11,346	2,606	452		(6,794)	7,610
Trading container sales proceeds			6,716				6,716
Gain on sale of containers, net	4,435						