HENRY JACK & ASSOCIATES INC
Form 8-K
November 06, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 6, 2006

JACK HENRY & ASSOCIATES, INC.
(Exact name of Registrant as specified in its Charter)

Delaware	0-14112	43-1128385
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

663 Highway 60, P.O. Box 807, Monett, MO 65708
(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code: (417) 235-6652

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a.-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4 (c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events.

On November 6, 2006, Jack Henry & Associates, Inc. ("Jack Henry") issued a press release (a copy of which is attached to this report) announcing the acquisition of US Banking Alliance.

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits

99.1 Press release dated November 6, 2006.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

JACK HENRY & ASSOCIATES, INC.
(Registrant)

Date: November 6, 2006 By: /s/ Kevin D. Williams

Kevin D. Williams
Chief Financial Officer

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Robert D. Pedersen

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Michael K. Chan

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Hyman Shwiel

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Dudley R. Cottingham

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(8) Percentage ownership is based on 57,402,164 shares outstanding as of March 4, 2019.

As of March 4, 2019, based on information available to the Company, 24,185 of our outstanding common shares were held in Bermuda, our domicile and headquarter country, by one holder of record. An aggregate of 29,672,739 of our outstanding common shares, which includes 29,658,609 shares held by Cede & Company, were held in the United States by six holders of record. The shares held by Cede & Company, a nominee of the Depository Trust Company, include common shares beneficially owned by several holders in the United States and by non-U.S. beneficial owners.

B. Related Party Transactions

We do not have a corporate policy regarding related party transactions, nor are there any provisions in our memorandum of association or bye-laws regarding related party transactions, other than the provision, as permitted by Bermuda law, that we, or one of our subsidiaries, may enter into a contract in which our directors or officers are directly or indirectly interested if the director or officer discloses his interest to our board of directors at the first opportunity at a meeting of directors or in writing.

Loans to Executive Officers

As permitted by Bermuda law, in the past, we had extended loans to certain employees in connection with their acquisition of our common shares in accordance with our various employees' share arrangements. As of December 31, 2018, and 2017, no amounts were outstanding on such loans to employees. Currently, there are no loans outstanding to our directors or executive officers, nor will we extend loans to our directors or executive officers in the future, in compliance with the requirements of Section 402 of the Sarbanes-Oxley Act of 2002 and Section 13(k) of the Securities Exchange Act of 1934, as amended.

Indemnification of Officers and Directors

We have entered into indemnification agreements with each of our directors and executive officers to give such directors and officers, as well as their immediate family members, additional contractual assurances regarding the scope of indemnification set forth in our bye-laws, and to provide additional procedural protections which may, in some cases, be broader than the specific indemnification provisions contained in our bye-laws. The indemnification agreements may require us, among other things, to indemnify such directors and officers, as well as

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their immediate family members, against liabilities that may arise by reason of their status or service as directors or officers and to advance expenses as a result of any proceeding against them as to which they could be indemnified.

Agreements with Maccarone Container Fund, LLC

TEML has entered into a management agreement with Maccarone Container Fund, LLC, related to TEML's management of containers owned by Maccarone Container Fund, LLC effective 2016. Director John Maccarone and his family members are the beneficial owners of Maccarone Container Fund, LLC. In 2018 and 2017, we managed approximately 1,300 TEU (for which we received approximately $17 per year in management fees) for Maccarone Container Fund, LLC.

Relationships and Agreements with Trencor Limited and Entities Related to Trencor Limited

Trencor currently owns 47.5% of the Company's common shares which were previously held by Halco. On February 20, 2018, Halco Trust distributed and transferred to Trencor, one of the nominated discretionary beneficiaries of the Halco Trust, the trust's 100% shareholding in Halco and on May 11, 2018, Halco declared dividends to Trencor which resulted in Trencor becoming the shareholder in the 47.5% of the Company's common stock it owns. Halco went into voluntary liquidation on October 12, 2018. Hennie Van der Merwe and David M. Nurek, are members of the Company's board of directors and the board of directors of Trencor.

At Halco's request, the Company and Halco entered into a Voting Limitation Deed ("VLD"), effective January 1, 2018, whereby Halco agreed to limit or restrict its shareholder voting rights in the Company, solely in respect of the appointment and/or removal of directors and then only to the extent necessary to ensure that Trencor will be regarded for purposes of IFRS as being neither in control of nor having significant influence over the Company. All of Halco's voting rights, save for the said limitation or restriction, were unaffected by the VLD. Accordingly, from January 1, 2018, the financial results of the Company, as reported under U.S. GAAP, are no longer required to consolidate and convert into IFRS for inclusion in the results of Trencor, thus eliminating commercial issues (e.g. the costs and delays caused by the need to convert the Company's financial results under U.S. GAAP into IFRS for public reporting by Trencor). In connection with the transfer of the Company's shares held by Halco to Trencor on May 11, 2018, Trencor assumed the same contractual rights and obligations as Halco had in the VLD.

On May 11, 2018, the Company, Trencor and Halco entered into an indemnification agreement with Computershare Trust Company, N.A., the share transfer agent for the Company, and Computershare Inc. (together, the "Transfer Agent") pursuant to which the Company and Halco jointly and severally agreed to indemnify and hold harmless the Transfer Agent, and Halco agreed to indemnify and hold harmless the Company, against any and all costs, damages, losses, fees, penalties, judgments, taxes or expenses which the Transfer Agent may incur in connection with or arising from three missing share certificates representing approximately 5.5 million aggregate common shares, $0.01 par value, of the Company held by Halco. The obligations under this agreement were transferred to Trencor when it became the shareholder of the Company's common stock.

The Company's personnel assisted Trencor with the conversion of the Company's financial information from U.S. GAAP to IFRS. Trencor paid $529 and $125 for these accounting services in 2018 and 2017, respectively.

We have entered into an agreement with LAPCO, now an indirect wholly-owned subsidiary of Trencor, related to our management of containers owned by LAPCO. Pursuant to this agreement, LAPCO has the right, but not an obligation, to require us to purchase containers on its behalf, within guidelines specified in the agreement and for as long as the management agreement is in place. In 2018, 2017 and 2016, we received the following fees or commissions from LAPCO: (i) $2,465, $2,329 and $2,282, respectively, in management fees and (ii) $1,111, $666 and $713, respectively, in sales commissions and acquisition fees. LAPCO is free to compete against us with respect to its investment in containers and uses our competitors to manage some of its containers.

Transactions with Container Investment Services Limited and Coveham Container Services Limited

A member of our board of directors, Iain Brown, serves as Director and owns 50% of Container Investment Services Limited (“CIS”). CIS is a U.K. company that provided administration and accounting services until

September 2018. In 2018, 2017 and 2016, the Company paid $28, $96, and $63, respectively, to CIS primarily for accounting services provided to the Company's U.K. entity, Textainer Equipment Management (U.K.) Limited ("TEMUK"). Moreover, Iain Brown also serves as Director and owns 100% of Coveham Container Services Limited ("CCSL"), which is a U.K. company that provides accounting services for TEML starting October 2018.

Transactions with Continental Management Ltd.

A member of our board of directors, Dudley R. Cottingham, was a member of the board of directors of Continental Management Ltd ("Continental") as of December 31, 2018 and became a consultant effective January 1, 2019. Continental is a Bermuda company that provides corporate representation, administration and management services. In 2018, 2017 and 2016, the Company paid $121, $59, and $60, respectively, to Continental primarily for Bermuda government annual fees and registered office fees.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Financial Statements

Our audited consolidated financial statements which are comprised of our consolidated balance sheets as of December 31, 2018 and 2017 and the related consolidated statements of comprehensive income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2018 and the notes to those statements and the report of independent registered public accounting firm thereon, are included under Item 18, "Financial Statements" of this Annual Report on Form 20-F. Also, see Item 5, "Operating and Financial Review and Prospects" for additional financial information.

Legal Proceedings

See Item 4, "Information on the Company -- Business Overview—Legal Proceedings" for information on our legal proceedings which may have, or have had in the recent past, significant effects on our financial position or profitability.

Dividend Policy

The following table summarizes dividends that we have declared and paid since January 1, 2015:

Date Declared	Dividend per Outstanding Common Share	Total Dividend
February 2015	$ 0.47	$ 26,781
April 2015	$ 0.47	$ 26,783
July 2015	$ 0.47	$ 26,796

October 2015	$	0.24	$ 13,719
February 2016	$	0.24	$ 13,479
April 2016	$	0.24	$ 13,577
August 2016	$	0.03	$ 1,698

We are not required to pay dividends, and our shareholders do not have contractual or other rights, to receive dividends. The timing and amount of future dividends will be at the discretion of our board of directors and will be dependent on our future operating results and the cash requirements of our business. There are a number of factors that can affect our ability to pay dividends and there is no guarantee that we will pay dividends in any given year. See Item 3, “Key Information -- Risk Factors,” for a discussion of these factors. Our board of directors may decide,

in its discretion, at any time, to decrease the amount of dividends, otherwise modify or repeal the dividend policy or discontinue entirely the payment of dividends.

In addition, we will not pay dividends in the event we are not allowed to do so under Bermuda law, are in default under (or such payment would cause a default under) the revolving credit facility of TL, or if such payment would cause us to breach any of our covenants. These covenants include certain financial covenants, which would be directly affected by the payment of dividends, such as a minimum tangible net worth level (which level would decrease by the amount of any dividend paid) and a maximum ratio of consolidated funded debt to consolidated tangible net worth (which amount would decrease by the amount of any dividend paid). Please see Item 5, "Operating and Financial Review and Prospects—Liquidity and Capital Resources" for a description of these covenants. Furthermore, since we are a holding company, substantially all of the assets shown on our consolidated balance sheet are held by our subsidiaries. Accordingly, our earnings and cash flow and our ability to pay dividends are largely dependent upon the earnings and cash flows of our subsidiaries and the distribution or other payment of such earnings to us in the form of dividends.

In 2014, we began calculating our earnings and profits under U.S. federal income tax principles for purposes of determining whether distributions exceed our current and accumulated earnings and profits. We believe that some or all of our distributions will be treated as a return of capital to our U.S. shareholders and we report each quarter on our website at www.textainer.com whether that quarter's distribution exceeds our current accumulated earnings and profits. The taxability of the dividends does not impact our corporate tax position. You should consult with a tax advisor to determine the proper tax treatment of these distributions.

B. Significant Changes

Except as disclosed in the Annual Report on Form 20-F, no significant changes have occurred since December 31, 2018, which is the date of our audited consolidated financial statements included in this Annual Report on Form 20-F.

ITEM 9. THE OFFER AND LISTING
A. Offer and Listing Details
Trading Markets and Price History

Our common shares have been listed on the New York Stock Exchange ("NYSE") under the symbol "TGH" since October 10, 2007. Prior to that time, there was no public market for our common shares. The following table sets forth the high and low closing sale prices, as reported on the NYSE for our common shares for the periods indicated:

	High	Low
Annual Highs and Lows:		
2018	$25.85	$9.30
2017	$23.55	$8.50
2016	$15.72	$7.05
2015	$34.44	$13.48
2014	$39.87	$29.25
Quarterly Highs and Lows (two most recent full financial years):		
Fourth quarter 2018	$13.04	$9.30
Third quarter 2018	$16.20	$12.80
Second quarter 2018	$18.60	$14.45
First quarter 2018	$25.85	$16.30
Fourth quarter 2017	$23.55	$17.50
Third quarter 2017	$17.95	$13.95
Second quarter 2017	$16.40	$9.75
First quarter 2017	$17.30	$8.50
Monthly Highs and Lows (over the most recent six-month period):		
February 2019	$13.95	$10.66
January 2019	$13.34	$10.65
December 2018	$11.58	$9.30
November 2018	$12.17	$10.79
October 2018	$13.04	$10.66
September 2018	$14.65	$12.80

Transfer Agent

The transfer agent and registrar for our common shares is Computershare Shareholder Services, Inc. and its fully owned subsidiary Computershare Trust Company, N.A., having its principal office at 250 Royall Street, Canton, MA 02021.

B. Plan of Distribution
Not applicable.

C. Markets
See Item 9, "Offer and Listing Details – Trading Markets" above.

D. Selling Shareholders
Not applicable.

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E. Dilution
Not applicable.

F. Expenses of the Issue
Not applicable.

ITEM 10. ADDITIONAL INFORMATION
A. Share Capital
Not applicable.

B. Memorandum and Articles of Association
We are an exempted company incorporated under the laws of Bermuda. We are registered with the Registrar of Companies in Bermuda under registration number EC18896. We were incorporated on December 3, 1993 under the name Textainer Group Holdings Limited, prior to that time our business was based in Panama. Our headquarters office is located at 16 Par-La-Ville Road, Hamilton HM 08 Bermuda.

We incorporate by reference into this Annual Report on Form 20-F the description of our memorandum of association and our bye-laws contained in “Description of Share Capital” of our Registration Statement on Form F-1 filed with the SEC on September 26, 2007. Such information is a summary which does not purport to be complete and is qualified in its entirety by reference to our memorandum of association and our bye-laws, copies of which have been filed as Exhibits 3.1 and 3.2, respectively, to such Registration Statement.

C. Material Contracts
We have not entered into any material contracts during the two years immediately preceding the date of this Annual Report on Form 20-F other than contracts entered into in the ordinary course of business and other than those described in Item 4, “Information on the Company—History and Development of the Company—Significant Events” or elsewhere in this Annual Report on Form 20-F.

D. Exchange Controls
Trencor, a South African company listed on the JSE, has 47.5% of our issued and outstanding shares as of December 31, 2018. South Africa’s exchange control regulations provide for restrictions on exporting capital from South Africa. These restrictions require Trencor to obtain approval from South African exchange control authorities before engaging in transactions that would result in dilution of their share interest in us below certain thresholds, whether through their sale of their own shareholdings or through the approval of our issuance of new shares. The exchange control authorities may decide not to grant such approval if a proposed transaction were to dilute Trencor’s interest in us below certain levels. While the South African government has, to some extent, relaxed exchange controls in recent years, it is difficult to predict whether or how it will further relax or abolish exchange control measures in the future. The above requirements could restrict or limit our ability to issue new shares. In addition, Trencor is required to comply with JSE Listings Requirements in connection with its holding or sale of our common shares.

E. Taxation
The following discussion is a summary of the material Bermuda and U.S. federal income tax consequences of an investment in our common shares. This discussion is not exhaustive of all possible tax considerations. In particular, this discussion does not address the tax consequences under state, local, and other national (e.g., non-Bermuda and non-U.S.) tax laws. Accordingly, we urge you to consult your own tax advisor regarding your particular tax circumstances and the tax consequences under state, local, and other national tax laws. The following discussion is based upon laws and relevant interpretations thereof in effect as of the date hereof, all of which are subject to change, possibly with retroactive effect.

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Bermuda Tax Consequences

The following is a summary of the material Bermuda tax consequences of an investment in our common shares. The following discussion is not exhaustive of all possible tax considerations. We urge you to consult your own tax advisor regarding your particular tax circumstances.

Taxation of the Companies

We and our Bermuda subsidiaries have obtained an assurance from the Bermuda Minister of Finance under the Exempted Undertakings Tax Protection Act 1966 that, if any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain, or appreciation, or any tax in the nature of estate duty or inheritance tax, then such tax will not until March 31, 2035 be applicable to us or any of our operations, or to any of our shares, debentures, or other obligations, except insofar as such tax applies to persons ordinarily resident in Bermuda or is payable by us in respect of real property owned or leased by us in Bermuda. As an exempted company, we are required to pay an annual Bermuda government fee based on our assessable capital.

Taxation of Holders

Currently, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by our shareholders in respect of our common shares. The issue, transfer, or redemption of our common shares is not currently subject to stamp duty.

United States Federal Income Tax Consequences

The following is a summary of the material U.S. federal income tax consequences of an investment in our common shares. The following discussion is not exhaustive of all possible tax considerations. This summary is based upon the Code, regulations promulgated under the Code by the U.S. Treasury Department (including proposed and temporary regulations), rulings, current administrative interpretations and official pronouncements of the IRS, and judicial decisions, all as currently available and all of which are subject to differing interpretations or to change, possibly with retroactive effect. Any such change could materially and adversely affect the tax consequences described below. No assurance can be given that the IRS will not assert, or that a court will not sustain, a position contrary to any of the tax consequences described below.

This summary does not address all aspects of U.S. federal income taxation that may be important to a particular holder in light of its investment or tax circumstances or to holders subject to special tax rules, such as banks; financial institutions; insurance companies; dealers in stocks, securities, or currencies; traders in securities that elect to use a mark-to-market method of accounting for their securities holdings; tax-exempt organizations; real estate investment trusts; regulated investment companies; qualified retirement plans, individual retirement accounts, and other tax-deferred accounts; certain former citizens or long-term residents of the U.S.; persons subject to the alternative minimum tax; persons holding common shares as part of a straddle, hedge, conversion transaction, or other integrated transaction; persons who acquired common shares pursuant to the exercise of any employee share option or otherwise as compensation for services; persons actually or constructively holding 10% or more of our voting shares; and U.S. Holders (as defined below) whose functional currency is other than the U.S. dollar.

This discussion is not a comprehensive description of all of the U.S. federal tax consequences that may be relevant with respect to an investment in common shares. We urge you to consult your own tax advisor regarding your particular circumstances and the U.S. federal income and estate tax consequences to you of owning and disposing of common shares, as well as any tax consequences arising under the laws of any state, local, foreign or other tax jurisdiction and the possible effects of changes in U.S. federal or other tax laws.

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This summary is directed solely to persons who hold their common shares as capital assets within the meaning of Section 1221 of the Code, which includes property held for investment. For purposes of this discussion, the term “U.S. Holder” means a beneficial owner of common shares that is any of the following:

- a citizen or resident of the U.S. or someone treated as a U.S. citizen or resident for U.S. federal income tax purposes;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the U.S., any state thereof, or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source;
- a trust if a U.S. court can exercise primary supervision over the trust’s administration and one or more U.S. persons have the authority to control all substantial decisions of the trust; or
- a trust in existence on August 20, 1996 that has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

The term “Non-U.S. Holder” means a beneficial owner of common shares that is not a U.S. Holder or an entity treated as a partnership for U.S. federal income tax purposes. As described in “—Taxation of Non-U.S. Holders” below, the tax consequences to a Non-U.S. Holder may differ substantially from the tax consequences to a U.S. Holder.

If a partnership (including for this purpose any entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of common shares, the U.S. federal income tax consequences to a partner in the partnership will depend on the status of the partner and the activities of the partnership. A holder of common shares that is a partnership and the partners in such partnership should consult their own tax advisors regarding the U.S. federal income tax consequences of an investment in common shares.

Taxation of the Companies

Textainer and Non-U.S. Subsidiaries

A non-U.S. corporation deemed to be engaged in a trade or business within the U.S. is subject to U.S. federal income tax on income which is treated as effectively connected with the conduct of that trade or business. Such income tax, if imposed, is based on effectively connected income computed in a manner similar to the manner in which the income of a domestic corporation is computed, except that a foreign corporation will be entitled to deductions and credits for a taxable year only if it timely files a U.S. federal income tax return for that year. In addition, a non-U.S. corporation may be subject to the U.S. federal branch profits tax on the portion of its effectively connected earnings and profits, with certain adjustments, deemed repatriated out of the U.S. Currently, the maximum U.S. federal income tax rates are 21% for a corporation’s effectively connected income and 30% for the branch profits tax.

A portion of our income is treated as effectively connected with the conduct of a trade or business within the U.S., and such effectively connected income is subject to U.S. federal income tax. U.S. federal income tax returns have been filed declaring such effectively connected income.

The determination of whether a person is engaged in a U.S. trade or business is based on a highly factual analysis. In general, there is no clear test as to the nature and scope of activities that constitute being engaged in a U.S. trade or business, and it is unclear how a court would construe the existing authorities with respect to our activities. Accordingly, it is possible that the IRS could assert that a significantly greater portion of our income than we currently report is derived from the conduct of a U.S. trade or business and therefore, is effectively connected income that is subject to U.S. federal income tax.

In addition to U.S. federal income tax on income associated with a U.S. trade or business, we are also subject to a 30% U.S. withholding tax imposed on the gross amount of certain “fixed or determinable annual or periodic gains, profits and income” derived from sources within the U.S. (such as rents, dividends and interest on investments), to the extent

such amounts are not effectively connected income. This 30% U.S. withholding tax is

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subject to reduction by applicable treaties. Distributions by our U.S. subsidiaries to us are expected to be subject to this 30% U.S. withholding tax.

U.S. Subsidiaries

Our U.S. subsidiaries are subject to U.S. federal income tax on their worldwide income subject to reduction by allowable foreign tax credits. Certain foreign sourced income earned by the U.S. subsidiaries may be taxed at a rate lower than 21%.

Transfer Pricing

Under U.S. federal income tax laws, transactions among taxpayers that are owned or controlled directly or indirectly by the same interests generally must be at arm's-length terms. The IRS may distribute, apportion, or allocate gross income, deductions, credits, or allowances between or among such taxpayers if it determines that such transactions are not at arm's-length terms and that such distribution, apportionment, or allocation is necessary in order to clearly reflect the income of any of such taxpayers. Additionally, if we have not met the requirements of the new CBC Regulations (effective for our taxable years beginning on or after June 30, 2016), we may become subject to penalties and the IRS may pursue a further investigation or audit of our operations, which may result in an adjustment to our transfer pricing policies as described in the immediately preceding sentence. In such a situation, we may incur increased tax liability, possibly materially, thereby reducing our profitability and cash flows.

Taxation of U.S. Holders

The discussion in "—Distributions on Common Shares" and "—Dispositions of Common Shares" below assumes that we will not be treated as a passive foreign investment company ("PFIC") for U.S. federal income tax purposes. For a discussion of the rules that apply if we are treated as a PFIC, see "—Passive Foreign Investment Company" below.

Distributions on Common Shares

General. Subject to the discussion in "—Passive Foreign Investment Company" below, if you actually or constructively receive a distribution on common shares, you must include the distribution in gross income as a taxable dividend on the date of your receipt of the distribution, but only to the extent of our current or accumulated earnings and profits, as calculated under U.S. federal income tax principles. Such amount must be included without reduction for any foreign taxes withheld. Dividends paid by us will not be eligible for the dividends received deduction allowed to corporations with respect to dividends received from certain domestic corporations. Dividends paid by us may or may not be eligible for preferential rates applicable to qualified dividend income, as described below. In addition, certain non-corporate U.S. Holders may be subject to an additional 3.8% Medicare tax on dividend income whether or not it is "qualified dividend income." See "—Medicare Tax" below.

To the extent a distribution exceeds our current and accumulated earnings and profits, it will be treated first as a non-taxable return of capital to the extent of your adjusted tax basis in the common shares, and thereafter as capital gain. Preferential tax rates for long-term capital gain may be applicable to non-corporate U.S. Holders. In addition, certain non-corporate U.S. Holders may be subject to an additional 3.8% Medicare tax on capital gain. See "—Medicare Tax" below.

Qualified Dividend Income. With respect to non-corporate U.S. Holders (i.e., individuals, trusts, and estates), the maximum individual U.S. federal income tax rate applicable to "qualified dividend income" ("QDI") generally is 20%. Among other requirements, dividends will be treated as QDI if either (i) our common shares are readily tradable on an established securities market in the U.S., or (ii) we are eligible for the benefits of a comprehensive income tax treaty

with the U.S. which includes an information exchange program and which is determined to be satisfactory by the Secretary of the U.S. Treasury. The income tax treaty between the U.S. and Bermuda (the jurisdiction of our incorporation) does not qualify for these purposes. However, subject to the discussion below, under "—Passive Foreign Investment Company—Mark-to-Market Election," we expect that under current

administrative guidance, our common shares are "readily tradable" on an established securities market as a result of being listed on the NYSE.

In addition, for dividends to be treated as QDI, we must not be a PFIC (as discussed below) for either the taxable year in which the dividend was paid or the preceding taxable year. We do not believe that we were a PFIC for our prior taxable year and we intend to conduct our business so that we should not be treated as a PFIC for our current taxable year or any future taxable year. However, because the PFIC determination is highly fact intensive and made at the end of each taxable year, it is possible that we may be a PFIC for the current or any future taxable year. Please see the discussion under "—Passive Foreign Investment Company" below. Additionally, in order to qualify for QDI treatment, you generally must have held the common shares for more than 60 days during the 121-day period beginning 60 days prior to the ex-dividend date. However, your holding period will be reduced for any period during which the risk of loss is diminished.

Since the QDI rules are complex, you should consult your own tax advisor regarding the availability of the preferential tax rates for dividends paid on common shares.

In-Kind Distributions. Generally, distributions to you of new common shares or rights to subscribe for new common shares that are received as part of a pro rata distribution to all of our shareholders will not be subject to U.S. federal income tax. The adjusted tax basis of the new common shares or rights so received will be determined by allocating your adjusted tax basis in the old common shares between the old common shares and the new common shares or rights received, based on their relative fair market values on the date of distribution. However, in the case of a distribution of rights to subscribe for common shares, the adjusted tax basis of the rights will be zero if the fair market value of the rights is less than 15% of the fair market value of the old common shares on the date of distribution and you do not make an election to determine the adjusted tax basis of the rights by allocation as described above. Your holding period for the new common shares or rights should include the holding period for the old common shares on which the distribution was made.

Foreign Tax Credits. Subject to certain conditions and limitations, any foreign taxes paid on or withheld from distributions from us and not refundable to you may be credited against your U.S. federal income tax liability or, alternatively, may be deducted from your taxable income. This election is made on a year-by-year basis and applies to all foreign taxes paid by you or withheld from you that year.

Distributions will constitute foreign source income for foreign tax credit limitation purposes. The foreign tax credit limitation is calculated separately with respect to two specific classes of income. For this purpose, distributions characterized as dividends distributed by us are expected to constitute "passive category income" or, in the case of certain U.S. Holders, "general category income." Special limitations may apply if a dividend is treated as QDI (as defined above).

Since the rules governing foreign tax credits are complex, you should consult your own tax advisor regarding the availability of foreign tax credits in your particular circumstances.

Dispositions of Common Shares

Subject to the discussion in "—Passive Foreign Investment Company" below, you will recognize taxable gain or loss on the sale or other taxable disposition of common shares equal to the difference between the U.S. dollar value of (i) the amount realized on the disposition (i.e., the amount of cash plus the fair market value of any property received), and (ii) your adjusted tax basis in the common shares. Such gain or loss will be capital gain or loss.

If you have held the common shares for more than one year at the time of disposition, such capital gain or loss will be long-term capital gain or loss. Preferential tax rates for long-term capital gain apply for non-corporate U.S. Holders. The maximum rate for individuals on net long-term capital gain is currently 20%. In the case of a corporation, capital gains are taxed at the same rate as ordinary income, the maximum rate for which is currently 35%. If you have held the common shares for one year or less, such capital gain or loss will be short-term capital gain or loss taxable as ordinary income. The deductibility of capital losses is subject to limitations. In addition,

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certain U.S. persons, including individuals, estates and trusts, will be subject to an additional 3.8% Medicare tax on capital gain income. See "—Medicare Tax" below.

Any gain or loss recognized on the disposition of common shares is not expected to give rise to foreign source income for U.S. foreign tax credit purposes.

You should consult your own tax advisor regarding the U.S. federal income tax consequences if you receive currency other than U.S. dollars upon the disposition of common shares.

Passive Foreign Investment Company

We will be a PFIC under Section 1297 of the Code if, for a taxable year, either (a) 75% or more of our gross income for such taxable year is passive income (the "income test") or (b) 50% or more of the average percentage, generally determined by fair market value, of our assets during such taxable year either produce passive income or are held for the production of passive income (the "asset test"). "Passive income" includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, and certain gains from commodities transactions. However, rents meeting certain requirements are treated as derived from the conduct of an active trade or business and are not treated as passive income.

Certain "look through" rules apply for purposes of the income and asset tests described above. If we own, directly or indirectly, 25% or more of the total value of the outstanding shares of another corporation, we will be treated as if we (a) held directly a proportionate share of the other corporation's assets, and (b) received directly a proportionate share of the other corporation's income. In addition, passive income does not include any interest, dividends, rents, or royalties that are received or accrued by us from a "related person" (as defined in Section 954(d)(3) of the Code), to the extent such items are properly allocable to income of such related person that is not passive income.

Under the income and asset tests, whether or not we are a PFIC will be determined annually based upon the composition of our income and the composition and valuation of our assets, all of which are subject to change. In analyzing whether we should be treated as a PFIC, we are relying on the amount and character of our projected revenues and the amount and character of our projected capital expenditures, the valuation of our assets, and our election to treat certain of our subsidiaries as disregarded entities for U.S. federal income tax purposes. If the amount and character of our actual revenues and capital expenditures do not match our projections, we may be a PFIC. In these calculations, we have valued our intangible assets based on our market capitalization, determined using the market price of our common shares. Such market price may fluctuate. If our market capitalization is less than anticipated or subsequently declines, this will decrease the value of our intangible assets and we may be a PFIC. Furthermore, we have made a number of assumptions regarding the value of our intangible assets. We believe our valuation approach is reasonable. However, it is possible that the IRS could challenge the valuation of our intangible assets, which may result in our being a PFIC.

We do not believe that we were a PFIC for our prior taxable year and we intend to conduct our business so that we should not be treated as a PFIC for our current taxable year or any future taxable year. However, because the PFIC determination is highly fact intensive and made at the end of each taxable year, it is possible that we may be a PFIC for the current or any future taxable year or that the IRS may challenge our determination concerning our PFIC status.

Default PFIC Rules under Section 1291 of the Code. If we are a PFIC, the U.S. federal income tax consequences to a U.S. Holder of an investment in common shares will depend on whether such U.S. Holder is permitted to make and makes (i) an election to treat us as a qualified electing fund ("QEF") under Section 1295 of the Code (a "QEF Election") or (ii) a mark-to-market election under Section 1296 of the Code (a "Mark-to-Market Election"). A U.S. Holder owning common shares while we were or are a PFIC that has not made either a QEF Election or a Mark-to-Market Election

will be referred to in this summary as a "Non-Electing U.S. Holder."

If you are a Non-Electing U.S. Holder, you will be subject to the default tax rules of Section 1291 of the Code with respect to:

- any "excess distribution" paid on common shares, which means the excess (if any) of the total distributions received by you during the current taxable year over 125% of the average distributions received by you during the three preceding taxable years (or during the portion of your holding period for the common shares prior to the current taxable year, if shorter); and
- any gain recognized on the sale or other taxable disposition (including a pledge) of common shares.

Under these default tax rules:

- any excess distribution or gain will be allocated ratably over your holding period for the common shares;
- the amount allocated to the current taxable year and any period prior to the first day of the first taxable year in which we were a PFIC will be treated as ordinary income in the current year;
- the amount allocated to each of the other years will be treated as ordinary income and taxed at the highest applicable tax rate in effect for that year; and
- the resulting tax liability from any such prior years will be subject to the interest charge applicable to underpayments of tax.

In addition, notwithstanding any election you may make, dividends that you receive from us will not be eligible for the preferential tax rates applicable to QDI (as discussed above in "—Distributions on Common Shares") if we are a PFIC either in the taxable year of the distribution or the preceding taxable year, but will instead be taxable at rates applicable to ordinary income.

Special rules for Non-Electing U.S. Holders will apply to determine U.S. foreign tax credits with respect to foreign taxes imposed on distributions on common shares.

If we are a PFIC for any taxable year during which you hold common shares, we will continue to be treated as a PFIC with respect to you for all succeeding years during which you hold common shares, regardless of whether we actually continue to be a PFIC.

QEF Election. We currently do not intend to prepare or provide you with certain tax information that would permit you to make a QEF Election to avoid the adverse tax consequences associated with owning PFIC stock.

Mark-to-Market Election. U.S. Holders may make a Mark-to-Market Election, but only if the common shares are marketable stock. The common shares will be "marketable stock" as long as they remain listed on the NYSE and are regularly traded. Shares are "regularly traded" for any calendar year during which it is traded (other than in de minimis quantities) on at least fifteen days during each calendar quarter. There can be no assurances, however, that our common shares will be treated, or continue to be treated, as regularly traded.

If you make a Mark-to-Market Election, you generally will not be subject to the default rules of Section 1291 of the Code discussed above. Rather, you will be required to recognize ordinary income for any increase in the fair market value of the common shares for each taxable year that we are a PFIC. You will also be allowed to deduct as an ordinary loss any decrease in the fair market value to the extent of net marked-to-market gain previously included in prior years. Your adjusted tax basis in the common shares will be adjusted to reflect the amount included or deducted.

The Mark-to-Market Election will be effective for the taxable year for which the election is made and all subsequent taxable years, unless the common shares cease to be marketable stock or the IRS consents to the revocation of the election. You should consult your own tax advisor regarding the availability of, and procedure for making, a Mark-to-Market Election.

Since the PFIC rules are complex, you should consult your own tax advisor regarding them and how they may affect the U.S. federal income tax consequences of an investment in common shares.

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Medicare Tax

Certain U.S. persons, including individuals, estates and trusts, may be required to pay an additional 3.8% on, among other things, dividends and capital gains from the sale or disposition of Common Shares. For individuals, the additional Medicare tax applies to the lesser of (i) “net investment income” or (ii) the excess of “modified adjusted gross income” over $200,000 ($250,000 if married and filing jointly or $125,000 if married and filing separately). “Net investment income” generally equals the taxpayer’s gross investment income reduced by the deductions that are allocable to such income. U.S. Holders likely will not be able to credit foreign taxes against the 3.8% Medicare tax. You should consult your tax advisors regarding the implications of the additional Medicare tax resulting from your ownership and disposition of our common shares.

Information Reporting and Backup Withholding

Information reporting requirements will apply to distributions on common shares or proceeds from the disposition of common shares paid within the U.S. (and, in certain cases, outside the U.S.) to a U.S. Holder unless such U.S. Holder is an exempt recipient, such as a corporation. Furthermore, backup withholding (currently at 28%) may apply to such amounts unless such U.S. Holder (i) is an exempt recipient that, if required, establishes its right to an exemption, or (ii) provides its taxpayer identification number, certifies that it is not currently subject to backup withholding, and complies with other applicable requirements. A U.S. Holder may avoid backup withholding if it furnishes a properly completed IRS Form W-9 and is able to make the required certifications.

Backup withholding is not an additional tax. Rather, amounts withheld under the backup withholding rules may be credited against your U.S. federal income tax liability. Furthermore, you may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS and furnishing any required information in a timely manner.

Information Reporting Regarding PFICs and Specified Foreign Financial Assets

If we are a PFIC, all U.S. Holders may be required to file annual tax returns (including on Form 8621) containing such information as the U.S. Treasury requires.

U.S. Holders who are individuals will be subject to reporting obligations with respect to their common shares if they do not hold their common shares in an account maintained by a financial institution and the aggregate value of their common shares and certain other “specified foreign financial assets” exceeds $50,000. Significant penalties can apply if a U.S. Holder is required to disclose its common shares under these rules and fails to do so.

In the event a U.S. Holder does not file the information reports described above relating to ownership of a PFIC or disclosure of specified foreign financial assets, the statute of limitations on the assessment and collection of U.S. federal income taxes of such U.S. holder for the related tax year will not close before such report is filed.

If you are a U.S. Holder, you are urged to consult with your own tax advisor regarding the application of the PFIC and specified foreign financial assets information reporting requirements and related statute of limitations tolling provisions with respect to our common shares.

Taxation of Non-U.S. Holders

Distributions on Common Shares

Subject to the discussion in "—Information Reporting and Backup Withholding" below, as a Non-U.S. Holder, you generally will not be subject to U.S. federal income tax, including withholding tax, on distributions received on common shares, unless the distributions are effectively connected with a trade or business that you conduct in the U.S. and (if an applicable income tax treaty so requires) attributable to a permanent establishment that you maintain in the U.S.

If distributions are effectively connected with a U.S. trade or business and (if applicable) attributable to a U.S. permanent establishment, you will be subject to tax on such distributions in the same manner as a U.S. Holder, as

described in "Taxation of U.S. Holders – Distributions on Common Shares" above. In addition, any such distributions received by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

Dispositions of Common Shares

Subject to the discussion in "—Information Reporting and Backup Withholding" below, as a Non-U.S. Holder, you generally will not be subject to U.S. federal income tax, including withholding tax, on any gain recognized on a sale or other taxable disposition of common shares, unless (i) the gain is effectively connected with a trade or business that you conduct in the U.S. and (if an applicable income tax treaty so requires) attributable to a permanent establishment that you maintain in the U.S., or (ii) you are an individual and are present in the U.S. for at least 183 days in the taxable year of the disposition, and certain other conditions are met.

If you meet the test in clause (i) above, you generally will be subject to tax on any gain that is effectively connected with your conduct of a trade or business in the U.S. in the same manner as a U.S. Holder, as described in "Taxation of U.S. Holders – Dispositions of Common Shares" above. Effectively connected gain realized by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

If you meet the test in clause (ii) above, you generally will be subject to tax at a 30% rate on the amount by which your U.S. source capital gain exceeds your U.S. source capital loss during the taxable year.

Information Reporting and Backup Withholding

Payments to Non-U.S. Holders of distributions on, or proceeds from the disposition of, common shares are generally exempt from information reporting and backup withholding. However, a Non-U.S. Holder may be required to establish that exemption by providing certification of non-U.S. status on an appropriate IRS Form W-8.

Backup withholding is not an additional tax. Rather, amounts withheld under the backup withholding rules may be credited against your U.S. federal income tax liability. Furthermore, you may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS and furnishing any required information in a timely manner.

F. Dividends and Paying Agents
Not applicable.

G. Statement by Experts
Not applicable.

H. Documents on Display
Whenever a reference is made in this Annual Report on Form 20-F to any contract, agreement or other document, the reference may not be complete, and you should refer to the copy of that contract, agreement or other document filed as an exhibit to one of our previous SEC filings. You can read our SEC filings over the Internet at the SEC's website at http://www.sec.gov. You may also read and copy any document we file with the SEC at its public reference facilities at 100 F Street N.E., Washington, D.C. 20549. You may also obtain copies of these documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. Copies of reports and other information may also be inspected in the offices of the NYSE, 20 Broad Street, New York, New York 10005.

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I. Subsidiary Information
Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
Market risk represents the risk of changes in value of a financial instrument, derivative or non-derivative, caused by fluctuations in foreign exchange rates and interest rates. Changes in these factors could cause fluctuations in our results of operations and cash flows. We are exposed to the market risks described below.

Foreign Exchange Rate Risk. Although we have significant foreign-based operations, the U.S. dollar is our primary operating currency. Thus, substantially all of our revenue and the majority of our expenses in 2018, 2017 and 2016 were denominated in U.S. dollars. During 2018, 2017 and 2016, 19%, 25% and 36%, respectively, of our direct container expenses were paid in up to 20 different foreign currencies, respectively. We do not hedge these container expenses as there are no significant payments made in any one foreign currency. Foreign exchange fluctuations did not materially impact our financial results in those periods.

Interest Rate Risk. We have entered into various interest rate swap, collar and cap agreements to mitigate our exposure associated with our variable rate debt. The swap agreements involve payments by us 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 gain (loss) on interest rate swaps, collars and caps, net in the consolidated statements of comprehensive income (loss).

As of December 31, 2018, 2017 and 2016, none of the derivative instruments we have entered into qualify for hedge accounting. The fair value of the derivative instruments is measured at each of these balance sheet dates and the change in fair value is recorded in the consolidated statements of comprehensive income (loss) as unrealized (loss) gain on interest rate swaps, collars and caps, net.

We utilize a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs which are observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs which are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, which 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; and Level 3 inputs which are unobservable inputs that reflect the reporting entity's own assumptions.

We use the exchange price notion, which 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).

Our liability valuation reflects our credit standing and the credit standing of the counterparties to the interest rate swaps and caps. The valuation technique we utilized to calculate the fair value of the interest rate swaps, collars and caps was the income approach. This approach represents the present value of future cash flows based upon current market expectations.

The notional amount of the interest rate swap agreements was $987,967 as of December 31, 2018, with expiration dates between February 2019 and January 2023. We receive fixed rates between 0.70% and 2.94% under the interest

rate swap agreements. The net fair value asset of these agreements was $1,916 and $7,580 as of December 31, 2018 and 2017, respectively.

The notional amount of the interest rate collar agreements was $0 as of December 31, 2018. The net fair value of these agreements was an asset of $0 and $127 as of December 31, 2018 and 2017, respectively.

The notional amount of the interest rate cap agreements was $240,000 as of December 31, 2018, with expiration dates between June 2019 and August 2021.

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Based on the average debt balances and derivative instruments for the year ended December 31, 2018, it is estimated that a 1% increase in interest rates would result in a net increase of $10,363 in interest expense and realized gain on interest rate swaps, collars and caps, net. It would also result in an increase in the fair value of interest rate swaps, collars and caps, net of $16,016.

Quantitative and Qualitative Disclosures About Credit Risk

We maintain detailed credit records about our container lessees. Our credit policy sets different maximum exposure limits for our container lessees. Credit criteria may include, but are not limited to, container lessee trade route, country, social and political climate, assessments of net worth, asset ownership, bank and trade credit references, credit bureau reports, including those from Dynamar B.V. or “Dynamar,” and Lloyd’s Marine Intelligence Unit (common credit reporting agencies used in the maritime sector), operational history and financial strength. We monitor our container lessees’ performance and our lease exposures on an ongoing basis, and our credit management processes are aided by the long payment experience we have with most of our container lessees and our broad network of long-standing relationships in the shipping industry that provide current information about our container lessees. In managing this risk, we also make an allowance for doubtful accounts. The allowance for doubtful accounts is developed based on two key components:

- specific reserves for receivables which are impaired for which management believes full collection is doubtful; and
- reserves for estimated losses inherent in the receivables based upon historical trends.

As of December 31, 2018, approximately 94.9% of accounts receivable for our total fleet and 98.4% of the finance lease receivables were from container lessees and customers outside of the U.S. Customers in the PRC (including Hong Kong), Taiwan, Switzerland, France and Singapore accounted for approximately 15.0%, 14.6%, 14.1%, 13.8% and 10.5%, respectively, of our total fleet container lease billings for 2018. Customers in no other country accounted for greater than 10.0% of our total fleet container lease billings for the same period.

An allowance for doubtful accounts of $4,082 has been established against receivables as of December 31, 2018 for our owned fleet. During 2018, receivable write-offs from the allowance for doubtful accounts, net of recoveries, totaled $4,390 for our owned fleet.

For further discussion, see Note 1 “Nature of Business and Summary of Significant Accounting Policies” to our consolidated statements in Item 18, “Financial Statements” in this Annual Report on Form 20-F.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

On October 15, 2007, we completed our initial public offering of our common shares at a price of $16.50 per share and listed our common shares on the New York Stock Exchange (“NYSE”) under the symbol “TGH.” We sold an aggregate of 9,000,000 of our common shares and generated proceeds of $138.0 million, after deducting underwriting discounts and other offering expenses. The managing underwriters of our initial public offering were Credit Suisse Securities (USA) LLC, Wachovia Capital Markets, LLC, Jefferies & Company, Inc., Piper Jaffray & Co. and Fortis Securities LLC. There have been no material modifications to the rights of our security holders and the use of proceeds from our initial public offering previously disclosed in our registration statement on Form F-1 (File No. 333-146304) filed by us in connection with our initial public offering.

On September 19, 2012, we completed an underwritten public offering of an aggregate of 8,625,000 of our common shares at a price of $31.50. We sold 6,125,000 new common shares, which were listed on the NYSE under the symbol “TGH” and Halco Holdings Inc. (“Halco”) sold 2,500,000 of its existing common shares. We received $184.8 million after deducting underwriting discounts and other offering expenses. The managing underwriters of our public offering were Merril Lynch, Pierce, Fenner & Smith Incorporated, Wells Fargo Securities, LLC and Credit Suisse Securities (USA) LLC. There have been no material modifications to the rights of our security holders and the use of proceeds from our public offering previously disclosed in our registration statement on Form F-3 (File No. 333-171410) and related prospectus supplements filed by us in connection with our public offering.

ITEM 15. CONTROLS AND PROCEDURES

A. Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our “disclosure controls and procedures” (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2018.

The “disclosure controls and procedures” means our controls and other procedures that are designed to provide reasonable assurance that the information required to be disclosed by us in the reports that we filed or submitted to the SEC, such as this Annual Report on Form 20-F, was (1) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based upon that evaluation, it was concluded that, because of the material weakness as described below in B. “Management’s Annual Report on Internal Control Over Financial Reporting”, the disclosure controls and procedures were not effective as of December 31, 2018.

Management fees related to the leasing of containers owned by third-party investors were historically presented in the consolidated financial statements on a “net basis”, but it was determined in 2018 that the revenue and associated expenses should have been presented on a “gross basis”. The management agreements for managed containers were

re-evaluated and it was determined these arrangements convey to the Company the right to control the use of the managed fleet, irrespective of ownership and therefore deemed a lease as defined by U.S. generally accepted accounting principles ("U.S. GAAP") and does not affect or change the legal nature and commercial consequences associated with these management agreements. The containers are deemed to be leased to us from the third party owners who at all times carry the risk and benefits of ownership of the managed containers. The change in the revenue presentation for the managed fleet from "net" to "gross" amounts has no effect on our "net income

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(loss)" in the consolidated statements of comprehensive income (loss). In addition, as a result of the lease reclassification, the associated acquisition fees should have been amortized over the term of the management agreement instead of recognized as earned when the containers were sold to the third-party owner. The impact of these changes is described in Note 2 "Immaterial Reclassification and Adjustment of Prior Periods" in Item 18, "Financial Statements" in this Annual Report on Form 20-F.

B. Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Management, including our Chief Executive Officer and Chief Financial Officer under the oversight of our Board of Directors, assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria for effective internal control over financial reporting described in "Internal Control-Integrated Framework (2013)," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Our internal control over financial reporting consists of policies and procedures that are designed and operated to provide reasonable assurance about the reliability of our financial reporting and the preparation and fair presentation of financial statements in accordance with U.S. GAAP. A company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

In connection with the evaluation of internal control over financial reporting for the year ended December 31, 2018, the following deficiency was considered to be a material weakness and therefore it was concluded that at December 31, 2018, internal control over financial reporting was ineffective. A control to re-evaluate and confirm the appropriate accounting for management agreements entered into in prior periods associated with the managed fleet did not exist. This was due to the risk assessment process not identifying the potential risk of the accounting for these agreements not complying with applicable accounting standards.

As a result of the deficiency, an immaterial restatement of the prior periods consolidated financial statements was recorded as described in Note 2 "Immaterial Reclassification and Adjustment of Prior Periods" in Item 18, "Financial Statements" in this Annual Report on Form 20-F.

All internal control systems and procedures, no matter how well designed, have inherent limitations. Therefore, even those internal control systems and procedures determined to be effective may not prevent or detect misstatements and

can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our internal control over financial reporting as of December 31, 2018 has been audited by KPMG LLP, an independent registered public accounting firm, who has issued an adverse opinion on the effectiveness of internal control over financial reporting, which is included under Item 18, “Financial Statements” on page F-3 in this Annual Report on Form 20-F.

C. Changes in Internal Control Over Financial Reporting

Other than the material weakness identified and the remediation described below, there have been no changes in the Company’s internal control over financial reporting that occurred during the fourth quarter that have

materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

D. Remediation

Management is in the process of remediating the control issue identified above through implementation of a control to reassess prior accounting positions at least annually. We believe that these actions will adequately address the control deficiency and will be considered remediated when management has concluded, through testing, that these controls are operating effectively.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

In accordance with New York Stock Exchange ("NYSE") rules, we have an audit committee responsible for advising the board regarding the selection of independent auditors and evaluating our internal controls. As a foreign private issuer, we are not required to comply with NYSE requirements that our audit committee has a minimum of three members and that all of our audit committee members satisfy the NYSE's requirements for independence. Our audit committee has four members, Messrs. Shwiel, Cottingham, Brown and Nurek. Messrs. Shwiel and Cottingham are voting members of the audit committee and are independent as that term is defined in Rule 10A-3 under the Exchange Act. The board affirmatively determined that Messrs. Shwiel and Cottingham are audit committee financial experts. Mr. Shwiel is also the chairman of our board of directors. Mr. Nurek is a director of Trencor and has no voting rights. Mr. Brown is an administrator of LAPCO and has no voting rights. Our board of directors has adopted an audit committee charter effective October 9, 2007.

ITEM 16B. CODE OF ETHICS

We have adopted the Textainer Group Holdings Limited Code of Business Conduct and Ethics (the "Code of Business Conduct and Ethics"), which covers members of our board of directors and all of our employees (including our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions).

The Code of Business Conduct and Ethics addresses, among other things, the following items:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely and understandable disclosure in reports and documents that we file with, or submit to, the Securities and Exchange Commission and in other public communications made by us;
- compliance with applicable governmental laws, rules and regulations;
- the prompt internal reporting of violations of the code to an appropriate person or persons identified in the code; and
- accountability for adherence to the code.

During 2018, no waivers or amendments were made to the Code of Business Conduct and Ethics for any of our directors or executive officers. We have posted the text of the Code of Business Conduct and Ethics on our website at www.textainer.com.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES
Our audit committee pre-approves all services provided by our principal accountants, KPMG LLP. All of the services and fees described below were reviewed and pre-approved by our audit committee. Our audit committee has delegated to the chairman of the audit committee certain limited authority to grant pre-approvals. These decisions to pre-approve a service must be presented to the full audit committee at its next scheduled meeting.

The following is a summary of the fees billed to us by our principal accountants for professional services rendered for 2018 and 2017:

	2018	2017
Fee Category	Fees	Fees
Audit Fees	$1,835	$1,766
Audit-Related Fees	173	195
Tax Fees	14	22
Total Fees	$2,022	$1,983

Audit Fees-- Consists of fees billed for professional services rendered for the audit of our financial statements and services that are normally provided by our principal accountants in connection with statutory and regulatory filings or engagements.

Audit-Related Fees—Consists of fees for attestation related services other than those described above as Audit fees. Fees for both 2018 and 2017 were related to the performance of agreed upon procedures on certain specific lender requirements.

Tax Fees-- Consists of fees billed for professional services for tax compliance, tax advice and tax planning.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES
We rely on the exemption afforded by Rule 10A-3(b)(1)(iv)(D) under the Exchange Act. One of the four members of our audit committee (Mr. Nurek) is a director of Trencor and one of the audit committee members (Mr. Brown) is an administrator of LAPCO. Neither Mr. Nurek or Mr. Brown are voting members nor chairpersons of our audit committee nor one of our executive officers. We believe that such reliance does not materially adversely affect the ability of the audit committee to act independently or to satisfy the other requirements of Rule 10A-3.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS
None.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT
None.

ITEM 16G. CORPORATE GOVERNANCE

Our corporate governance practices are in compliance with, and are not prohibited by, the laws of Bermuda. Therefore, we are exempt from many of the New York Stock Exchange's ("NYSE") corporate governance practices, other than the establishment of a formal audit committee satisfying the requirements of Rule 10A-3 under the Exchange Act and notification of non-compliance with NYSE listing requirements pursuant to Rule 10A-3 promulgated under the Exchange Act. The practices that we follow in lieu of the NYSE's corporate governance rules are described below.

- We do not, and are not required under Bermuda law to, maintain a board of directors with a majority of independent directors. Currently, four of our eight directors are not independent, as that term is defined by the NYSE.
- We are not required by Bermuda law to hold regular meetings of the board of directors at which only independent directors are present.
- Mr. Shwiel serves as the Chairman of our board of directors and he has been determined to be independent under applicable NYSE rules. If the Chairman of our board of directors is not an independent director, our Corporate Governance Guidelines provide that a lead independent director who is an independent director as defined by applicable NYSE rules will be appointed and annually elected by the independent directors of the board. The lead independent director will be responsible for coordinating the activities of the independent directors and shall perform such other duties and responsibilities as the board may determine. In addition to the duties of all board members, the specific responsibilities of the lead independent director are as follows:
- Act as the principal liaison between the independent directors of the board and the chairman of the board;
- Develop the agenda for and preside at executive sessions of the board's independent directors when needed;
- If requested by the chairman, approve with the chairman of the board the agenda for board and board committee meetings and the need for special meetings of the board, and service as deputy board chairman;
- Advise the chairman of the board as to the quality, quantity and timeliness of the information submitted by the Company's management that is necessary or appropriate for the independent directors to effectively and responsibly perform their duties;
- Recommend to the board the retention of advisors and consultants who report directly to the board;
- Assist the board and Company officers in better ensuring compliance with and implementation of the Corporate Governance Guidelines;
- Serve as chairman of the board when the chairman is not present; and
  - Serve as a liaison for consultation and communication with shareholders.
- Under Bermuda law, compensation of executive officers need not be determined by an independent committee. We have established a compensation committee that reviews and approves the compensation and benefits for our executive officers and other key executives, makes recommendations to the board regarding compensation matters and is responsible for awarding compensation to our executive officers and other employees under our share compensation plans. The committee also has the discretion to interpret and amend the terms of, and take all other actions necessary to administer, the 2015 Share Incentive Plan. However, our compensation committee is not comprised solely of independent directors, as required by NYSE standards. The members of our compensation committee are Messrs. Cottingham, Maccarone, Nurek and Shwiel. Mr. Nurek is a director of Trencor. Messrs. Cottingham, Maccarone and Shwiel satisfy the NYSE's standards for director independence. Our board of directors has also adopted a compensation committee charter.

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- We have established an audit committee responsible for (i) advising the board regarding the selection of independent auditors, (ii) overseeing the Company's accounting and financial reporting processes, (iii) evaluating our internal controls, and (iv) overseeing compliance with policies and legal requirements with respect to financial reporting. Our audit committee need not comply with the NYSE's requirements that the audit committee have a minimum of three members or the NYSE's standards of independence for domestic issuers. Our audit committee has four members, Messrs. Cottingham, Nurek, Brown and Shwiel. Messrs. Cottingham and Shwiel are voting members of the committee and are independent as that term is defined in Rule 10A-3 under the Exchange Act. Mr. Nurek is a director of Trencor and has no voting rights on the audit committee. Mr. Brown is an administrator of LAPCO and has no voting rights on the audit committee. Our board of directors has also adopted an audit committee charter.
- We have established a nominating and governance committee, although this committee is not comprised solely of independent directors, as would be required of a domestic issuer. Our nominating and governance committee has five members, Messrs. Cottingham, Maccarone, Nurek, Van der Merwe and Shwiel. Messrs. Cottingham, Maccarone and Shwiel satisfy the NYSE's standards for director independence. Our board of directors has also adopted a nominating and governance committee charter.
- Under Bermuda law, we are not required to obtain shareholder consent prior to issuing securities or adopting share compensation plans. Nonetheless, we sought and received the approval of our shareholders for our 2007 Share Incentive Plan on September 4, 2007 and on May 21, 2015 we received shareholder approval for the amendment and restatement of our 2007 Share Incentive Plan as the 2015 Share Incentive Plan. We are also required under Bermuda law to obtain the consent of the Bermuda Monetary Authority for the issuance of securities in certain circumstances.
- Under Bermuda law, we are not required to adopt corporate governance guidelines or a code of business conduct. Nonetheless, we have adopted both corporate governance guidelines and a code of business conduct.
- As a foreign private issuer, we are not required to solicit proxies or provide proxy statements to the NYSE. However, we have provided a proxy statement to the NYSE and expect to continue to do so in the future.

PART III

ITEM 17. FINANCIAL STATEMENTS
We have responded to Item 18 “Financial Statements.”

ITEM 18. FINANCIAL STATEMENTS
Reference is made to pages F-1 through F-47 and is incorporated herein by reference.

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ITEM 19. EXHIBITS
The exhibits filed as part of this Annual Report on Form 20-F are listed in the Exhibit Index.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Textainer Group Holdings Limited:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Textainer Group Holdings Limited and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 2018, and the related notes and financial statement schedules I to II (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 22, 2019 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 1987.

San Francisco, California
March 22, 2019

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Textainer Group Holdings Limited:

Opinion on Internal Control Over Financial Reporting

We have audited Textainer Group Holdings Limited and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, because of the effect of the material weakness, described below, on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes and financial statement schedules I to II (collectively, the "consolidated financial statements"), and our report dated March 22, 2019 expressed an unqualified opinion on those consolidated financial statements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness related to the absence of a control to re-evaluate and confirm the appropriate accounting for management agreements entered into in prior periods associated with the managed fleet has been identified and included in management's assessment. This was due to the risk assessment process not identifying the potential risk of the accounting for these agreements not complying with applicable accounting standards. The material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2018 consolidated financial statements, and this report does not affect our report on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit

also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting

includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

San Francisco, California
March 22, 2019

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TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31, 2018, 2017 and 2016

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

	2018	2017	2016
Revenues:			
Lease rental income - owned fleet	$501,362	$444,888	$460,427
Lease rental income - managed fleet (1)	111,342	104,566	105,511
Lease rental income	612,704	549,454	565,938
Management fees - non-leasing (2)	8,529	7,146	5,937
Trading container sales proceeds (2)	19,568	4,758	15,628
Cost of trading containers sold (2)	(16,118)	(3,302)	(15,904)
Trading container margin	3,450	1,456	(276)
Gain on sale of owned fleet containers, net	36,071	26,210	6,761
Operating expenses:			
Direct container expense - owned fleet	58,813	60,321	62,596
Distribution to managed fleet owners (1)	102,992	96,718	98,028
Depreciation expense	235,705	231,043	236,144
Container impairment	26,775	8,072	94,623
Amortization expense	3,721	4,092	5,053
General and administrative expense (2)	44,317	39,677	34,540
Bad debt expense, net	2,697	477	21,166
Gain on insurance recovery	(8,692)	—	—
Total operating expenses	466,328	440,400	552,150
Income from operations	194,426	143,866	26,210
Other (expense) income:			
Interest expense	(138,427)	(117,475)	(85,215)
Write-off of unamortized deferred debt issuance costs and bond discounts	(881)	(7,550)	—
Interest income	1,709	613	408
Realized gain (loss) on interest rate swaps, collars and caps, net	5,238	(1,191)	(8,928)
Unrealized (loss) gain on interest rate swaps, collars and caps, net	(5,790)	4,094	6,210
Other, net	—	3	(8)
Net other expense	(138,151)	(121,506)	(87,533)
Income (loss) before income tax and noncontrolling interests	56,275	22,360	(61,323)
Income tax (expense) benefit, net	(2,025)	(1,618)	3,447
Net income (loss)	54,250	20,742	(57,876)
Less: Net (income) loss attributable to the noncontrolling interests	(3,872)	(1,377)	5,393

Net income (loss) attributable to Textainer Group Holdings Limited common shareholders	$50,378	$19,365	$(52,483)
Net income (loss) attributable to Textainer Group Holdings Limited common shareholders per share:			
Basic	$0.88	$0.34	$(0.93)
Diluted	$0.88	$0.34	$(0.93)
Weighted average shares outstanding (in thousands):			
Basic	57,200	56,845	56,608
Diluted	57,487	57,159	56,608
Other comprehensive income (loss):			
Foreign currency translation adjustments	(127)	207	(233)
Comprehensive income (loss)	54,123	20,949	(58,109)
Comprehensive (income) loss attributable to the noncontrolling interest	(3,872)	(1,377)	5,393
Comprehensive income (loss) attributable to Textainer Group Holdings Limited common shareholders	$50,251	$19,572	$(52,716)

(1) Certain amounts for the years ended December 31, 2017 and 2016 have been reclassified to present the gross amounts of lease rental income and expenses for the managed fleet instead of the net presentation (see Note 2 “Immaterial Reclassification and Adjustment of Prior Periods”).

(2) Amounts for the years ended December 31, 2017 and 2016 have been reclassified to conform with 2018 presentation (see Note 1 (t) “Reclassifications and Changes in Presentation”).

See accompanying notes to consolidated financial statements.

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TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

(All currency expressed in United States dollars in thousands)

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	137,298	$137,894
Accounts receivable, net of allowance for doubtful accounts of $4,082 and $5,775 in 2018 and 2017, respectively	110,222	78,312
Net investment in direct financing and sales-type leases	39,270	56,959
Trading containers	40,852	10,752
Containers held for sale	21,874	22,089
Prepaid expenses and other current assets	12,855	12,243
Insurance receivable	9,814	15,909
Due from affiliates, net	1,692	1,134
Total current assets	373,877	335,292
Restricted cash	87,630	99,675
Containers, net of accumulated depreciation of $1,322,221 and $1,172,355 at 2018 and 2017, respectively	4,134,016	3,791,610
Net investment in direct financing and sales-type leases	127,790	125,665
Fixed assets, net of accumulated depreciation of $11,525 and $10,788 at 2018 and 2017, respectively	2,066	2,151
Intangible assets, net of accumulated amortization of $43,266 and $44,279 at 2018 and 2017, respectively	7,384	11,105
Interest rate swaps, collars and caps	5,555	7,787
Deferred taxes	2,087	1,563
Other assets	3,891	5,494
Total assets	$4,744,296	$4,380,342
Liabilities and Equity		
Current liabilities:		
Accounts payable	$5,151	$6,867
Accrued expenses (1)	20,023	17,610
Container contracts payable	42,710	131,087
Other liabilities	219	235
Due to owners, net	8,322	11,131
Debt, net of unamortized deferred financing costs of $5,738 and $3,989 at 2018 and 2017, respectively	191,689	233,681
Total current liabilities	268,114	400,611
Debt, net of unamortized deferred financing costs of $22,248 and $20,045 at 2018 and 2017, respectively	3,218,138	2,756,627
Interest rate swaps, collars and caps	3,639	81

Income tax payable	9,570	9,081
Deferred taxes	7,039	5,881
Other liabilities	1,805	2,024
Total liabilities	3,508,305	3,174,305
Equity:		
Textainer Group Holdings Limited shareholders' equity:		
Common shares, $0.01 par value. Authorized 140,000,000 shares; 58,032,164 shares issued and 57,402,164 shares outstanding at 2018; 57,727,220 shares issued and 57,097,220 shares outstanding at 2017	581	578
Additional paid-in capital	406,083	397,821
Treasury shares, at cost, 630,000 shares	(9,149)	(9,149)
Accumulated other comprehensive loss	(436)	(309)
Retained earnings (1)	809,734	759,356
Total Textainer Group Holdings Limited shareholders' equity	1,206,813	1,148,297
Noncontrolling interest	29,178	57,740
Total equity	1,235,991	1,206,037
Total liabilities and equity	$4,744,296	$4,380,342

(1) Certain amounts as of December 31, 2017 have been adjusted to defer acquisition fees of the managed fleet as earned over the deemed lease term (see Note 2 “Immaterial Reclassification and Adjustment of Prior Periods”).

See accompanying notes to consolidated financial statements.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Consolidated Statements of Shareholders’ Equity

Years ended December 31, 2018, 2017 and 2016

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

	Textainer Group Holdings Limited Shareholders' Equity									
	Common shares		Treasury shares		Additional paid-in	Accumulated other comprehensive income	Retained	Total Textainer Group Holdings Limited	Noncontrolling	Total
	Shares	Amount	Shares	Amount	capital	(loss)	earnings	shareholders' equity	interest	equity
Balances, December 31, 2015 (1)	57,163,095	$572	(630,000)	$(9,149)	$385,020	$(283)	$821,228	$1,197,388	$64,252	$1,261,640
Dividends to shareholders ($0.51 per common share)	—	—	—	—	—	—	(28,754)	(28,754)	—	(28,754)
Restricted share units vested	254,024	3	—	—	(3)	—	—	—	—	—
Share-based compensation expense	—	—	—	—	6,573	—	—	6,573	—	6,573
Net tax benefit from share options exercised and restricted share units vested	—	—	—	—	(810)	—	—	(810)	—	(810)
Comprehensive loss:										
Net loss attributable to Textainer Group	—	—	—	—	—	—	(52,483)	(52,483)	—	(52,483)

Holdings Limited common shareholders										
Net loss attributable to noncontrolling interests	—	—	—	—	—	—	—	—	(5,393)	(5,393)
Foreign currency translation adjustments	—	—	—	—	—	(233)	—	(233)	—	(233)
Total comprehensive loss										(58,109)
Balances, December 31, 2016 (1)	57,417,119	575	(630,000)	(9,149)	390,780	(516)	739,991	1,121,681	58,859	1,180,540
Dividends paid to noncontrolling interest	—	—	—	—	—	—	—	—	(2,496)	(2,496)
Restricted share units vested	244,633	2	—	—	(2)	—	—	—	—	—
Exercise of share options	65,468	1	—	—	960	—	—	961	—	961
Share-based compensation expense	—	—	—	—	6,083	—	—	6,083	—	6,083
Comprehensive income:										
Net income attributable to Textainer Group Holdings Limited common shareholders	—	—	—	—	—	—	19,365	19,365	—	19,365
Net income attributable to noncontrolling interests	—	—	—	—	—	—	—	—	1,377	1,377
Foreign currency translation adjustments	—	—	—	—	—	207	—	207	—	207

Total comprehensive income										20,949
Balances, December 31, 2017 (1)	57,727,220	578	(630,000)	(9,149)	397,821	(309)	759,356	1,148,297	57,740	1,206,037
Dividends paid to noncontrolling interest	—	—	—	—	—	—	—	—	(1,996)	(1,996)
Restricted share units vested	289,685	3	—	—	(3)	—	—	—	—	—
Exercise of share options	15,259	—	—	—	130	—		130	—	130
Share-based compensation expense	—	—	—	—	7,355	—	—	7,355	—	7,355
TW Container Leasing, Ltd. capital restructuring	—	—	—	—	780	—	—	780	(30,438)	(29,658)
Comprehensive income:										
Net income attributable to Textainer Group Holdings Limited common shareholders	—	—	—	—	—	—	50,378	50,378	—	50,378
Net income attributable to noncontrolling interests	—	—	—	—	—	—	—	—	3,872	3,872
Foreign currency translation adjustments	—	—	—	—	—	(127)	—	(127)	—	(127)
Total comprehensive income										54,123
Balances, December 31, 2018	58,032,164	$581	(630,000)	$(9,149)	$406,083	$(436)	$809,734	$1,206,813	$29,178	$1,235,991

(1) Certain amounts for the years ended December 31, 2017, 2016 and 2015 have been adjusted to defer acquisition fees of the managed fleet as earned over the deemed lease term (see Note 2 “Immaterial Reclassification and Adjustment of Prior Periods”).

See accompanying notes to consolidated financial statements.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2018, 2017 and 2016

(All currency expressed in United States dollars in thousands)

	2018	2017	2016
Cash flows from operating activities:			
Net income (loss)	$54,250	$20,742	$(57,876)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation expense	235,705	231,043	236,144
Container impairment	26,775	8,072	94,623
Bad debt expense, net	2,697	477	21,166
Unrealized loss (gain) on interest rate swaps, collars and caps, net	5,790	(4,094)	(6,210)
Amortization and write-off of unamortized deferred debt issuance costs and accretion of bond discounts	9,531	20,814	9,704
Amortization of intangible assets	3,721	4,092	5,053
Gain on sale of owned fleet containers, net	(36,071)	(26,210)	(6,761)
Gain on insurance recovery	(8,692)	—	—
Share-based compensation expense	7,355	6,083	6,573
Decrease (increase) in:			
Accounts receivable, net	(30,604)	(6,672)	(11,935)
Trading containers, net	(30,100)	(6,389)	468
Prepaid expenses and other current assets	(612)	1,463	1,902
Insurance receivable	12,738	8,670	(20,072)
Due from affiliates, net	(558)	(265)	(354)
Other assets	1,603	2,581	(1,088)
Increase (decrease) in:			
Accounts payable	(1,716)	(5,193)	1,583
Accrued expenses	2,381	3,556	2,905
Deferred revenue and other liabilities	(235)	(265)	(290)
Due to owners, net	(2,809)	(7,001)	6,326
Long-term income tax payable	489	5	398
Deferred taxes, net	634	(534)	(4,365)
Total adjustments	198,022	230,233	335,770
Net cash provided by operating activities	252,272	250,975	277,894
Cash flows from investing activities:			
Purchase of containers and fixed assets	(854,383)	(300,125)	(505,528)
Payment for TW Container Leasing, Ltd. capital restructuring	(29,658)	—	—
Proceeds from sale of containers and fixed assets	147,254	135,299	126,560
Receipt of payments on direct financing and sales-type leases, net of income earned	63,847	66,846	90,343
Insurance proceeds received for unrecoverable containers	—	12,616	8,195
Net cash used in investing activities	(672,940)	(85,364)	(280,430)

Cash flows from financing activities:			
Proceeds from debt	2,029,025	1,729,580	582,500
Principal payments on debt	(1,608,753)	(1,770,715)	(551,586)
Debt issuance costs	(10,252)	(27,702)	(5,969)
Issuance of common shares upon exercise of share options	130	961	—
Net tax benefit from share-based compensation awards	—	—	(810)
Dividends paid to noncontrolling interest	(1,996)	(2,496)	—
Dividends paid to shareholders	—	—	(28,754)
Net cash provided by (used in) financing activities	408,154	(70,372)	(4,619)
Effect of exchange rate changes	(127)	207	(233)
Net (decrease) increase in cash, cash equivalents and restricted cash	(12,641)	95,446	(7,388)
Cash, cash equivalents and restricted cash, beginning of the year	237,569	142,123	149,511
Cash, cash equivalents and restricted cash, end of the year	$224,928	$237,569	$142,123
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest expense and realized loss on interest rate swaps, collars and caps, net	$123,581	$105,322	$83,881
Net income taxes paid	$1,138	$925	$1,503
Supplemental disclosures of noncash investing activities:			
(Decrease) increase in accrued container purchases	$(88,377)	$119,097	$(29,366)
Containers placed in direct financing and sales-type leases	$53,859	$9,378	$101,354
Decrease in insurance receivable due to a decrease in estimated unrecoverable containers	$2,049	$7,546	$—

See accompanying notes to consolidated financial statements.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018, 2017, and 2016

(All currency expressed in U.S. dollars in thousands, except per share amounts)

(1) Nature of Business and Summary of Significant Accounting Policies

(a) Nature of Operations

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 marine cargo containers. The Company manages and provides administrative support to the affiliated and unaffiliated owners' (the "Owners") container fleets.

The Company conducts its business activities in three main areas: Container Ownership, Container Management and Container Resale. These activities are described below (also see Note 13 "Segment Information").

Container Ownership

The Company's containers consist primarily of standard dry freight containers, but also include refrigerated and other special-purpose containers. These owned containers are financed through retained earnings; revolving credit facilities, secured debt facilities and a term loan provided by banks; bonds payable to investors; and a public offering of TGH's common shares. Expenses related to lease rental income of owned fleet primarily include direct container expenses, depreciation expense, container impairment and interest expense.

Container Management

The Company manages, on a worldwide basis, a fleet of containers for and on behalf of the Owners.

All rental operations are conducted worldwide in the name of the Company who, as agent for the Owners, acquires and sells containers, enters into leasing agreements and depot service agreements, bills and collects lease rentals from the lessees, disburses funds to depots for container handling, and remits net amounts, less management fees and commissions, to the Owners. Customer accounts receivable, fixed assets, and vendor payables arising from direct container operations of the Owners' fleet have been excluded from the Company's consolidated balance sheets.

Fees earned by the Company under the management agreements are typically a percentage of net operating income of each Owner's fleet and consist of fees for services related to the management of the containers, sales commissions and net acquisition fees earned on the acquisition of containers. Expenses related to the operation of the managed containers include storage, handling, repairs, repositioning, agent, insurance expense general and administrative expense.

The management agreements with the Owners convey to the Company the right to control the use of the managed containers, therefore meeting the definition of a lease. The management agreements have accordingly be deemed to be leases under the guidance of FASB Accounting Standards Codification 840, Leases ("ASC 840") and lease rental income and expenses arising from the operation of the managed fleet are therefore presented at a gross basis, whereby

revenue billed to shipping lines and expenses incurred and distributions to the owners of the managed fleet are presented in the Company's consolidated statements of comprehensive income (loss).

Container Resale

The Company buys and subsequently resells used containers (trading containers) from third parties. Container sales revenue represents the proceeds on the sale of containers purchased for resale. Cost of containers sold represents the cost of equipment purchased for resale that were sold as well as the related selling costs. The Company earns sales commissions related to the sale of the containers that it manages.

(b) Principles of Consolidation and Variable Interest Entity

The 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.

The Company determines whether it has a controlling financial interest in an entity by evaluating whether the entity is a variable interest entity ("VIE") or a voting interest entity ("VME"). If it is determined that the Company does not have a variable interest in the entity, no further analysis is required, and the Company does not consolidate the entity.

TAP Funding

On December 20, 2012, the Company's wholly-owned subsidiary, Textainer Limited ("TL"), purchased 50.1% of the outstanding common shares of TAP Funding Ltd. ("TAP Funding") (a Bermuda company) from TAP Ltd. ("TAP"). Both before and after this purchase, TAP Funding leases containers to lessees under operating, direct financing and sales-type leases. TAP is governed by members and management agreements and the Company's wholly-owned subsidiary, Textainer Equipment Management Limited ("TEML"), manages all of TAP Funding's containers, making day-to-day decisions regarding the marketing, servicing and design of TAP Funding's leases. TL's purchase of a majority ownership of TAP Funding's common shares allowed the Company to increase the size of its owned fleet at an attractive price. Under TAP Funding's members agreement, TL owns 50.1% and TAP owns 49.9% of the common shares of TAP Funding. As common shareholders, TL has two voting rights and TAP has one voting right of TAP Funding, with the exception of certain matters such as bankruptcy proceedings and the incurrence of debt and mergers and consolidations, which require unanimity. TL also has two seats and TAP has one seat on TAP Funding's board of directors. In addition, TL has an option to purchase the remaining outstanding common shares of TAP Funding held by TAP during the period beginning January 1, 2023 and through December 31, 2024 for a purchase price equal to the equity carrying value of TAP Funding plus 6% of TAP's percentage ownership interest in TAP Funding minus the sum of any and all U.S. federal, state and local taxes of any nature that would be recognized by TL if TAP Funding was liquidated by TL immediately after TL purchased its shares.

TAP Funding is a VME and the Company consolidates TAP Funding as the Company has a controlling financial interest in TAP Funding, in which TL owns 50% or more voting interest. TAP Funding's profits and losses are allocated to TL and TAP on the same basis as their ownership percentages. The equity owned by TAP in TAP Funding is shown as a noncontrolling interest on the Company's consolidated balance sheets and the net income (loss) attributable to the noncontrolling interest's operations is shown as net (income) loss attributable to the noncontrolling interests on the Company's consolidated statements of comprehensive income (loss).

TWCL

The Company had a joint venture, TW Container Leasing, Ltd. ("TW") (a Bermuda company), between TL and Wells Fargo Container Corp. ("WFC"). TL owned 25% and WFC owned 75% of the common shares and related voting rights of TW. The purpose of TW was to lease containers to lessees under direct financing leases. TW was governed by members, credit and management agreements. Under the management agreement, TEML managed all of TW's containers, making day-to-day decisions regarding the marketing, servicing and design of TW's direct financing leases.

TL also had two seats and WFC had six seats on TW's board of directors, with each seat having equal voting rights, provided, however, that the approval of at least one TL-appointed director is required for any action of

the board of directors. In October 2018, TL entered into an agreement to purchase 75% of the total outstanding common shares of TW from WFC for a cash consideration of $29,658. After the acquisition, TW became a wholly-owned subsidiary of TL. The Company accounted for this equity transaction as a reduction in the related noncontrolling interest.

Prior to the capital restructuring, the Company had determined that it had a variable interest in TW and that TW was a VIE. The Company consolidated TW as the Company had determined that it was the primary beneficiary of TW by its equity ownership in the entity and by virtue of its role as manager of the vehicle, namely that the Company had the power to direct the activities of TW that most significantly impact TW's economic performance. After the capital restructuring which was effective on October 1, 2018, TW became a wholly-owned subsidiary or a VME of TL. Therefore, the Company retains its controlling financial interest and continues to include TW's financial statements in its consolidated financial statements. As a result of the capital restructuring, TL acquired the noncontrolling interest ("NCI") in TW which was reduced by $30,438 and the difference between the carrying value of the NCI and the cash consideration was recognized as an increase in additional paid-in capital ("APIC") by $780.

Changes in the Company's shareholder's equity resulting from changes in its ownership interest in TW for the years ended December 31, 2018, 2017 and 2016 were as follows:

	2018	2017	2016
Net income (loss) attributable to TGH common shareholders	$ 50,378	$ 19,365	$ (52,483)
Transfers from the noncontrolling interest:			
Increase in TGH's APIC for TW capital restructuring	780	—	—
Changes from net income (loss) attributable to TGH common shareholders and transfers from noncontrolling interest	$ 51,158	$ 19,365	$ (52,483)

Prior to the capital restructuring, the equity previously owned by WFC in TW was shown as a noncontrolling interest on the Company's consolidated balance sheet as of December 31, 2017. After the capital restructuring, there is no noncontrolling interest in TW on the Company's consolidated balance sheet as of December 31, 2018. The net income attributable to the noncontrolling interests' operations for the period ending September 30, 2018, and for the year ending December 31, 2017 and 2016, are shown as net income attributable to the noncontrolling interests on the Company's consolidated statements of comprehensive income (loss).

Under a credit agreement with Wells Fargo Bank, N.A. ("WFB"), TW had a credit facility which was terminated prior to its scheduled maturity and the unpaid debt amount of $65,269 was fully repaid in November 2018. (see Note 12 "Debt and Derivative Instruments").

Managed Containers

The Company enters into container management agreements with Owners or third-party investors. The fees earned by the Company for managing container portfolios on behalf of Owners are commensurate with the level of effort required to provide those management services and the Company does not have the obligation to absorb losses or the right to receive benefits that may be significant to the Owners. As such, the Company is not the primary beneficiary and does not consolidate the Owners. Managed containers which are owned by Owners are not assets of the Company and are not included in the consolidated financial statements. (see Note 1(a) “Nature of Operations”).

Owned Containers

The majority of the container equipment included in the accompanying consolidated financial statements is owned by TL, Textainer Marine Containers II Limited ("TMCL II"), Textainer Marine Containers V Limited ("TMCL V"), Textainer Marine Containers VI Limited ("TMCL VI") and Textainer Marine Containers VII Limited ("TMCL VII"), all Bermuda companies and all of which were wholly-owned subsidiaries of the Company as of December 31, 2018.

(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 14 "Commitments and Contingencies—Restricted Cash") with various financial institutions. These financial institutions are located in Bermuda, Canada, Hong Kong, Malaysia, Singapore, the United Kingdom and the United States. A significant portion of the Company's cash and cash equivalents and restricted cash is maintained with a small number of banks and, accordingly, the Company is exposed to the credit risk of these counterparties in respect of the Company's cash and cash equivalents and restricted cash. Furthermore, the deposits maintained at some of these financial institutions exceed the amount of insurance provided on the deposits. Restricted cash is excluded from cash and cash equivalents and is included in long-term assets reported within the consolidated balance sheets.

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

	2018	2017	2016
Cash and cash equivalents	$137,298	$137,894	$84,045
Restricted cash included in long-term assets	87,630	99,675	58,078
Cash, cash equivalents and restricted cash, end of period	$224,928	$237,569	$142,123

(d) 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. The Company reviews its intangible assets for impairment if events and circumstances indicate that the carrying amount of the intangible assets may not be recoverable. The Company compares the carrying value of the intangible assets to expected future undiscounted cash flows for the purpose of assessing the recoverability of the recorded amounts. If the carrying amount exceeds expected undiscounted cash flows, the intangible assets shall be reduced to their fair value.

(e) 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 updated standard replaced all current U.S. GAAP guidance on this topic and eliminated 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 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 updated 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 Company did not record a cumulative adjustment related to the adoption of ASU 2014-09. The

components of the Company's revenue as presented in the consolidated statements of comprehensive income (loss) and in Note 13 "Segment Information" are as follows:

Lease Rental Income

Leasing income arises principally from the renting of containers to various international shipping lines. Total fleet lease rental income, as reported in the consolidated statements of comprehensive income (loss), includes the entire rental fee collected from the lessee, including rental fees for the managed fleet as the management agreements with the owners convey to the Company the right to control the use of the managed containers. See Note 2 "Immaterial Reclassification and Adjustment of Prior Periods" and Note 5 "Revenue from Managed Container Fleet".

Revenue is recorded when earned according to the terms of the container rental contracts with customers. These contracts are typically for terms of five or more 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.

Under long-term lease agreements, containers are usually leased from the Company for periods of five or more years. Such leases are generally cancelable 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 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 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 owned fleet 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.

The Company's container leases generally do not include step-rent provisions, nor do they depend on indices or rates. The Company recognizes revenue on container leases that include lease concessions in the form of free-rent periods using the straight-line method over the minimum terms of the leases.

The following is a schedule, by year, of future minimum lease payments receivable under the long-term leases for all container fleet as of December 31, 2018:

	Owned	Managed	Total
Year ending December 31:			
2019	$303,624	$53,084	$356,708
2020	227,222	33,381	260,603
2021	174,630	23,280	197,910
2022	133,234	10,123	143,357
2023 and thereafter	258,822	23,465	282,287
Total future minimum lease payments receivable	$1,097,532	$143,333	$1,240,865

Management Fee Revenue

Under the Company's management service agreements with third-party container investors or Owners, fees are earned for the acquisition and disposition of containers under management. The Company's net acquisition fees and sales commissions, which are presented as management fees from non-leasing services in the consolidated statements of comprehensive income (loss), 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. Acquisition fees from purchases of containers for managed fleet are deferred and recognized as earned on a straight-line basis over the deemed lease term (see Note 2 "Immaterial Reclassification and Adjustment of Prior Periods").

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 related expenses represent the cost of trading containers sold as well as other selling costs that are recognized as incurred. The Company also generally sells containers at the end of their useful lives or when it is financially attractive to do so. The gain on sale of owned fleet containers is the excess of the sale price over the carrying value for these units at the time of sale. 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.

Allowance for Doubtful Accounts

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 deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be required.

Accounts receivables are generally written off after an analysis is completed which indicates that collection of the full balance is remote. Changes in economic conditions or other events may necessitate additions or deductions to the allowance for doubtful accounts. The allowance is intended to provide for losses inherent in the owned fleet's accounts receivable and requires the application of estimates and judgments as to the outcome of collection efforts and the realization of collateral, among other things.

(f) Direct Container Expenses – Owned Fleet

Direct container expense represents the operating costs arising from the containers owned by the Company and includes storage, handling, maintenance and repair, repositioning, agent, insurance expense and repair and recovery

costs for problem lessees. These costs are recognized when incurred.

(g) Distribution to Managed Fleet Owners

Our distribution amounts to Owners for the managed fleet includes the net operating income of each Owner's fleet, reduced by the management fees earned and retained by the Company. This amount also includes expenses related to the operation of the managed containers which are presented on a gross basis in the consolidated statements of comprehensive income (loss). Expenses related to the opeastion of the managed containers such as storage, handling, repairs, repositioning, agent, insurance expense and general and administrative expenses are recognized when incurred.

(h) Trading Containers and Containers Held for Resale

The Company, through one or more of its subsidiaries, buys trading containers for resale, which are valued at the lower of cost or fair value. The cost of trading containers sold is specifically identified.

In addition, containers identified as being available for sale are valued at the lower of carrying value or fair value, less cost to sell. The fair value was estimated based on recent gross sales proceeds for sales of similar containers.

(i) Foreign Currencies

A functional currency is determined for each of the Company's entities based on the currency of the primary economic environment in which the entity operates. The Company's functional currency is the U.S. dollar, excluding its foreign subsidiaries Textainer Equipment Management (United Kingdom) Limited and Textainer Equipment Management (Singapore) Pte Ltd. Assets and liabilities denominated in a currency other than the entity's functional currency are re-measured into its functional currency at the balance sheet date with a gain or loss recognized in current year net income. Foreign currency exchange gains or losses that arise from exchange rate changes on transactions denominated in a foreign currency are recognized in net income as incurred. Foreign currency exchange gains or losses, reported in direct container expense in the consolidated statements of comprehensive income (loss) were $(1,085), $(156), and $188 for the years ended December 31, 2018, 2017 and 2016, respectively. For consolidation purposes, the financial statements are translated into U.S. dollars using the current exchange rate for the assets and liabilities and a weighted average exchange rate for the revenues and expenses recorded during the year with any translation adjustment shown as an element of accumulated other comprehensive income (loss).

(j) Containers and Fixed Assets

Capitalized container costs include the container cost payable to the manufacturer and the associated transportation costs incurred in moving the Company's owned 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 Company evaluates the estimated residual values and remaining estimated useful lives on a regular basis to determine whether a change in its estimates of useful lives and residual values is warranted.

After the Company performed its regular depreciation policy review during the third quarter of 2018, the Company concluded that, beginning July 1, 2018, an increase in the estimated future residual value of its 40' high cube dry containers and a decrease in the estimated future residual value of its 40' high cube refrigerated containers, as shown in the below table of the Company's useful lives and residual values estimates, was appropriate. Depreciation expense may fluctuate in future periods based on fluctuations in these estimates. The net effect of these changes was a decrease in depreciation expense of $132 for the year ended December 31, 2018.

After the Company performed its regular depreciation policy review during the third quarter of 2017, the Company concluded that, beginning July 1, 2017, an increase in the estimated future residual value of its 20' dry containers, 40' dry containers and 40' high cube dry containers, as shown in the below table of the Company's useful lives and residual values estimates, was appropriate. Depreciation expense may fluctuate in future periods based on changes to these estimates. The net effect of these changes was a decrease in depreciation expense of $7,104 for the year ended December 31, 2017.

The Company estimates the useful lives and residual values of its containers to be as follows:

	Effective July 1, 2018		July 1, 2017 through June 30, 2018		January 1, 2017 through June 30, 2017	
	Estimated useful life (years)	Residual Value	Estimated useful life (years)	Residual Value	Estimated useful life (years)	Residual Value
Dry containers other than open top and flat rack containers:						
20'	13	$ 1,000	13	$ 1,000	13	$ 950
40'	14	$ 1,200	14	$ 1,200	14	$ 1,150
40' high cube	13	$ 1,400	13	$ 1,350	13	$ 1,300
45' high cube dry van	13	$ 1,500	13	$ 1,500	13	$ 1,500
Refrigerated containers:						
20'	12	$ 2,750	12	$ 2,750	12	$ 2,750
20' high cube	12	$ 2,049	12	$ 2,049	12	$ 2,049
40' high cube	12	$ 4,000	12	$ 4,500	12	$ 4,500
Open top and flat rack containers:						
20' folding flat rack	15	$ 1,300	15	$ 1,300	15	$ 1,300
40' folding flat rack	16	$ 1,700	16	$ 1,700	16	$ 1,700
20' open top	15	$ 1,500	15	$ 1,500	15	$ 1,500
40' open top	14	$ 2,500	14	$ 2,500	14	$ 2,500
Tank containers	20	10% of cost	20	10% of cost	20	10% of cost

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

	2018			2017		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Dry containers other than open top and flat rack containers:						
20'	$1,632,927	$(381,929)	$1,250,998	$1,497,557	$(347,910)	$1,149,647
40'	191,354	(69,463)	121,891	223,916	(75,610)	148,306
40' high cube	2,376,975	(540,349)	1,836,626	2,043,253	(476,238)	1,567,015

45' high cube dry van	29,305	(10,034)	19,271	29,010	(8,494)	20,516
Refrigerated containers:						
20'	20,883	(6,153)	14,730	24,062	(5,394)	18,668
20' high cube	5,148	(2,714)	2,434	5,139	(2,327)	2,812
40' high cube	1,030,078	(279,661)	750,417	1,002,843	(229,465)	773,378
Open top and flat rack containers:						
20' folding flat	16,641	(4,068)	12,573	16,595	(3,525)	13,070
40' folding flat	46,182	(16,052)	30,130	43,334	(14,394)	28,940
20' open top	13,152	(1,419)	11,733	10,837	(1,237)	9,600
40' open top	27,629	(5,086)	22,543	26,690	(4,469)	22,221
Tank containers	65,963	(5,293)	60,670	40,729	(3,292)	37,437
	$5,456,237	$(1,322,221)	$4,134,016	$4,963,965	$(1,172,355)	$3,791,610

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.

Impairment of Container Rental Equipment and Containers Held for Sale

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 on the Company's leasing equipment for the years ended December 31, 2018, 2017 and 2016. In addition, containers identified as being available for sale are valued at the lower of carrying value or fair value, less costs to sell.

The Company evaluates the recoverability of the recorded amounts of containers that are unlikely to be recovered from lessees in default. The Company also records impairments 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 cost to sell is recognized as a reversal of container impairment but not in excess of the cumulative loss previously recognized.

The Company recorded the following impairments that are included in container impairment in the consolidated statements of comprehensive income (loss) for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Impairment to write down the value of containers held for sale to their estimated fair value less cost to sell	$14,872	$15,475	$66,455
Impairment on containers from a bankrupt customer in 2016 and customer that became insolvent in 2015	—	—	22,961
Impairment for containers that were unlikely to be recovered from lessees in default (see Note 3 "Insurance Receivable and Impairment")	12,980	3,822	5,207
Reversal of previously recorded impairments on containers held for sale due to rising used container prices during the year	(1,077)	(11,225)	—
Container impairment	$26,775	$8,072	$94,623

During the years ended December 31, 2018, 2017 and 2016, the Company recorded the following net gain on sale of containers, included in gain on sale of owned fleet containers, net in the consolidated statements of comprehensive

income (loss):

	2018 Units	Amount	2017 Units	Amount	2016 Units	Amount
Gain on sale of previously written down owned fleet containers, net	28,291	$14,563	56,862	$18,662	118,071	$9,151
Gain (loss) on sale of owned fleet containers not written down, net	79,119	21,508	55,505	7,548	20,319	(2,390)
Gain on sale of owned fleet containers, net	107,410	$36,071	112,367	$26,210	138,390	$6,761

If other containers are subsequently identified as available for sale, the Company may incur additional write-downs or may incur losses on the sale of these containers if they are sold. The Company will continue to evaluate the recoverability of recorded amounts of containers and a write-down of certain containers held for continued use and/or an increase in its depreciation rate may be required in future periods for some or all containers.

(k) 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 deemed to be unlikely.

The Company also accounts for 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. If there are findings in future regulatory examinations of the Company's tax returns, those findings may result in an adjustment to income tax expense.

The Company records interest and penalties related to unrecognized tax benefits in income tax expense.

(l) Debt Issuance Costs

The Company capitalizes costs directly associated with the issuance or modification of its debt and the balance of the debt issuance costs, net of amortization, are netted against the debt recorded in the consolidated balance sheets.

Debt issuance costs are amortized using the interest rate method and the straight-line method over the general terms of the related fixed principal payment debt and the related revolving debt facilities, respectively, and the amortization is recorded in the consolidated statements of comprehensive income (loss) as interest expense. In 2018, 2017 and 2016, debt issuance costs of $10,285, $27,702 and $5,969, respectively, were capitalized and amortization of debt issuance costs of $8,400, $13,201 and $9,465, respectively, were recorded in interest expense.

When the Company's debt is modified or terminated, any unamortized debt issuance costs related to a decrease in borrowing capacity with any of the Company's lenders is immediately written-off and recorded in write-off of unamortized deferred debt issuance costs and bond discounts. In 2018, write-off of unamortized deferred debt issuance costs and bond discounts included $529 and $352 of write-offs of unamortized debt issuance costs related to the amendment of the TL Revolving Credit Facility and the termination of the TL Term Loan, respectively, (see Note 12 "Debt and Derivative Instruments"). In 2017, write-off of unamortized deferred debt issuance costs and bond discounts included $238, $6,516 and $84 of write-offs of unamortized debt issuance costs related to the amendment of TMCL II's Secured Debt Facility, the redemption of TMCL III's 2013-1 Bonds, 2014-1 Bonds, the termination of TMCL III's 2017-A Notes and the amendment of TAP Funding's Secured Debt Facility, respectively, (see Note 12 "Debt and Derivative Instruments"). No unamortized debt issuance costs were written-off during the year ended December 31, 2016.

(m) Concentrations

Although substantially all of the Company's income from operations is derived from assets employed in foreign countries, virtually all of this income is denominated in U.S. dollars. The Company does pay some of its expenses in various foreign currencies. During 2018, 2017 and 2016, $11,141 or

19%, $15,143 or 25%, and $22,642 or 36%, respectively, of the Company's direct container expenses – owned fleet were paid in up to 20 different foreign currencies. In accordance with its policy, the Company does not hedge these container expenses as there are no significant payments made in any one foreign currency.

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 from its owned fleet during the years ended December 31, 2018, 2017 and 2016, as well, there is no other single lessee that accounted for more than 10% of the Company's gross accounts receivable as of December 31, 2018 and 2017:

Lease Rental Income - owned fleet	2018	2017	2016
Customer A	14.0%	14.4%	12.0%
Customer B	13.4%	13.6%	14.0%

Gross Accounts Receivable	2018	2017
Customer B	21.3%	12.9%
Customer A	10.7%	13.1%

Total fleet lease rental income, as reported in the consolidated statements of comprehensive income (loss), comprises revenue earned from leases on containers in the Company's total fleet, including revenue earned from leases on containers in its managed fleet. Except for the lessees noted in the table below, no other single lessee accounted for more than 10% of the Company's total fleet lease rental income in 2018, 2017 and 2016:

Total Fleet Lease Rental Income	2018	2017	2016
Customer A	13.7%	14.6%	12.9%
Customer B	13.4%	13.9%	14.6%

The Company currently has containers on-hire to approximately 250 customers. The Company's customers are mainly international shipping lines, but the Company also leases containers to freight forwarding companies and the U.S. Military. The Company's five largest container lessees accounted for approximately 49.5%, 49.5% and 48.1% of the Company's total fleet leasing billings in 2018, 2017 and 2016, respectively. During 2018, 2017 and 2016, revenue from the Company's 20 largest container lessees by lease billings represented 82.8%, 80.0% and 78.9% of the Company's total fleet container lease billings, respectively. A default by any of these major customers could have a material adverse impact on the Company's business, results from operations and financial condition.

As of December 31, 2018, and 2017, approximately 94.9% and 94.4%, respectively, of the Company' accounts receivable for its total fleet were from container lessees and customers outside of the U.S. As of December 31, 2018 and 2017, approximately 98.4% and 98.0%, respectively, of the Company's finance lease receivables for its total fleet were from container lessees and customers outside of the U.S. Except for the countries outside of the U.S. noted in the table below, customers in no other single country made up greater than 10% of the Company's total fleet container lease billings during 2018, 2017 and 2016.

Country	2018	2017	2016
People's Republic of China	15.0%	14.4%	14.1%
Taiwan	14.6%	13.9%	12.2%
Switzerland	14.1%	15.1%	13.4%
France	13.8%	14.4%	15.3%
Singapore	10.5%	10.9%	8.7 %

(n) Derivative Instruments

The Company has entered into various interest rate swap, collar 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 gain (loss) on interest rate swaps, collars and caps, net in the consolidated statements of comprehensive income (loss).

As of the balance sheet dates, none of the derivative instruments are designated by the Company for hedge accounting. The fair value of the derivative instruments is measured at each balance sheet date and the change in fair value is recorded in the consolidated statements of comprehensive income (loss) as unrealized (loss) gain on interest rate swaps, collars and caps, net.

(o) Share Options and Restricted Share Units

The Company estimates the fair value of all employee share options awarded under its 2015 Share Incentive Plan (the "2015 Plan"), amended and restated from the 2007 Share Incentive Plan (the "2007 Plan") on May 21, 2015, on the grant date. 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 consolidated statements of comprehensive income (loss) as part of general and administrative expenses.

The Company uses the Black-Scholes-Merton ("Black-Scholes") option-pricing model to determine the estimated fair value for employee share option awards. The Company uses the fair market value of the Company's common shares on the grant date, discounted for estimated dividends that will not be received by the employees during the vesting period, for determining the estimated fair value for employee restricted share units. Compensation expense for employee share awards is recognized on a straight-line basis over the vesting period of the award. Share-based compensation expense of $7,355, $6,083 and $6,573 was recorded during 2018, 2017 and 2016, respectively, for share options and restricted share units awarded to employees under the 2015 Plan. Share-based compensation expense of $6,746, $5,499 and $5,987 was presented as a part of general and administrative expenses, and the remaining balance was presented as a part of distribution to managed fleet owners during 2018, 2017 and 2016, respectively.

(p) Comprehensive Income

The Company discloses the effect of its foreign currency translation adjustment as a component of other comprehensive income (loss) in the Company's consolidated statements of comprehensive income (loss).

(q) Estimates
The preparation of 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 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 the container rental equipment, intangible assets, accounts receivable, income taxes 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.

(r) 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 during 2018, 2017 and 2016 is presented as follows:

Share amounts in thousands	2018	2017	2016
Numerator:			
Net income (loss) attributable to Textainer Group Holdings Limited common shareholders	$50,378	$19,365	$(52,483)
Denominator:			
Weighted average common shares outstanding-- basic	57,200	56,845	56,608
Dilutive share options and restricted share units	287	314	—
Weighted average common shares outstanding-- diluted	57,487	57,159	56,608
Net income (loss) attributable to Textainer Group Holdings Limited common shareholders per common share			
Basic	$0.88	$0.34	$(0.93)
Diluted	$0.88	$0.34	$(0.93)
Anti-dilutive share options and restricted share units, excluded from the computation of diluted EPS because they were anti-dilutive	1,232	1,164	1,361

Given that the Company had a net loss attributable to Textainer Group Holdings Limited common shareholders for the year ended 2016, there was no dilutive effect of share option and restricted share units.

(s) Fair Value Measurements

The Company 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 which 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.

The Company uses the exchange price notion, which 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).

The following table summarizes the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 and 2017:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018			
Assets			
Interest rate swaps, collars and caps	$ —	$ 5,555	$ —
Total	$ —	$ 5,555	$ —
Liabilities			
Interest rate swaps, collars and caps	$ —	$ 3,639	$ —
Total	$ —	$ 3,639	$ —
December 31, 2017			
Assets			
Interest rate swaps, collars and caps	$ —	$ 7,787	$ —
Total	$ —	$ 7,787	$ —
Liabilities			
Interest rate swaps, collars and caps	$ —	$ 81	$ —
Total	$ —	$ 81	$ —

The following table summarizes the Company's assets measured at fair value on a non-recurring basis as of December 31, 2018 and 2017:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Years Ended December 31, 2018 and 2017 Total Impairments (2)
December 31, 2018				
Assets				
Containers held for sale (1)	$ —	$ 10,898	$ —	$ 14,872
Total	$ —	$ 10,898	$ —	$ 14,872
December 31, 2017				
Assets				
Containers held for sale (1)	$ —	$ 8,984	$ —	$ 15,475
Total	$ —	$ 8,984	$ —	$ 15,475

(1) Represents the carrying value of containers included in containers held for sale in the consolidated balance sheets that have been impaired to write down the value of the containers to their estimated fair value less cost to sell.
(2) Included in container impairment in the accompanying consolidated statements of comprehensive income (loss).

Fair Value of Derivative Instruments

The Company measures the fair value of its interest rate swap, collar and cap agreements 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 $5,555 and $3,639, respectively, as of December 31, 2018 and a fair value asset and a fair value liability of $7,787 and $81, respectively, as of December 31, 2017, which are inclusive of counterparty risk. The credit valuation adjustment was determined to be $49 (which was an addition to the net fair value) and $31 (which was a reduction to the net fair value) as of December 31, 2018 and 2017, respectively. The change in fair value during 2018, 2017 and 2016 of $(5,790), $4,094 and $6,210, respectively, was recorded in the consolidated statements of comprehensive income (loss) as unrealized (loss) gain on interest rate swaps, collars and caps, net.

Fair Value of Containers Held for Sale

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. At December 31, 2018 and 2017, the carrying value of 8,409 and 7,325 containers identified for sale were net of impairment charges of $5,129 and $4,362, respectively. The net carrying value of these containers identified for sale amounted to $10,898 and

$8,984 as of December 31, 2018 and 2017, respectively, and is included in containers held for sale in the consolidated balance sheets. 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 cost to sell is recognized as a reversal of container impairment but not in excess of the cumulative loss previously recognized.

Fair Value of Other Assets and Liabilities

The Company calculates the fair value of financial instruments and includes this additional information in the notes to the consolidated financial statements when the fair value is different from the

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book value of those financial instruments. 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 December 31, 2018 and 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 $167,758 and $183,305 at December 31, 2018 and 2017, respectively, compared to book values of $167,060 and $182,624 at December 31, 2018 and 2017, respectively. The fair value of long-term debt (including current maturities) based on the borrowing rates available to the Company was approximately $3,149,755 and $2,995,190 at December 31, 2018 and 2017, respectively, compared to book values of $3,409,827 and $2,990,308 at December 31, 2018 and 2017, respectively.

(t) Reclassifications and Changes in Presentation

Certain prior period amounts have been reclassified to conform to the current period presentation. During the year ended December 31, 2018, the Company reclassified the amounts out of the separate line items "short-term incentive compensation expense" and "long-term incentive compensation expense" to be included within the line item "general and administrative expense" in the consolidated statements of comprehensive income (loss). For the management fees earned from non-leasing services for the managed fleet, the Company also reclassified the amounts out of the separate line item "management fees" to the separate line item "management fees – non-leasing" in the consolidated statements of comprehensive income (loss). The Company also presented a separate line item for the "trading container margin", which is the net of "trading container sales proceeds" and "cost of trading containers sold", in which was reclassified out of the operating expenses, in the consolidated statements of comprehensive income (loss). The changes in presentation has no impact on "net income (loss)". Also, see Note 2 "Immaterial Reclassification and Adjustment of Prior Periods" and Note 5 "Revenue from Managed Container Fleet").

(u) Recently Issued Accounting Standards and Pronouncements

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. A dual approach is to be applied for lessee accounting with lease classification determined in accordance with the principles in existing lease requirements. Under the new guidance, lessees will be required to recognize the following on the balance sheet for all leases at the commencement date, with an exception for short-term leases and leases that commence at or near the end of the underlying asset's economic life:

(i) Right-of-use ("ROU") asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term; and

(ii) Lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis.

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. Under the new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption. The Company will apply the package of practical expedients to assist in implementation of ASU 2016-02, such as:

- An entity may elect to apply the provisions of the new lease guidance at the effective date of January 1, 2019, 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.

- An entity may elect to use hindsight in determining the lease term and in assessing impairment of the entity's right-of-use assets.

- The following expedients must all be elected together: a) An entity need not reassess whether any expired or existing contracts are or contain leases; b) An entity need not reassess the lease classification for any expired or existing leases; and c) An entity need not reassess initial direct costs for any existing leases.

The Company will elect the short-term lease recognition exemption whereby a lease liability and corresponding ROU asset will not be recognized when leases, at the commencement date, have a lease term 12 months or less. The Company will adopt ASU 2016-02 and its related amendments, effective January 1, 2019 and its assessment and evaluation of the impact has been completed. The adoption of ASU 2016-02 will not have a material impact on our consolidated balance sheets and current accounting processes and systems. The accounting for direct financing and sales-type leases will remain substantially unchanged upon adoption of ASU 2016-02. ASU 2016-02 also requires lessors to present all cash receipts from leases, including principal payments received from direct financing and sales-type leases, within operating activities in the consolidated cash flow statements. The Company had estimated that we will recognize right-of-use lease assets and related lease liabilities for existing operating leases where we are the lessee in the range of $12,000 to $15,000, with no impact to our consolidated income statements or consolidated cash flow statements. This estimate represents the net present value of future lease payments payable under operating lease contracts the Company had entered into as at December 31, 2018, and that have commenced or are scheduled to commence by January 1, 2019.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, Financial Instruments – Credit Losses (Topic 326) ("ASU 2016-13"). This guidance affects net investments in leases and the amendments in this update replace the incurred loss impairment methodology in current U.S. 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. Further, ASU 2018-19 was issued in November 2018 to clarify that operating lease receivables should be accounted for under the new leases standard, Topic 842, and are not within the scope of Topic 326. 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.

In October 2018, the FASB issued Accounting Standards Update No. 2018-17, Consolidation – Targeted Improvements to Related Party Guidance for Variable Interest Entities (Topic 810) ("ASU 2018-17"). The related party guidance for

variable interest entities amends the guidance for determining whether a decision-making fee is a variable interest. The amendments require entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety. Therefore, these amendments likely will result in more decision makers not consolidating VIEs. ASU 2018-17 is effective for fiscal years beginning after December 15, 2019 and early adoption is permitted. The Company does not expect the adoption to have a material effect on our consolidated financial statements.

(2) Immaterial Reclassification and Adjustment of Prior Periods

As part of the preparation of the December 31, 2018 consolidated financial statements, the Company modified its financial statement presentation of the operating results from its container management business segment. The Company re-evaluated its fleet management agreements for managed containers and determined these agreements convey to the Company the right to control the use of the managed fleet, therefore meeting the definition of a lease based on ASC 840. The Company has determined that it controls the managed fleet containers before they are subleased to its customers. The Company is also responsible for providing the leasing services to the customers and responsible for directing and integrating third-party vendors to fulfill its performance obligations.

As a result of this evaluation, the Company’s lease management fee income, previously presented on a net basis, was reclassified and presented on a gross basis for all periods presented in the Company’s consolidated statements of comprehensive income (loss). It was also determined that the acquisition fees received for the purchase of managed containers should be deferred and amortized over the deemed lease term. The Company previously recognized these revenues at the time of purchase of the managed containers on behalf of the Owners.

In accordance with FASB Accounting Standards Codification 250, Accounting Changes and Error Corrections, management evaluated the materiality of the prior period adjustments from both a quantitative and qualitative perspective and concluded that the changes in the “gross versus net” presentation of the consolidated statements of comprehensive income (loss) and the cumulative adjustment to opening retained earnings in the consolidated balance sheets and consolidated statements of shareholder’s equity were immaterial to the Company’s prior period interim and annual consolidated financial statements. Since the revision was not material to any prior period interim or annual consolidated financial statements, no amendments to previously filed interim or annual reports are required.

The change in the presentation for the managed fleet from net to gross amounts resulted in an increase in deemed lease rental income and a corresponding increase in separately reported distribution expenses to managed fleet owners, with no effect on the Company's consolidated balance sheets, consolidated statement of cash flows and on its “net income (loss)” in the consolidated statements of comprehensive income (loss).

The impact of the reclassification of the financial statement presentation in the consolidated statements of comprehensive income (loss) as of December 31, 2017 and 2016 are as follows:

	2017			2016		
	As Reported	Adjustment	As Adjusted	As Reported	Adjustment	As Adjusted
Lease rental income - managed fleet	$-	$ 104,566	$104,566	$-	$ 105,511	$105,511
Distribution to managed fleet owners	$-	$ (96,718)	$(96,718)	$-	$ (98,028)	$(98,028)

Management fees - non-leasing	$-	$ 7,146	$7,146	$-	$ 5,937	$5,937
Management fees	$14,994	$ (14,994)	$-	$13,420	$ (13,420)	$-

The change in the timing of revenue recognition for acquisition fees resulted in a cumulative decrease of $4,245 to the retained earnings balance at December 31, 2015, 2016 and 2017 in the consolidated statements of shareholders' equity, an increase of $4,245 in accrued expenses and a decrease for the same amount in retained earnings recorded in the consolidated balance sheet at December 31, 2017, with an immaterial effect on the Company's consolidated statements of comprehensive income (loss).

The impacts have been reflected throughout the consolidated financial statements, including the applicable footnotes, as appropriate (see Note 1 "Nature of Business and Summary of Significant Accounting Policies", Note 5 "Revenue from Managed Container Fleet", Note 10 "Accrued Expenses" and Note 13 "Segment Information").

(3) Insurance Receivable and Impairment

In 2018, four of the Company's customers became insolvent and the total net book value of its owned containers to these insolvent customers were $23,044. The Company recorded container impairment of $12,543 on the unrecoverable containers for these insolvent customers in the consolidated statements of comprehensive income (loss) during 2018. Container recovery costs of $4,864 for these insolvent customers was recorded in direct container expense in the consolidated statements of comprehensive income (loss) during the year ended December 31, 2018. The Company also recorded bad debt expense of $2,049 in the consolidated statements of comprehensive income (loss) to fully reserve for these insolvent customers' outstanding accounts receivable during 2018. There is no insurance receivable associated with these insolvent customers as respective losses are below the insurance deductible.

In August 2016, one of the Company's customers filed for bankruptcy and the book value of its owned containers, net on operating leases and direct financing leases with this customer was $178,344 and $88,171, respectively. 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. During the year ended December 31, 2016, the Company recorded a total container impairment of $22,149 in the consolidated statements of comprehensive income (loss), representing $17,399 to write down the containers on direct finance leases with this customer to the lower of estimated fair market value or net book value and $4,750 insurance deductible. The Company also recorded bad debt expense of $18,992, net of estimated insurance proceeds of $2,592, in the consolidated statements of comprehensive income (loss) to fully reserve for the customer's outstanding accounts receivable during the year ended December 31, 2016. The Company entered into a final agreement with the insurance companies on December 31, 2018 and the total remaining payments of $9,814 for the Company's owned fleet was received in January and early February 2019. Accordingly, the Company recorded a $8,692 gain on insurance recovery in the consolidated statements of comprehensive income (loss) during the year ended December 31, 2018, which related to the final insurance settlement for insurable costs including primarily unrecovered containers and incurred container recovery costs, net of the insurance deductible.

Insurance receivable recorded on the Company's owned fleet related to this bankrupt customer are as follows:

Estimated unrecoverable containers, net of insurance deductible	$20,162
Recovery costs	19,159
Accounts receivable coverage by insurance	2,592
Insurance receivable related to this bankrupt customer as of December 31, 2016	41,913
Recovery costs	32,067
Insurance proceeds received	(50,479)
Reassessment associated with estimate of unrecoverable containers to actual amount of loss commensurate with the insurance claim filing	(7,592)
Insurance receivable related to this bankrupt customer as of December 31, 2017	15,909
Final insurance settlement	8,692
Recovery costs	1,450
Insurance proceeds received	(14,188)
Reassessment associated with unrecoverable containers to actual amount of loss commensurate with the insurance claim filing	(2,049)
Insurance receivable related to this bankrupt customer as of December 31, 2018	$9,814

In August 2015, one of the Company's customers became insolvent. The Company maintains insurance that covers a portion of the exposure related to the value of containers that are unlikely to be recovered from its customers, the cost to recover containers and up to 183 days of lost lease rental income.

Insurance receivable recorded on the Company's owned fleet related to this insolvent customer are as follows:

Insurance receivable related to this insolvent customer as of December 31, 2015	$11,436
Recovery costs	768
Lost lease rental income	239
Wrote off of remaining balance of insurance receivable per final insurance proceeds received	(1,321)
Insurance proceeds received	(8,250)
Insurance receivable related to this insolvent customer as of December 31, 2016	2,872
Allocation adjustment on insurance receivable per final insurance proceeds received	720
Final insurance proceeds received	(3,592)
Insurance receivable related to this insolvent customer as of December 31, 2017	$-

(4) Container Purchases

In 2018, the Company purchased 17,812 containers that it had been managing for an institutional investor for cash purchase consideration of $13,191, which was based on the fair value of the assets acquired and recorded in our Containers, net. The Company previously managed these containers for the institutional investor, accordingly, intangible asset for the management rights relinquished amounting to $835 was written-off.

In 2017, the Company concluded three separate purchases totaling 19,802 containers that it had been managing for institutional investors, including related net investment in direct financing and sales-type leases, accounts receivable, due from owners, net, accounts payable and accrued expenses for total cash purchase consideration of $19,893. The Company previously managed these fleets for the institutional investors, accordingly, intangible asset for the management rights relinquished amounting to $170 was written-off. The total purchase price, which was allocated based on the fair value of the assets and liabilities acquired, was recorded as follows and there were no intangible assets recognized related to the leases:

Containers, net	$18,453
Other net assets	1,440
Purchase price	$19,893

(5) Revenue from Managed Container Fleet

Lease rental income and expenses from leasing services of the managed fleet is presented on a gross basis (see Note 2 "Immaterial Reclassification and Adjustment of Prior Periods").

Under these management agreements, fees earned by the Company for leasing services related to the managed fleet are typically calculated as a fixed percentage of net operating income of each Owner's fleet, which is the revenue from the containers under management minus direct container expense related to those containers. Expenses related to the provision of management services are recognized when incurred. The amounts distributed to the Owners, net of management fees the Company retained or expects to collect, are presented as distribution to managed fleet owners which is a part of the operating expenses in the Company's consolidated statements of comprehensive income (loss).

Non-leasing service fees earned for acquiring new managed containers and its sales commissions from disposition of managed containers on behalf of the Owners are presented as management fees – non-leasing in the Company's consolidated statements of comprehensive income (loss).

Total lease management fee income from managed fleet, including management fees earned from acquisition fees and sales commissions during 2018, 2017 and 2016 were as follows (also, see Note 6 "Transactions with Affiliates and Owners"):

	2018	2017	2016
Lease rental income - managed fleet	$111,342	$104,566	$105,511
Less: Distribution to managed fleet owners	(102,992)	(96,718)	(98,028)
Management fees from leasing	8,350	7,848	7,483
Management fees from other services	8,529	7,146	5,937
Total management fees	$16,879	$14,994	$13,420

(6) 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.

Total fees earned from management of the containers, including acquisition fees and sales commissions during 2018, 2017 and 2016 were as follows:

	2018	2017	2016
Fees from affiliated Owner	$3,575	$2,994	$2,994
Fees from unaffiliated Owners	11,334	10,073	8,556
Fees from Owners	14,909	13,067	11,550
Other fees	1,970	1,927	1,870
Total management fees	$16,879	$14,994	$13,420

Due from affiliates, net of $1,692 and $1,134, as of December 31, 2018 and 2017, respectively, represents lease rentals on tank containers collected on behalf of and payable to the Company from the Company's tank container manager, net of direct container expenses and management fees, and the Company's advance of equipment purchases paid on behalf of an affiliated owner.

Due to owners, net represents lease rentals collected on behalf of and payable to Owners, net of direct container expenses and management fees receivable. Due to owners, net at December 31, 2018 and 2017 consisted of the following:

	2018	2017
Affiliated Owner	$100	$1,409
Unaffiliated Owners	8,222	9,722
Total due to Owners, net	$8,322	$11,131

(7) Direct Financing and Sales-type Leases

The Company leases its owned containers under direct financing and sales-type leases. The Company had 100,338 and 111,059 containers under direct financing and sales-type leases as of December 31, 2018 and 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 as of December 31, 2018 and 2017 were as follows:

	2018	2017
Future minimum lease payments receivable	$196,041	$204,451
Residual value of containers	11,393	4,885
Less unearned income	(40,374)	(26,712)
Net investment in direct financing and sales-type leases	$167,060	$182,624
Amounts due within one year	$39,270	$56,959
Amounts due beyond one year	127,790	125,665

Net investment in direct financing and sales-type leases	$167,060	$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. Credit criteria used by the Company to set maximum exposure limits may include, but are not limited to, container lessee trade route, country, social and political climate, assessments of net worth, asset ownership, bank and trade credit references, credit bureau reports, including those from Dynamar B.V. and Lloyd's Marine Intelligence Unit (common credit reporting agencies used in the maritime sector), operational history and financial strength. 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 was applied to the related balances of the unbilled future minimum lease payments receivable component of the Company's net investment in direct financing and sales-type leases as of December 31, 2018, the aging would be as follows:

1-30 days past due	$963
31-60 days past due	138
61-90 days past due	377
Greater than 90 days past due	181
Total past due	1,659
Current	194,382
Total future minimum lease payments	$196,041

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 years ended December 31, 2018 and 2017 are as follows:

Balance as of December 31, 2016	$9,561
Additions charged to expense	525
Write-offs	(9,839)
Balance as of December 31, 2017	247
Additions charged to expense	634
Write-offs	(179)
Balance as of December 31, 2018	$702

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

Year ending December 31:	
2019	$49,055
2020	36,715
2021	42,291
2022	18,687
2023 and thereafter	49,293
Total future minimum lease payments receivable	$196,041

Lease rental income from owned fleet includes income earned from direct financing and sales-type leases in the amount of $11,689, $13,417 and $18,558 during 2018, 2017 and 2016, respectively.

(8) Containers and Fixed Assets

Containers, net at December 31, 2018 and 2017 consisted of the following:

	2018	2017
Containers	$5,456,237	$4,963,965
Less accumulated depreciation	(1,322,221)	(1,172,355)
Containers, net	$4,134,016	$3,791,610

Trading containers had carrying values of $40,852 and $10,752 as of December 31, 2018 and 2017, respectively, and are not subject to depreciation. Containers held for sale had carrying values of $21,874 and $22,089 as of December 31, 2018 and 2017, respectively, and are also not subject to depreciation. All owned containers are pledged as collateral for debt as of December 31, 2018 and 2017.

Fixed assets, net at December 31, 2018 and 2017 consisted of the following:

	2018	2017
Computer equipment and software	$10,235	$9,563
Office furniture and equipment	1,429	1,428