

TEXTAINER GROUP HOLDINGS LTD  
 Form 424B4  
 October 11, 2007  
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Filed Pursuant to Rule 424(b)(4)  
 File No. 333-146304

PROSPECTUS

9,000,000 Shares

**Textainer Group Holdings Limited**  
**Common Shares**

We are selling 9,000,000 common shares.

The underwriters have an option to purchase a maximum of 1,350,000 additional common shares to cover over-allotments of shares. The underwriters are entitled to exercise this right at any time within 30 days from the date of this prospectus.

Prior to this offering there has been no public market for our common shares. The initial public offering price is \$16.50 per share. Our application to have the common shares listed on the New York Stock Exchange under the symbol TGH has been approved.

**Investing in our common shares involves a high degree of risk. See Risk Factors on page 11.**

Our principal shareholder, Halco Holdings Inc. ( Halco ), which is owned by a trust in which Trencor Limited and certain of its affiliates are the sole discretionary beneficiaries, has indicated to the underwriters its interest in acquiring \$2,100,000 common shares in this offering at the initial offering price. These shares will not be purchased unless the offering to the public is consummated. Halco is not under any obligation to purchase any shares in this offering and its interest in purchasing shares in this offering is not a commitment to do so. These shares, if purchased, will be subject to the 180 day lock-up agreement that Halco signed with the representatives of the underwriters in connection with this offering. The underwriters are not entitled to any discount or commission on these shares.

	Price to	Underwriting	Proceeds to
	Public	Discounts and Commissions	Textainer (before Expenses)
Per Share to Public	\$16.50	\$1.1055	\$15.3945
Per Share to Halco	\$16.50	\$0.00	\$16.50
Total	\$148,500,000	\$7,627,950	\$140,872,050

Delivery of the common shares will be made on or about October 15, 2007.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**Credit Suisse**  
Jefferies & Company

**Wachovia Securities**  
Piper Jaffray  
Fortis Securities LLC

The date of this prospectus is October 9, 2007.

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Until November 3, 2007 (25 days after the date of this prospectus), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This requirement is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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**PROSPECTUS SUMMARY**

*You should carefully read this entire prospectus and consider, among other things, the matters set forth under Risk Factors before deciding to invest in our common shares. In this prospectus, unless indicated otherwise, references to: (1) Textainer, TGH, the company, we, us and our refer to Textainer Group Holdings Limited, a Bermuda company that is the issuer of the common shares in this offering and its subsidiaries; (2) TEU refers to a Twenty-Foot Equivalent Unit, which is a unit of measurement used in the container shipping industry to compare shipping containers of various lengths to a standard 20 dry freight container, thus a 20 container is one TEU and a 40 container is two TEU; (3) CEU refers to a Cost Equivalent Unit, which is a unit of measurement based on the approximate cost of a container relative to the cost of a standard 20 dry freight container, so the cost of a standard 20 dry freight container is one CEU; the cost of a 40 dry freight container is 1.6 CEU; and the cost of a 40 high cube dry freight container (9 6 high) is 1.68 CEU; (4) our owned fleet means the containers we own; (5) our managed fleet means the containers we manage that are owned by other container investors; (6) our fleet and our total fleet mean our owned fleet plus our managed fleet plus any containers we lease from other lessors; (7) container investors means the owners of the containers in our managed fleet; (8) Drewry refers to Drewry Shipping Consultants Limited; (9) Clarkson refers to Clarkson Research Services Limited; and (10) Trencor refers to Trencor Ltd., a public South African container and logistics company listed on the JSE Limited in Johannesburg, South Africa, which, together with certain of its subsidiaries, are the discretionary beneficiaries of a trust that indirectly owns a majority of our common shares (such interest, beneficiary interest). See Business History and Corporate Structure for an explanation of the relationship between us and Trencor.*

**Our Company**

Operating since 1979, we are the world's largest lessor of intermodal containers based on fleet size (*Containerisation International Market Analysis: Container Leasing Market 2007*), with a total fleet of more than 1.3 million containers, representing over 2,000,000 TEU. We lease containers to more than 300 shipping lines and other lessees, including each of the world's top 20 container lines, as measured by the total TEU capacity of their container vessels (container vessel fleet size). We believe we are one of the most reliable lessors of containers, in terms of consistently being able to supply containers in locations where our customers need them. We have provided an average of more than 90,000 TEU of new containers per year for the past 12 years, and have been one of the largest purchasers of new containers among container lessors over the same period. We believe we are also one of the two largest sellers of used containers among container lessors, having sold an average of more than 45,600 containers per year for the last five years. We provide our services worldwide via a network of 14 regional and area offices and over 300 independent depots in more than 130 locations. Trencor, a company publicly traded on the JSE Limited (the JSE) in Johannesburg, South Africa, and its affiliates currently have beneficiary interest in a majority of our issued and outstanding common shares and will continue to have a majority interest after giving effect to this offering.

We operate our business in four core segments: Container Ownership (representing 52% of our fleet as of June 30, 2007), Container Management (representing the remaining 48% of our fleet as of June 30, 2007), Container Resale (of our owned and managed containers and as a trader) and Military Management (we have contracted to be the main supplier of containers to the U.S. military).

We principally lease dry freight containers, which are by far the most common of the three principal types of intermodal containers. Dry freight intermodal containers are large, standardized steel boxes used to transport cargo by multiple modes of transportation, including ships, trains and trucks. Compared to traditional shipping methods, intermodal containers typically provide users with faster loading and unloading as well as some protection from weather and potential theft, thereby reducing both transportation costs and time to market for our lessees' customers.

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We primarily lease containers under four different types of leases. Term leases, which provide a customer with a specified number of containers for a specified period of time, typically ranging from three to five years, with an associated set of pick-up and drop-off conditions, represented 62.1% of our on hire fleet as of June 30, 2007. Master leases, which provide a framework of terms and conditions valid for a specified period of time, typically one year, give customers greater flexibility than is typical in term leases and represented 29.9% of our on hire fleet as of June 30, 2007. Spot leases, which provide the customers with containers for a relatively short lease period and fixed pick-up and drop-off locations, represented 5.4% of our on hire fleet as of June 30, 2007. Finance leases, which provide customers an alternative means for purchasing containers, represented 2.6% of our on hire fleet as of June 30, 2007.

For 2006, we generated revenues, income from operations and income before taxes of \$226.5 million, \$108.4 million and \$60.6 million, respectively. For 2006, the proportion of our income before taxes generated from Container Ownership, Container Management, Container Resale and Military Management operating segments was 70.3%, 18.9%, 8.9% and 1.9%, respectively, before taking into consideration inter-segment eliminations. As of June 30, 2007, the utilization of our fleet was 93.6%. The average remaining lease term for our term leases as of June 30, 2007, was 2.1 years.

## **Industry Overview**

In 2006, the container shipping industry celebrated the 50th anniversary of the first standardized container voyage by sea. According to preliminary data published by Drewry, the annual gross revenues of container shipping lines had grown to \$187.7 billion in 2006. Also according to Drewry, the volume of the industry, as measured by loaded container liftings, grew at a compound annual growth rate ( CAGR ) of 9.8% from 1980 to 2005 and is forecasted to grow by approximately 9.0% annually through 2011 and container trade is projected to grow by 9.8% in 2007 and 9.2% in 2008. In addition, as of April 2007, the new containership orderbook reached a level of 1,255 vessels, or 4.64 million TEU, representing 48% of the then existing worldwide container ship capacity, according to Clarkson. We believe this increased vessel capacity should continue to drive the demand for intermodal containers. We believe that the projected growth in the container shipping industry is due to several factors, including:

the movement in global manufacturing capacity toward lower labor cost areas such as the People s Republic of China (the PRC ) and India;

the continued integration of developing high growth economies into global trade patterns;

the general trend away from bulk shipping and migration to the use of containers; and

the gradual liberalization and integration of world trade.

According to *Containerisation International, World Container Census 2007*, container lessors owned approximately 42.5% of the total worldwide container fleet of 22.2 million TEU as of mid-2006, with the balance owned by the shipping lines. The percentage of containers utilized by shipping lines and leased from container lessors ranged from 43% to 54% from 1980 through 2006 and is projected to stay in the 42% to 43% range from 2007 to 2015. Most shipping lines lease a portion of their container fleets, which enables them to serve their customers better by:

increasing flexibility to manage the availability and location of containers;

increasing the shipper s ability to meet peak demand requirements, particularly prior to holidays such as Christmas and Chinese New Year; and

reducing their capital expenditures.



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### **Our Strengths**

We believe that we have the following competitive strengths:

*Largest Container Lessor, with Global Scale and Infrastructure Overseen by Experienced Management.* We have a long history in our business and are currently the world's largest container lessor, with a truly global platform and proprietary information technology systems that help us serve our shipping line customers effectively by generally providing containers where they need them, when they need them. Our management team on average has 21 years' experience in the container leasing industry.

*Lease Term and Type Flexibility, Global Presence and Logistical and Resale Expertise.* Our lease type and terms, international coverage, organization and resources enable us to handle a variety of types of leases effectively and position us to generally optimize residual values when selling containers, thereby helping us optimize value over the entirety of a container's useful economic life in marine service. We structure our initial long-term leases of new containers in an effort to minimize the number of containers that can be returned in lower demand locations. We re-lease off-lease containers into a wide variety of master and special leases with other customers. We utilize our expertise in logistics and our U.S. military relationship to reposition off-lease containers from lower demand to higher demand locations. Finally, we believe that selling used containers ourselves optimizes the residual value of our fleet.

*High Margin, High Return, Less Cyclical Business Model Driven by Diverse Revenue Streams.* By balancing the ownership of containers with the management of containers for third parties, we enjoy the market presence, customer service and scale benefits of a larger fleet without the capital cost associated with owning such a fleet. We believe that over time, this model's capital cost efficiency provides us with higher operating margins and higher returns on capital than would a model in which we only owned or only managed containers. Also, managing containers during periods of low demand for containers reduces the negative financial impact of such periods since the container investors bear the cost of owning the containers. We further balance these diverse revenue streams by selling and trading containers and supplying leased containers to the U.S. military; taken together, these multiple revenue streams provide for a diverse income base, mitigate the effects of cycles in our industry on our profitability and allow us to optimize our use of capital.

*Demonstrated Ability to Grow Organically or via Acquisitions of Existing Fleets.* We believe we are the leasing industry's largest buyer of new containers, purchasing on average more than 90,000 TEU per year over the last 12 years; as a result, and given our large volume buying power and solid financial structure, we are able to source containers during periods of high demand. We are able to identify, analyze and integrate potential acquisitions quickly and effectively, growing our revenues without a corresponding increase in our expenses because of our scalable infrastructure. We have successfully concluded eight transactions over the last 20 years involving other lessors' container fleets or management rights over those fleets, representing over 1,143,000 TEU in total.

### **Business Strategies**

We intend to grow our business profitably by pursuing the following strategies:

*Leverage Our Status as the Largest Intermodal Container Lessor and Consistent Purchaser.* While a number of our competitors purchasing patterns have fluctuated over time, we have been, and plan to continue to be, a consistent purchaser of containers, maintaining what we believe to be one of the youngest fleet age profiles among major lessors as we grow our fleet. We believe that our scale, consistent purchasing habits, and maintenance of a young fleet age profile have provided us with a competitive advantage that we will continue to exploit.

*Pursue Attractive Acquisitions.* Having already participated in the significant consolidation that has occurred in our industry, we will continue to seek to identify and acquire attractive portfolios of containers, both on an owned and on a managed basis, to allow us to grow our fleet profitably.





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*Continue to Focus on Operating Efficiency.* We already have a low cost, efficient structure, and we believe that we can continue to grow our fleet and therefore our revenue without a proportionate increase in our headcount, thereby spreading our operating expenses over a larger base and improving our profitability.

*Grow Our Container Resale and Military Management Businesses.* We look to trade containers and sell containers from our fleet when they reach the end of their useful lives in marine service or when it is financially attractive for us to do so, often receiving rental revenue from a shipping line for a one-way lease of the container to its ultimate sales destination. We also seek to grow our relationship with the U.S. military, for which we are the main provider of leased intermodal containers.

*Maintain Access to Diverse Sources of Capital.* We have successfully utilized a wide variety of financing alternatives to fund our growth, including secured and unsecured debt financings, bank financing, and equity from third party investors in containers. We believe this diversity of funding, combined with our anticipated access to the public equity markets, provides us with a competitive advantage in terms of both cost and availability of capital.

## **Risk Factors**

In the execution of our business strategy, we have faced and will continue to face significant challenges. Our ability to execute our strategy is subject to numerous risks as discussed more fully in Risk Factors, immediately following this Prospectus Summary. For example:

The demand for leased containers depends on many political and economic factors beyond our control;

Lease rates may decrease, which could harm our business, results of operations and financial condition;

If container prices decline after we purchase the containers but before we lease them, our results of operations and financial condition may be harmed;

Sustained reduction in prices of new containers could harm our business and results of operations due to its effects on the lease rates of older, off-lease containers;

Further consolidation of container manufacturers or the disruption of manufacturing for the major manufacturers could result in higher new container prices and/or decreased access to new containers. Any increase in the cost or reduction in the supply of new containers could harm our business, results of operations and financial condition; and

Terrorist attacks, the threat of such attacks or the outbreak of war and hostilities could negatively impact our operations and profitability and may expose us to liability.

Any of the above risks could adversely affect our financial position and results of operations. Furthermore, the execution of our plans could result in our having reduced income or losses that could have a material adverse effect on our business. Investment in our common shares involves risks. You should read and consider the information set forth in Risk Factors and all other information set forth in this prospectus before investing in our common shares.

## **Recent Events**

On July 23, 2007, we purchased for \$56.0 million the exclusive rights to manage the container fleet of Capital Lease Limited, Hong Kong (Capital) from Green Eagle Investments N.V., an investment vehicle of DVB Bank America N.V., which concurrently purchased all of the outstanding capital shares of Capital. Capital is the world's eighth largest container leasing company as measured by fleet size according to *Containerisation International Market Analysis: Container Leasing Market 2007*, with over 500,000 TEU in its fleet. We began management of

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the Capital fleet on September 1, 2007. With this addition, we have over 2,000,000 TEU in our fleet. We funded the \$56.0 million purchase price through a borrowing under our secured debt facility and we

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intend to use a portion of the proceeds from this offering to repay this borrowing. In addition, we have agreed in principle with FB Transportation Capital LLC and FB Aviation and Intermodal Finance Holding B.V. (together, "FB") that Textainer Limited will acquire half of their interest in our subsidiary, Textainer Marine Containers Limited, at a cash price equal to (i) 25% of the total shareholders' equity of the Class A Shares of Textainer Marine Containers Limited on the day immediately preceding the closing of such acquisition, plus (ii) \$18.0 million. If this transaction had closed on July 31, 2007, the cash purchase price would have been approximately \$68.7 million. In addition, as part of the consideration, at least 50% of the total annual capital expenditures of the company on new containers, as measured under GAAP, will be allocated to the Class A portion of Textainer Marine Containers Limited for a three-year period after the close of this transaction. FB shall hold 25% of all issued and outstanding Class A Shares of Textainer Marine Containers Limited after the close of this transaction. We are in the process of negotiating the transaction documents and expect to close the transaction within two business days after the closing of this offering or as soon as practicable thereafter. See "Use of Proceeds."

The U.S. military informed us in August 2007 that 26,120 containers that they lease from us are unaccounted for. Of this total, 9,850 are owned containers, 12,094 are managed for third party owners and 4,176 are subleased. Per the terms of our contract with the U.S. military, they will pay a stipulated value for each of these containers. Due to the loss of these containers, future rental income from the U.S. military on these containers will cease, but we expect to record a gain on disposal of the owned portion of these unaccounted for containers during the quarterly period ended September 30, 2007.

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

### **Our Corporate Information**

Our business began operations in 1979. We reorganized our business in 1993 and incorporated Textainer Group Holdings Limited in Bermuda as the holding company of a group of corporations involved in the purchase, ownership, management, leasing and disposal of a fleet of intermodal containers. Our subsidiaries manage and provide administrative support to the affiliated and unaffiliated owners of the containers. We have three directly owned subsidiaries:

Textainer Equipment Management Limited, our wholly-owned subsidiary incorporated in Bermuda, which provides container management, acquisition and disposal services to affiliated and unaffiliated container investors;

Textainer Limited, our wholly-owned subsidiary incorporated in Bermuda, which owns containers directly and via a subsidiary, Textainer Marine Containers Limited, which is jointly owned with FB Aviation and Intermodal Finance Holding B.V., a Netherlands corporation, and FB Transportation Capital LLC, a Delaware limited liability company; and

Textainer Capital Corporation, our wholly-owned subsidiary incorporated in Delaware, which together with its subsidiary, was the former managing general partner of six California limited partnerships formed to invest in transportation equipment and which are now dissolved. This entity is currently not actively operating.

The information contained on, or that can be accessed through, our website, including but not limited to [www.textainer.com](http://www.textainer.com), is not incorporated into and is not intended to be a part of this prospectus.

We have registered TEXTAINER, TEX and tex (logo) in the U.S. Patent and Trademark Office and in the patent and trademark agencies of thirteen countries as trademarks. This prospectus also contains

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trademarks and trade names of other companies and those trademarks and trade names are the property of their respective owners.

This prospectus contains market data and industry forecasts that were obtained from industry publications, third-party market research and publicly available information. These publications generally state that the information contained therein has been obtained from sources believed to be reliable, but the accuracy and completeness of such information is not guaranteed.

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**The Offering**

Common shares offered by us 9,000,000 Shares

Common shares to be issued and outstanding after this offering 47,604,640 Shares

Common shares currently held by Halco 27,678,802 Shares

Common shares that would be held by Halco after this offering, assuming the purchase by Halco of 2,100,000 common shares in this offering 29,778,802 Shares

Use of proceeds We intend to use the proceeds from this offering (1) to repay the debt incurred to fund our purchase of the exclusive rights to manage the container fleet of Capital from Green Eagle Investments N.V. which acquisition closed on July 23, 2007; (2) to fund the purchase of half of the interests held by FB in our subsidiary, Textainer Marine Containers Limited; (3) to fund fleet expansion and acquisitions of complementary businesses, products, technologies or other assets; and (4) for general corporate purposes, including repayment of debt, working capital and capital expenditures. See Use of Proceeds.

Dividend Policy Our board of directors has adopted a dividend policy which reflects its judgment that our shareholders would be better served if we distributed to them, as quarterly dividends payable at the discretion of our board of directors, a portion of the cash generated by our business in excess of our expected cash needs, including cash needs for potential acquisitions or other growth opportunities, rather than retaining such excess cash or using such cash for other purposes. In accordance with our dividend policy, we currently intend to pay an initial fourth quarter dividend of \$0.20 per share on or about December 2007.

We are not required to pay dividends, and our shareholders will not be guaranteed, or have contractual or other rights, to receive dividends. 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, our ability to pay dividends is and will be restricted by current and future arrangements governing our debt and by Bermuda law. 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. See Dividend Policy for further details.



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The summary consolidated financial data presented below under the heading "Statement of Income Data" for the years ended December 31, 2006, 2005 and 2004 has been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated financial data presented below under the heading "Statement of Income Data" for the six months ended June 30, 2007 and 2006 and under the heading "Balance Sheet Data" as of June 30, 2007, is unaudited, has been derived from our unaudited consolidated financial statements that are included elsewhere in this prospectus and has been prepared on the same basis as our audited consolidated financial statements. In the opinion of management, the unaudited consolidated summary financial data presented below under the headings "Statement of Income Data" and "Balance Sheet Data" reflects all normal and recurring adjustments necessary to fairly present our financial condition and results of operations as of and for the periods presented. The data presented below under "Other Financial and Operating Data" is not audited. Historical results are not necessarily indicative of the results of operations to be expected for future periods. You should read the summary consolidated financial and operating data presented below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with our consolidated financial statements and related notes included elsewhere in this prospectus.

We adopted the Financial Accounting Standards Board ( "FASB" ) Staff Position Accounting for Planned Major Maintenance Activities ( "FSP AUG AIR-1" ) effective January 1, 2007. As a result, we have retroactively adjusted our consolidated financial statements to reflect the direct expense method of accounting for maintenance, a method permitted under this Staff Position. The impact of the application of FSP AUG AIR-1 to our direct container expense, in thousands, was a \$406, \$1,903 and \$2,255 decrease for the years ended December 31, 2006, 2005 and 2004, respectively, and a \$182 decrease for the six months ended June 30, 2006.

The as-adjusted balance sheet data reflects the balance sheet data as of June 30, 2007, as adjusted for the sale of 9,000,000 common shares in this offering at the initial public offering price of \$16.50 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, as if these events had occurred as of June 30, 2007.

	Six Months Ended				
	June 30,				
	(Unaudited)		Fiscal Year Ended December 31,		
	2007	2006	2006	2005	2004
	(Dollars in thousands, except per share data)				
<b>Statement of Income Data:</b>					
Revenues:					
Lease rental income	\$ 96,649	\$ 90,679	\$ 186,093	\$ 188,904	\$ 147,152
Management fees	10,141	6,574	16,194	15,472	17,942
Trading container sales proceeds	7,162	9,287	14,137	16,046	8,429
Incentive management fees and general partner distributions				2,874	1,579
Gain on sale of containers, net	5,611	4,186	9,558	10,456	4,275
Other	286	182	480	648	940
<b>Total revenues</b>	<b>119,849</b>	<b>110,908</b>	<b>226,462</b>	<b>234,400</b>	<b>180,317</b>

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	Six Months Ended				
	June 30,				
	(Unaudited)		Fiscal Year Ended December 31,		
	2007	2006	2006	2005	2004
	(Dollars in thousands, except per share data)				
<b>Operating expenses:</b>					
Direct container expense	18,427	15,715	29,757	24,314	16,431
Cost of trading containers sold	5,779	7,708	11,480	12,944	6,235
Depreciation expense	23,391	29,625	54,330	60,792	48,321
Amortization expense	1,070		1,023		
General and administrative expense	8,407	8,133	16,155	16,567	16,807
Incentive compensation expense	2,178	1,720	4,694	5,140	4,507
Bad debt expense, net	996	502	664	91	868
<b>Total operating expenses</b>	<b>60,248</b>	<b>63,403</b>	<b>118,103</b>	<b>119,848</b>	<b>93,169</b>
<b>Income from operations</b>	<b>59,601</b>	<b>47,505</b>	<b>108,359</b>	<b>114,552</b>	<b>87,148</b>
<b>Other income (expense):</b>					
Interest expense	(17,251)	(15,385)	(33,083)	(27,491)	(13,434)
Interest income	1,377	1,021	2,286	1,086	399
Realized and unrealized gains (losses) on derivative instruments, net	1,519	4,607	2,274	4,535	(889)
Other, net	(7)	(145)	243	(2,648)	(237)
<b>Net other expense</b>	<b>(14,362)</b>	<b>(9,902)</b>	<b>(28,280)</b>	<b>(24,518)</b>	<b>(14,161)</b>
<b>Income before income tax and minority interest</b>	<b>45,239</b>	<b>37,603</b>	<b>80,079</b>	<b>90,034</b>	<b>72,987</b>
Income tax expense	(2,775)	(2,061)	(4,299)	(4,662)	(4,011)
Minority interest expense	(9,150)	(10,277)	(19,499)	(22,393)	(15,382)
<b>Net income</b>	<b>\$ 33,314</b>	<b>\$ 25,265</b>	<b>\$ 56,281</b>	<b>\$ 62,979</b>	<b>\$ 53,594</b>
<b>Net income per share:</b>					
Basic	\$ 0.87	\$ 0.66	\$ 1.47	\$ 1.65	\$ 1.41
Diluted	\$ 0.86	\$ 0.66	\$ 1.46	\$ 1.63	\$ 1.39
<b>Weighted average shares outstanding:</b>					
Basic	38,494	38,136	38,186	38,142	38,022
Diluted	38,574	38,480	38,488	38,598	38,490
<b>Other Financial and Operating Data (unaudited):</b>					
EBITDA(1)	\$ 84,055	\$ 76,985	\$ 163,955	\$ 172,696	\$ 135,232
Purchase of containers and fixed assets(2)	\$ 93,710	\$ 24,165	\$ 104,818	\$ 158,193	\$ 194,634
<b>Utilization(3):</b>					
Former Computation	91.2%	89.8%	91.1%	91.9%	93.2%
New Computation	93.6%				
<b>Total fleet in TEU (as of the end of the period)(4)</b>	<b>1,559,215</b>	<b>1,198,884</b>	<b>1,527,814</b>	<b>1,183,332</b>	<b>1,157,063</b>





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	As of June 30, 2007	
	Actual	As Adjusted (Unaudited)
	(Dollars in thousands)	
<b>Balance Sheet Data:</b>		
Cash and cash equivalents	\$ 35,900	\$ 101,922
Containers, net	821,221	821,221
Net investment in direct finance leases	46,415	46,415
Total assets	1,000,601	1,066,623
Long-term debt (including current portion)	567,167	495,167
Total liabilities	657,024	585,024
Minority interest	95,071	95,071
Total shareholders' equity	248,506	386,528

- (1) EBITDA (defined as net income, before interest income and interest expense, realized and unrealized (gains) losses on derivative instruments, net, income tax expense, minority interest expense and depreciation and amortization expense) is not a financial measure calculated in accordance with U.S. generally accepted accounting principles ( GAAP ) and should not be considered as an alternative to net income, income from operations or any other performance measures derived in accordance with GAAP or as an alternative to cash flows from operating activities as a measure of our liquidity. EBITDA is presented solely as a supplemental disclosure because management believes that it may be a useful performance measure that is widely used within our industry. EBITDA is not calculated in the same manner by all companies and, accordingly, may not be an appropriate measure for comparison. We believe EBITDA provides useful information on our earnings from ongoing operations, on our ability to service our long-term debt and other fixed obligations, and on our ability to fund our continued growth with internally generated funds. EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our operating results or cash flows as reported under GAAP. Some of these limitations are:

It does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;

It does not reflect changes in, or cash requirements for, our working capital needs;

It does not reflect interest expense or cash requirements necessary to service interest or principal payments on our debt;

Although depreciation is a non-cash charge, the assets being depreciated may be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements;

It is not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows; and

Other companies in our industry may calculate these measures differently than we do, limiting their usefulness as comparative measures.

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The following is a reconciliation of net income to EBITDA:

	Six Months Ended June 30,		Fiscal Year Ended December 31,		
	2007	2006	2006	2005	2004
	(Dollars in thousands)				
	(Unaudited)				
<b>Reconciliation of EBITDA:</b>					
Net income	\$ 33,314	\$ 25,265	\$ 56,281	\$ 62,979	\$ 53,594
Adjustments:					
Interest income	(1,377)	(1,021)	(2,286)	(1,086)	(399)
Interest expense	17,251	15,385	33,083	27,491	13,434
Realized and unrealized (gains) losses on derivative instruments, net	(1,519)	(4,607)	(2,274)	(4,535)	889
Income tax expense	2,775	2,061	4,299	4,662	4,011
Minority interest expense	9,150	10,277	19,499	22,393	15,382
Depreciation expense	23,391	29,625	54,330	60,792	48,321
Amortization expense	1,070		1,023		
<b>EBITDA</b>	<b>\$ 84,055</b>	<b>\$ 76,985</b>	<b>\$ 163,955</b>	<b>\$ 172,696</b>	<b>\$ 135,232</b>

- (2) Amounts for year ended December 31, 2006, 2005 and 2004, respectively, are audited.
- (3) We measure utilization on the basis of containers on lease, using the actual number of days on hire, expressed as a percentage of containers available for lease, using the actual days available for lease. Prior to 2007, we calculated containers available for lease to include all containers in our fleet (Former Computation). Utilization figures in this prospectus for periods prior to 2007 are calculated in the latter manner. Starting in 2007, to conform to the method used by most of our competitors, we began calculating containers available for lease by excluding containers that have been manufactured for us but have not been delivered yet to a lessee and containers designated as held-for-sale units (New Computation).
- (4) With the acquisition of the exclusive management rights over the Capital container fleet on July 23, 2007, we have over 2,000,000 TEU in our fleet.

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**RISK FACTORS**

*An investment in our common shares involves a high degree of risk. You should carefully consider the following risk factors, together with the other information contained elsewhere in this prospectus, including our financial statements and the related notes, before investing in our common shares. Any of the risk factors we describe below could adversely affect our business, cash flows, results of operations and financial condition. The market price of our common shares could decline and you may lose some or all of your investment if one or more of these risks and uncertainties develop into actual events.*

**Risks Related to Our Business and Industry**

**The demand for leased containers depends on many political and economic factors beyond our control.**

Substantially all of our revenue comes from activities related to the leasing, managing and selling of containers. Our ability to continue successfully leasing containers to container shipping lines, earning management fees on leased containers and source capital required to purchase containers depends, in part, upon the continued demand for leased containers.

Demand for containers depends largely on the rate of world trade and economic growth, with worldwide consumer demand being the most critical factor affecting this growth. Economic downturns in the U.S., Europe and other countries with consumer-oriented economies could result in a reduction in world trade volume and demand by container shipping lines for leased containers. Thus, a decrease in the volume of world trade may adversely affect our utilization and per diem rates and lead to reduced revenue and increased operating expenses (such as storage and repositioning costs), and have an adverse effect on our financial performance. We cannot predict whether, or when, such downturns will occur.

Other general factors affecting demand for leased containers, utilization and per diem rates include the following:

prices of new and used containers;

economic conditions, competitive pressures and consolidation in the container shipping industry;

shifting trends and patterns of cargo traffic;

fluctuations in demand for containerable goods outside their area of production;

the availability and terms of container financing;

fluctuations in interest rates and foreign currency values;

overcapacity, undercapacity and consolidation of container manufacturers;

the lead times required to purchase containers;

the number of containers purchased by competitors and container lessees;

container ship fleet overcapacity or undercapacity;

increased repositioning by container shipping lines of their own empty containers to higher demand locations in lieu of leasing containers;

consolidation or withdrawal of individual container lessees in the container leasing industry;

import/export tariffs and restrictions;

customs procedures, foreign exchange controls and other governmental regulations;

natural disasters that are severe enough to affect local and global economies or interfere with trade; and

other political and economic factors.

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Many of these and other factors affecting the container industry are inherently unpredictable and beyond our control. These factors will vary over time, often quickly and unpredictably, and any change in one or more of these factors may have a material adverse effect on our business and results of operations. Many of these factors also influence the decision by container shipping lines to lease or buy containers. Should one or more of these factors influence container shipping lines to buy a larger percentage of the containers they operate, our utilization rate could decrease, resulting in decreased revenue and increased storage and repositioning costs, which would harm our business results of operations and financial condition.

### **Lease rates may decrease, which could harm our business, results of operations and financial condition.**

We compete mostly on price and availability of containers. Lease rates for our containers depend on a large number of factors, including the following:

the supply of containers available;

the price of new containers;

the type and length of the lease;

interest rates;

embedded residual assumptions;

the type and age of the container;

the location of the container being leased;

the number of containers available for lease by our competitors; and

the lease rates offered by our competitors.

Most of these factors are beyond our control. In addition, lease rates can be negatively impacted by the entrance of new leasing companies, overproduction of new containers by factories and over-buying by shipping lines, leasing competitors and tax-driven container investors. For example, during 2001 and again in the second quarter of 2005, overproduction of new containers, coupled with a build-up of container inventories in Asia by leasing companies and shipping lines, led to decreasing utilization rates. In the event that the container shipping industry were to be characterized by overcapacity in the future, or if available supply of containers were to increase significantly as a result of, among other factors, new companies entering the business of leasing and selling containers, both utilization and lease rates can be expected to decrease, thereby adversely affecting the revenues generated by our fleet, which could harm our business, results of operations and financial condition.

### **If we are unable to lease our new containers shortly after we purchase them, our risk of ownership of the containers increases.**

Lease rates for new containers are positively correlated to the fluctuations in the price of new containers. Container prices can fluctuate greatly due to the factors discussed below. In the past five years, we have purchased containers at prices ranging from \$1,138 per CEU to \$2,396 per CEU. If we are unable to lease the new containers that we purchase within a short period of time of such purchase, the market price of new containers and the corresponding market lease rates for new containers may decrease, regardless of the high cost of the previously purchased

containers. This decline could harm our business, results of operations and financial conditions.

**Sustained reduction in prices of new containers could harm our business and results of operations.**

If there is a sustained downturn in new container prices, the lease rates of older, off-lease containers would also be expected to decrease. As of June 30, 2007, we had an average cost of \$1,620 per CEU for our owned

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fleet. If there is a sustained reduction in the price of new containers such that the market lease rate for all containers is reduced, this trend could harm our business and results of operations, notwithstanding the fact that we could purchase cheaper containers.

**Further consolidation of container manufacturers or the disruption of manufacturing for the major manufacturers could result in higher new container prices and/or decreased supply of new containers. Any increase in the cost or reduction in the supply of new containers could harm our business, results of operations and financial condition.**

We currently purchase almost all of our containers from manufacturers based in the PRC. If it were to become more expensive for us to procure containers in the PRC or to transport these containers at a low cost from the manufacturer to the locations where they are needed by our container lessees because of changes in exchange rates between the U.S. Dollar and Chinese Yuan, further consolidation among container suppliers, increased tariffs imposed by the U.S. or other governments, increased fuel costs, or for any other reason, we may have to seek alternative sources of supply. While we are not dependent on any single manufacturer, we may not be able to make alternative arrangements quickly enough to meet our container needs, and the alternative arrangements may increase our costs.

In particular, the availability and price of containers depend significantly on the capacity and bargaining position of the major container manufacturers. There has recently been a consolidation in the container manufacturing industry, resulting in two major manufacturers having market share of approximately 70% of that industry. This increased bargaining position has led to sustained increases in container prices. If the increased cost of purchasing containers is not matched by an increase in lease rates, our business, results of operations and financial conditions would be harmed.

**Terrorist attacks, the threat of such attacks or the outbreak of war and hostilities could negatively impact our operations and profitability and may expose us to liability.**

Terrorist attacks and the threat of such attacks have contributed to economic instability in the U.S. and elsewhere, and further acts or threats of terrorism, violence, war or hostilities could similarly affect world trade and the industries in which we and our container lessees operate. For example, worldwide containerized trade dramatically decreased in the immediate aftermath of the September 11, 2001 terrorist attacks in the U.S., which affected demand for leased containers. In addition, terrorist attacks, threats of terrorism, violence, war or hostilities may directly impact ports, depots, our facilities or those of our suppliers or container lessees and could impact our sales and our supply chain. A severe disruption to the worldwide ports system and flow of goods could result in a reduction in the level of international trade and lower demand for our containers.

Our lease agreements require our lessees to indemnify us for all costs, liabilities and expenses arising out of the use of our containers, including property damage to the containers, damage to third-party property and personal injury. However, our lessees may not have adequate resources to honor their indemnity obligations upon a terrorist attack. Our insurance coverage is limited and is subject to large deductibles and significant exclusions and we have very limited insurance for liability arising from a terrorist attack. Accordingly, we may not be protected from liability (and expenses in defending against claims of liability) arising from a terrorist attack.

**A substantial portion of our containers is leased out from or manufactured at locations in the PRC and a significant portion of our major shipping line customers is domiciled in either the PRC (including Hong Kong) or Taiwan. Therefore, our results of operations are subject to changes resulting from the political and economic policies of the PRC.**

A substantial portion of our containers is leased out from locations in the PRC because of the large volume of goods being shipped from the PRC to the U.S. or Europe. The main manufacturers of containers are also located in the PRC. These business operations could be restricted by the political environment in the PRC. The



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PRC has operated as a socialist state since 1949 and is controlled by the Communist Party of China. In recent years, however, the government has introduced reforms aimed at creating a socialist market economy and policies have been implemented to allow business enterprises greater autonomy in their operations. Changes in the political leadership of the PRC may have a significant effect on laws and policies related to the current economic reform programs, other policies affecting business and the general political, economic and social environment in the PRC, including the introduction of measures to control inflation, changes in the rate or method of taxation, and the imposition of additional restrictions on currency conversion, remittances abroad, and foreign investment. Moreover, economic reforms and growth in the PRC have been more successful in certain provinces than in others, and the continuation of or increases in such disparities could affect the political or social stability of the PRC.

Although we believe that the economic reform and the macroeconomic measures adopted by the PRC have had a positive effect on the economic development of the PRC, the future direction of these economic reforms is uncertain. This uncertainty may affect the economic development in the PRC, thereby affecting the level of trade with the rest of the world and the corresponding need for containers to ship goods from the PRC. In addition, a large portion of our shipping line customers are domiciled either in the PRC (including Hong Kong) or in Taiwan. In fiscal year 2006, 33.3% of our revenue was attributable to shipping line customers that were either domiciled in the PRC (including Hong Kong) or in Taiwan. The manufacturing facilities of the container manufacturers from which we purchased all of our containers in 2006 are also located in the PRC. Political instability in either the PRC or Taiwan could have a negative effect on our major customers, our ability to obtain containers and correspondingly, our results of operations and financial condition.

### **The legal system in the PRC has inherent uncertainties that could limit the legal protections available to us.**

We currently purchase all of our containers from manufacturers based in the PRC. In addition, a substantial portion of our containers is leased out from locations in the PRC. California law governs almost all of these agreements. However, disputes or settlements arising out of these agreements may need to be enforced in the PRC. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in the PRC. However, since these laws and regulations are relatively new and the PRC legal system continues to evolve, the interpretations of many laws, regulations and rules are not always uniform and may be subject to considerable discretion, variation, or influence by external forces unrelated to the legal merits of a particular matter. The enforcement of these laws, regulations, and rules involves uncertainties that may limit remedies available to us. Any litigation or arbitration in the PRC may be protracted and may result in substantial costs and diversion of resources and management attention. In addition, the PRC may enact new laws or amend current laws that may be detrimental to us, which may have a material adverse effect on our business operations. If we are unable to enforce any legal rights we may have under our contracts or otherwise, our ability to compete and our results of operations could be harmed.

### **The demand for leased containers is partially tied to international trade. If this demand were to decrease due to increased barriers to trade, or for any other reason, it could reduce demand for intermodal container leasing, which would harm our business and financial condition.**

A substantial portion of our containers is used in trade involving goods being shipped from the PRC to the United States, Europe or other regions. The willingness and ability of international consumers to purchase PRC goods is dependent on political support, in the United States, Europe and other countries, for an absence of government-imposed barriers to international trade in goods and services. For example, international consumer demand for PRC goods is related to price; if the price differential between PRC goods and domestically-produced goods were to decrease due to increased tariffs on PRC goods, demand for PRC goods could decrease, which could result in reduced demand for intermodal container leasing. A similar reduction in demand for intermodal container leasing could result from an increased use of quotas or other technical barriers to restrict trade from or to the PRC. The current regime of relatively free trade may not continue.

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**Because substantially all of our revenues are generated in U.S. dollars, but a significant portion of our expenses are incurred in other currencies, exchange rate fluctuations could have an adverse impact on our results of operations.**

The U.S. dollar is our primary operating currency and substantially all of our revenues are generated in U.S. dollars. However, a significant portion of our expenses are incurred in other currencies. This difference could lead to fluctuations in net income due to changes in the value of the U.S. dollar relative to the other currencies. For the years ended December 31, 2006, 2005 and 2004, 41%, 34% and 36%, respectively, of our direct container expenses were paid in 15 different foreign currencies. A decrease in the value of the U.S. dollar against foreign currencies in which our expenses are incurred translates into an increase in those expenses in U.S. dollar terms, which would decrease our net income.

**Sustained Asian economic instability could reduce demand for leasing, which would harm our business and financial condition.**

Many of our customers are substantially dependent upon shipments of goods exported from Asia. From time to time, there have been health scares, such as Severe Acute Respiratory Syndrome and avian flu, financial turmoil, natural disasters and political instability in Asia. If these events were to occur in the future, they could adversely affect our container lessees and the general demand for shipping and lead to reduced demand for leased containers or otherwise adversely affect us. Any reduction in demand for leased containers would harm our business, results of operations and financial condition.

**We own a large and growing number of containers in our fleet and are subject to significant ownership risk.**

Ownership of containers entails greater risk than management of containers for container investors. As we increase the number of containers in our owned fleet, we will increase our exposure to financing costs, changes in per diem rates, re-leasing risk, changes in utilization rates, lessee defaults, repositioning costs, storage expenses, impairment charges and changes in sales price upon disposition of containers. The number of containers in our owned fleet fluctuates over time as we purchase new containers, sell containers into the secondary resale market, and acquire other fleets. As part of our strategy, we are focused on increasing the number of owned containers in our fleet and therefore, we expect our ownership risk to increase correspondingly. We paid \$104.8 million to purchase containers for our owned fleet in 2006 and we expect to purchase approximately \$190.0 million to \$194.0 million of new containers in 2007. We believe we will be able to find container investors to purchase the desired portion of the new containers that we want to manage. If we are unable to locate container investors to purchase these containers, we may purchase the containers ourselves and operate them as part of our owned fleet.

**As we increase the number of containers in our owned fleet, we will have significant capital at risk and may need to have more debt, which could result in financial instability.**

As we increase the number of containers in our owned fleet, either as a result of planned growth in our owned fleet or as a result of our inability to attract investment to purchase containers from container investors, we will likely have more capital at risk and may need to maintain higher debt balances at a level that may adversely affect our return on equity and reduce our ability to raise capital, including our ability to borrow money to continue expanding our owned fleet. Future borrowings may not be available under our debt facilities and we may not be able to refinance these facilities, if necessary, on commercially reasonable terms or at all. We may need to raise additional debt or equity capital in order to fund our business, expand our sales activities and/or respond to competitive pressures. We may not have access to the capital resources we desire or need to fund our business. These effects, among others, may reduce our profitability and adversely affect our plans to maintain the container management portion of our business.

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**If we are unable to finance continued purchase of containers, our competitive position may diminish and our results of operation may be harmed.**

Our container lessees typically prefer newer containers. Also, a portion of our container fleet is disposed of due to age or other factors every year. To stay competitive we must continually add new containers to our fleet. If we are unable to make the necessary capital expenditures, our fleet of containers may be less attractive to our container lessees and our business, results of operations and financial condition could suffer.

**We derive a substantial portion of our revenue from each of our container ownership and container resale segments from a limited number of container lessees, and the loss of, or reduction in business by, any of these container lessees could harm our business and financial condition.**

We have derived, and believe that we will continue to derive, a significant portion of our revenue and cash flow from a limited number of container lessees. Our business comprises four reportable segments for financial statement reporting purposes: container ownership, container management, container resale and military management. Revenue for our container ownership segment comes primarily from container lessees that lease containers from our owned fleet. Revenue for our container management segment is also primarily dependent on the lease revenue of those containers that we manage. Revenue from our 25 largest container lessees by revenue represented \$259.0 million or 80.7% of the total fleet container for the fiscal year ended December 31, 2006, with revenue from our single largest container lessee accounting for \$28.9 million, or 9.0% of container leasing revenue during such period.

We do not distinguish between our owned fleet and our managed fleet when we enter into leases with or lease containers to container shipping lines. Accordingly, the largest lessees of our owned fleet are typically among the largest lessees of our managed fleet, and our management fee revenue is based on the number and performance of managed containers on lease to container lessees. As a result, the loss of, or default by, any of our largest container lessees could have a material adverse effect on the revenue for both our container ownership segment and our container management segment, and could harm our business, results of operations and financial condition.

**We face extensive competition in the container leasing industry.**

We may be unable to compete favorably in the highly competitive container leasing and container management businesses. We compete with a relatively small number of major leasing companies, many smaller lessors, companies and financial institutions offering finance leases, and promoters of container ownership and leasing as a tax-efficient investment. In addition, the shipping lines own a significant amount of the world's intermodal containers and effectively compete with us. Some of these competitors have greater financial resources and access to capital than we do. Additionally, some of these competitors may have large, underutilized inventories of containers, which could, if leased, lead to significant downward pressure on per diem rates, margins and prices of containers. Competition among container leasing companies depends upon many factors, including, among others: per diem rates; supply reliability; lease terms, including lease duration, drop-off restrictions and repair provisions; customer service; and the location, availability, quality and individual characteristics of containers. New entrants into the leasing business have been attracted by the high rate of containerized trade growth and the extent of investment from a number of container investors in recent years. New entrants may be willing to offer pricing or other terms that we are unwilling or unable to match. Shipping lines may prefer to use containers they own instead of leasing containers from us. As a result, we may not be able to maintain a high utilization rate or achieve our growth plans.

**The international nature of the container shipping industry exposes us to numerous risks.**

Our ability to enforce lessees' obligations may be subject to applicable law in the jurisdiction in which enforcement is sought or the country of domicile of the lessee. As containers are predominantly located on international waterways and the lessees domiciled in many different countries, it is not possible to predict, with

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any degree of certainty, the jurisdictions in which enforcement proceedings may be commenced. For example, repossession from defaulting lessees may be difficult and more expensive in jurisdictions in which laws do not confer the same security interests and rights to creditors and lessors as those in the U.S. and in jurisdictions where recovery of containers from defaulting lessees is more cumbersome. As a result, the relative success and expedience of enforcement proceedings with respect to containers in various jurisdictions cannot be predicted.

We are also subject to risks inherent in conducting business across national boundaries, any one of which could adversely impact our business. These risks include:

regional or local economic downturns;

fluctuations in currency exchange rates;

changes in governmental policy or regulation;

restrictions on the transfer of funds or other assets into or out of different countries;

import and export duties and quotas;

domestic and foreign customs and tariffs;

war, hostilities and terrorist attacks, or the threat of any of these events;

government instability;

nationalization of foreign assets;

government protectionism;

compliance with export controls, including those of the U.S. Department of Commerce;

compliance with import procedures and controls, including those of the U.S. Department of Homeland Security;

consequences from changes in tax laws, including tax laws pertaining to the container investors;

potential liabilities relating to foreign withholding taxes;

labor or other disruptions at key ports;

difficulty in staffing and managing widespread operations; and

restrictions on our ability to own or operate subsidiaries, make investments or acquire new businesses in various jurisdictions. One or more of these factors or other related factors may impair our current or future international operations and, as a result, harm our business, results of operations and financial condition.

**We rely on our proprietary information technology systems to conduct our business. If these systems fail to perform their functions adequately, or if we experience an interruption in their operation, our business, results of operations and financial prospects could be harmed.**

The efficient operation of our business is highly dependent on our proprietary information technology systems. We rely on our systems to record transactions, such as repair and depot charges and changes to book value, and movements associated with each of our owned or managed containers. We use the information provided by these systems in our day-to-day business decisions in order to effectively manage our lease portfolio, reduce costs and improve customer service. We also rely on these systems for the accurate tracking of the performance of our managed fleet for each container investor. The failure of our systems to perform as we expect could disrupt our business, adversely affect our results of operations and cause our relationships with lessees and container investors to suffer. Our information technology systems are vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, power loss and computer systems failures and

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viruses. Even though we have developed redundancies and other contingencies to mitigate any disruptions to our information technology systems, these redundancies and contingencies may not completely prevent interruptions to our information technology systems. Any such interruptions could harm our business, results of operations and financial condition.

### **Consolidation and concentration in the container shipping industry could decrease the demand for leased containers.**

We primarily lease containers to container shipping lines. We believe container shipping lines require a quantity of containers equal to just under two times the total TEU capacity on their container ships to support their operations. The container shipping lines have historically relied on a large number of leased containers to satisfy their needs. Consolidation of major container shipping lines could create efficiencies and decrease the demand that container shipping lines have for leased containers because they may be able to fulfill a larger portion of their needs through their owned container fleets. Consolidation could also create concentration of credit risk if the number of our container lessees decreases. Additionally, large container shipping lines with significant resources could choose to manufacture their own containers, which would decrease their demand for leased containers and could harm our business, results of operations and financial condition.

### **We may incur significant costs to reposition our containers, which could harm our business, results of operations and financial condition.**

When lessees return containers to locations where supply exceeds demand, we sometimes reposition containers to higher demand areas. Repositioning expenses vary depending on geographic location, distance, freight rates and other factors, and may not be fully covered by drop-off charges collected from the previous lessee of the containers or pick-up charges paid by the new lessee. We seek to limit the number of and impose surcharges on containers returned to low demand locations. Market conditions, however, may not enable us to continue such practices. In addition, we may not be able to accurately anticipate which locations will be characterized by higher or lower demand in the future, and our current contracts will not protect us from repositioning costs if locations that we expect to be higher demand locations turn out to be lower demand locations at the time the containers are returned. Any such increases in costs to reposition our containers could harm our business, results of operations and financial condition.

### **Lessee defaults may harm our business, results of operations and financial condition by decreasing revenue and increasing storage, repositioning, collection and recovery expenses.**

Our containers are leased to numerous container lessees. Lessees are required to pay rent and to indemnify us for damage to or loss of containers. Lessees may default in paying rent and performing other obligations under their leases. A delay or diminution in amounts received under the leases (including leases on our managed containers), or a default in the performance of maintenance or other lessee obligations under the leases could adversely affect our business, results of operations and financial condition and our ability to make payments on our debt.

Our cash in-flows from containers, principally container rental revenue, management fee revenue, gain on disposition of used equipment and commissions earned on the sale of containers on behalf of container investors, are affected significantly by our ability to collect payments under leases and purchase and sale agreements, which is subject to external economic conditions and the operations of lessees and others that are not within our control.

When lessees default, we may fail to recover all of our containers and the containers we do recover may be returned to locations where we will not be able to quickly re-lease or sell them on commercially acceptable terms. We may have to reposition these containers to other places where we can re-lease or sell them, which could be expensive depending on the locations and distances involved. Following repositioning, we may need to

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repair the containers and pay container depots for storage until the containers are re-leased. For our owned containers, these costs will directly reduce our income before taxes and for our managed containers, lessee defaults will decrease rental revenue and increase operating expenses, and thus reduce our management fee revenue. While we maintain insurance to cover some defaults, it is subject to large deductible amounts and significant exclusions and, therefore, may not be sufficient to prevent us from suffering material losses. Additionally, this insurance might not be available to us in the future on commercially reasonable terms or at all. While defaults by lessees, as measured by our experience and reflected on our financial statements as a bad debt expense, averaged less than 1% of lease rental revenue over the past 13 years, future defaults may be more material and any such future defaults could harm our business, results of operations and financial condition.

**U.S. investors in our company could suffer adverse tax consequences if we are characterized as a passive foreign investment company for U.S. federal income tax purposes.**

Based upon the nature of our business activities, we may be classified as a passive foreign investment company ( PFIC ) for U.S. federal income tax purposes. Such characterization could result in adverse U.S. tax consequences to direct or indirect U.S. investors in our common shares. For example, if we are a PFIC, our U.S. investors could become subject to increased tax liabilities under U.S. tax laws and regulations and could become subject to burdensome reporting requirements. The determination of whether or not we are a PFIC is made on an annual basis and will depend on the composition of our income and assets from time to time. Specifically, for any taxable year we will be classified as a PFIC for U.S. tax purposes if either:

75% or more of our gross income in a taxable year is passive income, or

the average percentage of our assets (which includes cash) by value in a taxable year which produce or are held for the production of passive income is at least 50%.

In applying these tests, we are treated as owning or generating directly our pro rata share of the assets and income of any corporation in which we own at least 25% by value. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raise in this offering.

If you are a U.S. investor and we are a PFIC for any taxable year during which you own our common shares, you could be subject to adverse U.S. tax consequences. Under the PFIC rules, unless a U.S. investor is permitted to and does elect otherwise under the Internal Revenue Code, such U.S. investor would be liable to pay U.S. federal income tax at the then prevailing income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of our common shares, as if the excess distribution or gain had been recognized ratably over the investor's holding period for our common shares. Based on the composition of our income, valuation of our assets (including goodwill), and our expected election to treat certain of our subsidiaries as disregarded entities for U.S. federal income tax purposes, we do not expect that we should be treated as a PFIC for our current taxable year. However, there can be no assurance at all in this regard. 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. See [Material United States and Bermuda Income Tax Consequences](#) [United States Federal Income Tax Consequences](#) [Taxation of U.S. Holders](#) [Passive Foreign Investment Company](#) for a more detailed discussion.

**We may become subject to unanticipated tax liabilities that may have a material adverse effect on our results of operations.**

We are a Bermuda company, and we believe that a significant portion of the income derived from our operations will not be subject to tax in Bermuda, which currently has no corporate income tax, or in many other countries in which we conduct activities or in which our customers are located. However, this belief is based on the anticipated nature and conduct of our business, which may change. It is also based on our understanding of our position under the tax laws of the countries in which we have assets or conduct activities. This position is subject to review and possible challenge by taxing authorities and to possible changes in law that may have retroactive effect.

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One of our non-U.S. subsidiaries, Textainer Limited, earns income that is effectively connected with its conduct of a trade or business within the U.S., and such effectively connected income is subject to U.S. federal income tax. We believe that we and the rest of our non-U.S. subsidiaries conduct our operations so that we and the rest of our non-U.S. subsidiaries are not engaged in a trade or business within the U.S. and therefore do not earn effectively connected income that would be subject to U.S. federal income tax. However, it is possible that the U.S. Internal Revenue Service may conclude that we and the rest of our non-U.S. subsidiaries are engaged in a U.S. trade or business and earn effectively connected income that is subject to U.S. federal income tax. Our results of operations could be materially and adversely affected if we become subject to a significant amount of unanticipated tax liabilities. See [Material United States and Bermuda Income Tax Consequences](#) [United States Federal Income Tax Consequences](#) [Taxation of the Companies](#) and [Material Bermuda and United States Federal Income Tax Consequences](#) [Bermuda Tax Consequences](#) [Taxation of the Companies](#).

**Our U.S. subsidiaries may be treated as personal holding companies for U.S. federal tax purposes now or in the future.**

Any of our direct or indirect U.S. subsidiaries could be subject to additional U.S. tax on a portion of its income if it is considered to be a personal holding company ( PHC ) for U.S. federal income tax purposes. This status depends on whether more than 50% of the subsidiary's shares by value could be deemed to be owned (taking into account constructive ownership rules) by five or fewer individuals and whether 60% or more of the subsidiary's adjusted ordinary gross income consists of personal holding company income, which includes certain forms of passive and investment income. The PHC rules do not apply to non-U.S. corporations. We believe that none of our U.S. subsidiaries should be considered PHCs. In addition, we intend to cause our U.S. subsidiaries to manage their affairs in a manner that reduces the possibility that they will meet the 60% income threshold. However, because of the lack of complete information regarding our ultimate share ownership (*i.e.*, particularly as determined by constructive ownership rules), our U.S. subsidiaries may become PHCs following this offering or in the future and in that event, the amount of U.S. federal income tax that would be imposed could be material. See [Material United States and Bermuda Income Tax Consequences](#) [United States Federal Income Tax Consequences](#) [Taxation of the Companies](#) [U.S. Subsidiaries](#).

**The U.S. government has special contracting requirements which create additional risks.**

We have entered into a firm, fixed price, indefinite quantity contract with the Surface Deployment and Distribution Command ( SDDC ) to supply leased marine containers to the U.S. military. As an indefinite quantity contract, there is no guarantee that the U.S. military will pay more than the minimum guarantee, which guaranteed amount is substantially below the total amount authorized under the contract. Thus, the expected revenues from the SDDC contract may not fully materialize. In addition, there is no guarantee that the U.S. military will exercise any option terms beyond those currently exercised or that we will be awarded additional periods (the award terms ) in years 6 through 10 of the SDDC contract, which award is also subject to us performing at a certain level under the contract. If we do not perform in accordance with the terms of the SDDC contract, we may receive a poor performance report that would be considered by the U.S. military in exercising its options to extend the term of the contract and in making any future awards. Accordingly, we cannot be certain that the term of the SDDC contract will be extended or that we will be awarded any future government contracts.

In contracting with the U.S. military, we are subject to U.S. government contract laws, regulations and other requirements that impose risks not generally found in commercial contracts. For example, U.S. government contracts require contractors to comply with a number of socio-economic requirements and to submit periodic reports regarding compliance, are subject to audit and modification by the U.S. government in its sole discretion, and impose certain requirements relating to software and/or technical data that, if not followed, could result in the inadvertent grant to the U.S. government of broader licenses to use and disclose such software or data than we intended.



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These laws, regulations and contract provisions also permit, under certain circumstances, the U.S. government unilaterally to:

suspend or prevent us for a set period of time from receiving new government contracts or extending existing contracts based on violations or suspected violations of laws or regulations;

terminate the SDDC contract;

reduce the scope and value of the SDDC contract;

audit our performance under the SDDC contract and our compliance with various regulations; and

change certain terms and conditions in the SDDC contract.

In addition, the U.S. military may terminate the SDDC contract either for its convenience at any time or if we default by failing to perform in accordance with the contract schedule and terms. Termination for convenience provisions generally enable the contractor to recover only those costs incurred or committed, and settlement expenses and profit on the work completed prior to termination. Termination for default provisions do not permit these recoveries and make the contractor liable for excess costs incurred by the U.S. military in procuring undelivered items from another source.

In addition, the U.S. government could bring criminal and civil charges against us based on intentional or unintentional violations of the representations and certifications that we have made in the SDDC contract. Although adjustments arising from U.S. government audits and reviews have not seriously harmed our business in the past, future audits and reviews could cause adverse effects. We could also suffer serious harm to our reputation if allegations of impropriety were made against us.

### **Gains and losses associated with the disposition of used equipment may fluctuate and adversely affect our business, results of operations and financial condition.**

We regularly sell used containers at the end of their useful economic lives in marine service or when it is financially attractive for us to do so, considering the location, sale price, cost of repair, and possible repositioning expenses. The residual value of these containers affects our profitability. The volatility of the residual values of used containers may be significant. These values depend upon, among other factors, demand for used containers for secondary purposes, comparable new container costs, used container availability, condition and location of the containers, and market conditions. Most of these factors are outside of our control.

Containers are typically sold if it is in the best interest of the owner to do so after taking into consideration the prevailing sales price, as affected by the above factors, location, earnings prospects, remaining useful life, repair condition, and suitability for leasing or other uses. Gains or losses on the disposition of used container equipment and the sales fees earned on the disposition of managed containers will also fluctuate and may be significant if we sell large quantities of used containers. Any such fluctuations could harm our business, results of operations and financial condition. See Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of our gains or losses on the disposition of used container equipment.

### **We may choose to pursue acquisitions or joint ventures that could present unforeseen integration obstacles or costs.**

We may pursue acquisitions and joint ventures. Acquisitions involve a number of risks and present financial, managerial and operational challenges, including:

potential disruption of our ongoing business and distraction of management;

difficulty integrating personnel and financial and other systems;

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hiring additional management and other critical personnel; and

increasing the scope, geographic diversity and complexity of our operations.

In addition, we may encounter unforeseen obstacles or costs in the integration of acquired businesses. Also, the presence of one or more material liabilities of an acquired company that are unknown to us at the time of acquisition may have a material adverse effect on our business. Acquisitions or joint ventures may not be successful, and we may not realize any anticipated benefits from acquisitions or joint ventures.

### **A reduction in the willingness of container investors to have us manage their containers could adversely affect our business, results of operations and financial condition.**

A significant percentage of our revenue is attributable to management fees earned on services related to the leasing of containers owned by container investors. This revenue has very low direct operating costs associated with it. Accordingly, fluctuations in our management fee revenue in any period will have an impact on our profitability in that period. Our ability to continue to attract new management contracts depends upon a number of factors, including our ability to lease containers on attractive lease terms and to efficiently manage the repositioning, storage and disposition of containers. In the event container investors perceive another container leasing company as better able to provide them with a stable and attractive rate of return, we may lose management contract opportunities in the future, which could affect our business, results of operations and financial condition.

### **Our senior executives are critical to the success of our business and any inability to retain them or recruit new personnel could harm our business, results of operations and financial condition.**

Our senior management has a long history in the container leasing industry, with our four most senior officers having an average of approximately 15 years of service with us and an average of 21 years in the container leasing industry. We rely on this knowledge and experience in our strategic planning and in our day-to-day business operations. Our success depends in large part upon our ability to retain our senior management, the loss of one or more of whom could have a material adverse effect on our business. Our success also depends on our ability to retain our experienced sales force and technical personnel as well as recruiting new skilled sales, marketing and technical personnel. Competition for these individuals in our industry is intense and we may not be able to successfully recruit, train or retain qualified personnel. If we fail to retain and recruit the necessary personnel, our business and our ability to obtain new container lessees and provide acceptable levels of customer service could suffer. We have employment agreements with all of our executive officers.

### **We may incur costs associated with new cargo security regulations, which may adversely affect our business, financial condition and results of operations.**

We may be subject to regulations promulgated in various countries, including the U.S., seeking to protect the integrity of international commerce and prevent the use of containers for international terrorism or other illicit activities. For example, the Container Security Initiative, the Customs-Trade Partnership Against Terrorism and Operation Safe Commerce are among the programs administered by the U.S. Department of Homeland Security that are designed to enhance security for cargo moving throughout the international transportation system by identifying existing vulnerabilities in the supply chain and developing improved methods for ensuring the security of containerized cargo entering and leaving the U.S. Moreover, the International Convention for Safe Containers, 1972 ( CSC ), as amended, adopted by the International Maritime Organization, applies to new and existing containers and seeks to maintain a high level of safety of human life in the transport and handling of containers by providing uniform international safety regulations. As these regulations develop and change, we may incur compliance costs due to the acquisition of new, compliant containers and/or the adaptation of existing containers to meet new requirements imposed by such regulations. Additionally, certain companies are currently developing or may in the future develop products designed to enhance the security of containers transported in international commerce. Regardless of the existence of current or future government regulations mandating the

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safety standards of intermodal shipping containers, our competitors may adopt such products or our container lessees may require that we adopt such products. In responding to such market pressures, we may incur increased costs, which could have a material adverse effect on our business, results of operations and financial condition.

### **Our indebtedness reduces our financial flexibility and could impede our ability to operate.**

We currently utilize three types of borrowings: (i) issuance of bonds; (ii) borrowings under a revolving credit facility and (iii) borrowings under a secured debt facility. Our revolving credit facility is a bank revolving facility involving a commitment to one of our subsidiaries, Textainer Limited, of \$75.0 million. Our secured debt facility is a conduit facility, which allows for recurring borrowings and repayments, granted to a subsidiary of Textainer Limited, Textainer Marine Containers Limited. Textainer Marine Containers Limited is also the issuer of our bonds. We have typically funded a significant portion of the purchase price of new containers through borrowings under our revolving and secured debt facilities and intend to continue to do so in the future. Containers are purchased by Textainer Limited using proceeds of our revolving credit facility. Textainer Limited then sells these containers at book value to Textainer Marine Containers Limited, which then finances part of the purchase price with draw downs from our secured debt facility. In 2001 and again in 2005, at such time as the secured debt facility reached an appropriate size, it was refinanced through the issuance of bonds to institutional investors. We anticipate a similar refinancing at such time as the secured debt facility reaches a balance of between \$300.0 million and, if we are able to increase the commitment under the secured debt facility, \$500.0 million. This timing will depend on the level of future purchases of containers for our owned fleet.

As of June 30, 2007, we had outstanding borrowings of \$16.0 million under our revolving credit facility, \$92.0 million under our secured debt facility and \$459.2 million of bonds payable. We expect that we will maintain a significant amount of indebtedness on an ongoing basis.

Payments of principal on our secured debt facility are not due until a conversion event, although we have the option of repaying the principal on those borrowings at any time. If we do not refinance the secured debt facility prior to June 6, 2008, a conversion event will occur, resulting in an increased interest rate and a need to make monthly principal payments. Payments of principal on our bonds are due monthly, although we may not prepay these bonds before June 15, 2008. The borrowings under our revolving credit facility do not amortize prior to January 31, 2009, although we have the option of repaying principal prior to that date. If we do not refinance our revolving credit facility prior to January 31, 2009, those borrowings will then become subject to an increased interest rate and we will need to make monthly principal payments. There is no assurance that we will be able to refinance our outstanding indebtedness, or if refinancing is available, that it can be obtained on terms that we can afford. See [Description of Indebtedness](#) for further discussions on our borrowings.

The amount of our indebtedness could have important consequences for us, including the following:

require us to dedicate a substantial portion of our cash flow from operations to make payments on our debt, thereby reducing funds available for operations, investments and future business opportunities and other purposes;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

reduce our ability to make acquisitions or expand our business;

make it more difficult for us to satisfy our debt obligations, and any failure to comply with such obligations, including financial and other restrictive covenants, could result in an event of default under the agreements governing such indebtedness, which could lead to, among other things, an acceleration of our indebtedness or foreclosure on the assets securing our indebtedness, which could have a material adverse effect on our business or financial condition;

limit our ability to borrow additional funds, or to sell assets to raise funds, if needed, for working capital, capital expenditures, acquisitions or other purposes; and

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increase our vulnerability to general adverse economic and industry conditions, including changes in interest rates. We may not generate sufficient cash flow from operations to service and repay our debt and related obligations and have sufficient funds left over to achieve or sustain profitability in our operations, meet our working capital and capital expenditure needs or compete successfully in our industry.

**We will require a significant amount of cash to service and repay our outstanding indebtedness and our ability to generate cash depends on many factors beyond our control.**

Our ability to make payments on and repay our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. It is possible that:

our business will not generate sufficient cash flow from operations to service and repay our debt and to fund working capital requirements and planned capital expenditures;

future borrowings will not be available under our current or future credit facilities in an amount sufficient to enable us to refinance our debt; or

we will not be able to refinance any of our debt on commercially reasonable terms or at all.

**Our revolving credit facility and secured debt facility and our bonds impose, and the terms of any future indebtedness may impose, significant operating, financial and other restrictions on us and our subsidiaries.**

Restrictions imposed by our revolving credit facility and secured debt facility and our bonds may limit or prohibit, among other things, our ability to:

incur additional indebtedness;

pay dividends on or redeem or repurchase our common shares;

enter into new lines of business;

issue capital stock of our subsidiaries;

make loans and certain types of investments;

incur liens;

sell certain assets or merge with or into other companies or acquire other companies;

enter into certain transactions with shareholders and affiliates; and

restrict dividends, distributions or other payments from our subsidiaries.

We are also required to comply with certain financial ratio covenants. See [Description of Indebtedness](#) for further details on our financial ratio covenants. These restrictions could adversely affect our ability to finance our future operations or capital needs and pursue available business opportunities. A breach of any of these restrictions, including a breach of financial covenants, could result in a default in respect of the related indebtedness. If a default occurs, the relevant lenders could elect to declare the indebtedness, together with accrued interest and fees, to be immediately due and payable and proceed against any collateral securing that indebtedness, which will constitute substantially all of our container assets.

**If we are unable to enter into interest rate caps and swaps on reasonable commercial terms, our exposure associated with our variable rate debt could increase.**

We have typically funded a significant portion of the purchase price of new containers through borrowings under our revolving and secured debt facilities and intend to continue to do so in the future.

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In 2001 and again in 2005, at such time as the secured debt facility reached an appropriate size, the facility was refinanced through the issuance of bonds. We anticipate a similar refinancing at such time as the secured debt facility reaches a balance of between \$300.0 million and, if we are able to increase the secured debt facility commitment, \$500.0 million. As of June 30, 2007, we had outstanding borrowing of \$16.0 million under our revolving credit facility, \$92.0 million under our secured debt facility and \$459.2 million under our bonds payable, all of which are subject to variable interest rates. We have entered into various interest rate cap and swap agreements to mitigate our exposure associated with 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 ). Our interest rate swap agreements have expiration dates between November 2007 and December 2010. Our interest rate cap agreements have expiration dates between October 2007 and November 2015. There can be no assurance that these interest rate caps and swaps will be available in the future, or if available, will be on terms satisfactory to us. If we are unable to obtain such interest rate caps and swaps, our exposure associated with our variable rate debt could increase.

### **Environmental liability may adversely affect our business, results of operations and financial condition.**

We are subject to federal, state, local and foreign laws and regulations relating to the protection of the environment, including those governing the discharge of pollutants to air, ground and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. We could incur substantial costs, including cleanup costs, fines and costs arising out of third-party claims for property or natural resource damage and personal injury, as a result of violations of or liabilities under environmental laws and regulations in connection with our or our lessees' current or historical operations. Under some environmental laws in the U.S. and certain other countries, the owner or operator of a container may be liable for environmental damage, cleanup or other costs in the event of a spill or discharge of material from the container without regard to the fault of the owner or operator. While we typically maintain certain limited liability insurance and typically require lessees to provide us with indemnity against certain losses, the insurance coverage may not be sufficient to protect against any or all liabilities and such indemnities may not be sufficient, or available, to protect us against losses arising from environmental damage. Moreover, our lessees may not have adequate resources, or may refuse to honor their indemnity obligations and our insurance coverage is subject to large deductibles, coverage limits and significant exclusions.

### **We could face litigation involving our management of containers for container investors.**

We manage containers for container investors under management agreements that are negotiated with each container investor. We make no assurances to container investors that they will make any amount of profit on their investment or that our management activities will result in any particular level of income or return of their initial capital. We believe that as the number of containers that we manage for container investors increases, the possibility that we may be drawn into litigation relating to these managed containers may also increase. Although our management agreements contain contractual protections and indemnities that are designed to limit our exposure to such litigation, such provisions may not be effective and we may be subject to a significant loss in a successful litigation by a container investor. In addition, we currently are in litigation regarding prior management of assets for certain terminated limited partnerships. See Business Legal Proceedings .

### **Certain liens may arise on our containers.**

Depot operators, manufacturers, repairmen and transporters may come into possession of our containers from time to time and have amounts due to them from the lessees or sublessees of the containers. In the event of nonpayment of those charges by the lessees or sublessees, we may be delayed in, or entirely barred from, repossessing the containers, or be required to make payments or incur expenses to discharge such liens on our containers.

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### **We may not always pay dividends on our common shares.**

We may not be able to pay future dividends because they depend on future earnings, capital requirements, and financial condition. The declaration and payment of future dividends is 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. 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) our revolving credit facility, 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 (i) a minimum net worth level (which level would decrease by the amount of any dividend paid), (ii) a maximum ratio of consolidated funded debt to consolidated tangible net worth (which amount would decrease by the amount of any dividend paid) and (iii) a minimum ratio of certain income (which amount would decrease by the amount of any dividend paid) to current obligations. The reduction or elimination of dividends may negatively affect the market price of our common shares. Please see [Description of Indebtedness Credit Facility](#) for a description of these covenants and [Description of Share Capital Dividend Rights](#) for the limitations under Bermuda law. 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.

### **Risks Related to this Offering**

#### **Our common shares have no public market, and an active trading market may not develop.**

Prior to this offering, there has not been a market for our common shares. Although our application to have the common shares listed on the New York Stock Exchange ( NYSE ) has been approved, an active trading market in our common shares might not develop or continue. If you purchase shares in this offering, you will pay a price that was not established in a competitive market. Rather, you will pay a price that was determined through negotiations with the representative of the underwriters based upon an assessment of the valuation of our shares and a book-building process. The public market may not agree with or accept this valuation, in which case you may not be able to sell your shares at or above the initial public offering price.

#### **The market price and trading volume of our shares may be volatile and may be affected by market conditions beyond our control.**

Even if an active trading market for the shares develops, the market price of our shares may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our common shares may fluctuate and cause significant price variations to occur. If the market price of the shares declines significantly, you may be unable to resell your shares at or above your purchase price, if at all. The market price of our shares may fluctuate or decline significantly in the future. Some of the factors that could negatively affect our shares price or result in fluctuations in the price or trading volume of our shares include:

variations in our quarterly operating results;

failure to meet our earnings estimates;

publication of research reports about us, other intermodal container lessors or the container shipping industry or the failure of securities analysts to cover our shares or our industry after this offering;

additions or departures of key management personnel;

adverse market reaction to any indebtedness we may incur or preference or common shares we may issue in the future;



changes in our dividend payment policy or failure to execute our existing policy;

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actions by shareholders;

changes in market valuations of similar companies;

announcements by us or our competitors of significant contracts, acquisitions, dispositions, strategic partnerships, joint ventures or capital commitments;

speculation in the press or investment community; and

changes or proposed changes in laws or regulations affecting the container shipping industry or enforcement of these laws and regulations, or announcements relating to these matters.

In the past, the stock market has experienced extreme price and volume fluctuations. These market fluctuations could result in extreme volatility in the trading price of the shares, which could cause a decline in the value of your investment. You should also be aware that price volatility may be greater if the public float and trading volume of our shares are low.

**One of our shareholders, Halco, a company owned by a trust in which Trenchor and certain of its affiliates are the sole discretionary beneficiaries, has and will continue to have substantial control over us after this offering and could act in a manner with which other shareholders may disagree or that is not necessarily in the interests of other shareholders.**

Halco currently beneficially owns approximately 71.7% of our issued and outstanding common shares. After taking into account this offering, including the full exercise of the over-allotment option by the underwriters, and assuming that Halco purchases 2,100,000 common shares in this offering, based upon beneficial ownership of our issued and outstanding common shares as of October 5, 2007, Halco will beneficially own approximately 60.8% of our issued and outstanding common shares. These shares will not be purchased unless the offering to the public is consummated. Halco is not under any obligation to purchase any shares in this offering and its interest in purchasing shares in this offering is not a commitment to do so. These shares, if purchased, will be subject to the 180 day lock-up agreement that Halco signed with the representatives of the underwriters in connection with this offering. Accordingly, Halco has and will continue to have the ability to influence the outcome of matters submitted to our shareholders for approval, including the election of directors and any amalgamation, merger, consolidation or sale of all or substantially all of our assets. Six of our eleven directors are also directors of Trenchor. In addition, Halco will have the ability to control the management and affairs of our company. Halco may have interests that are different from yours. For example, it may support proposals and actions with which you may disagree or which are not in your interests as a shareholder of our company. The concentration of ownership could delay or prevent a change in control of us or otherwise discourage a potential acquiror from attempting to obtain control of us, which in turn could reduce the price of our common shares.

**Affiliates of Halco and Trenchor may compete with us and compete with some of our customers.**

Halco and Trenchor, through their affiliates, are free to compete with us, and have engaged in the past and will likely continue to engage in businesses that are similar to ours. In particular, Leased Assets Pool Company Limited ( LAPCO ), an affiliate of Halco, owns containers, has competed against us and our customers through its investment in containers and has used our competitors to manage some of its containers in the past. Thus, although we have a management agreement with LAPCO to manage a majority of its containers, we expect that we will continue to compete with LAPCO in the future, which may result in various conflicts of interest.

**Our current management and share ownership structure may create conflicts of interest.**

Six of our eleven directors are also directors of Trenchor. These directors owe fiduciary duties to each company and may have conflicts of interest in matters involving or affecting us and Trenchor, including matters arising under our agreements with Trenchor and its affiliates. In addition, to the extent that some of these directors

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may own shares in Trecor, they may have conflicts of interest when faced with decisions that could have different implications for Trecor than they do for us. Furthermore, Trecor, as a South African company, endorses for itself and for its subsidiaries, the Code of Corporate Practices and Conduct in the King II Report on Corporate Governance. The King II Report on Corporate Governance is a document promulgated by the South African Institute of Directors which, among other things, suggests that corporations in their corporate decision-making consider the following stakeholders in addition to the owners of shares: parties who contract with the enterprise; parties who have a non-contractual nexus with the enterprise (including civic society and the environment); and the state. Trecor may seek to or be required to impose these corporate governance practices on us, which may result in constraints on management and may involve significant costs. Your interests as a shareholder of Textainer may not align with the interests of Trecor and its affiliates and shareholders.

### **We are a holding company with no material direct operations and rely on our operating subsidiaries to provide us with funds necessary to meet our financial obligations and to pay dividends.**

We are a holding company with no material direct operations. Our principal assets are the equity interests we directly or indirectly hold in our operating subsidiaries, which own our operating assets. As a result, we are dependent on loans, dividends and other payments from our subsidiaries to generate the funds necessary to meet our financial obligations and to pay dividends on our common shares. Our subsidiaries are legally distinct from us and may be prohibited or restricted from paying dividends or otherwise making funds available to us under certain conditions. If we are unable to obtain funds from our subsidiaries, we may be unable to, or our board may exercise its discretion not to, pay dividends on our common shares.

### **Our ability to sell more shares in the future may be materially constrained by Trecor's South African currency restrictions and JSE Listings Requirements.**

Trecor, a South African company listed on the JSE, has beneficiary interest in a majority of our share capital. Six of our eleven directors are also directors of Trecor. Both South African exchange control authorities and the JSE impose certain restrictions on Trecor.

South Africa's exchange control regulations provide for restrictions on exporting capital from South Africa. These restrictions require Trecor 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 their 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 Trecor's beneficiary 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, Trecor is required to comply with JSE Listings Requirements in connection with its holding or sale of our shares.

Immediately following the completion of this offering, including the full exercise of the over-allotment option by the underwriters, and assuming that Halco purchases 2,100,000 common shares in this offering, Trecor will have an indirect beneficiary interest in 60.8% of our issued and outstanding shares. The above requirements could limit our financial flexibility by, among other things, impacting our future ability to raise funds through the issuance of securities, preventing or limiting the use of our shares as consideration in acquisitions, and limiting our use of option grants and restricted share grants to our directors, officers and other employees as incentives to improve the financial performance of our company.

### **It may not be possible for investors to enforce U.S. judgments against us.**

We and all of our subsidiaries, except Textainer Equipment Management (U.S.) Limited, Textainer Capital Corporation and Textainer Financial Services Corporation, are incorporated in jurisdictions outside the U.S. A

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substantial portion of our assets and those of our subsidiaries are located outside of the U.S. In addition, most of our directors are non-residents of the U.S., and all or a substantial portion of the assets of these non-residents are located outside the U.S. As a result, it may be difficult or impossible for U.S. investors to serve process within the U.S. upon us, our non-U.S. subsidiaries, or our directors, or to enforce a judgment against us for civil liabilities in U.S. courts. In addition, you should not assume that courts in the countries in which we or our subsidiaries are incorporated or where our assets or the assets of our subsidiaries are located would enforce judgments of U.S. courts obtained in actions against us or our subsidiaries based upon the civil liability provisions of applicable U.S. federal and state securities laws, or would enforce, in original actions, liabilities against us or our subsidiaries based on those laws.

### **We are a foreign private issuer and, as a result, under NYSE rules, we are not required to comply with certain corporate governance requirements.**

As a foreign private issuer, we are permitted by the NYSE to comply with Bermuda corporate governance practice in lieu of complying with certain NYSE corporate governance requirements. This means that we are not required to comply with NYSE requirements that:

the board of directors consists of a majority of independent directors;

independent directors meet in regularly scheduled executive sessions;

the audit committee satisfy NYSE standards for independence (although we must still comply with independence standards pursuant to Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the Exchange Act ));

the audit committee have a written charter addressing the committee's purpose and responsibilities;

we have a nominating and corporate governance committee composed of independent directors with a written charter addressing the committee's purpose and responsibilities;

we have a compensation committee composed of independent directors with a written charter addressing the committee's purpose and responsibilities;

we establish corporate governance guidelines and a code of business conduct;

our shareholders approve any equity compensation plans; and

there be an annual performance evaluation of the nominating and corporate governance and compensation committees.

Our board of directors has adopted an audit committee charter, a compensation committee charter and a nominating and governance committee charter, in each case, to be effective immediately prior to the effectiveness of this offering. However, following this offering, we intend to utilize some of the exemptions available to a foreign private issuer. As a result, our board of directors may not consist of a majority of independent directors and our compensation committee may not consist of any or a majority of independent directors. Accordingly, you may not have the same protections afforded to shareholders of companies that are subject to all of the NYSE corporate governance requirements.

### **Market interest rates may have an effect on the trading value of our shares.**

## Edgar Filing: TEXTAINER GROUP HOLDINGS LTD - Form 424B4

One of the factors that investors may consider in deciding whether to buy or sell our shares is our dividend rate, as a percentage of our share price, relative to market interest rates. If market interest rates increase, prospective investors may demand a higher dividend yield on our shares or seek alternative investments paying higher dividends or interest. As a result, interest rate fluctuations and capital market conditions can affect the market value of our shares.

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**If securities analysts do not publish research or reports about our business or if they change their financial estimates or investment recommendation, the price of our common shares could decline.**

The trading market for our common shares will rely in part on the research and reports that industry or financial analysts publish about us or our business. We do not control or influence the decisions or opinions of these analysts and analysts may not cover us. If any analyst who covers us changes his or her financial estimates or investment recommendation, the price of our common shares could decline. If any analyst ceases coverage of our company or our industry, we could lose visibility in the market, which in turn could cause our share price to decline.

**Implementation of required public company corporate governance and financial reporting practices and policies will increase our costs, and we may be unable to provide the required financial information in a timely and reliable manner.**

As a result of this offering, we will become subject to the reporting requirements of the Exchange Act and the other rules and regulations of the Securities and Exchange Commission (the "SEC"). The SEC, as directed by Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), has adopted rules that will require us to conduct an assessment by management of the effectiveness of our internal controls over financial reporting. In addition, our independent auditors must attest to and report on the effectiveness of such internal controls over financial reporting. Our management may not be able to effectively and timely implement controls and procedures that adequately respond to the increased regulatory compliance and reporting requirements that will be applicable to us as a public company. If we are not able to implement the requirements of the Sarbanes-Oxley Act in a timely manner or with adequate compliance, our independent auditors may not be able to attest as to the effectiveness of our internal controls over financial reporting. This result may subject us to adverse regulatory consequences, and could lead to a negative reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. We could also suffer a loss of confidence in the reliability of our financial statements if we disclose material weaknesses or significant deficiencies in our internal controls. In addition, if we fail to develop and maintain effective controls and procedures, we may be unable to provide the required financial information in a timely and reliable manner or otherwise comply with the standards applicable to us as a public company. Any failure by us to timely provide the required financial information could materially and adversely impact our financial condition and the market value of our common shares. Furthermore, testing and maintaining internal controls can divert our management's attention from other matters that are important to our business. We also expect these regulations to increase our legal and financial compliance costs, make it more difficult to attract and retain qualified officers and directors, particularly to serve on our audit committee, and make some activities more difficult, time consuming and costly.

**You will incur immediate and substantial dilution in the net tangible book value of the shares you purchase.**

Purchasers of our common shares in this offering will pay a price per share that exceeds the per share value of our tangible assets after subtracting our liabilities and the per share price paid by our existing shareholders to acquire our common shares. Accordingly, purchasers of our common shares in this offering will experience immediate and substantial dilution of approximately \$8.74 per share, representing the difference between the initial public offering price of \$16.50 per share and our pro forma as adjusted net tangible book value per share as of June 30, 2007 after giving effect to this offering. In addition, purchasers of our common shares in this offering will have contributed approximately 84% of the aggregate price paid by all purchasers of our shares but will own only approximately 19% of our common shares issued and outstanding after this offering. See "Dilution."

**A large number of shares are restricted from immediate resale but may be sold into the market in the near future. We may also issue additional shares without your approval. This could cause the market price of our common shares to decline significantly.**

After taking into account this offering, including the full exercise of the over-allotment option by the underwriters, based on the number of shares issued and outstanding as of October 5, 2007, we will have

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48,954,640 common shares issued and outstanding. This includes the 10,350,000 shares we are selling in this offering (assuming the full exercise of the over-allotment option by the underwriters) at the initial public offering price of \$16.50 per share, which may be sold in the public market immediately unless held by an affiliate of ours. Of these 10,350,000 common shares sold, we expect that 2,100,000 shares will be sold to Halco, which is our affiliate, and therefore these shares will not be freely tradable in the public market. These shares will not be purchased by Halco unless the offering to the public is consummated. Halco is not under any obligation to purchase any shares in this offering and its interest in purchasing shares in this offering is not a commitment to do so. These shares, if purchased, will be subject to the 180 day lock-up agreement that Halco signed with the representatives of the underwriters in connection with this offering.

Substantially all of our officers, directors and existing shareholders have entered into lock-up agreements providing that they will not sell any of our common shares until 180 days from the date of this prospectus, without the prior written consent of Credit Suisse Securities (USA) LLC and Wachovia Capital Markets, LLC. Credit Suisse Securities (USA) LLC and Wachovia Capital Markets, LLC may release the shares subject to the lock-up agreements in whole or in part at any time without prior public notice. However, Credit Suisse Securities (USA) LLC and Wachovia Capital Markets, LLC have no current plans to effect such a release. Please see *Shares Eligible for Future Sale* for a description of sales that may occur in the future.

Following the completion of this offering, we intend to file a registration statement on Form S-8 under the Securities Act of 1933, as amended (the *Securities Act*), to register the common shares issued or issuable under our 2007 Share Incentive Plan as soon as practicable. We have reserved a maximum of 8% of our issued and outstanding common shares as of forty-five (45) days after the completion of this offering for issuance under our 2007 Share Incentive Plan. Once we register any new shares that we may issue under this plan, those shares will be freely tradable upon issuance. If this causes a large number of our shares to be sold in the public market, or if there is an expectation of such sales, the sales or expectations of sales, could reduce the trading price of our common shares and impede our ability to raise future capital. See *Shares Eligible for Future Sale* for a more detailed description of sales that may occur in the future.

**Our board of directors and management have broad discretion in using the proceeds from this offering, which might not be used in ways that improve our operating results or increase our market value. Investors will rely on the judgment of our board of directors and management regarding the application of the proceeds from this offering.**

We intend to use the net proceeds from this offering:

to repay the debt incurred to fund our purchase of the exclusive rights to manage the container fleet of Capital from Green Eagle Investments N.V., which acquisition closed on July 23, 2007;

to fund the purchase of half of the interests held by FB in our subsidiary, Textainer Marine Containers Limited;

to fund fleet expansion and acquisitions of complementary businesses, products, technologies or other assets; and

for general corporate purposes, including repayment of debt, working capital and capital expenditures.

However, our board of directors and management will have broad discretion in applying the net proceeds we receive from this offering and may spend the proceeds for corporate purposes that do not necessarily improve our operating results or enhance the value of our common shares, or allocate the net proceeds in a manner with which you do not agree. See *Use of Proceeds* for a more detailed description of how we intend to use the net proceeds from this offering.

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### **We have anti-takeover provisions in our bye-laws that may discourage a change of control.**

Bermuda law and our bye-laws contain provisions that could make it more difficult for a third party to acquire us without the consent of our board of directors. These include provisions:

requiring the approval of not less than 66% of our shareholders for a merger or amalgamation transaction that has not been approved by our board of directors;

prohibiting us from engaging in a business combination with an interested shareholder for a period of three years after the date of the transaction in which the person becomes an interested shareholder, unless certain conditions are met;

authorizing our board of directors to issue blank-check preference shares without shareholder approval;

establishing a classified board with staggered three-year terms;

only authorizing the removal of directors (i) for cause by the affirmative vote of the holders of a majority of the votes cast at a meeting or (ii) without cause by the affirmative vote of the holders of 66% of the common shares then issued and outstanding and entitled to vote on the resolution; and

establishing advance notice requirements for nominations for election to our board of directors.

These provisions may make it difficult and expensive for a third party to pursue a tender offer, change in control or takeover attempt that is opposed by our management and/or our board of directors. Public shareholders who might desire to participate in these types of transactions may not have an opportunity to do so. These anti-takeover provisions could substantially impede the ability of public shareholders to benefit from a change in control or change our management and board of directors and, as a result, may adversely affect the market price of our shares and your ability to realize any potential change of control premium. See [Description of Share Capital](#) [Amalgamations and Business Combinations](#).

### **As a shareholder of our company, you may have greater difficulties in protecting your interests than as a shareholder of a U.S. corporation.**

The Companies Act 1981 of Bermuda, as amended (the [Companies Act](#) ), applies to our company and differs in material respects from laws generally applicable to U.S. corporations and their shareholders. Taken together with the provisions of our bye-laws, some of these differences may result in your having greater difficulties in protecting your interests as a shareholder of our company than you would have as a shareholder of a U.S. corporation. This affects, among other things, the circumstances under which transactions involving an interested director are voidable, whether an interested director can be held accountable for any benefit realized in a transaction with our company, what approvals are required for business combinations by our company with a large shareholder or a wholly-owned subsidiary, what rights you may have as a shareholder to enforce specified provisions of the Companies Act or our bye-laws, and the circumstances under which we may indemnify our directors and officers.

### **Our bye-laws restrict shareholders from bringing legal action against our officers and directors.**

Our bye-laws contain a broad waiver by our shareholders of any claim or right of action, both individually and on our behalf, against any of our officers or directors. The waiver applies to any action taken by an officer or director, or the failure of an officer or director to take any action, in the performance of his or her duties, except with respect to any matter involving any fraud or dishonesty on the part of the officer or director. This waiver limits the right of shareholders to assert claims against our officers and directors unless the act or failure to act involves fraud or dishonesty.





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**INFORMATION REGARDING FORWARD-LOOKING STATEMENTS; CAUTIONARY LANGUAGE**

This prospectus, including the sections entitled Prospectus Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Business, contains forward-looking statements. Forward-looking statements include all statements that are not statements of historical facts and may relate to, but are not limited to, expectations or estimates of future operating results or financial performance, capital expenditures, introduction of new products, regulatory compliance, plans for growth and future operations, as well as assumptions relating to the foregoing. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, expect, plan, anticipate, believe, estimate, predict, intend, potential, continue or the negative of these terms or other similar terms. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy, and actual results may differ materially from those we anticipated due to a number of uncertainties, many of which cannot be foreseen. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including, among others, the risks we face that are described in the section entitled Risk Factors and elsewhere in this prospectus.

We believe that it is important to communicate our future expectations to potential investors. However, there may be events in the future that we are not able to accurately predict or control and that may cause actual events or results to differ materially from the expectations expressed in or implied by our forward-looking statements. The risk factors listed on the previous pages, as well as any cautionary language in this prospectus, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Before you invest in our common shares, you should be aware that the occurrence of the events described in the previous risk factors and elsewhere in this prospectus could negatively impact our business, cash flows, results of operations, financial condition and share price. Potential investors should not place undue reliance on our forward-looking statements.

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

All future written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. New risks and uncertainties arise from time to time, and we cannot predict those events or how they may affect us. We assume no obligation to, and do not plan to, update any forward-looking statements after the date of this prospectus as a result of new information, future events or developments, except as required by federal securities laws. You should read this prospectus and the documents that we reference and have filed as exhibits to the registration statement, of which this prospectus is a part, with the understanding that we cannot guarantee future results, levels of activity, performance or achievements and that actual results may differ materially from what we expect. The forward-looking statements contained in this prospectus are excluded from the safe harbor protection provided by the Private Securities Litigation Reform Act of 1995.

Industry data and other statistical information used in this prospectus are based on independent publications, reports by market research firms or other published independent sources. Some data are also based on our good faith estimates, derived from our review of internal surveys and the independent sources listed above. Although we believe these sources are reliable, we have not independently verified the information.

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**You should rely only on the information contained in this prospectus or to which we have referred you. We have not authorized anyone to provide you with information that is different. This prospectus may only be used where it is legal to sell these securities. The information in this prospectus may only be accurate on the date of this prospectus.**

In this prospectus, unless otherwise specified, all monetary amounts are in U.S. dollars. To the extent that any monetary amounts are not denominated in U.S. dollars, they have been translated into U.S. dollars in accordance with our accounting policies as described in our consolidated financial statements included elsewhere in this prospectus.

Consent under the Control Act 1972 (and its related regulations) has been obtained from the Bermuda Monetary Authority for the issue and transfer of the common shares to and between non-residents of Bermuda for exchange control purposes, provided our shares are and remain listed on an appointed stock exchange, which includes the NYSE. This prospectus will be filed with the Registrar of Companies in Bermuda in accordance with Bermuda law. In granting such consent and in accepting this prospectus for filing, neither the Bermuda Monetary Authority nor the Registrar of Companies in Bermuda accepts any responsibility for our financial soundness, the correctness of any of the statements made or opinions expressed in this prospectus.

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**USE OF PROCEEDS**

We estimate that the net proceeds from the sale of the common shares we are offering will be approximately \$138.0 million, after deducting underwriting discounts and commissions and estimated offering expenses. If the underwriters fully exercise the over-allotment option, we estimate that our net proceeds from this offering will be approximately \$158.8 million.

We anticipate that we will use the net proceeds we receive from this offering:

to repay the debt incurred to fund the \$56.0 million purchase price for our purchase of the exclusive rights to manage the container fleet of Capital from Green Eagle Investments N.V. which acquisition closed on July 23, 2007. We financed this \$56.0 million purchase price under our \$300.0 million secured debt facility, which had an interest rate of LIBOR plus 0.32% as of July 23, 2007. See Description of Indebtedness for further details on our secured debt facility;

to pay for the purchase of half of the interests held by FB in our subsidiary, Textainer Marine Containers Limited. We have agreed in principle with FB that Textainer Limited will acquire half of their interest in our subsidiary, Textainer Marine Containers Limited, at a cash price equal to (i) 25% of the total shareholders' equity of the Class A Shares of Textainer Marine Containers Limited on the day immediately preceding the closing of such acquisition, plus (ii) \$18.0 million. If the transaction had closed on July 31, 2007, the cash purchase price would have been approximately \$68.7 million. In addition, as part of the consideration, at least 50% of the total annual capital expenditures of the company on new containers, as measured under GAAP, will be allocated to the Class A portion of Textainer Marine Containers Limited for a three-year period after the close of this transaction. FB shall hold 25% of all issued and outstanding Class A Shares of Textainer Marine Containers Limited after the close of this transaction. We are in the process of negotiating the transaction documents and expect to close the transaction within two business days after the closing of this offering or as soon as practicable thereafter; and

for general corporate purposes, including repayment of debt, working capital and capital expenditures. Borrowings under our secured debt facility have been used to finance the purchases of new containers and had an interest rate of LIBOR plus 0.32% as of October 5, 2007. Borrowings under our revolving credit facility have been used for working capital purposes and to finance the purchases of new containers and had an interest rate between LIBOR plus 1.0% to LIBOR plus 1.5% as of October 5, 2007. See Description of Indebtedness for further details on our debt. In addition, we may use proceeds from this offering for fleet expansion and acquisitions of complementary businesses, products, technologies or other assets. While we do not have any current specific plans for the proceeds other than those mentioned above, we also evaluate other acquisition opportunities and engage in related discussions from time to time.

As of the date of this prospectus, we cannot predict with certainty all of the particular uses for the proceeds from this offering or the amounts that we will actually spend on the uses set forth above. The amount and timing of actual expenditures may vary significantly depending upon a number of factors, such as the amount of cash used by our operations and capital expenditures. Accordingly, our board of directors and management will have significant flexibility in applying the net proceeds from this offering. Pending the application of the net proceeds from this offering as described above, we intend to invest the net proceeds from this offering in short-term, interest-bearing, investment-grade securities or certificates of deposit.

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**DIVIDEND POLICY**

During March 2005, we declared and paid a dividend totaling \$17.2 million. During August 2005, we declared a dividend totaling \$9.6 million that was paid in September 2005. During March 2006, we declared and paid a dividend totaling \$19.1 million. During August 2006, we declared a dividend totaling \$8.2 million that was paid in September 2006. During March 2007, we declared and paid a dividend totaling \$20.3 million. During May 2007, we declared a dividend totaling \$8.1 million that was paid in June 2007. During August 2007, we declared a dividend totaling \$8.7 million that was paid in September 2007.

Our board of directors has adopted a dividend policy which reflects its judgment that our shareholders would be better served if we distributed to them, as quarterly dividends payable at the discretion of our board of directors, a portion of the cash generated by our business in excess of our expected cash needs, including cash needs for potential acquisitions or other growth opportunities, rather than retaining such excess cash or using such cash for other purposes. On an annual basis we expect to pay dividends with cash flow from operations, but due to seasonal or other temporary fluctuations in cash flow, we may from time to time use temporary short-term borrowings to pay quarterly dividends. In accordance with our dividend policy, we currently intend to pay an initial fourth quarter dividend of \$0.20 per share on or about December 2007.

We are not required to pay dividends, and our shareholders will not be guaranteed, or 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 **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) our revolving credit facility, 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 (i) a minimum net worth level (which level would decrease by the amount of any dividend paid), (ii) a maximum ratio of consolidated funded debt to consolidated tangible net worth (which amount would decrease by the amount of any dividend paid) and (iii) a minimum ratio of certain income (which amount would decrease by the amount of any dividend paid) to current obligations. Please see **Description of Indebtedness Credit Facility** for a description of these covenants and **Description of Share Capital Dividend Rights** for the limitation under Bermuda law. 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.

**Table of Contents****CAPITALIZATION**

The following table sets forth our capitalization as of June 30, 2007:

on an actual basis, but giving effect to a one-for-one share split, effected on October 8, 2007 by way of a bonus issue, as of August 8, 2007; and

on an as adjusted basis to give effect to (1) the amendment of our Memorandum of Association and bye-laws to authorize a total of 140,000,000 common shares, (2) the sale of common shares in this offering, including the shares that Halco has indicated an interest in acquiring in this offering, at the initial public offering price of \$16.50 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. Halco will not purchase any shares unless the offering to the public is consummated. Halco is under no obligation to purchase any shares in this offering and its interest in purchasing shares in this offering is not a commitment to do so. The shares purchased by Halco will be subject to the 180 day lock-up agreement that Halco signed with the representatives of the underwriters in connection with this offering.

You should read the information in this table together with our consolidated financial statements and accompanying notes and the disclosures in the Management's Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this prospectus.

	June 30, 2007 Actual	Adjustments (Dollars in thousands, except per share data)	June 30, 2007 As Adjusted
<b>Cash and Cash Equivalents</b>	\$ 35,900	\$ 66,022	\$ 101,922
<b>Long-Term Debt Obligations (including current portion)</b>			
Revolving credit facility	\$ 16,000	\$ (16,000)	\$
Secured debt facility <sup>(1)</sup>	92,000	(56,000)	36,000
Bonds payable	459,167		459,167
Total Long-Term Debt	\$ 567,167	\$ (72,000)	\$ 495,167
<b>Shareholders' equity:</b>			
Preferred shares, \$0.01 par value: 10,000,000 shares authorized and no shares issued and outstanding			
Common shares, \$0.01 par value: 120,000,000 shares authorized and 38,604,640 shares issued and outstanding, actual; 140,000,000 shares authorized and 47,604,640 shares issued and outstanding, as adjusted	386	90	476
Additional paid-in capital	24,945	137,932	162,877
Notes receivable from shareholders	(792)		(792)
Accumulated other comprehensive income	374		374
Retained earnings	223,593		223,593
Total shareholders' equity	248,506	138,022	386,528
Total capitalization	\$ 815,673	\$ 66,022	\$ 881,695

- (1) Does not include the \$56.0 million of debt incurred on July 23, 2007 to finance the purchase price for our purchase of the exclusive rights to manage the container fleet of Capital. This amount was funded from our \$300.0 million secured debt facility, which had an interest rate of LIBOR plus 0.32% as of July 23, 2007. See Description of Indebtedness for further details on our secured debt facility. This additional debt is expected to have a minimal impact on our future consolidated statement of operations as this debt is expected to be

repaid with the proceeds from this offering.

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If you invest in our common shares in this offering, your ownership interest will be diluted to the extent of the difference between the initial public offering price per share and the pro forma as adjusted net tangible book value per share of our common shares after this offering. The historical net tangible book value of our common shares, as of June 30, 2007, was approximately \$231,616, or approximately \$6.00 per common share, based on the number of common shares issued and outstanding as of June 30, 2007. Historical net tangible book value per share is determined by dividing the product of our total tangible assets (total assets less intangible assets) less total liabilities and minority interest by the number of our issued and outstanding common shares.

Investors participating in this offering will incur immediate, substantial dilution. After giving effect to the sale of common shares offered in this offering at the initial public offering price of \$16.50 per share, and after deducting underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value as of June 30, 2007 would have been approximately \$369.6 million, or approximately \$7.76 per common share. This represents an immediate increase in pro forma as adjusted net tangible book value of \$1.76 per share to existing common shareholders, and an immediate dilution of \$8.74 per share to investors participating in this offering. The following table illustrates this dilution:

Initial public offering price	\$ 16.50
Historical net tangible book value as of June 30, 2007	\$ 6.00
Pro forma increase in net tangible book value attributable to investors participating in this offering	\$ 1.76

Pro forma as adjusted net tangible book value after this offering	\$ 7.76
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Pro forma dilution to investors participating in this offering	\$ 8.74
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The following table summarizes, on a pro forma as adjusted basis as of June 30, 2007, the differences between the number of common shares purchased from us, the total consideration and the average price per share paid by existing shareholders and by investors participating in this offering, after deducting underwriting discounts and commissions and estimated offering expenses, at the initial public offering price of \$16.50 per share:

	Shares Purchased		Total Consideration		Average Price Per Share
			(Dollars in thousands)		
	Number	Percent	Amount	Percent	
Existing shareholders before this offering	38,604,640	81%	\$ 25,331	16%	\$ 0.66
Investors participating in this offering	9,000,000	19%	\$ 138,022	84%	\$ 15.34
<b>Total</b>	<b>47,604,640</b>	<b>100%</b>	<b>\$ 163,353</b>	<b>100%</b>	

Assuming the underwriters exercise their over-allotment option in full, the percentage of common shares held by existing shareholders will decrease to 79% of the total number of common shares issued and outstanding after this offering, and the number of shares held by new investors will be increased to 10,350,000, or 21% of the total number of common shares issued and outstanding after this offering.

A maximum of 8% of our issued and outstanding common shares as of forty-five (45) days after the completion of this offering is reserved for future issuance under our 2007 Share Incentive Plan. Assuming an offering size of 10,350,000 shares, which includes the exercise of the over-allotment option by the underwriters, we expect that a total of 3,916,371 common shares will be reserved for issuance under our 2007 Share Incentive Plan. To the extent new options or other equity awards are issued under our share incentive plan or we issue additional common shares in the future, there will be further dilution to new investors participating in this offering.





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The selected financial data presented below under the heading "Statement of Income Data" for the years ended December 31, 2006, 2005 and 2004 and under the heading "Balance Sheet Data" as of December 31, 2006 and 2005 has been derived from our audited consolidated financial statements included elsewhere in this prospectus. The selected financial data presented below under the heading "Statement of Income Data" for the years ended December 31, 2003 and 2002 and under the heading "Balance Sheet Data" as of December 31, 2004, 2003 and 2002 are unaudited and has been derived from our unaudited consolidated financial statements not included in this prospectus. The selected financial data presented below under the heading "Statement of Income Data" for the six months ended June 30, 2007, and 2006 and the selected financial data presented below under the heading "Balance Sheet Data" as of June 30, 2007 are unaudited and has been derived from our unaudited consolidated financial statements that are included elsewhere in this prospectus. In the opinion of management, all unaudited selected financial data presented below under the headings "Statement of Income Data" and "Balance Sheet Data" reflect all normal and recurring adjustments necessary to present fairly our results for and as of the periods presented. The data presented below under the heading "Other Financial and Operating Data" are not audited. Historical results are not necessarily indicative of the results of operations to be expected in future periods. You should read the selected consolidated financial data and operating data presented below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with our consolidated financial statements and related notes included elsewhere in this prospectus.

We adopted the FSP AUG AIR-1 effective January 1, 2007. As a result, we have retroactively adjusted our consolidated financial statements to reflect the direct expense method of accounting for maintenance, a method permitted under this Staff Position. The impact of the application of FSP AUG AIR-1 to our direct container expense, in thousands, was a \$406, \$1,903 and \$2,255 decrease for the years ended December 31, 2006, 2005 and 2004, respectively, and a \$182 decrease for the six months ended June 30, 2006.

**Six Months Ended**

	<b>June 30, (Unaudited)</b>		<b>Fiscal Year Ended December 31,</b>				<b>2002</b>
	<b>2007</b>	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>(Unaudited)</b>	
	<b>(Dollars in thousands, except per share data)</b>						
<b>Statement of Income Data:</b>							
Revenues:							
Lease rental income	\$ 96,649	\$ 90,679	\$ 186,093	\$ 188,904	\$ 147,152	\$ 122,304	\$ 100,097
Management fees	10,141	6,574	16,194	15,472	17,942	16,815	14,435
Trading container sales proceeds	7,162	9,287	14,137	16,046	8,429	9,348	9,777
Incentive management fees and general partner distributions				2,874	1,579	1,393	1,286
Gain on sale of containers, net	5,611	4,186	9,558	10,456	4,275	31	601
Other	286	182	480	648	940	355	261
<b>Total revenues</b>	<b>119,849</b>	<b>110,908</b>	<b>226,462</b>	<b>234,400</b>	<b>180,317</b>	<b>150,246</b>	<b>126,457</b>
Operating expenses:							
Direct container expense	18,427	15,715	29,757	24,314	16,431	15,724	14,408
Cost of trading containers sold	5,779	7,708	11,480	12,944	6,235	7,246	9,205
Depreciation expense	23,391	29,625	54,330	60,792	48,321	42,678	40,760
Amortization expense	1,070		1,023				
General and administrative expense	8,407	8,133	16,155	16,567	16,807	15,454	14,237
Incentive compensation expense	2,178	1,720	4,694	5,140	4,507	2,752	1,607
Bad debt expense, net	996	502	664	91	868	1,396	232
<b>Total operating expenses</b>	<b>60,248</b>	<b>63,403</b>	<b>118,103</b>	<b>119,848</b>	<b>93,169</b>	<b>85,250</b>	<b>80,449</b>
<b>Income from operations</b>	<b>59,601</b>	<b>47,505</b>	<b>108,359</b>	<b>114,552</b>	<b>87,148</b>	<b>64,996</b>	<b>46,008</b>

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	Six Months Ended						
	June 30, (Unaudited)		Fiscal Year Ended December 31,				
	2007	2006	2006	2005	2004	2003 (Unaudited)	2002 (Unaudited)
(Dollars in thousands, except per share data)							
<b>Other income (expense):</b>							
Interest expense	(17,251)	(15,385)	(33,083)	(27,491)	(13,434)	(11,954)	(12,433)
Interest income	1,377	1,021	2,286	1,086	399	238	238
Realized and unrealized gains (losses) on derivative instruments, net							
Other, net	1,519	4,607	2,274	4,535	(889)	(4,763)	(19,083)
	(7)	(145)	243	(2,648)	(237)	(84)	(25)
Net other expense	(14,362)	(9,902)	(28,280)	(24,518)	(14,161)	(16,563)	(31,303)
Income before income tax and minority interest	45,239	37,603	80,079	90,034	72,987	48,433	14,705
Income tax expense	(2,775)	(2,061)	(4,299)	(4,662)	(4,011)	(3,001)	(2,275)
Minority interest expense	(9,150)	(10,277)	(19,499)	(22,393)	(15,382)	(10,063)	(1,022)
Net income	\$ 33,314	\$ 25,265	\$ 56,281	\$ 62,979	\$ 53,594	\$ 35,369	\$ 11,408
<b>Net income per share:</b>							
Basic	\$ 0.87	\$ 0.66	\$ 1.47	\$ 1.65	\$ 1.41	\$ 0.94	\$ 0.31
Diluted	\$ 0.86	\$ 0.66	\$ 1.46	\$ 1.63	\$ 1.39	\$ 0.93	\$ 0.30
<b>Weighted average shares outstanding:</b>							
Basic	38,494	38,136	38,186	38,142	38,022	37,784	37,330
Diluted	38,574	38,480	38,488	38,598	38,490	38,212	37,816
Cash dividends declared per common share	\$ 0.74	\$ 0.50	\$ 0.71	\$ 0.70	\$ 0.55	\$ 0.22	\$ 0.20
<b>Other Financial and Operating Data (unaudited):</b>							
EBITDA(1)	\$ 84,055	\$ 76,985	\$ 163,955	\$ 172,696	\$ 135,232	\$ 107,590	\$ 86,743
Purchase of containers and fixed assets(2)	\$ 93,710	\$ 24,165	\$ 104,818	\$ 158,193	\$ 194,634	\$ 105,648	\$ 62,961
<b>Utilization rate(3):</b>							
Former Computation	91.2%	89.8%	91.1%	91.9%	93.2%	88.3%	78.0%
New Computation	93.6%						
Total fleet in TEU (as of the end of the period)(4)	1,559,215	1,198,884	1,527,814	1,183,332	1,157,063	1,072,310	989,934
<b>Balance Sheet Data (as of the end of the period):</b>							
Cash and cash equivalents	\$ 35,900		\$ 41,163	\$ 42,231	\$ 28,354	\$ 16,419	\$ 15,853
Containers, net	821,221		763,612	722,611	748,604	547,408	502,732
Net investment in direct finance leases	46,415		42,222	33,011	5,742	7,468	9,737
Total assets	1,000,601		944,233	870,765	846,579	615,119	569,917
Long-term debt (including current portion)	567,167		541,167	546,167	503,469	401,469	378,909
Total liabilities	657,024		617,017	592,791	627,813	445,421	435,350
Minority interest	95,071		85,922	66,423	44,029	28,647	19,930
Total shareholders equity	248,506		241,294	211,551	174,737	141,051	114,637

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- (1) EBITDA (defined as net income, before interest income and interest expense, realized and unrealized (gains) losses on derivative instruments, net, income tax expense, minority interest expense and depreciation and amortization expense) is not a financial measure calculated in accordance with GAAP and should not be considered as an alternative to net income, income from operations or any other performance measures derived in accordance with GAAP or as an alternative to cash flows from operating activities as a measure of our liquidity. EBITDA is presented solely as a supplemental disclosure because management believes that it may be a useful performance measure that is widely used within our industry. EBITDA is not calculated in the same manner by all companies and, accordingly, may not be an appropriate measure for

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comparison. We believe EBITDA provides useful information on our earnings from ongoing operations, on our ability to service our long-term debt and other fixed obligations, and on our ability to fund our continued growth with internally generated funds. EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our operating results or cash flows as reported under GAAP. Some of these limitations are:

It does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;

It does not reflect changes in, or cash requirements for, our working capital needs;

It does not reflect interest expense or cash requirements necessary to service interest or principal payments on our debt;

Although depreciation is a non-cash charge, the assets being depreciated may be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements;

It is not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows; and

Other companies in our industry may calculate these measures differently than we do, limiting their usefulness as comparative measures.

The following is a reconciliation of net income to EBITDA:

	Six Months Ended June 30,		Fiscal Year Ended December 31,				
	2007	2006	2006	2005	2004	2003	2002
	(Dollars in thousands)						
	(Unaudited)						
<b>Reconciliation of EBITDA:</b>							
Net income	\$ 33,314	\$ 25,265	\$ 56,281	\$ 62,979	\$ 53,594	\$ 35,369	\$ 11,408
Adjustments:							
Interest income	(1,377)	(1,021)	(2,286)	(1,086)	(399)	(238)	(238)
Interest expense	17,251	15,385	33,083	27,491	13,434	11,954	12,433
Realized and unrealized (gains) losses on derivative instruments, net	(1,519)	(4,607)	(2,274)	(4,535)	889	4,763	19,083
Income tax expense	2,775	2,061	4,299	4,662	4,011	3,001	2,275
Minority interest expense	9,150	10,277	19,499	22,393	15,382	10,063	1,022
Depreciation expense	23,391	29,625	54,330	60,792	48,321	42,678	40,760
Amortization expense	1,070		1,023				
<b>EBITDA</b>	<b>\$ 84,055</b>	<b>\$ 76,985</b>	<b>\$ 163,955</b>	<b>\$ 172,696</b>	<b>\$ 135,232</b>	<b>\$ 107,590</b>	<b>\$ 86,743</b>

(2) Amounts for year ended December 31, 2006, 2005 and 2004, respectively, are audited.

(3) We measure utilization on the basis of containers on lease, using the actual number of days on hire, expressed as a percentage of containers available for lease, using the actual days available for lease. Prior to 2007, we calculated containers available for lease to include all containers in our fleet (Former Computation). Utilization figures in this prospectus for periods prior to 2007 are calculated in the latter manner. Starting in 2007, to conform to the method used by most of our competitors, we began calculating containers available for lease by excluding containers that have been manufactured for us but have not been delivered yet to a lessee and containers designated

as held-for-sale units (New Computation).

- (4) With the acquisition of the exclusive management rights over the Capital container fleet on July 23, 2007, we have over 2,000,000 TEU in our fleet.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited and unaudited consolidated financial statements and related notes included elsewhere in this prospectus. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results may differ materially from those contained in or implied by any forward-looking statements. See Information Regarding Forward-Looking Statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this prospectus, particularly in Risk Factors. Dollar amounts in this section of the prospectus are expressed in thousands unless otherwise indicated.*

**Overview**

Operating since 1979, we are the world's largest lessor of intermodal containers based on fleet size (*Containerisation International Market Analysis: Container Leasing Market 2007*), with a total fleet of more than 1.3 million containers, representing over 2,000,000 TEU. We lease containers to more than 300 shipping lines and other lessees, including each of the world's top 20 container lines, as measured by container vessel fleet size. We believe we are one of the most reliable lessors of containers, in terms of consistently being able to supply containers in locations where our customers need them. We have provided an average of more than 90,000 TEU of new containers per year for the past 12 years, and have been one of the largest purchasers of new containers among container lessors over the same period. We believe we are also one of the two largest sellers of used containers among container lessors, having sold an average of more than 45,600 containers per year for the last five years. We provide our services worldwide via a network of 14 regional and area offices and over 300 independent depots in more than 130 locations. Trenchor, a company publicly traded on the JSE in Johannesburg, South Africa, and its affiliates currently have beneficiary interest in a majority of our issued and outstanding common shares and will continue to have a majority interest after giving effect to this offering.

We operate our business in four core segments:

*Container Ownership.* As of June 30, 2007, we owned containers accounting for approximately 52% of our fleet.

*Container Management.* As of June 30, 2007, we managed containers on behalf of 12 container investors, providing acquisition, management and disposal services. These managed containers account for the remaining 48% of our fleet.

*Container Resale.* We generally sell containers from our fleet when they reach the end of their useful lives in marine service or when it is financially attractive for us to do so, considering the location, sale price, cost of repair, and possible repositioning expenses. We also purchase and lease or resell containers from shipping line customers, container traders and other sellers of containers.

*Military Management.* We lease containers to the U.S. military pursuant to the SDDC contract and earn a fee for supplying and managing its fleet of leased containers. We are the main supplier of leased intermodal containers to the U.S. military.

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Each of these core businesses comprises a reportable segment for financial statement reporting purposes. For the years ended December 31, 2006 and 2005, income before income taxes generated by each of the four core businesses, before inter-segment eliminations, was:

	Fiscal Year Ended December 31,	
	2006	2005
	(Dollars in thousands)	
Container Ownership	\$ 42,949	\$ 47,397
Container Management	\$ 11,523	\$ 13,761
Container Resale	\$ 5,458	\$ 5,447
Military Management	\$ 1,172	\$ 738

Our total revenues primarily consist of leasing revenues derived from the lease of our owned containers and, to a lesser extent, fees received for managing containers owned by third parties, equipment resale and military management. The most important driver of our profitability is the extent to which revenues on our owned fleet and management fee income exceed our operating costs. The key drivers of our revenues are fleet size, rental rates and utilization. Our operating costs primarily consist of depreciation and amortization, interest expense, direct operating expenses and administrative expenses. Our lessees are generally responsible for loss of or damage to a container beyond ordinary wear and tear, and they are required to purchase insurance to cover any other liabilities.

**Significant Transactions**

During the last ten years, we have added containers from our competitors' fleets as follows:

Former Competitor	Date	Fleet Size	Type of Addition	Amount Paid
Capital Lease Limited, Hong Kong ( Capital )	July 23, 2007	Over 500,000 TEU	We purchased from Green Eagle Investment N.V. the exclusive management rights over all of Capital's fleet	\$56.0 million
Gateway Management Services Limited ( Gateway )	July 1, 2006	315,000 TEU	We purchased from Gateway the management contracts of the fleet it formerly managed (the Gateway Transaction )	\$19.0 million
XTRA International Ltd. ( XTRA )	November 1, 2004	109,800 TEU	We purchased the remaining containers that we managed (the XTRA Transaction )	\$85.3 million
	May 1, 1999	225,800 TEU	Management of the fleet turned over to us by XTRA pursuant to a new management agreement	Management fees of approximately \$4.3 million were waived during the first twelve months of the management agreement
PSH Limited	April 1, 1998	54,900 TEU	Management of the fleet turned over to us by the container investor pursuant to a new management agreement	\$0



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### **Factors Affecting Our Performance**

We believe there are a number of factors that have affected, and are likely to continue to affect, our operating performance. These factors include the following, among others:

the demand for leased containers;

lease rates;

our ability to lease our new containers shortly after we purchase them;

prices of new containers;

further consolidation of container manufacturers and/or decreased access to new containers; and

terrorist attacks, the threat of such attacks or the outbreak of war and hostilities.

For further details of these and other factors which may affect our business and results of operations, see [Risk Factors](#).

### **Revenue**

Our revenue comprises lease rental income, management fees, trading container sale proceeds and gain on sale of containers.

**Lease Rental Income.** We generate lease rental income by leasing our owned containers to container shipping lines and other customers, such as the U.S. military. 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 and pick-up charges and credits (together *geography revenue*) and charges for a damage protection plan (*DPP*). The operating results of our owned container business are determined by the amount by which our container rental revenue exceeds our ownership costs, consisting primarily of depreciation, interest expense, storage, handling and other direct operating expenses and management costs.

Utilization is a key performance indicator which demonstrates how much of our equipment is on lease at a point in time or over a period of time. We measure utilization on the basis of containers on lease, using the actual number of days on hire, expressed as a percentage of containers available for lease, using the actual days available for lease. Prior to 2007, we calculated containers available for lease to include all containers in our fleet. Utilization figures in this prospectus for periods prior to 2007 are calculated in this manner. Starting in 2007, to conform to the method used by most of our competitors, we began calculating containers available for lease by excluding containers that have been manufactured for us but have not been delivered yet to a lessee and containers designated as held-for-sale units. This change in the method of calculating utilization causes our utilization rate to appear higher than under the former methodology, but has no effect on the amount of lease rental income earned. Our utilization is primarily a function of our current lease structure, overall level of container demand, the location of our available containers and prevailing lease terms by location. The location of available containers is critical because containers available in high-demand locations are more readily leased and are typically leased on more favorable terms than containers available in low-demand locations.

Lease rental income is also affected by per diem rates. The per diem rate for a lease is set at the time we enter into a lease agreement. Our long-term per diem rate for new containers has historically been strongly influenced by new container pricing (which in turn is heavily influenced by container manufacturing industry concentrations and steel and other component pricing), interest rates, the balance of supply and demand for containers at a particular time and location, our estimate of the residual value of the container at the end of its useful life in marine service, the type of the container being leased, container purchasing activities by container shipping lines and competitors and efficiencies in container utilization by container shipping lines. Average per diem rates for containers in our owned fleet and in the portfolios of containers

comprising our managed fleet

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change slowly in response to changes in new container prices because existing lease agreements can only be re-priced upon the expiration of the lease.

**Management Fees.** Management fee revenue is generated by our management services, which include the acquisition, leasing, repair, repositioning, storage and disposition of containers. We provide these management services pursuant to management agreements with container investors. Under these agreements, we earn fees for the acquisition of new containers and the management of the containers, and a sales commission upon disposition of containers under management. The management agreements typically cover the entire economic life of the containers.

Our acquisition fees are calculated as a percentage of the cost of the container. Our management fees are calculated as a percentage of net operating income of the containers. Net operating income is calculated as the lease payment and any other revenue attributable to a container, minus operating expenses related to that container (but not depreciation or financing expenses of the container investor). The management fee percentage generally varies based upon the type of lease and the terms of the management agreement. Management fee percentages for long-term leases are generally lower than management fee percentages for short-term leases because less daily involvement by management personnel is required to manage long-term leases. Our sales commissions are either fixed dollar amount or based on a percentage of the sales price.

All rental operations are conducted worldwide in our name as agent for the container investors. Revenues, customer accounts receivable, operating expenses, and vendor payables arising from direct container operations of the managed portion of our fleet are excluded from our financial statements.

**Trading Container Sales Proceeds.** Our Container Resale Division purchases used containers from third parties, primarily shipping lines, and resells these containers to a wide variety of buyers. This activity is reported as trading container sales proceeds.

**Gain on Sale of Containers, net.** Gain on sale of containers, net, represents the excess of the sale price of our owned fleet containers over their net book value at the time of sale. Containers are generally sold at the end of their useful lives in marine service or when it is financially attractive for us to do so, considering the location, sale price, cost of repair and possible repositioning expenses.

## **Operating Expenses**

Our operating expenses include direct container expenses and depreciation of container rental equipment applicable to our owned containers, as well as general and administrative expenses for our total fleet.

**Direct Container Expenses.** Storage, handling, maintenance, repositioning and other direct container expenses are operating costs of our owned fleet. Storage and handling expenses occur when our customers drop off containers at depots around the world. Storage and handling expenses vary significantly by location. Other direct container expenses include maintenance expenses, which are the result of normal wear and tear on the containers, and repositioning expenses, which are incurred when we contract to move containers from locations where our inventories exceed actual or expected demand to locations with higher demand. Storage, handling, maintenance, repositioning and other direct container expenses are directly related to the number of containers in our owned fleet and inversely related to our utilization rate for those containers. As utilization increases, we typically have lower storage, handling, maintenance and repositioning expenses.

On September 8, 2006, the FASB posted the Staff Position (FSP), *Accounting for Planned Major Maintenance Activities*. FSP AUG AIR-1 amends certain provisions in the AICPA Industry Audit Guide, *Audits of Airlines*, and APB Opinion No. 28, *Interim Financial Reporting*. FSP AUG AIR-1 prohibits the use of the formerly allowed accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial statements. This guidance was effective for the six month period ended June 30, 2007 and was applied retrospectively for all financial statements presented.

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Our leases require the lessee to pay for any damage to the container beyond normal wear and tear at the end of the lease term. We also offer a DPP pursuant to which the lessee pays a fee over the term of the lease (per diem) in exchange for not being charged for certain damages at the end of the lease term. This revenue is recognized as earned over the term of the lease. Prior to 2007, for containers not subject to a DPP and for containers where DPP was billed upon drop off, we accrued for repairs once we made the decision to repair the container, which was made in advance of us incurring the repair obligations. For containers covered by per diem DPP, we accounted for estimated future repairs on an accrual basis over the estimated term of the lease. The impact of implementing FSP AUG AIR-1 on the financial statements was to reduce liabilities and increase shareholders' equity by approximately \$5.6 million as of December 31, 2006 and 2005. As the equipment repair accruals have not changed significantly from period to period, there was no material change to our results of operations for any period following adoption of FSP AUG AIR-1.

***Cost of Trading Containers Sold.*** We buy used containers for resale, primarily from shipping lines. Cost of trading containers sold represents the cost of these containers and is recognized as an expense at the time the containers are sold.

***Depreciation Expense.*** We depreciate our containers on a straight line basis over a period of 12 years to a fixed residual value. We regularly assess both the estimated useful life of our containers and the expected residual values, and, when warranted, adjust our depreciation estimate accordingly. Depreciation expense will vary over time based upon the number and the purchase price of containers in our owned fleet. Beginning in the third quarter of 2006, depreciation of our existing owned fleet decreased as a result of an increase in our estimate of the residual values of our containers. However, this decrease could be partially or totally offset as a result of an increase in the size of our owned fleet in subsequent periods.

***Amortization Expense.*** Amortization expense represents the amortization of the price paid for the Gateway Transaction. The purchase price is being amortized over the expected useful life of the contract on a pro-rata basis to the expected management fees.

***General and Administrative Expense.*** Our general and administrative expenses are primarily employee-related costs such as salary, employee benefits, rent, travel and entertainment costs, as well as expenses incurred for outside services such as legal, consulting and audit-related fees. We expect general and administrative expenses to be higher in the future, as we incur additional costs related to operating as a public company.

***Incentive Compensation Expense.*** Incentive compensation expense is the short-term annual bonus plan in which all company employees participate. The compensation amounts are determined on an annual basis based on the company's return on shareholders' equity.

***Bad Debt Expense, net.*** Bad debt expense, net, represents the amounts recorded to provide for an allowance for the doubtful collection of accounts receivable for the owned fleet.

**Table of Contents****Results of Operations****Comparison of the Six Months Ended June 30, 2007 and 2006**

The following table summarizes our total revenues for the six months ended June 30, 2007 and 2006:

	Six Months Ended June 30, 2007                      2006 (Dollars in thousands) (Unaudited)		% Change Between 2007 & 2006
Lease rental income	\$ 96,649	\$ 90,679	6.6%
Management fees	10,141	6,574	54.3%
Trading container sales proceeds	7,162	9,287	(22.9%)
Gain on sale of containers, net	5,611	4,186	34.0%
Other	286	182	57.1%
 Total revenues	 \$ 119,849	 \$ 110,908	 8.1%

Lease rental income increased \$5,970 (6.6%) from the six months ended June 30, 2006 to the six months ended June 30, 2007. \$3,539 of the increase was due to a 4.6% increase in fleet size, \$3,387 was due to an increase in utilization and \$1,292 was due to increased geography revenue. This was offset by \$2,509 due to a 3.0% decrease in rental rates.

Management fees increased \$3,567 (54.3%) from the six months ended June 30, 2006 to the six months ended June 30, 2007. \$2,818 of this variance was due to the Gateway Transaction.

Trading container sales proceeds decreased \$2,125 (22.9%) from the six months ended June 30, 2006 to the six months ended June 30, 2007. \$2,329 of this decrease was due to a 25.1% decrease in units sold offset by \$204 due to an increase in average sales proceeds of \$38 per unit.

Gain on sale of containers, net, increased \$1,425 (34.0%) from the six months ended June 30, 2006 to the six months ended June 30, 2007 primarily due to a 5,922 increase in containers disposed accounting for \$1,813 of the increase. The increase was offset by \$185 due to a \$31 decrease in average net gain per unit.

The following table summarizes our total operating expenses for the six months ended June 30, 2007 and 2006:

	Six Months Ended June 30, 2007                      2006 (Dollars in thousands) (Unaudited)		% Change Between 2007 & 2006
Direct container expense	\$ 18,427	\$ 15,715	17.3%
Cost of trading containers sold	5,779	7,708	(25.0%)
Depreciation expense	23,391	29,625	(21.0%)
Amortization expense	1,070		N/A
General and administrative expense	8,407	8,133	3.4%
Incentive compensation expense	2,178	1,720	26.6%
Bad debt expense, net	996	502	98.4%
 Total operating expenses	 \$ 60,248	 \$ 63,403	 (5.0%)

Direct container expense increased \$2,712 (17.3%) from the six months ended June 30, 2006 to the six months ended June 30, 2007 primarily due to a \$1,067 increase in DPP expense and a \$2,535 increase in



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repositioning expense, offset by a \$254 decrease in storage expense, \$299 decrease in agency expense and a \$433 decrease in military sublease expense.

Cost of trading containers sold decreased \$1,929 (25.0%) from the six months ended June 30, 2006 to the six months ended June 30, 2007. \$1,933 of the decrease was due to a 25.1% decrease in unit sales offset by \$4 due to a 0.1% increase in the average cost per unit of sold containers.

Depreciation expense decreased \$6,234 (21.0%) from the six months ended June 30, 2006 to the six months ended June 30, 2007. \$8,210 of this decrease was due to an increase in estimated future residual values used in the calculation of depreciation expense, offset by \$1,976 due to an increase in the size of the owned fleet.

Amortization expense was \$1,070 for the six months ending June 30, 2007 representing the amortization of the amount paid to acquire the management contracts in the Gateway Transaction.

General and administrative expense increased \$274 (3.4%) from the six months ended June 30, 2006 to the six months ended June 30, 2007 primarily due to a \$269 increase in compensation expense.

Incentive compensation expense increased \$458 (26.6%) from the six months ended June 30, 2006 to the six months ended June 30, 2007 due to a higher level of participation in the incentive compensation program.

Bad debt expense, net, increased \$494 (98.4%) from the six months ended June 30, 2006 to the six months ended June 30, 2007 primarily due to a net increase for the period to the allowance for doubtful accounts.

The following table summarizes other income (expenses) for the six months ended June 30, 2007 and 2006:

	Six Months Ended June 30,		% Change
	2007	2006	Between
	(Dollars in thousands)		2007 & 2006
	(Unaudited)		
Interest expense	\$ (17,251)	\$ (15,385)	12.1%
Interest income	1,377	1,021	34.9%
Realized gains on derivative instruments	1,741	992	75.5%
Unrealized gains (losses) on derivative instruments	(222)	3,615	(106.1%)
Other, net	(7)	(145)	(95.2%)
Net other expense	\$ (14,362)	\$ (9,902)	45.0%

Interest expense increased \$1,866 (12.1%) from the six months ended June 30, 2006 to the six months ended June 30, 2007. \$1,618 of the increase was due to an increase in average interest rates of 0.60 percentage points and \$248 was due to an increase in average debt balances of \$8,681.

Interest income increased \$356 (34.9%) from the six months ended June 30, 2006 to the six months ended June 30, 2007. \$298 of the increase was due to an increase in average interest rates of 1.00 percentage point and \$58 was due to an increase in average cash balances of \$3,261.

Realized gains on derivative instruments increased \$749 (75.5%) from the six months ended June 30, 2006 to the six months ended June 30, 2007. \$783 of the increase was due to an increase in average interest rates of 0.47 percentage point partially offset by \$34 due to a decrease in average interest rate swap notional amounts of \$12,163.

Unrealized gains (losses) on derivative instruments changed from a gain of \$3,615 to a loss of \$222 from the six months ended June 30, 2006 to the six months ended June 30, 2007 due to a decrease in the change in fair value of interest rate swap agreements held.





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The following table summarizes income tax and minority interest expense for the six months ended June 30, 2007 and 2006:

	Six Months Ended June 30, 2007                      2006		% Change Between 2007 & 2006
	(Dollars in thousands)		
	(Unaudited)		
Income tax expense	\$ 2,775	\$ 2,061	34.6%
Minority interest expense	\$ 9,150	\$ 10,277	(11.0%)

Income tax expense increased \$714 (34.6%) from the six months ended June 30, 2006 to the six months ended June 30, 2007. \$709 of the increase was due to higher income and \$5 was due to a higher effective tax rate.

Minority interest expense decreased \$1,127 (11.0%) from the six months ended June 30, 2006 to the six months ended June 30, 2007 due to a lower level of Textainer Marine Containers Limited net income. In addition, if the transaction to acquire half of the ownership interest in Textainer Marine Containers Limited currently held by FB Transportation Capital LLC and FB Aviation and Intermodal Finance Holding B.V., as described in the Use of Proceeds, is concluded, minority interest expense will decrease in future periods.

**Comparison of the Years Ended December 31, 2006, 2005 and 2004.**

The following table summarizes our total revenues for the years ended December 31, 2006, 2005 and 2004:

	Year Ended December 31,			% Change Between	
	2006	2005	2004	2006 & 2005	2005 & 2004
	(Dollars in thousands)				
Lease rental income	\$ 186,093	\$ 188,904	\$ 147,152	(1.5%)	28.4%
Management fees	16,194	15,472	17,942	4.7%	(13.8%)
Trading container sales proceeds	14,137	16,046	8,429	(11.9%)	90.4%
Incentive management fees and general partner distributions		2,874	1,579	(100.0%)	82.0%
Gain on sale of containers, net	9,558	10,456	4,275	(8.6%)	144.6%
Other	480	648	940	(25.9%)	(31.1%)
<b>Total revenues</b>	<b>\$ 226,462</b>	<b>\$ 234,400</b>	<b>\$ 180,317</b>	<b>(3.4%)</b>	<b>30.0%</b>

Lease rental income decreased \$2,811 (1.5%) from 2005 to 2006. This included a \$4,503 decrease due to a 2.7% decrease in per diem rental rates, a \$1,535 decrease due to a 0.9% decrease in utilization and decreases of \$1,161 in DPP income and \$555 in military sublease income, offset by an increase of \$2,484 due to a 1.5% increase in fleet size and a \$1,037 increase in handling income and a \$426 increase in finance lease income. Lease rental income increased \$41,752 (28.4%) from 2004 to 2005. This included an increase of \$33,770 due to an increase in average fleet size of 25.8%, primarily due to the XTRA Transaction, and an increase of \$2,625 due to a 1.6% increase in per diem rental rates, a \$2,362 increase in DPP revenue, a \$390 increase in handling revenue, a \$2,059 increase in finance lease revenue and a \$1,900 increase in military sublease income, offset by a \$3,433 decrease due to a 2.1% decrease in utilization.

Management fee revenue increased \$722 (4.7%) from 2005 to 2006 due to \$2,597 in additional fees earned following the Gateway Transaction, offset by a reduction of \$1,875 due to a 3.7% decrease in the size of the fleets managed for other container investors and a \$461 decrease in acquisition fees. Management fee revenue decreased \$2,470 (13.8%) from 2004 to 2005 primarily due to the XTRA Transaction. We earned \$3,114 in management fees from XTRA in 2004 and \$0 in 2005, offset by higher management fees from other container investors.

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Trading container sales proceeds decreased \$1,909 (11.9%) from 2005 to 2006. \$1,172 of this decrease was due to a 7.3% decrease in unit sales and \$737 of the decrease was due to a decrease in average proceeds of \$68 per unit. Trading sales proceeds increased \$7,617 (90.4%) from 2004 to 2005. \$4,898 of this increase was due to a 58.1% increase in unit sales and \$2,719 of the increase was due to an increase in the average sales proceeds of \$233 per unit.

Incentive management fees and general partner distributions decreased \$2,874 (100.0%) from 2005 to 2006 due to the termination of six limited partnerships, Textainer Equipment Income Fund; Textainer Equipment Income Fund II, L.P.; Textainer Equipment Income Fund III, L.P.; Textainer Equipment Income Fund IV, L.P.; Textainer Equipment Income Fund V, L.P.; and Textainer Equipment Income Fund VI, L.P., for which we were the general partner (the TEIF Partnerships) in 2005, resulting in no fees in 2006. Incentive management fees and general partner distributions increased \$1,295 (82.0%) from 2004 to 2005 due to an increase in the amount of distributions to the partners upon termination of the partnerships.

Gain on sale of containers, net, decreased \$898 (8.6%) from 2005 to 2006 primarily due to a decrease of \$70 in average sales proceeds per unit. Gain on sale of containers, net, increased \$6,181 (144.6%) from 2004 to 2005, primarily due to a 10,389 increase in containers disposed and a \$119 increase in average net gain per unit accounting for \$4,616 and \$1,237 of the total increase, respectively. This increase in unit sales was primarily due to the sale of containers acquired in the XTRA Transaction, which were predominantly older containers.

The following table summarizes our total operating expenses for the years ended December 31, 2006, 2005 and 2004:

	Year Ended December 31,			% Change Between	
	2006	2005	2004	2006 & 2005	2005 & 2004
	(Dollars in thousands)				
Direct container expense	\$ 29,757	\$ 24,314	\$ 16,431	22.4%	48.0%
Cost of trading containers sold	11,480	12,944	6,235	(11.3%)	107.6%
Depreciation expense	54,330	60,792	48,321	(10.6%)	25.8%
Amortization expense	1,023			N/A	0%
General and administrative expense	16,155	16,567	16,807	(2.5%)	(1.4%)
Incentive compensation expense	4,694	5,140	4,507	(8.7%)	14.0%
Bad debt expense, net	664	91	868	629.7%	(89.5%)
Total operating expenses	\$ 118,103	\$ 119,848	\$ 93,169	(1.5%)	28.6%

Direct container expense increased \$5,443 (22.4%) from 2005 to 2006 primarily due to a \$2,510 increase in storage expense, \$1,178 increase in repositioning expense, \$1,383 increase in DPP expense, \$834 increase in handling expense and \$490 increase in maintenance expense, offset by a \$775 decrease in military sublease expense. Direct container expense increased \$7,883 (48.0%) from 2004 to 2005 due to the increase in the size of the owned fleet, primarily due to the XTRA Transaction.

Cost of trading containers sold decreased \$1,464 (11.3%) from 2005 to 2006. \$946 of the decrease was due to a 7.3% decrease in unit sales and \$518 of the decrease was due to a 4.3% decrease in the average cost per unit of sold containers. Cost of trading containers sold increased \$6,709 (107.6%) from 2004 to 2005. \$3,623 of the increase was due to a 58.1% increase in unit sales and \$3,086 of the increase was due to a 31.3% increase in the average cost per unit of sold containers.

Depreciation expense decreased \$6,462 (10.6%) from 2005 to 2006. \$5,534 of the decrease was due to an increase in estimated future residual values used in the calculation of depreciation expense. Depreciation expense increased \$12,471 (25.8%) from 2004 to 2005 due to an increase in owned fleet size, primarily due to the XTRA Transaction.

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Amortization expense was \$1,023 in 2006 representing the amortization of the amount paid to acquire the management contracts in the Gateway Transaction.

General and administrative expense decreased \$412 (2.5%) from 2005 to 2006 primarily due to \$165 in lower compensation expense for share options and a \$261 decrease in expenses related to the management of the TEIF Partnerships. General and administrative expense decreased \$240 (1.4%) from 2004 to 2005 due to a \$511 decrease in compensation expense for share options, \$259 decrease in legal expense and \$194 decrease in consulting expense. These decreases were offset by an increase of \$331 in compensation and benefits expense and a reduction in the amount of capitalized compensation related to software systems development.

Incentive compensation expense decreased \$446 (8.7%) from 2005 to 2006 due to a decrease in the company's return on shareholders' equity, which is the determinant of incentive compensation. Incentive compensation expense increased \$633 (14.0%) from 2004 to 2005 due to an increase in our return on shareholders' equity.

Bad debt expense, net, increased \$573 from 2005 to 2006 primarily due to a net increase for the year to the allowance for doubtful accounts. Bad debt expense decreased \$777 from 2004 to 2005 primarily due to a net decrease for the year to the allowance for doubtful accounts.

The following table summarizes other income (expenses) for the years ended December 31, 2006, 2005 and 2004:

	Year Ended December 31,			% Change Between	
	2006	2005	2004	2006 & 2005	2005 & 2004
	(Dollars in thousands)				
Interest expense	\$ (33,083)	\$ (27,491)	\$ (13,434)	20.3%	104.6%
Interest income	2,286	1,086	399	110.5%	172.2%
Realized gains (losses) on derivative instruments	2,848	(4,153)	(9,905)	168.6%	(58.1%)
Unrealized gains (losses) on derivative instruments	(574)	8,688	9,016	(106.6%)	(3.6%)
Other, net	243	(2,648)	(237)	109.2%	1017.3%
Net other expense	\$ (28,280)	\$ (24,518)	\$ (14,161)	15.3%	73.1%

Interest expense increased \$5,592 (20.3%) from 2005 to 2006. \$6,522 of the increase was due to an increase in average interest rates of 1.21 percentage points offset by \$930 due to a decrease in average debt balances of \$18,881. Interest expense increased \$14,057 (104.6%) from 2004 to 2005. \$9,970 of the increase was due to an increase in average interest rates of 1.79 percentage points and \$4,087 was due to an increase in average debt balances of \$130,168 to fund the XTRA Transaction and to purchase containers.

Interest income increased \$1,200 (110.5%) from 2005 to 2006. \$885 of the increase was due to an increase in average interest rates of 1.55 percentage points and \$315 was due to an increase in average cash balances of \$12,804. Interest income increased \$687 (172.2%) from 2004 to 2005. \$535 of the increase was due to an increase in average interest rates of 1.21 percentage points and \$152 was due to an increase in average cash balances of \$12,186.

Realized gains (losses) on derivative instruments changed from a loss of \$4,153 to a gain of \$2,848 from 2005 to 2006. \$6,849 of the change was due to an increase in interest rates of 1.97 percentage points, and \$152 was due to a decrease in average interest rate swap notional amounts of \$13,231. Realized losses on derivative instruments decreased by \$5,752 (58.1%) from 2004 to 2005. \$8,526 of this change was due to an increase in interest rates of 2.36 percentage points, partially offset by \$2,774 due to an increase in average interest rate swap notional amounts of \$79,080.

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Unrealized gains (losses) on derivative instruments changed from a gain of \$8,688 to a loss of \$574 from 2005 to 2006 due to a decrease in the change in fair value of interest rate swap agreements held. Unrealized gains on derivative instruments decreased by \$328 (3.6%) due to a decrease in the change in fair value of interest rate swap agreements held.

Other, net increased \$2,411 from 2004 to 2005 due to a \$2,500 reserve recorded to resolve a dispute with a container manufacturer. A \$450 reduction in the reserve was released to income in 2006.

The following table summarizes income tax and minority interest expense for the years ended December 31, 2006, 2005 and 2004:

	Year Ended December 31,			% Change Between	
	2006	2005	2004	2006 & 2005	2005 & 2004
	(Dollars in thousands)				
Income tax expense	\$ 4,299	\$ 4,662	\$ 4,011	(7.8%)	16.2%
Minority interest expense	\$ 19,499	\$ 22,393	\$ 15,382	(12.9%)	45.6%

Income tax expense decreased \$363 (7.8%) from 2005 to 2006. \$487 of the decrease was due to a lower level of taxable income, offset by \$124 due to a higher effective tax rate. Income tax expense increased \$651 (16.2%) from 2004 to 2005. \$699 of the increase was due to a higher level of taxable income, offset by \$48 due to a lower effective tax rate.

Minority interest expense decreased \$2,894 (12.9%) from 2005 to 2006 due to a lower level of Textainer Marine Containers Limited net income. Minority interest expense increased \$7,011 (45.6%) due to a higher level of Textainer Marine Containers Limited net income. See Business History and Corporate Structure.

**Segment Information:**

The following table summarizes our income before taxes attributable to each of our business segments for the six months ended June 30, 2007 and 2006 and the years ended December 31, 2006 and 2005 and 2004 (before inter-segment eliminations):

	Six Months Ended June 30,		% Change Between 2007 & 2006
	2007	2006	
	(Dollars in thousands)		
Container ownership	\$ 23,882	\$ 19,260	24.0%
Container management	\$ 8,825	\$ 5,143	71.6%
Container resale	\$ 3,595	\$ 2,725	31.9%
Military management	\$ 1,066	\$ 675	57.9%

	Year Ended December 31,			% Change Between	
	2006	2005	2004	2006 & 2005	2005 & 2004
	(Dollars in thousands)				
Container ownership	\$ 42,949	\$ 47,397	\$ 38,601	(9.4%)	22.8%
Container management	\$ 11,523	\$ 13,761	\$ 17,604	(16.3%)	(21.8%)
Container resale	\$ 5,458	\$ 5,447	\$ 2,731	0.2%	99.5%
Military management	\$ 1,172	\$ 738	\$ 740	58.8%	(0.3%)

Income before taxes attributable to the container ownership segment increased \$4,622 (24.0%) from the six months ended June 30, 2006 to the six months ended June 30, 2007. This was primarily due to a 4.6% increase in fleet size and a decrease in depreciation expense due to the increase in estimated future residual values used in the calculation of depreciation expense offset by increases in interest expense and a decrease in unrealized gains on derivative instruments.

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Income before taxes attributable to the container ownership segment decreased \$4,448 (9.4%) from 2005 to 2006 due to slightly less favorable market conditions, as evidenced by a 0.9% decrease in utilization, and a highly competitive market, as evidenced by a 2.7% decrease in rental rates. This was partially offset by a 1.5% increase in fleet size and a 10.6% decrease in depreciation expense due to the increase in estimated future residual values used in the calculation of depreciation expense.

Income before taxes attributable to the container ownership segment increased \$8,796 (22.8%) from 2004 to 2005 primarily due to the XTRA Transaction.

Income before taxes attributable to the container management segment increased \$3,682 (71.6%) from the six months ended 2006 to the six months ended 2007. The increase was primarily due to the increase in management fees due to the Gateway Transaction.

Income before taxes attributable to the container management segment decreased \$2,238 (16.3%) from 2005 to 2006 due to a \$339 decrease in acquisition fees due to fewer new containers purchased, a \$530 increase in overhead expense, a \$1,023 increase in amortization expense due to the Gateway Transaction and a \$305 decrease in TEIF incentive management fees and general partner distributions due to the termination of the partnerships in 2005.

Income before taxes attributable to the container management segment decreased \$3,843 (21.8%) from 2004 to 2005 primarily due to a \$2,706 decrease in acquisition fees and a \$1,121 increase in overhead expenses.

Income before taxes attributable to the container resale segment increased \$870 (31.9%) from the six months ended June 30, 2006 to the six months ended June 30, 2007 due to a higher volume of container sales resulting in an increase in sales commissions of \$1,259 offset by a decrease in gains on container trading of \$180 due to a lower volume of trading container sales.

Income before taxes attributable to the container resale segment increased \$11 (0.2%) from 2005 to 2006 due to a larger volume of sales resulting in an increase in sales commissions of \$662 offset by a decrease in operating profit on sales of trading containers due to a lower volume of sales and higher overhead and interest costs.

Income before taxes attributable to the container resale segment increased \$2,716 (99.5%) from 2004 to 2005 primarily due to a higher volume of container sales resulting in an increase in sales commissions of \$2,007 and higher gains on container trading of \$885 due to a 58.1% increase in containers sold.

Income before taxes attributable to the military management segment increased \$391 (57.9%) from the six months ended June 30, 2006 to the six months ended June 30, 2007 primarily due to a \$218 increase in sublease income and a \$167 decrease in overhead expense.

Income before taxes attributable to the military management segment increased \$434 (58.8%) from 2005 to 2006 primarily due to higher subleasing income of \$220 and lower overhead expenses of \$177.

Income before taxes attributable to the military management segment decreased \$2 (0.3%) from 2004 to 2005 due to higher overhead expenses of \$165 offset by higher subleasing income and management fees of \$163.

The U.S. military informed us in August 2007 that 26,120 containers that they lease from us are unaccounted for. Of this total, 9,850 are owned containers, 12,094 are managed for third party owners and 4,176 are subleased. Per the terms of our contract with the U.S. military, they will pay a stipulated value for each of these containers. Due to the loss of these containers, future rental income from the U.S. military on these containers will cease, but we expect to record a gain on disposal of the owned portion of these unaccounted for containers during the quarterly period ended September 30, 2007.

**Table of Contents****Quarterly Financial Data**

The following table presents condensed consolidated statements of income data for each of the ten quarters in the period ended June 30, 2007. The operating results for any quarter are not necessarily indicative of the results for any subsequent quarter.

	2005 Quarters Ended				2006 Quarters Ended				2007 Quarters Ended	
	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	June 30
	(Dollars in thousands, except per share data)									
	(Unaudited)									
Revenues	\$ 57,048	\$ 61,073	\$ 57,080	\$ 59,199	\$ 55,808	\$ 55,100	\$ 57,836	\$ 57,718	\$ 59,151	\$ 60,698
Operating expenses	\$ 28,335	\$ 29,770	\$ 29,675	\$ 32,068	\$ 31,438	\$ 31,965	\$ 28,283	\$ 26,417	\$ 28,721	\$ 31,527
Income from operations	\$ 28,713	\$ 31,303	\$ 27,405	\$ 27,131	\$ 24,370	\$ 23,135	\$ 29,553	\$ 31,301	\$ 30,430	\$ 29,171
Net income	\$ 18,572	\$ 13,563	\$ 15,923	\$ 14,921	\$ 13,069	\$ 12,196	\$ 13,941	\$ 17,075	\$ 16,727	\$ 16,587
Earnings per share:										
Basic	\$ 0.49	\$ 0.36	\$ 0.42	\$ 0.39	\$ 0.34	\$ 0.32	\$ 0.37	\$ 0.45	\$ 0.44	\$ 0.43
Diluted	\$ 0.48	\$ 0.35	\$ 0.41	\$ 0.39	\$ 0.34	\$ 0.32	\$ 0.36	\$ 0.44	\$ 0.43	\$ 0.43

The \$5,009 decrease in net income reported in the quarter ended June 30, 2005 compared to the prior quarter was primarily due to the accelerated amortization of prepaid financing costs of \$1,909 recorded in the second quarter at the time of a debt refinancing and a reserve of \$2,532 recorded in the second quarter related to a dispute with a container manufacturer.

The increase in net income in the quarter ended December 31, 2006 compared to the prior quarter is primarily due to a decrease in depreciation expense because of the change in estimated future residual values used in the calculation of depreciation expense, which was changed on September 1, 2006 and an increase of \$3,407 in realized and unrealized gains on derivative instruments, net.

Our quarterly results are affected by seasonal trade patterns, timing of new container acquisitions, timing of container disposals and fluctuations in interest rates as reflected in realized and unrealized gains (losses) on derivative instruments. Some of these circumstances will change from quarter to quarter. Accordingly, results for a particular quarter are not necessarily indicative of results to be expected for any other quarter or for any year.

**Liquidity and Capital Resources**

As of June 30, 2007, we had cash and cash equivalents of \$35,900. Our principal sources of liquidity have been cash flows from operations, proceeds from the sale of containers, issuance of bonds, and borrowings under our secured debt facility and revolving credit facility. Our revolving credit facility is a bank revolving facility extended to one of our subsidiaries, Textainer Limited. Our secured debt facility is a conduit facility, which allows for recurring borrowings and repayments, granted to a subsidiary of Textainer Limited, Textainer Marine Containers Limited. Textainer Marine Containers Limited is also the issuer of our bonds. As of June 30, 2007, we had the following borrowing capacity under our debt facilities, which does not give effect to the \$56,000 borrowed to fund the purchase of exclusive management rights over Capital s container fleet, which amount is expected to be repaid with the proceeds from this offering (in thousands):

Facility	Current Borrowing	Additional Available Borrowing, as limited by our Borrowing Base	Additional Borrowing Commitment	Total Commitment
Revolving credit facility	\$ 16,000	\$ 33,077	\$ 59,000	\$ 75,000
Secured debt facility	92,000	96,033	208,000	300,000
Bonds payable	459,167			459,167
Total	\$ 567,167	\$ 129,110	\$ 267,000	\$ 834,167

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We have typically funded a significant portion of the purchase price of new containers through borrowings under our revolving and secured debt facilities and intend to continue to do so in the future. In 2001 and again in 2005, at such time as the secured debt facility reached an appropriate size, the facility was refinanced through the issuance of bonds to institutional investors. We anticipate a similar refinancing at such time as the secured debt facility reaches a balance of between \$300,000 and, if we are able to increase the commitment under the secured debt facility, \$500,000. This timing will depend on our level of future purchases of containers. Please see *Description of Indebtedness* for further details on our debt facilities.

Our cash inflows from operations are affected by the utilization rate of our fleet and the per diem rates of our leases, whereas the cash inflows from proceeds for the sale of containers are affected by market demand for used containers and our available inventory of containers for sale. Our cash outflows are affected by payments and expenses related to our purchasing of containers, interest on our debt obligations or other contingencies discussed in Note 9 to our consolidated financial statements included elsewhere in this prospectus, which may place demands on our short-term liquidity.

We currently believe that cash flow from operations, proceeds from the sale of containers and borrowing availability under our debt facilities are sufficient to meet our liquidity needs, including for the payment of dividends, for the next twelve months and for the foreseeable future.

As of June 30, 2007, in addition to customary events of default, our revolving credit facility contains financial covenants by Textainer Limited and Textainer Marine Containers Limited. The revolving credit facility covenants require Textainer Group Holdings Limited and subsidiaries to maintain (1) a minimum consolidated tangible net worth of \$180,339, plus 40% of consolidated net income after December 31, 2005; (2) a consolidated leverage ratio of 3.50 to 1.00 or less; (3) a minimum consolidated debt service coverage of 1.10 to 1.00; and (4) a minimum consolidated interest coverage ratio of 1.35 to 1.00. The revolving credit facility covenants also require Textainer Limited to maintain a consolidated leverage ratio of 5.00 to 1.00 or less.

Our secured debt facility and bond covenants require Textainer Equipment Management Limited and subsidiaries to maintain (1) a minimum consolidated tangible net worth of \$5,000; (2) a minimum annual after-tax profit of \$2,000 and; (3) a consolidated funded debt of \$1,000 or less. The secured debt facility and bond covenants require Textainer Marine Containers Limited to maintain a minimum EBIT ratio of 1.10 to 1.00 and Textainer Group Holdings Limited and subsidiaries to maintain a consolidated leverage ratio of 4:00 to 1:00 or less.

We were in compliance with all of these covenants as of June 30, 2007.

*Cash Flow*

The following table summarizes historical cash flow information for the six months ended June 30, 2007 and 2006:

	<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Dollars in thousands)</b>	
	<b>(Unaudited)</b>	
Net income	\$ 33,314	\$ 25,265
Adjustments to reconcile net income to net cash provided by operating activities	27,199	30,462
Net cash provided by operating activities	60,513	55,727
Net cash used in investing activities	(67,866)	(14,861)
Net cash provided by (used in) financing activities	2,096	(54,464)
Effect of exchange rate changes	(6)	208
Net decrease in cash and cash equivalents	(5,263)	(13,390)
Cash and cash equivalents at beginning of period	41,163	42,231
Cash and cash equivalents at end of period	\$ 35,900	\$ 28,841

**Table of Contents***Operating Cash Flows*

Operating cash flows increased \$4,786 (8.6%) from 2006 to 2007 primarily due to a \$8,049 increase in net income, a \$3,837 increase in the adjustment due to unrealized losses (gains) on derivative instruments, net, a \$1,070 increase in the adjustment due to amortization of intangibles, a \$5,795 increase in the adjustment due to accounts payable, a \$3,625 increase in the adjustment due to accrued expenses and a \$1,235 increase due to the adjustment for due to owners, net, primarily offset by a \$6,234 decrease in the adjustment due to depreciation expense, a \$1,425 decrease in the adjustment due to gain on sale of containers, net, a \$1,127 decrease in the adjustment due to minority interest expense, a \$9,705 decrease in the adjustment due to accounts receivable, and a \$1,149 decrease in the adjustment due to prepaid expenses.

*Investing Activities Cash Flows*

Net cash used in investing activities increased \$53,005 (356.7%) from 2006 to 2007 due to higher new container purchases, partially offset by higher proceeds from sales of containers and no purchase of intangible assets in 2007 compared to \$9,000 in 2006.

*Financing Activities Cash Flows*

Net cash used in financing activities decreased \$56,560 from 2006 to 2007 primarily due to a \$26,000 net borrowing from debt facilities in 2007 compared to a net repayment of debt facilities of \$29,000 in 2006, partially offset by a \$9,286 increase in dividends paid.

The following table summarizes historical cash flow information for the years ended December 31, 2006, 2005 and 2004:

	2006	2005	2004
	(Dollars in thousands)		
Net income	\$ 56,281	\$ 62,979	\$ 53,594
Adjustments to reconcile net income to net cash provided by operating activities	67,147	66,626	52,249
Net cash provided by operating activities	123,428	129,605	105,843
Net cash used in investing activities	(83,203)	(121,618)	(174,255)
Net cash provided by (used in) financing activities	(41,643)	6,123	80,097
Effect of exchange rate changes	350	(233)	250
Net increase (decrease) in cash and cash equivalents	(1,068)	13,877	11,935
Cash and cash equivalents at beginning of period	42,231	28,354	16,419
Cash and cash equivalents at end of period	\$ 41,163	\$ 42,231	\$ 28,354

*Operating Cash Flows*

Operating cash flows decreased \$6,177 (4.8%) from 2005 to 2006 due to a \$6,698 decrease in net income, a \$6,462 decrease in depreciation expense, a \$1,918 decrease in amortization of debt issuance costs, a \$1,106 decrease in share option plan expense, a \$2,894 decrease in minority interest expense, a \$3,621 decrease in the adjustment for accounts receivable, net, a \$4,246 decrease in the adjustment for prepaid expenses, a \$6,371 decrease in the adjustment for accounts payable, offset by a \$9,262 adjustment for the change in unrealized losses (gains) on derivative instruments, net, a \$1,023 increase in amortization expense, a \$3,857 increase in the adjustment for container held for resale, a \$4,266 decrease in the adjustment for other assets and a \$6,260 increase in the adjustment for Due to owners, net. Operating cash flows increased \$23,762 (22.5%) from 2004 to 2005, primarily due to the increase in owned fleet size from additions of new containers and the XTRA Transaction.



**Table of Contents***Investing Activities Cash Flows*

Net cash used in investing activities decreased \$38,415 (31.6%) from 2005 to 2006 due to lower new container purchases and higher proceeds from sales of containers, partially offset by the investment for the Gateway Transaction. Net cash used in investing activities decreased \$52,637 (30.2%) from 2004 to 2005 due to lower new container purchases, the XTRA Transaction in 2004 and higher proceeds from sales of containers.

*Financing Activities Cash Flows*

Net cash used in financing activities increased \$47,766 from 2005 to 2006 primarily due to a \$5,000 net repayment of debt facilities in 2006 compared to a net borrowing of \$42,698 in 2005. This change is primarily due to the decrease in the purchase of containers in 2006. Net cash provided by financing activities decreased \$73,974 from 2004 to 2005 primarily due to a net borrowing from debt facilities of \$42,698 in 2005 compared to a net borrowing of \$101,710 in 2004. This change is primarily due to the decrease in the purchase of containers in 2005 and the XTRA Transaction that occurred in 2004.

*Contractual Obligations and Commercial Commitments*

The following table sets forth our contractual obligations and commercial commitments by due date as of December 31, 2006:

	Total	1 year	Payments Due by Period				
			1-2 years	2-3 years	3-4 years	4-5 years	>5 years
			(Dollars in thousands)				
			(Unaudited)				
<b>Total debt obligations:</b>							
Bonds payable	\$ 488,167	\$ 58,000	\$ 58,000	\$ 58,000	\$ 58,000	\$ 58,000	\$ 198,167
Secured debt facility	53,000		2,650	5,300	5,300	5,300	34,450
Interest obligation(1)	135,688	28,955	25,643	22,103	18,525	14,947	25,515
Interest rate swap receivable(2)	(5,830)	(3,137)	(1,529)	(1,016)	(148)		
Interest rate swap payable(2)	3	3					
Office lease obligations	6,546	1,287	1,303	1,310	1,217	1,225	204
Trading container purchase commitments	4,357	4,357					
Container purchase commitments	18,033	18,033					
Container contracts payable	32,927	32,927					
<b>Total contractual obligations</b>	<b>\$ 732,891</b>	<b>\$ 140,425</b>	<b>\$ 86,067</b>	<b>\$ 85,697</b>	<b>\$ 82,894</b>	<b>\$ 79,472</b>	<b>\$ 258,336</b>

(1) Assuming an estimated current interest rate of LIBOR plus a margin, which equals an all-in interest rate of 5.61%.

(2) Calculated based on the difference between our fixed contractual rates and the counterparties' estimated average LIBOR rate of 5.32%, for all periods, for all interest rate contracts outstanding as of December 31, 2006.

*Off Balance Sheet Arrangements*

At December 31, 2006 we had no off-balance sheet arrangements or obligations. An off-balance sheet arrangement includes any contractual obligation, agreement or transaction arrangement involving an unconsolidated entity under which we would have: (1) retained a contingent interest in transferred assets; (2) an obligation under derivative instruments classified as equity; (3) any obligation arising out of a material variable

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interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us, or that engages in leasing, hedging or research and development services with us; or (4) made guarantees.

### **Currency**

Almost all of our revenues are denominated in U.S. dollars and approximately 59% of our direct container expenses in 2006 were denominated in U.S. dollars. Our operations in locations outside of the U.S. have some exposure to foreign currency fluctuations, and trade growth and the direction of trade flows can be influenced by large changes in relative currency values. However, part of our non-U.S. dollar operating expenses is transportation and other costs incurred as a result of the SDDC contract. The SDDC contract contains an adjustment feature such that we are effectively protected against most foreign currency risks for the expenses incurred under the SDDC contract. In 2006, our non-U.S. dollar operating expenses were spread among 14 currencies, resulting in some level of self-hedging. We do not engage in currency hedging.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with GAAP requires management to use judgment in making estimates and assumptions that affect reported amounts of assets and liabilities, the reported amounts of income and expenses during the reporting period and the disclosure of contingent assets and liabilities as of the date of the financial statements. We have identified the policies and estimates below as among those critical to our business operations and the understanding of our results of operations. These policies and estimates are considered critical due to the existence of uncertainty at the time the estimate is made, the likelihood of changes in estimates from period to period and the potential impact that these estimates can have on our financial statements. The following accounting policies and estimates include inherent risks and uncertainties related to judgments and assumptions made by us. Our estimates are based on the relevant information available at the end of each period.

#### *Revenue Recognition*

*Lease Rental Income.* We recognize revenue from operating leases of our owned containers as earned over the term of the lease. Where minimum lease payments vary over the lease term, revenue is recognized on a straight-line basis over the term of the lease. We cease recognition of lease revenue if and when a container lessee defaults in making timely lease payments or we otherwise determine that future lease payments are not likely to be collected from the lessee. Our determination of the collectibility of future lease payments is made by management on the basis of available information, including the current creditworthiness of container shipping lines that lease containers from us, historical collection results and review of specific past due receivables. If we experience unexpected payment defaults from our container lessees, we will cease revenue recognition for those leases, which will reduce container rental revenue. Finance lease income is recognized using the effective interest method, which generates a constant rate of interest over the period of the lease. The same risks of collectibility discussed above apply to our collection of finance lease income. If we experience unexpected payment defaults under our finance leases, we will cease revenue recognition for those leases which will reduce finance lease income.

Our leases require the lessee to pay, at the end of the lease term, for any damage to the container beyond normal wear and tear. We also offer a DPP pursuant to which the lessee pays a fee over the term of the lease, primarily on a daily basis, in exchange for not being charged for certain damages at the end of the lease term. It is our policy to recognize these revenues as earned on a daily basis over the related term of the lease. We have not recognized revenue for customers who are billed at the end of the lease term under our DPP or for other lessees who do not participate in the DPP. Based on past history, there is uncertainty as to collectibility of these amounts because the amounts due under the DPP are typically re-negotiated at the end of the lease term or when the lease term is extended.

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*Management Fee Revenue.* We recognize revenue from management fees earned under management agreements on an as earned basis. Fees are calculated as a percentage of net operating income, which is revenue from the containers under management minus direct operating expense related to those containers. If a lessee of a managed container defaults in making timely lease payments or we otherwise determine that future lease payments are not likely to be collected from the lessee, then we will cease to record lease revenue, which in turn will result in reduced management fee revenue.

### *Accounting for Container Leasing Equipment*

Accounting for container leasing equipment includes depreciation, impairment of held for use equipment and the impairment of containers held for sale.

*Depreciation.* When we acquire containers, we record the cost of the container on our balance sheet. We then depreciate the container over its estimated useful life (which represents the number of years we expect to be able to lease the container to shipping lines) to its estimated residual value (which represents the amount we estimate we will recover upon the sale or other disposition of the equipment at the end of its useful life as a shipping container). Our estimates of useful life are based on our actual experience with our fleet, and our estimates of residual value are based on a number of factors including disposal price history.

We review our depreciation policies, including our estimates of useful lives and residual values, on a regular basis to determine whether a change in our estimates of useful lives and residual values is warranted. Prior to September 1, 2006, we estimated that standard dry freight containers, which represent substantially all the containers in our fleet, have a useful life in marine services of 12 years and had residual values of \$650 for a 20', \$800 for a 40', and \$900 for a 40' high cube. Beginning on September 1, 2006, we changed our residual value estimates to \$850 for a 20', \$950 for a 40' and \$1,000 for a 40' high cube. Our change in residual value estimates is based on our recent sales history and current market conditions for the sale of used containers, which we believe currently is the best indicator of the residual value we will realize. The effect of this change will be a reduction in depreciation expense as compared to what would have been reported using the previous estimates. We continue to estimate a container's useful life in marine service to be 12 years from the first lease out date after manufacture.

If market conditions in the future warrant a further change of our estimates of the useful lives or residual values of our containers, we may be required to again recognize increased or decreased depreciation expense. A decrease in either the useful life or residual value of our containers would result in increased depreciation expense and decreased net income.

*Impairment.* We periodically evaluate our containers held for use to determine whether there has been any event that would cause the book value of our containers to be impaired. Any such impairment would be expensed in our results of operations. Impairment exists when the future undiscounted cash flows generated by an asset are estimated to be less than the net book value of that asset. If impairment exists, the containers are written down to their fair value. This fair value then becomes the containers' new cost basis and is depreciated over their remaining useful life in marine services to their estimated residual values. Any impairment charge would result in decreased net income.

*Containers Held for Sale.* We also evaluate all off-lease containers to determine whether the containers will be repaired and returned to service or sold based upon what we estimate will be the best economic alternative. If we designate a container as held for sale, depreciation on the container ceases, and the container is reported at the lower of (1) its recorded value or (2) the amount we expect to receive upon sale (less the estimated cost to sell the container). Any writedown of containers held for sale is reflected in our statement of operations as an expense. If a large number of containers are identified for sale or prices for used containers drop, impairment charges for containers held for sale may increase which would result in decreased net income.

**Table of Contents***Allowance for Doubtful Accounts*

Our allowance for doubtful accounts is reviewed regularly by our management and is based on the risk profile of the receivables, credit quality indicators such as the level of past due amounts and non-performing accounts and economic conditions. Our credit committee meets regularly to assess performance of our container lessees and to recommend actions to be taken in order to reduce credit risks. 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. If the financial condition of our container lessees were to deteriorate, reducing their ability to make payments, additional allowances may be required, which would decrease our net income or increase our net loss in the period of the adjustment.

*Income Taxes*

Deferred tax liabilities and assets are recognized for the expected future tax consequences of events that have been reflected in our consolidated financial statements. Deferred tax liabilities and assets are determined based on the differences between the book values and the tax basis of particular assets and liabilities, using tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance would be recorded to reduce our deferred tax assets to an amount we determine is more likely than not to be realized, based on our analyses of past operating results, future reversals of existing taxable temporary differences and projected taxable income. Our analyses of future taxable income are subject to a wide range of variables, many of which involve estimates. Uncertainty regarding future events and changes in tax regulation could materially alter our valuation of deferred tax liabilities and assets. If we determine that we would not be able to realize all or part of our deferred tax assets in the future, we would record a valuation allowance and make a corresponding change to our earnings in the period in which we make such determination. If we later determine that we are more likely than not to realize our deferred tax assets, we would reverse the applicable portion of the previously provided valuation allowance.

In certain situations, a taxing authority may challenge positions adopted in our income tax filings. For transactions that we believe may be challenged, we may apply a different tax treatment for financial reporting purposes. We regularly assess the tax positions for such transactions and include reserves for those differences in position. The reserves are utilized or reversed once the statute of limitations has expired or the matter is otherwise resolved.

In July 2006, the FASB issued FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of Statement of Financial Accounting Standards ( SFAS ) No. 109, *Accounting for Income Taxes* ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 on January 1, 2007 did not have a significant effect on our consolidated financial position and we do not expect a significant effect on our results of operations.

**Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ). This statement establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. This statement retains the exchange price notion in earlier definitions of fair value. SFAS No. 157 clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or transfer a liability in the market in which the reporting entity would transact for the asset or liability,

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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). SFAS No. 157 is effective for financial statements issued for years beginning after November 15, 2007, and interim periods within those years with earlier application encouraged. We do not expect the adoption of SFAS No. 157 to have a material effect on our consolidated financial position or results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin ( SAB ) No. 108, which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. If the effect of initial adoption is determined to be material, the cumulative effect may be reported as an adjustment to the beginning of year retained earnings with disclosure of the nature and amount of each individual error being corrected in the cumulative adjustment. The guidance is applicable in our 2006 fiscal year. We will apply this guidance in assessing any future misstatements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*. Under this pronouncement, companies may elect to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reporting earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. However, SFAS No. 159 specifically includes financial assets and financial liabilities recognized under leases (as defined in SFAS No. 13, Accounting for Leases), as among those items not eligible for the fair value measurement option except contingent obligations for cancelled leases and guarantees of third-party lease obligations. This statement is effective for fiscal years that begin after November 15, 2007. We do not expect the adoption of SFAS No. 159 to have a material effect on our consolidated financial position or results of operations.

### **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 2006, 2005 and 2004 were denominated in U.S. dollars. For the years 2006, 2005 and 2004, 41%, 34% and 36%, respectively, of our direct container expenses were paid in 15 different foreign currencies. We do not hedge these container expenses as there are no significant payments made in any one foreign currency and our SDDC contract contains a provision to protect it from fluctuations in exchange rates for payments made in foreign currencies for services rendered under the SDDC contract. Foreign exchange fluctuations did not materially impact our financial results in those periods.

**Interest Rate Risk.** We have entered into various interest rate cap and swap 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 LIBOR. The differentials between the fixed and variable rate payments under these agreements are recognized in realized and unrealized gains (losses) on derivative instruments, net in the consolidated statement of income.

As of December 31, 2006, 2005 and 2004, none of the derivative instruments we have entered into qualify for hedge accounting in accordance with Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended ( SFAS 133 ). The fair value of the derivative

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instruments is measured at each of these balance sheet dates and the change in fair value is recorded in the consolidated statements of income as realized and unrealized gains (losses) on derivative instruments, net.

Our interest rate swap agreements have expiration dates between November 2007 and December 2010. The cumulative fair value of these agreements was \$3,992 and \$4,566 as of December 31, 2006 and 2005, respectively.

Our interest rate cap agreements have expiration dates between October 2007 and November 2015.

Based on the debt balances and derivative instruments as of December 31, 2006, it is estimated that a 1% change in interest rates would result in the recording of an unrealized change in the value of derivative instruments of \$3,800 and the change of interest expense of \$2,300.

## **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 Dymamar B.V. or Dymamar, 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, 2006, approximately 88.9% of accounts receivable for our total fleet and 92.3% of the finance lease receivables were from container lessees and customers outside of the U.S. Customers in the PRC (including Hong Kong) and Taiwan accounted for 18.2% and 15.1%, respectively, of our total fleet container leasing revenue for the year ended December 31, 2006. Customers in no other country accounted for greater than 10.0% of our total fleet container leasing revenue for the same period. Total fleet container leasing revenue differs from our reported container rental revenue in that total fleet container leasing revenue comprises revenue earned from leases on containers in our total fleet, including revenue earned by our investors from leases on containers in our managed fleet, while our reported container revenue only comprises container leasing revenue associated with our owned fleet. We derive revenue with respect to container leasing revenue associated with our managed fleet from management fees based upon the operating performance of the managed containers.

Revenue from our 25 largest container lessees by revenue represented \$259,050, or 80.7% of the total fleet container lease billings for the year ended December 31, 2006, with revenue from our single largest container lessee accounting for \$28,857, or 9.0% of container leasing revenue during such period.

An allowance of \$2,320 has been established against non-performing receivables as of December 31, 2006 for our owned fleet. For the year ended December 31, 2006, receivable write-offs, net of recoveries, totaled \$543 for our owned fleet.

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**BUSINESS**

**Our Company**

Operating since 1979, we are the world's largest lessor of intermodal containers based on fleet size (*Containerisation International Market Analysis: Container Leasing Market 2007*), with a total fleet of more than 1.3 million containers, representing over 2,000,000 TEU. We lease containers to more than 300 shipping lines and other lessees, including each of the world's top 20 container lines, as measured by container vessel fleet size. We believe we are one of the most reliable lessors of containers, in terms of consistently being able to supply containers in locations where our customers need them. We have provided an average of more than 90,000 TEU of new containers per year for the past 12 years, and have been one of the largest purchasers of new containers among container lessors over the same period. We believe we are also one of the two largest sellers of used containers among container lessors, having sold an average of more than 45,600 containers per year for the last five years. We provide our services worldwide via a network of 14 regional and area offices and over 300 independent depots in more than 130 locations. Trencor, a company publicly traded on the JSE in Johannesburg, South Africa, and its affiliates currently have beneficiary interest in a majority of our issued and outstanding common shares and will continue to have a majority interest after giving effect to this offering.

We operate our business in four core segments.

*Container Ownership.* As of June 30, 2007, we owned containers accounting for approximately 52% of our fleet.

*Container Management.* As of June 30, 2007, we managed containers on behalf of 12 container investors, providing acquisition, management and disposal services. These managed containers account for the remaining 48% of our fleet.

*Container Resale.* We generally sell containers from our fleet when they reach the end of their useful lives in marine service or when it is financially attractive for us to do so, considering location, sale price, the cost of repair, and possible repositioning expenses. We also purchase and lease or resell containers from shipping line customers, container traders and other sellers of containers.

*Military Management.* We lease containers to the U.S. military pursuant to the SDDC contract and earn a fee for supplying and managing its fleet of leased containers. We are the main supplier of leased intermodal containers to the U.S. military.

We believe that our strategy of owning containers as well as managing containers for other container investors offers several benefits, including:

a larger fleet, which enables us to serve our shipping line customers more effectively;

enhanced franchise value, market presence and economies of scale associated with a larger fleet;

the ability to leverage our existing infrastructure and workforce without increasing the capital at risk; and

a more balanced revenue and expense model.

In general, owning containers during periods of high demand for containers provides higher margins than managing containers, since we receive lease revenues for the containers that we own but only a percentage of the net operating income of the containers as a management fee for the containers that we manage. On the other hand, managing containers during periods of low demand for containers reduces the negative financial impact of such periods since the container investors bear the cost of owning the containers.

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For 2006, we generated revenues, income from operations and income before taxes of \$226.5 million, \$108.4 million and \$60.6 million, respectively. For 2006, the proportion of our income before taxes generated



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from Container Ownership, Container Management, Container Resale and Military Management operating segments was 70.3%, 18.9%, 8.9% and 1.9%, respectively, before taking into consideration inter-segment eliminations. As of June 30, 2007, the utilization of our fleet was 93.6%. The average remaining lease term for our term leases as of June 30, 2007, was 2.1 years.

The most important driver of our profitability is the extent to which revenues on our owned fleet and management fee income exceed our operating costs. The key drivers of our revenues are fleet size, rental rates and utilization. Our operating costs primarily consist of depreciation and amortization, interest expense, direct operating expenses and administrative expenses. Our lessees are generally responsible for loss of or damage to a container beyond ordinary wear and tear, and they are required to purchase insurance to cover any other liabilities.

Our expertise and flexibility in managing containers after their initial lease is an important factor in our success. Leasing new containers is relatively easy because initial leases for new containers typically cover large volumes of units and are fairly standardized transactions. However, to successfully compete in our industry, we must not only obtain favorable initial long-term leases for new containers, but also increase the return generated by these containers throughout their useful life in marine service and their ultimate sale into the secondary market. To do that, we focus on renewing or extending our long-term container leases beyond their expiration date (typically five years from the start of the lease). In addition, we attempt to negotiate favorable return provisions, maintain an active presence in the master and spot lease markets, and work to increase our options for disposing of off-lease containers so that we have attractive alternatives if it is not possible to achieve reasonable renewal or extension of terms with the current lessee. Unlike some of our competitors, we have the capability and the infrastructure to re-lease or dispose of our containers at comparatively attractive terms, which increases our leverage with the lessees.

We believe that we have the ability to reposition containers which are returned in lower demand locations to higher demand locations at relatively low cost as a result of our experienced logistics team. Our large customer base of more than 300 lessees increases our ability to re-lease containers under master and other short-term lease terms. Our contract to supply leased containers to the U.S. military enables us to supply containers in their demand locations, which are often lower demand locations for our shipping line customers. Our Resale Division is also positioned to sell the containers and optimize their residual value in multiple markets, including lower demand locations. This life cycle system of generating an attractive revenue stream from and achieving high utilization of our container fleet has enabled us to become the world's largest container lessors and led to 20 consecutive years of profits.

## **History and Corporate Structure**

We began operations in 1979. Initially, Textainer Inc. was a Panama corporation and operated as a container trading and management company. Two wholly-owned subsidiaries were formed in the United Kingdom to conduct operations and investor sales. From 1979 until 1993, we pursued various acquisitions and joint ventures and formed several subsidiaries to grow our business. Between 1987 and 1997, we raised approximately \$492 million from container investors through the formation of public limited partnerships (the TEIF Partnerships) in which various of our subsidiaries, including Textainer Capital Corporation, Textainer Equipment Management Limited, Textainer Financial Services Corporation and Textainer Limited were the general partners. These TEIF Partnerships were terminated in 2005 following the sale of the remaining assets in the partnerships.

In December 1993, we underwent a corporate reorganization whereby Textainer Group Holdings Limited was formed in Bermuda and the various corporations in our business group were reorganized as subsidiaries under Textainer Group Holdings Limited, including Textainer Equipment Management Limited, Textainer Limited and Textainer Capital Corporation. Most shareholders who had previously held separate interests in the subsidiaries became shareholders in Textainer Group Holdings Limited.

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We currently own 100% of all of our direct and indirect subsidiaries, except for Textainer Marine Containers Limited. Textainer Marine Containers Limited was incorporated in Bermuda on July 1, 2000 as a joint venture involving Textainer Limited and MeesPierson Transport & Logistics Holding B.V., which later changed its name to FB Aviation and Intermodal Finance Holding B.V., a subsidiary of Fortis Bank (Nederland) N.V. As of June 30, 2007, Textainer Limited held a 72.3% economic ownership interest and FB Aviation and Intermodal Finance Holding B.V. and FB Transportation Capital LLC (together with FB Aviation and Intermodal Finance Holding B.V., FB ) held a 27.7% economic ownership interest in Textainer Marine Containers Limited. However, the voting rights in a majority of matters are shared evenly between Textainer Limited and FB. We have agreed in principle with FB that Textainer Limited will acquire half of their interest in our subsidiary, Textainer Marine Containers Limited, at a cash price equal to (i) 25% of the total shareholders equity of the Class A Shares of Textainer Marine Containers Limited on the day immediately preceding the closing of such acquisition, plus (ii) \$18.0 million. If the transaction had closed on July 31, 2007, the cash purchase price would have been approximately \$68.7 million. In addition, as part of the consideration, at least 50% of the total annual capital expenditures of the company on new containers, as measured under GAAP, will be allocated to the Class A portion of Textainer Marine Containers Limited for a three-year period after the close of this transaction. FB shall hold 25% of all issued and outstanding Class A Shares of Textainer Marine Containers Limited after the close of this transaction. We are in the process of negotiating the transaction documents and expect to close the transaction within two business days after the closing of this offering or as soon as practicable thereafter. Upon the closing of the transaction, FB will hold 13.9% of the economic interest and 25% of the voting interest in Textainer Marine Containers Limited. In addition, voting matters related to commencing bankruptcy proceedings and amending related board and shareholder meeting requirements require the approval of a separate Class C common shareholder, which does not have any economic ownership interest in Textainer Marine Containers Limited.

Trencor held a beneficiary interest in Textainer Inc., our predecessor, starting in 1986 and, through its affiliate Halco, has held a beneficiary interest in a majority of our shares since our reorganization in 1993. Trencor is a South African container and logistics public company, listed on the JSE in Johannesburg, South Africa. Trencor was founded in 1929, and currently has businesses owning, leasing and managing marine cargo containers; owning and leasing returnable packaging units together with the related management and technology; and finance related activities. Mobile Industries Limited, a holding company listed on the JSE ( Mobile Industries ), owns 46% interest of Trencor and the family interests of our directors Neil I. Jowell and Cecil Jowell have a significant percentage in Mobile Industries with Neil and Cecil Jowell being directors of that company.

Trencor and certain of Trencor's subsidiaries are the sole discretionary beneficiaries of the Halco Trust, a discretionary trust with an independent trustee. Halco, which owned over 71.7% of our outstanding share capital as of June 30, 2007, is the wholly-owned subsidiary of the Halco Trust. After taking into account this offering, including the full exercise of the over-allotment option by the underwriters, and assuming that Halco purchases 2,100,000 common shares in this offering, Halco's interest will drop to approximately 60.8% of our issued and outstanding share capital. In addition, the protectors of the Halco Trust are Neil I. Jowell, the chairman of both our board of directors and the board of directors of Trencor, and Cecil Jowell and James E. McQueen, members of our board of directors and the board of directors of Trencor. The protectors of the trust have the power, under the trust documents, to appoint or remove the trustee. The protectors cannot be removed and have the right to nominate replacement protectors. In addition, any changes to the beneficiary of the Halco Trust must be agreed to by both the independent trustee and the protectors of the trust.

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Our current corporate structure is as follows:

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\* The remaining 27.7% is owned by FB. We have agreed in principle with FB that Textainer Limited will acquire half of their interest in our subsidiary, Textainer Marine Containers Limited at a cash price equal to (i) 25% of the total shareholders' equity of the Class A Shares of Textainer Marine Containers Limited on the day immediately preceding the closing of such acquisition, plus (ii) \$18.0 million. In addition, as part of the consideration, at least 50% of the total annual capital expenditures of the company on new containers, as measured under GAAP, will be allocated to the Class A portion of Textainer Marine Containers Limited for a three-year period after the close of this transaction. FB shall hold 25% of all issued and outstanding Class A Shares of Textainer Marine Containers Limited after the close of this transaction. We are in the process of negotiating the transaction documents and expect to close the transaction within two business days after the closing of this offering or as soon as practicable thereafter.

Over the past 10 years, we concluded four strategic transactions involving former competitors. On April 1, 1998, we entered into a management service contract for the PrimeSource fleet, consisting of 54,900 TEU, at no cost. On May 1, 1999, we entered into a management service contract for the management of the XTRA fleet, consisting of 225,800 TEU, for a waiver of the first year's management fees of approximately \$4.3 million. On November 1, 2004, we purchased from XTRA, Inc., the containers that we were managing on behalf of XTRA International pursuant to the May 1, 1999 management contract. This purchase was for 109,800 TEU at a purchase price of \$85.3 million. On July 1, 2006, we purchased the management contracts of the fleet formerly managed by Gateway Management Services Limited for a purchase price of \$19.0 million. This fleet consists of 315,000 TEU. On July 23, 2007, we purchased the exclusive rights to manage the container fleet of Capital for a purchase price of \$56.0 million. The Capital fleet consists of over 500,000 TEU.

**Industry Overview**

Dry freight intermodal containers are large, standardized steel boxes used to transport goods by multiple modes of transportation, including ships, trains and trucks. Compared to traditional shipping methods, intermodal

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containers provide users with faster loading and unloading as well as some protection from weather and potential theft, thereby typically reducing both transportation costs and time to market for our lessee's customers.

Containers are built in accordance with standard dimensions and weight specifications established by the International Organization for Standardization (ISO). The industry-standard measurement unit is the Twenty-Foot Equivalent Unit, or TEU, which compares the length of a container to a standard 20' container. For example, a 20' container is equivalent to one TEU and a 40' container is equivalent to two TEU. Standard dry freight containers are typically 8' wide, come in lengths of 20', 40' or 45' and are either 8' 6" or 9' 6" high. The three principal types of containers are described as follows:

*Dry freight standard containers.* A dry freight standard container is constructed of steel sides, roof, an end panel on one end and a set of doors on the other end, a wooden floor and a steel undercarriage. Dry freight standard containers are the least expensive and most commonly used type of container. They are used to carry general cargo, such as manufactured component parts, consumer staples, electronics and apparel. According to *Containerisation International, World Container Census 2007*, dry freight standard containers comprised approximately 89.2% of the worldwide container fleet, as measured in TEU, at mid-2006.

*Dry freight specialized containers.* Dry freight specialized containers consist of open-top and flat-rack containers. An open-top container is similar in construction to a dry freight standard container except that the roof is replaced with a tarpaulin supported by removable roof bows. A flat-rack container is a heavily reinforced steel platform with a wood deck and steel end panels. Open-top and flat-rack containers are generally used to transport heavy or oversized cargo, such as marble slabs, building products or machinery. According to *Containerisation International, World Container Census 2007*, dry freight specialized containers comprised approximately 3.8% of the worldwide container fleet, as measured in TEU, at mid-2006.

*Other containers.* Other containers include refrigerated containers, tank containers, 45' containers, pallet-wide containers and other types of containers. The two most prominent types of such containers are refrigerated containers and tank containers. A refrigerated container has an integral refrigeration unit on one end which generally plugs into an outside power source and is used to transport perishable goods. Tank containers are used to transport liquid bulk products such as chemicals, oils, and other liquids. According to *Containerisation International, World Container Census 2007*, other containers comprised approximately 7.0% of the worldwide container fleet, as measured in TEU, at mid-2006.

Containers provide a secure and cost-effective method of transportation because they can be used in multiple modes of transportation, making it possible to move cargo from a point of origin to a final destination without repeated unpacking and repacking. As a result, containers reduce transit time and freight and labor costs, as they permit faster loading and unloading of shipping vessels and more efficient utilization of transportation containers than traditional break bulk shipping methods. The protection provided by containers also reduces damage, loss and theft of cargo during shipment. While the useful economic life of containers varies based upon the damage and normal wear and tear suffered by the container, we estimate that the useful economic life for a standard dry freight container used in intermodal transportation is on average 12 years.

In 2006, the container shipping industry celebrated the 50th anniversary of the first standardized container voyage by sea. According to Drewry, this industry had grown to a \$187.7 billion industry by December 2006, as measured by preliminary data of annual gross revenues of container shipping lines and, the volume of the industry, as measured by loaded container liftings, grew at a CAGR of 9.8% from 1980 to 2005. In addition, as of April 2007, the containership orderbook reached a level of 1,255 vessels, or 4.64 million TEU, representing 48% of the then current worldwide container ship capacity, according to Clarkson. We believe this increased vessel capacity should continue to drive the demand for intermodal containers.

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Over the last 25 years, containerized trade has grown at a rate greater than that of worldwide economic growth. According to *The Drewry Annual Container Market Review and Forecast 2006/2007*, worldwide containerized cargo volume grew from 1980 through 2005 at a rate of 9.8% per year. Drewry estimates that 2006 container cargo volume grew 10.3% over the prior year. In addition, according to Drewry, container trade is projected to grow by 9.8% in 2007 and 9.2% in 2008. Drewry forecasts that cargo volume will continue to grow at approximately 9.0% annually through 2011, as illustrated by the following chart:

We believe that the projected growth in the container shipping industry is due to several factors, including:

the movement in global manufacturing capacity toward lower labor cost areas such as the PRC and India;

the continued integration of developing high-growth economies into global trade patterns;

the general trend away from bulk shipping and migration to the use of containers; and

the gradual liberalization and integration of world trade.

Current trends in containerized shipbuilding also support expectations for increased container demand. According to the Drewry report, current orders for container ships set to be delivered between 2007 and 2009 represent approximately 3.5 million TEU of shipping vessel capacity, or the equivalent of 40.2% of the existing container ship fleet. In the early days of containerization, shipping lines usually required three sets of containers per ship capacity. For example, a 2,000 TEU ship might require 6,000 TEU of containers to support it. Simply stated, one set was on the ship, another set was waiting to be loaded on to the ship, and the third set had just been unloaded. Today, with more frequent sailings, improved information technology and much larger ships better able to reposition empty containers, modern shipping lines require just under two sets of containers to support each ship. Nevertheless, due to the dramatic increase in the number and size of new container ships entering service, the number of containers required to support the world container ship fleet has continued to grow.

According to *Containerisation International, World Container Census 2007*, container lessors owned approximately 42.5% of the total worldwide container fleet of 22.2 million TEU as of mid-2006. The percentage of leased containers utilized by shipping lines ranged from 43% to 54% from 1980 through 2006 and is expected to stay in the 42% to 43% range from 2007 to 2015. Given the uncertainty and variability of export volumes and

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the fact that shipping lines have difficulty in accurately forecasting their container requirements at different ports, the availability of containers for lease significantly reduces a shipping line's need to purchase and maintain excess container inventory. In addition, leasing a portion of their total container fleets enables shipping lines to serve their manufacturer and retailer customers better by:

increasing flexibility to manage the availability and location of containers;

increasing the shipper's ability to meet peak demand requirements, particularly prior to holidays such as Christmas and Chinese New Year; and

reducing their capital expenditures.

While international containerized trade has grown rapidly and been consistently positive for the last twenty-five years, the shipping business has been characterized by cyclical swings due to lengthy periods of excess or scarce vessel capacity. We believe that these sustained periods of vessel supply/demand imbalances are mainly a function of the multi-year ordering and production cycle associated with the manufacture of new vessels, which requires shipping lines to estimate market growth many years into the future. Container leasing companies are partially insulated from the risks of these shipping cycles by the relatively short production time associated with the manufacture of new containers. Lead-times for new container orders are typically only a few months, so the rate of new container ordering can be quickly adjusted to reflect unexpected market changes.

Additionally, for most leasing companies, the percentage of containers on long-term lease has grown over the past ten years, while the percentage on master lease has declined. We believe that a majority of all leased containers are under long-term lease today, compared with approximately 40% ten years ago. As a result, changes in utilization have become less volatile for most leasing companies.

According to *Containerisation International Market Analysis: Container Leasing Market 2007*, intermodal leasing companies, as ranked by total TEU as of mid-2006, are as follows:

<b>Company</b>	<b>TEU(1)</b>
Textainer Group(2)	2,038
Triton Container Intl.	1,380
Florens Group(3)	1,107
TAL International	947
GESeaCo	936
Interpool Group(4)	708
CAI-Cont. Applications Inc.	624
Cronos Group	405
Gold Container	324
UES-Unit Equipment Services	269
GVC-Grandview Development	139
Carlisle Leasing	122
Amficon Leasing	114
XINES Ltd.	100
Waterfront Cont. Leasing	88
Blue Sky Intermodal	49
Other	539
<b>Grand Total</b>	<b>9,889</b>

(1) TEU numbers in thousands.

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- (2) Textainer TEU pro forma to include the addition of the containers of Capital for which we acquired management rights in July 2007.
- (3) Includes containers leased to Cosco Container Lines.
- (4) Includes containers on structured finance leases.

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### Competitive Strengths

We believe that we have the following competitive strengths:

One of our major strengths is our demonstrated ability to generate attractive revenue streams, relative to most of our competitors, throughout the economic life of a container in marine service, which in the past has averaged approximately twelve years. This strength is due to our large size and global scale, experienced management team, proprietary information technology systems, and strong customer relationships.

*Largest Container Lessor.* We operate the world's largest fleet of leased intermodal containers. We believe that our scale, global presence, business model and long history have made us one of the more reliable suppliers of leased containers in our industry. We believe that these factors have historically enabled us to supply containers in locations around the world where our customers need them with some consistency.

*Experienced Management Team.* Our senior management has a long history in the industry. Our four most senior officers have an average of approximately 15 years of service with us and an average of 21 years in the container leasing industry. They have been through many business cycles, and understand the key drivers of the container leasing business.

*Proprietary Information Technology Systems.* We have developed proprietary IT systems that allow us to monitor container status and offer our customers a high level of service. Our systems include internet-based updates regarding container availability and booking status. We also have the ability to produce complete management reports for each portfolio of containers we own and manage.

*Strong, Long-standing Relationships with Customers.* Our scale, long presence in the business and reliability as a supplier of containers has resulted in strong relationships with our customers. Our top 25 customers, as measured by revenue, have leased containers from us for an average of over 21 years. Our customers include each of the world's 20 largest shipping lines, as measured by container vessel fleet size.

We have the international coverage, organization and resources to handle a variety of types of leases. Thus, at the termination of a term lease, we have the ability to either negotiate extending the term lease, accept the return of and re-lease the container, or to sell the containers utilizing our particular expertise in this area. This flexibility allows us more avenues to deploy our containers and therefore better optimizes our return.

*Lease Types and Structures.* We structure our initial long-term leases of new containers in an effort to reduce the percentage of containers that can be returned in lower demand locations. Our large customer base and worldwide presence makes us well-positioned to re-lease off-lease containers into a variety of master leases and special leases with other customers. We utilize our expertise in logistics to reposition off-lease containers from lower demand to higher demand locations where they can be re-leased at more attractive terms. Many of the U.S. military's demand locations are surplus locations for our shipping line customers. When containers are off-lease, we can re-lease them if the lease terms are acceptable, sell them at that location, or move them to a higher demand location or a better sale location.

*Leading Seller of Used Containers.* We believe we are one of the two largest sellers of used containers among container lessors. We believe that our experience in selling large quantities of containers at attractive prices generally optimizes the residual value of our fleet. It also enables us to serve some of our shipping line customers better by relieving them of the burden of disposing of their containers.





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We are able to mitigate the effects of the cyclical container shipping/leasing industry on our profitability by striking a balance between owned and managed containers and generating revenue streams from diverse sources.

*High Margin High Return Business Model.* We believe that our business model of balancing the proportion of owned versus managed containers in our container fleet provides us over time with higher operating margins and higher returns on capital than would a model in which we only owned or only managed containers.

*Diverse Revenue Streams.* We derive revenues from leasing our owned containers, managing containers owned by third parties, buying and selling containers and supplying leased containers to the U.S. military. These multiple revenue streams provide for a diverse income base, mitigate the effects of our cyclical industry on our profitability and allow us to optimize our use of capital.

We have demonstrated our ability to increase the size of our container fleet by purchasing containers from container manufacturers and by acquiring existing container fleets or their management rights.

*Strong, Long-standing Relationships with Manufacturers.* As the leasing industry's largest buyer of new containers, averaging more than 90,000 TEU per year for the past 12 years, we have developed strong relationships with container manufacturers. These relationships, along with our large volume buying power and solid financial structure, enable us to purchase containers at attractive prices and foster our ability to source containers during periods of high demand.

*Experienced Consolidator.* Over the past 20 years, we have concluded eight transactions involving other lessors' container fleets or management rights over those fleets, representing over 1,143,000 TEU in total. This experience provides us with a competitive advantage over other lessors who are less experienced in taking over ownership or management of other container fleets. We have demonstrated the ability to efficiently identify, analyze, structure and integrate the equipment and lease portfolios of other lessors. For example, we integrated the container fleet formerly managed by Gateway Management Services Limited, comprising 315,000 TEU, in three weeks. Furthermore, due to the flexibility and scalability of our infrastructure, these transactions result in significant increases in revenue without corresponding increases in expenses.

## **Business Strategies**

We intend to grow our business profitably by pursuing the following strategies:

*Leverage Our Status as the Largest Intermodal Container Lessor and Consistent Purchaser in the Industry.* While a number of our competitors' purchasing patterns have fluctuated over time, we have been a consistent purchaser of containers and intend to continue to make regular purchases of containers to replace older containers and increase the size of our fleet, thereby maintaining what we believe to be one of the youngest fleet age profiles among major lessors. We believe that our scale, consistent purchasing habits, and maintenance of a young fleet age profile have provided us with a competitive advantage that we will continue to exploit by maintaining strong relationships with manufacturers and growing our market share with our existing customers.

*Pursue Attractive Acquisitions.* We will continue to seek to identify and acquire attractive portfolios of containers, both on an owned and on a managed basis, to allow us to grow our fleet profitably. There has been significant consolidation in our industry. We believe that this trend will continue and will likely offer us opportunities for growth.

*Continue to Focus on Operating Efficiency.* We have a low cost structure, having brought down our fleet management cost from \$0.097 per CEU per day to \$0.051 per CEU per day and grown the number of CEU in our fleet per employee from 3,206 to 11,330, in each case over the last 10 years. Furthermore, we believe that we can continue to grow our fleet and therefore our revenue without a proportionate increase in our headcount, thereby spreading our operating expenses over a larger base and helping to improve our

profitability.

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*Grow Our Container Resale Business.* Our container resale and trading business is a significant source of profits. We look to sell containers from our fleet when they reach the end of their useful lives in marine service or when it is financially attractive for us to do so, considering the location, sales price, cost of repair, and possible repositioning expenses. In order to improve the sales price of our containers, we often move them from the location where they are returned by the lessee to another location that has a higher market price. We benefit not only as a result of the increased sales price but also because we often receive rental revenue from a shipping line for the one-way lease of the container. We also buy and lease or resell containers from shipping line customers, container traders and other sellers of containers. We attempt to improve the sales price of these containers in the same manner as with containers from our fleet.

*Grow Our U.S. Military Management Business.* Our status as the main provider of leased intermodal containers to the U.S. military has resulted in a complementary source of demand for containers, usually in locations with lower shipping line demand, which grants us more flexibility in managing the remainder of our fleet. We seek to broaden and deepen our relationship with the U.S. military in order to provide the best possible customer service, while continuing to grow the business. We are currently in the fourth year of the SDDC contract, which, subject to yearly performance review and contract confirmation, may be renewed by the U.S. military on a yearly basis for a total contract period of up to ten years. Our latest performance rating in 2006 was Excellent with a score of 97%.

*Maintain Access to Diverse Sources of Capital.* We have successfully utilized a wide variety of financing alternatives to fund our growth, including secured and unsecured debt financings, bank financing, and equity from third party investors in containers. We believe this diversity of funding, combined with our anticipated access to the public equity markets, provides us with an advantage in terms of both cost and availability of capital.

## **Operations**

We operate our business through a network of 14 regional and area offices and over 300 independent depots in more than 130 locations. We maintain four regional offices:

Americas Region in Hackensack, New Jersey, responsible for North and South America;

European Region in London responsible for Europe, the Mediterranean, the Middle East, and Africa;

North Asia Region in Yokohama responsible for Japan, South Korea, and Taiwan; and

South Asia Region in Singapore, responsible for Southeast Asia, the PRC (including Hong Kong) and Australia.

Regional vice presidents are in charge of regional leasing and operations. Marketing directors and assistants located in the region and area offices handle day-to-day marketing and collection activities. Our operations include a global sales force, container operations group, container resale group, and logistics services group. Our principal administrative office is located in San Francisco, California. Our registered office is in Hamilton, Bermuda.

**Table of Contents***Our Container Fleet*

As of June 30, 2007, we operated 1,559,215 TEU. We attempt to continually invest in our container fleet each year in an effort to replace the older containers being retired from marine service and to build our fleet size. We purchased an average of 90,000 TEU per year over the past 12 years. Our ability to invest in our fleet on a consistent basis has been instrumental in our becoming the world's largest container lessor. Our container fleet consists primarily of standard dry freight containers. The containers that we lease are either owned outright by us, owned by third parties and managed by us or leased-in from third parties. The table below summarizes the composition of our fleet, in TEU, by type of containers as of June 30, 2007 (unaudited):

	Standard Dry Freight	Dry Freight Specialized	Total	Percent of Total Fleet
Managed	685,321	12,644	697,965	44.8%
Owned	811,459	4,578	816,037	52.3%
Finance leases and sub-leased units	44,590	623	45,213	2.9%
Total fleet	1,541,370	17,845	1,559,215	100.0%

Our containers are designed to meet a number of criteria outlined by the ISO. The standard criteria include the size of the container and the gross weight rating of the container. This standardization ensures that the widest possible number of transporters can use containers and it facilitates container and vessel sharing by the shipping lines. The standardization of the container is also an important element of the container leasing business since we can operate one fleet of containers that can be used by all of our major customers.

Maintenance and repair of our containers is performed by independent depots that we retain in major port areas and in-land locations. Such depots also handle and inspect containers that are either picked up or redelivered by lessees, and store containers that are not leased.

*Our Leases*

Most of our revenues are derived from leasing our fleet of containers to our core shipping line customers. The vast majority of our container leases are structured as operating leases, though we also provide customers with finance leases. Regardless of lease type, we seek to exceed our targeted return on our owned and managed containers over the life of each container by managing container utilization, lease rates, drop-off restrictions and the used container sale process. We lease containers under three different types of operating leases and also under finance leases.

*Term leases*

Term leases provide a customer with a specified number of containers for a specified period, typically ranging from three to five years, with an associated set of pick-up and drop-off conditions. Our term leases generally require our lessees to maintain all units on lease for the duration of the lease. Such leases provide us with enhanced cash flow certainty due to their extended duration and typically carry lower per diem rates than other lease types. As of June 30, 2007, 62.1% of our total on hire fleet, as measured in TEU, was on term leases.

As of June 30, 2007, our term leases had an average remaining duration of 2.1 years, assuming no leases are renewed. However, we believe that many of our customers will renew leases for containers that are less than sale age at the expiration of the lease. In addition, our containers typically remain on-hire at the contractual per diem rate for an average of an additional 13 months beyond the end of the contractual lease term, for leases that are not extended, due to the logistical requirements our customers face by having to return containers to specific drop-off locations.

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The following are the minimum future rentals for our total fleet at June 30, 2007, due under long-term leases (in thousands):

	<b>(unaudited)</b>
2007	\$ 78,918
2008	115,666
2009	77,389
2010	42,272
2011 and thereafter	28,798
	\$ 343,043

Some of our term leases give our customers Early Termination Options ( ETOs ). If exercised, ETOs allow customers to return containers prior to the expiration of the term lease. However, if an ETO is exercised, the customer is required to pay a penalty per diem rate that is applied retroactively to the beginning of the lease. As a result of this retroactive penalty, ETOs have historically rarely been exercised.

*Master leases*

Master leases provide a framework of terms and conditions pursuant to which lessees can lease containers on an as-needed basis for unspecified periods of time. Master lease terms and conditions are valid for a set period, typically one year, and provide the lessee with greater flexibility than is typical in term leases. Under our master leases, lessees know in advance their per diem rates and drop-off locations, subject to monthly drop-off port limits. In addition, under these master lease agreements, the lessee is generally not committed to leasing a minimum number of containers from us during the lease term and may generally return the containers to us at any time, subject to certain restrictions. Due to their flexibility and duration, master leases command higher per diem rates than term leases. A subset of master leases is our special leases, which are predominately round-trip Asia leases, allowing customers to return containers at any time but with restrictions on drop-off locations, generally in higher demand locations in Asia. As of June 30, 2007, 29.9% of our total on-hire fleet, as measured in TEU, was on master leases.

*Spot leases*

Spot leases provide the customer with containers for a relatively short lease period, and fixed pick-up and drop-off locations. Spot leases are generally used to position a container to a desired location for subsequent lease or sale. As of June 30, 2007, 5.4% of our total on hire fleet, as measured in TEU, was on spot leases.

*Finance Leases*

Finance leases provide our lessees with an alternative method to finance their container acquisitions. Finance leases are long-term in nature, typically ranging from three to eight years, usually the remainder of the container's useful life in marine services, and require relatively little customer service attention. They ordinarily require fixed payments over a defined period and provide lessees with a right to purchase the subject containers for a nominal amount at the end of the lease term. Per diem rates include an element of repayment of capital and, therefore, typically are higher than rates charged under term leases. Finance leases require the container lessee to keep the containers on lease for the entire term of the lease. Finance leases are reflected as Net investment in direct finance leases on our balance sheet. As of June 30, 2007, approximately 2.6% of our total on hire fleet, as measured in TEU, was on finance leases with an average remaining term of 1.8 years.

*Damage Protection*

Under all of our leases, our lessees are generally responsible for loss of or damage to a container beyond ordinary wear and tear, and they are required to purchase insurance to cover any other liabilities. Any damage

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must be repaired at the expense of the lessee according to standardized guidelines promulgated by the Institute of International Container Lessors ( IICL ). Lessees are also required to obtain insurance to cover loss of the equipment on lease, public liability and property damage insurance as well as indemnify us from claims related to their usage of the leased containers. In some cases, DPP is provided whereby the lessee pays us (in the form of either a higher per-diem rate or a fixed one-time payment upon the return of a container) to assume a portion of the financial burden of repairs up to a pre-negotiated amount. This DPP does not cover damages from war or war risks, loss of a container, constructive total loss of the container, damages caused by contamination or corrosion from cargo, damages to movable parts and any costs incurred in removing labels, which are all responsibilities of the lessees. DPP is generally cancelable by either party with prior written notice. Maintenance is monitored through inspections at the time that a container is leased out and returned. We also maintain our own insurance to cover our containers when they are not on-hire to lessees or when the lessee fails to have adequate primary coverage, and third-party liability insurance for both on-hire and off-hire containers. In addition, we maintain insurance that would cover loss of revenue as a result of default under all of our leases, as well as the recovery cost or replacement value of all of our containers.

### *Lease Agreements*

In general, our lease agreements consist of two basic elements, a master terms and conditions lease agreement, or a Master Agreement, and a lease schedule. Lease schedules contain the business terms (including daily rate, term duration and drop-off schedule, among other things) for specific leasing transactions, while Master Agreements outline the general rights and obligations of the lessor and lessee under all of the lease schedules covered by the Master Agreement. For most customers, we have a small number of Master Agreements (often one) and a large number of lease schedules.

Our standard Master Agreements generally require the lessees to pay rentals, depot charges, taxes and other charges when due, to maintain the containers in good condition and repair, to return the containers in good condition in accordance with the return conditions set forth in the Master Agreement, to use the containers in compliance with all laws, and to pay us for the value of the container as determined by us if the container is lost or destroyed. The default clause gives us certain legal remedies in the event that the lessee is in breach of the lease.

### *Re-leasing, Logistics and Depot Management*

We believe that managing the period after termination of our containers first lease is one of the most important aspects of our business. The container shipping industry is characterized by large regional trade imbalances, with loaded containers generally flowing from export-oriented economies in Asia to North America and Western Europe. Because of these trade imbalances, container shipping lines have an incentive to return leased containers in North America and Western Europe to avoid the cost of shipping empty containers back to Asia. Successful management of the deployment of our containers after they come off their first lease requires disciplined re-leasing capabilities, logistics management, depot management, careful cost control and effective sales of used containers.

### *Re-leasing*

Since our leases allow our lessees to return their containers, we typically lease a container several times during the time that it is part of our fleet. New containers can usually be leased with a limited sales and customer service infrastructure because initial leases for new containers typically cover large volumes of units and are fairly standardized transactions. Used containers, on the other hand, are typically leased in smaller transactions that are structured to accommodate pick-ups and returns in a variety of locations. Our utilization rates depend on our re-leasing capabilities. Factors that affect our ability to re-lease used containers include the size of our lessee base, ability to anticipate lessee needs, our presence in relevant geographic locations and the level of service we provide our lessees. We believe that our global presence and relationships with over 300 container lessees provide us an advantage in re-leasing our containers relative to many of our smaller competitors.

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### *Logistics*

Other methods of reducing off-lease risks include:

*Limiting or prohibiting container returns to low-demand areas.* In order to reduce our repositioning costs, our leases typically include a prohibition on returning containers to specific locations, limitations on the number of containers that may be returned to lower demand locations, drop-off charges for returning containers to lower demand locations or a combination of these provisions.

*Taking advantage of a robust secondary resale market when available.* In order to optimize the investment return on a container, we have sold containers in our excess inventory when an analysis indicates it is financially more attractive than attempting to re-lease the container.

*Seeking one-way lease opportunities to move containers from lower demand locations to higher demand locations.* One-way leases may include incentives, such as free days, credits and damage waivers. The cost of offering these incentives is generally less than the cost we would incur if we were to pay to reposition the containers. We also use one way leases to move containers from locations where the market price for selling containers is low to locations with a higher market price for containers, to improve the resale value of the containers.

*Paying to reposition our containers to higher demand locations.* At locations where our inventories remain high, despite the efforts described above, we will selectively choose to reposition excess containers to locations with higher demand.

*Consistently purchasing containers in the PRC.* We purchase almost all of our new containers from manufacturers in the PRC. Certain ports in the PRC, including the locations where we purchase containers, are also generally higher demand locations. By consistently purchasing containers in the PRC, we have increased flexibility to reposition our existing containers to other higher demand locations while still maintaining good coverage of the locations in the PRC.

*Diversifying our customers.* We have sought to diversify our customers and correspondingly, the locations where containers are needed around the world. The U.S. military often requires containers in lower demand areas, which then allows us more flexibility in repositioning our containers.

### *Depot Management*

As of June 30, 2007, we managed our container fleet through more than 300 independent container depot facilities in more than 130 locations. Depot facilities are generally responsible for repairing containers when they are returned by lessees and for storing the containers while they are off-hire. Our operations group is responsible for managing our depot contracts and periodically visiting the depot facilities to conduct quality assurance audits to control costs and ensure repairs meet industry standards. We also supplement our internal operations group with the use of independent inspection agents. Furthermore, depot repair work is periodically audited to prevent over-charging. We are in regular communication with our depot partners through the use of electronic data interchange ( EDI ) and/or e-mail. The electronic exchange of container activity information with each depot is conducted via the internet. As of June 30, 2007, a large majority of our off-lease inventory was located at depots that are able to report notice of container activity and damage detail via EDI. We use the industry standard, ISO 9897 Container Equipment Data Exchange messages, for most EDI reporting.

Most of the depot agency agreements follow a standard form and generally provide that the depot will be liable for loss or damage of containers and, in the event of loss, will pay us the previously agreed loss value of the applicable containers. The agreements require the depots to maintain insurance against container loss or damage and we carry insurance to cover the risk when a depot's insurance proves insufficient.

Our container repair standards and processes are generally managed in accordance with standards and procedures specified by the IICL. The IICL establishes and documents the acceptable interchange condition for containers and the repair procedures required to return damaged containers to the acceptable interchange





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condition. At the time that containers are returned by lessees, the depot arranges an inspection of the containers to assess the repairs required to return the containers to acceptable IICL condition. As part of the inspection process, damages are categorized either as lessee damage or normal wear and tear. Items typically designated as lessee damage include dents in the container and debris left in the container, while items such as rust are typically designated as normal wear and tear. In general, lessees are responsible for the lessee damage portion of the repair costs and we are responsible for normal wear and tear. The lessees are generally billed the lessee damage portion at the time the containers are returned. As discussed above in *Operations Our Leases*, for an additional fee, we sometimes offer our lessees a DPP, pursuant to which we assume financial responsibility for repair costs up to a pre-negotiated amount.

### *Management Services*

As of June 30, 2007, we owned approximately 52% of the containers in our fleet, and managed the rest, equaling 743,178 TEU, on behalf of 12 container investors. We earn acquisition, management and disposal fees on managed containers. Our IT systems track revenues and operating expenses attributable to specific containers and the container investors receive payments based on the net operating income of their own containers. Fees to manage containers typically include acquisition fees of 1 to 2% of the purchase price; daily management fees of 8 to 13% of net operating income; and disposal fees of 10% of cash proceeds when containers are sold. We earned combined acquisition, management and disposal fees on our managed fleet of \$16,194, \$15,472 and \$17,942 for the years 2006, 2005 and 2004, respectively, and \$10,141 and \$6,574 for the six months ended June 30, 2007 and 2006, respectively. If operating expenses were to exceed revenues, the container investors would be obligated to pay the excess or we would deduct the excess, including our management fee, from future net operating income. In some cases, we are compensated for sales through a percentage sharing of sale proceeds over an agreed floor amount. We will typically indemnify the container investors for liabilities or losses arising from negligence, willful misconduct or breach of our obligations in managing the containers. The container investors will indemnify us as the manager against any claims or losses arising with respect to the containers, provided that such claims or losses were not caused by our negligence, willful misconduct or breach of our obligations. Typically, the terms of the management agreements are for the expected remaining useful life in marine services of the containers subject to the agreement.

### *Resale of Containers*

Our Resale Division sells containers from our fleet, at the end of their useful lives in marine service, typically about 12 years, or when it is financially attractive for us to do so, considering the location, sale price, cost of repair, and possible repositioning expenses. In addition, we buy used containers (trading containers) from shipping lines and other third parties that we then lease or resell. Our Resale Division has a global team of 16 container sales and operations specialists in five offices globally that manage the sale process for these used containers as of June 30, 2007. We believe our Resale Division is one of the two largest sellers of used containers among container lessors, selling more than 45,600 containers per year for the last five years. Our Resale Division has become a significant profit center for us. From 2002 through 2006, this division has generated \$16.2 million in income before taxes, including \$5.5 million in fiscal year 2006. We generally sell to depots, domestic storage companies, freight forwarders (who often use the containers for one-way trips into less developed countries) and other purchasers of used containers. Due to the limited number of containers available for sale in North America and Europe and high new container prices, the container disposal market is currently very strong.

### *Military*

In June 2003, we entered into a contract with the SDDC pursuant to which we serve as a major supplier of leased marine containers to the U.S. military. Compared to our shipping line customers, we provide a much broader level of services to the U.S. military under the SDDC contract. We have developed and currently operate a proprietary information system for the U.S. military which provides the U.S. military real-time access to the status of its leased fleet. Furthermore, unlike our shipping line customers, who pick up from and return containers

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to container depots, for the U.S. military we are required to arrange transportation from a container depot to a military facility upon lease out and to pick up a container at a military facility and return it to a container depot when the lease period has ended. This requires us to arrange for movement of the empty containers by truck, rail and/or vessel. The SDDC contract provides added compensation for these services. In addition, since approximately half of these services are required in non-U.S. locations, our expenses for contracting for these services may be incurred in foreign currencies. The SDDC contract contains a foreign currency adjustment feature such that we are protected against many foreign currency risks for the expenses incurred under the SDDC contract.

The SDDC is the only lessee for which we are required, under the SDDC contract, to provide all containers that they request. In the event that containers are not available within our fleet, we fulfill our obligations under the SDDC contract by purchasing new or used containers or subleasing containers and equipment from other leasing companies. This contract also allows the U.S. military to return containers in many locations throughout the world, but the rate of return of containers that we have experienced to date has been very low. Since the inception of the SDDC contract, we have delivered or transitioned more than 86,000 containers and chassis to the U.S. military, of which fewer than 18,200 containers have been returned. The SDDC contract was awarded with a one-year base period, with four one-year extension options, and with a potential for up to five additional one-year award terms, which award terms will be considered and awarded based on an annual performance review and confirmation. We have been informed that we have been awarded our fourth SDDC contract extension, at this stage extending the term until June 23, 2008. We also received an Excellent rating for our performance under the SDDC contract for 2006 (the last period reviewed), pursuant to the annual performance review required thereunder. If we continue to receive such high evaluations, the total contract period under the SDDC contract could extend for the full ten years.

The U.S. military informed us in August 2007 that 26,120 containers that they lease from us are unaccounted for. Of this total, 9,850 are owned containers, 12,094 are managed for third party owners and 4,176 are subleased. Per the terms of our contract with the U.S. military, they will pay a stipulated value for each of these containers. Due to the loss of these containers, future rental income from the U.S. military on these containers will cease, but we expect to record a gain on disposal of the owned portion of these unaccounted for containers during the quarterly period ended September 30, 2007.

### *Underwriting and Credit Controls*

We only lease to container shipping lines and other lessees that meet our credit criteria. Our credit approval process is rigorous and all of our underwriting and credit decisions are controlled by our credit committee, which is made up of senior management from different disciplines and includes our Chief Executive Officer, Chief Financial Officer and Executive Vice Presidents. Our credit committee sets different maximum exposure limits depending on our relationship and previous experience with each customer lessee and container sales customer. Credit criteria may include, but are not limited to, trade route, country, social and political climate, assessments of net worth, asset ownership, bank and trade credit references, credit bureau reports, operational history and financial strength.

Our credit department sets and reviews credit limits for new and existing customer lessees and container sales customers, monitors compliance with those limits on an on-going basis, monitors collections, and deals with customers in default. Our credit department actively maintains a credit watch report on our proprietary information technology systems, which is available to all regional and area offices. This report lists customer lessees and container sales customers at or near their credit limits. New leases of containers by customer lessees on the credit watch report would only be allowed with the approval of our credit department. Similarly, management may decide to stop sales of containers to purchasers whose payments are delinquent. Our underwriting processes are aided by the long payment experience we have with most of our customer lessees and container sales customers, our broad network of relationships in the container shipping industry that provide current information about customer lessees and container sales customers market reputations and our focus on collections.

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Other factors reducing losses due to default by a lessee or customer include the strong growth in the container shipping industry, effective collection tools, our high recovery rate for containers in default situations and the re-marketability of our container fleet. The strong growth in the container shipping industry helps reduce the risk of customer defaults since the core assets of a poorly performing shipping line, its ships and containers, are generally needed to meet the demand for world containerized trade. As a result, poorly performing shipping lines are often acquired by other shipping lines. In addition, the law in several major port locations is highly favorable to creditors and many of our large customers call on ports that will allow us to arrest, or seize, the customers' ships or fuel storage bunkers, or repossess our containers if the customer is in default under our container leases. Finally, we also purchase insurance for equipment recovery and loss of revenue due to customer defaults, in addition to the insurance that our customers are required to obtain.

During 2004 through 2006, we recovered, on average, approximately 98% of the containers that were the subject of defaulted contracts which had at least 1,000 CEU on lease. We typically incur operating expenses such as repairs and repositioning when containers are recovered after a default. However, all recovery expenses are typically covered under insurance and we are reimbursed above our deductible amount. Due to the above, over the last five years, our write offs of customer receivables have averaged less than 0.6% of our total operating revenue over such period, and we believe that our receivables and days outstanding are low for the container leasing industry.

## **Marketing and Customer Service**

Our global sales and customer service force is responsible for developing and maintaining relationships with senior management staff at our shipping line customers, negotiating lease contracts and maintaining day-to-day coordination with operations staff at our customers. This close customer communication often assists us in negotiating lease contracts that satisfy both our financial return requirements and our customers' operating needs. It also makes us more likely to be aware of our customers' potential equipment shortages and makes our customer more likely to be aware of our available container inventories.

Our senior sales people have been with us for an average of 15 years and we believe that the quality of our customer relationships and the level of communication with our customers represent an important advantage for us. As of June 30, 2007, our global sales and customer service group consisted of approximately 85 people, with 23 in North America, 39 in Asia and Australia, 18 in Europe and five in Africa.

## **Customers**

We believe that our staff, organization and long presence in the business has resulted in very strong relationships with our shipping line customers. Our top 25 customers, as measured by revenue, have leased containers from us for an average of over 21 years and have an average Dynamar credit rating, a common credit report used in the maritime sector, of 2.4. The Dynamar credit rating ranges from 1 to 10, with 1 indicating low credit risk. We have no customer that individually accounted for over 10% of our revenues in 2006, 2005 and 2004. Our top 25 customers include 20 of the 25 largest shipping lines, as measured by container vessel fleet size. We currently have containers on-hire to more than 300 customers. Our customers are mainly international shipping lines, but we also lease containers to freight forwarding companies and the U.S. military. Our five largest customers accounted for approximately 36% of our 2006 leasing revenues. Our top five customers by revenue in 2006 were Evergreen Marine Corp Ltd., the SDDC with the U.S. military, Hapag-Lloyd AG, A.P. Møller - MAERSK A/S, and CMA-CGM. Our largest customer is Evergreen, representing approximately 9% of our 2006 leasing revenues. For the fiscal years ended December 31, 2006, 2005 and 2004, revenue from our 25 largest container lessees by revenue represented 80.7%, 81.2% and 80.8% of total fleet container leasing revenue, respectively, with revenue from our single largest container lessee accounting for \$28.9 million, \$26.2 million and \$22.3 million or 9.0%, 8.8% and 7.6% of container leasing revenue during the respective periods. For the six months ended June 30, 2007 and 2006, revenue from our 25 largest container lessees by revenue represented 80.3% and 81.1% of total fleet container leasing revenue, respectively, with revenue from our single largest

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container lessee accounting for \$16.7 million and \$13.1 million or 9.3% and 9.4% of container leasing revenue during the respective periods. A default by any of these major customers could have a material adverse impact on our business, financial condition and future prospects. In addition, the largest lessees of our owned fleet are often among the largest lessees of our managed fleet. The largest lessees of our managed fleet are responsible for a significant portion of the billings that generate our management fee revenue.

## **Proprietary Information Technology**

We have developed proprietary IT systems that allow us to monitor container status and offer our customers a high level of service. Our systems include internet-based updates regarding container availability and booking status. Changes in container status are entered locally and replicated across the globe within 15 minutes. Our systems record the status of each of our containers individually by container number, provide design specifications for the equipment, track on-hire and off-hire transactions, match each on-hire container to a lease contract and each off-hire container to a depot contract, maintain the major terms for each lease contract, calculate depreciation, calculate the monthly bill for each customer and track and bill for container repairs. We also have the ability to produce complete management reports for each portfolio of equipment we own and manage. This makes us a preferred candidate to quickly assume management of competitors' container fleets. We also maintain proprietary systems in support of our military business.

In addition, our systems allow our business partners to conduct certain businesses with us through our website, *www.textainer.com*. These systems allow customers to check our container inventories, review design specifications, request bookings for container pick-ups and review and approve repair bills. Our website also allows depots to download recent statements for self-billing activity and to check the status of containers.

## **Suppliers**

We have long relationships with all of our major suppliers. We currently purchase all of our containers in the PRC. There are two major manufacturers of dry freight standard and specialized containers. Our operations staff reviews the designs for our containers and periodically audits the production facilities of our suppliers. In addition, we use our Asian operations group and third party inspectors to visit factories when our containers are being produced to provide an extra layer of quality control. Nevertheless, defects in our containers do sometimes occur. We work with the manufacturers to correct these defects, and our manufacturers have generally honored their warranty obligations in such cases.

## **Competition**

According to the latest available data, the top ten container leasing companies control approximately 88%, and the top five container leasing companies control approximately 65%, of the total equipment held by all container lessors. According to this data, we are the world's largest lessor of intermodal containers based on fleet size and we manage approximately 21% of the equipment held by all container leasing companies. The customers for leased containers are primarily international shipping lines.

We compete with approximately ten other large or medium size container leasing companies, many smaller lessors, companies and financial institutions offering finance leases, and promoters of container ownership and leasing as a tax-efficient investment. It is common for our shipping line customers to utilize several leasing companies to meet their container needs.

Other lessors compete with us in many ways, including pricing, lease flexibility and supply reliability, as well as the location, availability, quality and individual characteristics of their containers and customer service. While we are forced to compete aggressively on price, we emphasize our supply reliability and high level of customer service to our customers. We invest heavily in our endeavors to ensure container availability in higher demand locations. We dedicate a large part of our organization to building customer relationships, maintaining

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close day-to-day coordination with customers' operating staffs and have developed powerful and user-friendly systems that allow our customers to transact business with us through the internet. We believe that our close customer relationships, experienced staff, reputation for market leadership, scale efficiencies and proprietary systems provide important competitive advantages.

## **Properties and Facilities**

As of June 30, 2007, our employees were located in 14 regional and area offices in 13 different countries. We have two offices in the U.S., including our principal administrative office in San Francisco, California and another office in Hackensack, New Jersey. We have 12 offices outside the U.S. in New Malden, United Kingdom; Hamburg, Germany; Durban, South Africa; Yokohama, Japan; Seoul, South Korea; Taipei, Taiwan; Singapore; Sydney, Australia; Jakarta, Indonesia; Port Kelang, Malaysia; Hong Kong, and Shanghai, China. We lease all of our office space. The lease for our San Francisco office expires in February 2012 and the lease for our Hackensack, New Jersey office expires in April 2012. In addition, we have agents who represent us in India, Pakistan, Sri Lanka, Thailand, and Vietnam. We also maintain a registered office in Bermuda, where we are incorporated.

We believe that our current facilities are adequate to meet current requirements and that additional or substitute space will be available as needed to accommodate our expected growth.

## **Employees**

As of June 30, 2007, we employed 147 people. We believe that our relations with our employees are good and we are not a party to any collective bargaining agreements.

## **Legal Proceedings**

On April 18, 2005, Textainer Equipment Income Fund; Textainer Equipment Income Fund II, L.P.; Textainer Equipment Income Fund III, L.P.; Textainer Equipment Income Fund IV, L.P.; Textainer Equipment Income Fund V, L.P.; and Textainer Equipment Income Fund VI, L.P. (collectively, the TEIF Partnerships), sold substantially all of their assets to RFH, Ltd. (RFH). At the time of this sale transaction, RFH engaged Textainer Equipment Management Limited, one of the general partners in each of the TEIF Partnerships, to manage the containers RFH bought.

Five lawsuits were filed between March 2005 and March 2007 in California state and federal court, initiated by certain limited partners of the TEIF Partnerships. Those lawsuits have been reduced to one consolidated class action pending in the San Francisco Superior Court. The federal action that was filed in the Northern District of the United States District Court was dismissed and the dismissal was timely appealed to the Ninth Circuit.

In the federal case, plaintiff Stephen L. Craig sued Textainer Equipment Management, Ltd., Textainer Financial Services Corporation, Textainer Capital Corporation, Textainer Limited, Textainer Group Holdings, Ltd. John Maccarone and RFH, Ltd. asserting violations of federal securities laws because proxy statements issued in connection with the sale of assets were allegedly materially false or misleading. The lawsuit sought equitable relief and an unspecified amount of damages, interest, fees and costs. The federal action was dismissed with prejudice on January 10, 2007, and has since been appealed. No decision on the appeal is expected from the Ninth Circuit until next year.

An amended consolidated complaint was filed in the state action on June 7, 2007. The named plaintiffs in the consolidated state action are Leonard Labow, Alan P. Gordon, Michael S. Schwartz (as Trustee of various trusts) and Stephen L. Craig. Plaintiffs sued Textainer Financial Services Corporation, Textainer Equipment Management Limited, Textainer Limited, Textainer Capital Corporation and RFH, Ltd asserting claims for alleged breach of fiduciary duty, and alleged aiding and abetting breach of fiduciary duty. These claims are based

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on alleged self dealing and conflicted transactions in entering into the asset sale. The complaint seeks an unspecified amount of damages, equitable relief, interest, fees and costs. While it is not possible to predict or determine the outcome of these lawsuits, we believe that these lawsuits are without merit. We intend to vigorously defend against the lawsuits. In addition, we believe we have insurance coverage of up to \$15.0 million under our general insurance policy for these types of claims.

In addition, from time to time we are a party to litigation matters arising in connection with the normal course of our business. While we cannot predict the outcome of these matters, in the opinion of our management, any liability arising from these matters will not have a material adverse effect on our business. Nevertheless, unexpected adverse future events, such as an unforeseen development in our existing proceedings, new claims brought against us or changes in our current insurance arrangements could result in liabilities that have a material adverse impact on our business.

Two of our subsidiaries, Textainer Equipment Management U.S. Limited and Textainer Limited, are currently being audited by the U.S. Internal Revenue Service (the IRS). We first received notice from the IRS regarding the audit of Textainer Equipment Management U.S. Limited for the 2004 fiscal year on August 16, 2006 and first received notice regarding the audit of Textainer Limited for the 2004 and 2005 fiscal years on April 12, 2007. We are fully cooperating with the IRS regarding these audits. Currently, any potential additional tax liability due to these audits is not determinable.

## **Environmental**

We are subject to federal, state, local and foreign laws and regulations relating to the protection of the environment, including those governing the discharge of pollutants to air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. We could incur substantial costs, including cleanup costs, fines and third-party claims for property damage and personal injury, as a result of violations of or liabilities under environmental laws and regulations in connection with our or our lessees' current or historical operations or the storage of our containers. Under some environmental laws in the U.S. and certain other countries, the owner or operator of a leased container may be liable for environmental damage, cleanup or other costs in the event of a spill or discharge of material from a container without regard to the fault of the owner or operator. While we maintain certain limited liability insurance coverage as well as require our lessees to provide us with indemnity against certain losses, the insurance coverage is subject to large deductibles, limits on maximum coverage and significant exclusions and may not be sufficient to protect against any or all liabilities and such indemnities may not cover or be sufficient to protect us against losses arising from environmental damage and/or systems or services we may be required to install.

## **Regulation**

We may be subject to regulations promulgated in various countries, including the U.S., seeking to protect the integrity of international commerce and prevent the use of containers for international terrorism or other illicit activities. For example, the Container Security Initiative, the Customs-Trade Partnership Against Terrorism and Operation Safe Commerce are among the programs administered by the U.S. Department of Homeland Security that are designed to enhance security for cargo moving throughout the international transportation system by identifying existing vulnerabilities in the supply chain and developing improved methods for ensuring the security of containerized cargo entering and leaving the U.S. Moreover, the International Convention for Safe Containers, 1972, as amended, adopted by the International Maritime Organization, applies to new and existing containers and seeks to maintain a high level of safety of human life in the transport and handling of containers by providing uniform international safety regulations. As these regulations develop and change, we may incur increased compliance costs due to the acquisition of new, compliant containers and/or the adaptation of existing containers to meet any new requirements imposed by such regulations.

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**DESCRIPTION OF INDEBTEDNESS**

We currently utilize three types of debt financings: (i) issuance of bonds; (ii) borrowings under a revolving credit facility and (iii) borrowings under a secured debt facility. Our revolving credit facility is a bank revolving facility extended to one of our subsidiaries, Textainer Limited, with a commitment of \$75.0 million. Our secured debt facility is a conduit facility, which allows for recurring borrowings and repayments, granted to Textainer Marine Containers Limited, a subsidiary of Textainer Limited. Textainer Marine Containers Limited is also the issuer of our bonds.

We have typically funded a significant portion of the purchase price of new containers through borrowings under our revolving and secured debt facilities and intend to continue to do so in the future. Containers are purchased by Textainer Limited using proceeds from the revolving credit facility described below. Textainer Limited then sells these containers at book value to Textainer Marine Containers Limited, which then finances part of the purchase price of the containers with borrowings under our secured debt facility. In 2001 and again in 2005, at such time as the secured debt facility reached an appropriate size, the facility was refinanced through the issuance of bonds to institutional investors. We anticipate a similar refinancing at such time as the secured debt facility reaches a balance of between \$300.0 million and, if we are able to increase the commitment under the secured debt facility, \$500.0 million. This timing will depend on our level of future purchases of containers for our owned fleet.

**Credit Facility**

Textainer Limited has a credit agreement with Bank of America, N.A. and certain lenders to provide it with a revolving credit facility in the amount of \$75.0 million. The credit agreement also provides for a \$25.0 million letter of credit facility included within the \$75.0 million commitment (together, the credit facility). This credit facility provides for payments of interest only during its term, beginning on its inception date through January 31, 2009, with a provision for the credit facility to convert to a two-year fully amortizing term loan, payable after that date. There is a commitment fee of 0.25% on the unused portion of the credit facility, which is payable in arrears. In addition, there is an agent's fee on the commitment amount, which is payable quarterly in advance.

Under the terms of the credit facility, the total outstanding principal of all of our debt may not exceed an amount calculated pursuant to a formula based on a percentage of the net book value of our containers and our outstanding debt. Any outstanding letter of credit not cash collateralized will reduce the amount available under the credit facility. The credit facility maximum borrowing base was \$49.1 million as of June 30, 2007. Textainer Group Holdings Limited and Textainer Limited must also meet certain financial covenants, including a minimum net worth level, a maximum leverage ratio and minimum debt service and interest coverage ratios. Textainer Group Holdings Limited must maintain a minimum consolidated tangible net worth equal to the sum of (i) \$154.0 million, plus the amount by which such consolidated tangible net worth exceeds \$191.498 million, (ii) 40% of the cumulative consolidated quarterly net income after December 31, 2005 through the date of determination and (iii) 100% of the aggregate proceeds of any public offering (net of reasonable out-of-pocket fees and expenses). Textainer Group Holdings Limited and Textainer Limited each must not permit its ratio of consolidated funded debt to consolidated tangible net worth to exceed 3.50 to 1.00 and 5.00 to 1.00, respectively. Textainer Group Holdings Limited must maintain at least a 1.10 to 1.00 ratio of its (x) consolidated net income, minus dividends paid, plus intangibles depreciation and amortization, to (y) current obligations. Textainer Group Holdings Limited must maintain at least a 1.35 to 1.00 ratio of its (A) consolidated net income, plus expenses for income tax, plus interest expense for borrowed money, plus operating lease expense for equipment, to (B) interest expense for borrowed money, plus operating lease expense for equipment. We were in compliance with all such covenants at June 30, 2007.

Principal amortization payments will be made on a quarterly basis, beginning on the last day of the first calendar quarter after the conversion date, which is currently established as January 31, 2009, thus, principal amortization would begin on March 31, 2009. Interest on the borrowings under the credit facility may, at our



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option, be based on either the U.S. prime rate or LIBOR plus a margin. As of June 30, 2007, \$16.0 million was outstanding under the credit facility.

Although no repayment of the principal amount of outstanding borrowings is required until after the conversion date, we may make optional prepayments prior to the conversion date. Mandatory prepayments are required prior to the conversion date if the amount of outstanding loans and letters of credit exceeds the amount of the borrowing base. Any such prepayment will be in the amount required to reduce the amount of outstanding loans and letters of credit to the amount of the borrowing base.

The credit facility is secured by certain container-related assets of Textainer Limited. Textainer Group Holdings Limited acts as a guarantor of the credit facility. The guaranty is secured by shares of Textainer Marine Containers Limited, additional preference shares of Textainer Limited and certain of our other subsidiaries, and cash, assets readily convertible into cash and amounts due to us from our subsidiaries.

We have made certain representations and warranties in the credit agreement and are subject to certain reporting requirements and financial performance and other covenants. We are required to reaffirm certain representations and warranties as a condition to borrowing. If we are not able to do so, the committed borrowing amounts may not be available. The credit agreement restricts, among other things, our ability to consummate mergers, sell and acquire assets, make certain types of payments relating to our share capital, including dividends, incur indebtedness, permit liens on assets, make investments, enter into or amend certain contracts, enter into certain transactions with affiliates or redeem pledged shares in Textainer Marine Containers Limited.

Events of default under the credit agreement include, among others:

a default in required payment on any indebtedness in excess of \$250,000 (other than the credit facility) or the ability of any debt holder to accelerate any such indebtedness;

a material adverse change of the company;

unsatisfied judgments against us that could result in a material adverse change or that equal at least \$250,000;

failure of any of the security documents or a default under the guaranty;

breach by Textainer Limited under any hedging agreement; and

the occurrence of termination events under pension plans.

**Secured Debt Facility**

Textainer Marine Containers Limited has a securitization facility ( secured debt facility ) pursuant to which it has issued notes with a total commitment of \$300.0 million in Floating Rate Asset Backed Notes, Series 2000-1 ( 2000-1 Notes ) pursuant to the Second Amended and Restated Series 2000-1 Supplement, dated as of June 8, 2006 (the 2000-1 Supplement ), to its Second Amended and Restated Indenture, dated as of May 26, 2005 (as amended as of June 3, 2005 and June 8, 2006, the Indenture ). Our primary ongoing container financing requirements are funded by commitments under the secured debt facility. The secured debt facility provided a total commitment in the amount of \$300.0 million as of June 30, 2007. Of this amount, \$92.0 million had been drawn on as of June 30, 2007.

Prior to the conversion date (currently defined as June 6, 2008), each of the 2000-1 Notes is a revolving note with a maximum principal amount equal to the amount of that 2000-1 Note. As a result, the amount funded under such 2000-1 Note may be less than the face amount of that 2000-1 Note. Textainer Marine Containers Limited may request funding under the 2000-1 Notes from time to time prior to the conversion date. Each of the 2000-1 Notes provides for payments of interest only during the period from its inception until its conversion date. Given a conversion date of June 6, 2008, the first principal payment would be on July 15, 2008. However, we have the



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option of repaying principal of the 2000-1 Notes at any time. After the conversion date, the 2000-1 Notes fully amortize over a payment term that is scheduled to equal 10 years after the conversion date, but shall not exceed a maximum payment term of 15 years thereafter.

Payments of interest on the 2000-1 Notes are due monthly. Interest on the outstanding amounts of the 2000-1 Notes equal LIBOR plus a margin. Overdue payments of principal and interest of the 2000-1 Notes accrue interest at a rate of 2.0% above the interest rate ordinarily applicable to such amounts. There is a commitment fee on the unused portion of the commitments under the 2000-1 Notes, which is payable in arrears. Ultimate repayment of the principal of the 2000-1 Notes has been insured by Ambac Assurance Corporation.

Under the Indenture, Textainer Marine Containers Limited, Textainer Equipment Management Limited and Textainer Group Holdings Limited must maintain certain financial covenants, including a maximum EBIT ratio, maximum funded debt, minimum profits, minimum net worth, and maximum leverage ratio. Textainer Marine Containers Limited must maintain at least a 1.10 to 1.00 ratio of earnings (before interest expense and taxes ) to interest expense. Textainer Equipment Management Limited may not incur more than \$1,000,000 of consolidated funded debt. Textainer Equipment Management Limited must make at least \$2,000,000 in after-tax profits annually and maintain a minimum consolidated tangible net worth of \$5,000,000. Textainer Group Holdings Limited must maintain a ratio of consolidated funded debt to consolidated tangible net worth that is no greater than 4.00 to 1.00. We were in compliance with these requirements at June 30, 2007.

**Bonds**

Textainer Marine Containers Limited has also issued \$580.0 million in Floating Rate Asset Backed Notes, Series 2005-1 ( bonds ) pursuant to its Series 2005-1 Supplement, dated as of May 26, 2005, to the Indenture under that securitization facility. The bonds are term notes. The bonds were purchased by various institutional investors.

Payments of principal and interest on the bonds are due monthly, although we may not prepay the bonds before June 15, 2008. The bonds fully amortize on a straight-line basis over a payment term that is scheduled to equal 10 years (with a target final payment date of May 15, 2015), but shall not exceed a maximum payment term of 15 years (with a legal final payment date of May 15, 2020). Under a 10-year amortization schedule, \$58.0 million of principal of the bonds will amortize per year. The interest rate applicable to the bonds equals one-month LIBOR plus a margin. Overdue payments of principal and interest of the bonds accrue interest at a rate of 2.0% above the interest rate ordinarily applicable to such amounts. Ultimate repayment of the bonds has been insured by Ambac Assurance Corporation.

The secured debt facility and the bonds are both governed by the Indenture and are secured by a pledge of, among other things, our containers, certain contracts related to our containers and the securitization facility, certain bank accounts, proceeds from the operation of our containers, and all other assets of Textainer Marine Containers Limited to the extent that they relate to the containers. Under the terms of the secured debt facility and the bonds, the total outstanding principal of these two programs may not exceed an amount which is calculated by a formula based on Textainer Marine Containers Limited's book value of equipment, restricted cash and direct finance leases. The secured debt facility and the bonds also contain restrictive covenants regarding the average age of the securitization entity's container fleet, ability to incur other obligations and to distribute earnings, and overall asset base minimums, with which the securitization entity and our container management subsidiary were in compliance at June 30, 2007.

We have made certain representations and warranties and are subject to certain reporting requirements and other covenants in connection with the Indenture and the secured debt facility and bonds. In addition, we are required to reaffirm certain representations and warranties as a condition to borrowing. If we are not able to do so, the committed borrowing amounts may not be available. These covenants restrict, among other things,

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Textainer Marine Containers Limited's ability to transfer the collateral, permit liens on collateral, engage in activities within the U.S., incur indebtedness, make loans or guarantees, consummate mergers, sell assets, enter into or amend certain contracts, create subsidiaries and make investments. We were in compliance with all such covenants at June 30, 2007.

Events of default under the 2000-1 Notes and the bonds include, among others:

invalidity of the lien on collateral;

certain defaults under other documents related to each of the notes;

the funded notes exceeding the asset base;

payment on the notes by the insurer thereof;

Textainer Marine Containers Limited becoming obligated to register as an investment company under the Investment Company Act;  
and

the occurrence of certain ERISA events.

**Table of Contents****MANAGEMENT****Executive Officers, Directors and Key Employees**

The following table sets forth information regarding our executive officers and directors as of September 21, 2007. Our board of directors is elected annually and each director holds office until his successor has been duly elected, except in the event of his death, resignation, removal or earlier termination of his office. Our board of directors and shareholders have approved an amendment to our bye-laws, effective immediately prior to the completion of this offering, to provide for, among other things, the election of our board of directors on a staggered basis. The business address of each of our executive officers is c/o Textainer Equipment Management (U.S.) Limited, 650 California Street, 16th Floor, San Francisco, California 94108. The business address for each of our non-management directors is Century House, 16 Par-La-Ville Road, Hamilton HM HX, Bermuda.

Following the adoption of our restated bye-laws, our board of directors will be elected annually on a staggered basis, with each director holding office until his successor has been duly elected, except in the event of his death, resignation, removal or earlier termination of his office. Neil I. Jowell, Cecil Jowell, David M. Nurek and Hendrik R. van der Merwe will be designated Class III directors, to hold office until our 2008 annual general meeting of shareholders, James A. Owens, Isam K. Kabbani and James E. McQueen will be designated Class II directors, to hold office until our 2009 annual general meeting of shareholders, and John A. Maccarone, Dudley R. Cottingham, Hyman Shwiel and James E. Hoelter will be designated Class I directors, to hold office until our 2010 annual general meeting of shareholders. Thereafter, directors in each class shall be elected for three year terms. Directors may be re-elected when their term of office expires.

Trencor, through the Halco Trust and Halco, holds beneficiary interest in approximately 71.7% of our outstanding share capital. See

Business History and Corporate Structure for an explanation of the relationship between us and Trencor. As indicated below, six of our directors are also directors of Trencor.

<b>Executive Officers and Directors</b>	<b>Age</b>	<b>Position</b>
Neil I. Jowell(1)(2)(3)(4)	74	Chairman
Dudley R. Cottingham(1)(2)(3)(5)	55	Director, Vice President, Secretary
James E. Hoelter(1)(2)(3)(4)	68	Director
Cecil Jowell(4)	72	Director
Isam K. Kabbani	72	Director
John A. Maccarone	62	Director, President and Chief Executive Officer
James E. McQueen(1)(4)	63	Director
David M. Nurek(2)(3)(4)	57	Director
James A. Owens	67	Director
Hyman Shwiel(1)(2)(3)	63	Director
Hendrik R. van der Merwe(4)	60	Director, First Vice President
Philip K. Brewer	50	Executive Vice President
Robert D. Pedersen	48	Executive Vice President
Ernest J. Furtado	51	First Vice President, Senior Vice President, Chief Financial Officer & Assistant Secretary

(1) Member of the audit committee. Messrs. Cottingham and Shwiel are voting members and Messrs. Hoelter, Neil Jowell and McQueen are non-voting members.

(2) Member of the compensation committee.

(3) Member of the nominating and governance committee.

(4) Director of Trencor, the indirect beneficiary of a majority of our share interest.

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- (5) Mr. Cottingham has tendered his resignation from all officer and employee positions (excluding, for the avoidance of doubt, the position of director) with us and our subsidiaries, effective upon the listing of our shares on the NYSE, in order to serve on our audit committee as an independent director.

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Certain biographical information about each of these individuals is set forth below.

*Directors*

**Dudley R. Cottingham** has been a member of our board of directors and our assistant secretary or secretary since December 1993. He has also served in the past as president of certain of our subsidiaries. Mr. Cottingham has over 30 years experience in public accounting for a variety of international and local clients. He is a director of Morris Cottingham Corporate Services, located in the Turks and Caicos Islands, and is a director and the audit committee chairman of Bermuda Press (Holdings) Ltd., a newspaper publishing and commercial printing company listed on the Bermuda Stock Exchange. He has been a partner with Arthur Morris and Company, a provider of audit and accounting services for international clients, since 1982, and has served as vice president and director of Continental Management Ltd., a Bermuda company providing corporate representation, administration and management services, since 1982 and Continental Trust Corporation Ltd., a Bermuda company that provides corporate and individual trust administration services, since 1994. Mr. Cottingham is a chartered accountant.

**James E. Hoelter** has been a member of our board of directors since December 1993 and was our president and chief executive officer from that time until his retirement in December 1998. Mr. Hoelter is a non-executive member of the board of directors of Tencor and a member of Tencor's audit committee. He is the president of Freightmasters Associates, Inc., a company that provides consulting services for the international freight carrying industry. He is also a member of the board of directors of TrenStar, Inc., a mobile equipment management company based in Denver, Colorado and a subsidiary of Tencor. Mr. Hoelter received a Bachelor of Business Administration degree from the University of Wisconsin and a M.B.A. from the Harvard Business School.

**Cecil Jowell** has been a member of our board of directors since March 2003. Mr. C. Jowell is also a director and chairman of Mobile Industries, a public company quoted on the JSE. Mr. C. Jowell has been a director of Mobile Industries since 1969 and was appointed chairman in 1973. Mobile Industries holds an approximately 46% interest in Tencor. Mr. C. Jowell is a non-executive director of Tencor and was an executive of Tencor for over 40 years. He has also served as a director and chairman of WACO International Ltd., an international industrial group listed on the JSE. Mr. C. Jowell holds a Bachelor of Commerce and LL.B. degrees from the University of Cape Town and is a graduate of the Institute of Transport.

**Neil I. Jowell** has served as our director and chairman since December 1993. Mr. N. Jowell also serves on the board of directors of Tencor. He has been a director of Tencor since 1966, and was appointed chairman in 1973. He is also a director of Mobile Industries, and has served on its board of directors since 1969. Mr. N. Jowell has over 50 years experience in the transportation industry. He holds an M.B.A. from Columbia University and Bachelor of Commerce and LL.B. degrees from the University of Cape Town. Mr. Neil I. Jowell and Mr. Cecil Jowell are brothers.

**Isam K. Kabbani** has been a member of our board of directors since December 1993. Mr. Kabbani is the chairman and principal stockholder of the IKK Group, Jeddah, Saudi Arabia, a manufacturing and trading group active both in Saudi Arabia and internationally. In 1959, Mr. Kabbani joined the Saudi Arabian Ministry of Foreign Affairs, and in 1960 moved to the Ministry of Petroleum for a period of ten years. During this time he was seconded to the Organization of Petroleum Exporting Countries ( OPEC ). After a period as Chief Economist of OPEC, in 1967 he became the Saudi Arabian member of OPEC's Board of Governors. In 1970, he left the Ministry of Petroleum to establish his own business, the National Marketing Group, which has since been his principal business activity. Mr. Kabbani holds a B.A. from Swarthmore College and a M.A. in Economics and International Relations from Columbia University.

**John A. Maccarone** has served as our president and chief executive officer since January 1999, and has been a member of our board of directors since December 1993. Mr. Maccarone is a member of the board of directors of the Institute of International Container Lessors, a trade association for the container and chassis

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leasing industry, and served as its chairman from January 2006 to December 2006. Mr. Maccarone co-founded Intermodal Equipment Associates, a marine container leasing company based in San Francisco, and held a variety of executive positions with the company from 1979 until 1987, when he joined the Textainer Group as president and chief executive officer of Textainer Equipment Management Limited, now a subsidiary of our company. From 1977 through 1978, Mr. Maccarone was director of marketing based in Hong Kong for Trans Ocean Leasing Corporation, a San Francisco-based company. From 1969 to 1976, Mr. Maccarone was a marketing representative for IBM Corporation in Chicago, Illinois. From 1966 to 1968, he served as a Lieutenant in the U.S. Army Corps of Engineers in Thailand and Virginia. Mr. Maccarone holds a B.S. in Engineering Management from Boston University and a M.B.A. from Loyola University of Chicago.

**James E. McQueen** has been a member of our board of directors since March 2003. Mr. McQueen joined Trenchor in June 1976 and has served as financial director of Trenchor since April 1984. Mr. McQueen is also a director of a number of Trenchor's subsidiaries. Prior to joining Trenchor, Mr. McQueen was an accountant in public practice. Mr. McQueen received a Bachelor of Commerce and a Certificate in the Theory of Accounting from the University of Cape Town and is a Chartered Accountant (South Africa).

**David M. Nurek** has been a member of our board of directors since September 2007. Mr. Nurek was appointed as an alternate director of Trenchor in November 1992 and as a non-executive member of its board of directors in July 1995 and is chairman of Trenchor's remuneration and nomination committees and a member of its audit committee. Mr. Nurek is an executive of Investec Bank Limited, a subsidiary of Investec Limited which is quoted on the Johannesburg Stock Exchange. Investec Limited has entered into a dual listed company structure with Investec plc, which is quoted on the London Stock Exchange (collectively, the Investec Group). He is the regional chairman of Investec Limited's various businesses in the Western Cape, South Africa, and is also the Investec Group's worldwide head of legal risk. Prior to joining Investec Limited in June 2000, Mr. Nurek served as chairman of the South African legal firm Sonnenberg Hoffman & Galombik, which has since changed its name to Edward Nathan Sonnenbergs Inc. Mr. Nurek serves as a non-executive on the boards of directors of various listed and unlisted companies in South Africa and holds a Diploma in Law and a Graduate Diploma in Company Law from the University of Cape Town, and completed a Program of Instruction for Lawyers at Harvard Law School and a Leadership in Professional Services Firms program at Harvard Business School.

**James A. C. Owens** has served as a member of our board of directors since May 1998. Mr. Owens has served as an insurance broker and director of Foreign Business Indemnity Ltd. since 1988. He has also served as a senior consultant to Heath Lambert Group since November 2006. Mr. Owens has been associated with us (or our predecessor companies and affiliates) since 1980, and for a time represented one of our predecessor companies as a director of the IICL. He has for many years been, and continues to be, actively involved in insurance brokerage companies and captive insurance companies. He is a member of a number of boards of directors of non-U.S. companies, including Ferrosure (Isle of Man) Insurance Company Limited, a captive insurance subsidiary of a large international public company. Mr. Owens holds a Bachelor of Commerce degree from the University of South Africa.

**Hyman Shwiel** has been a member of our board of directors since September 2007. Mr. Shwiel was a partner in Ernst & Young LLP for 25 years. He served during that period in various roles, including Area Managing Partner and as National Director of Enterprise and Professional Risk. Upon his retirement in 2005, he became a consultant to Ernst & Young until 2007. Mr. Shwiel holds a C.T.A. and an M.B.A. from the University of Cape Town and is a Chartered Accountant (South Africa) and a CPA.

**Hendrik Roux van der Merwe** has been a member of our board of directors since March 2003. He is managing director of Trenchor and a director of TrenStar, Inc. Mr. van der Merwe joined Trenchor in 1997 and began serving as a director of Trenchor in 1998. From 1991 to 1998, Mr. van der Merwe served as deputy chairman for Waco International Ltd., an international industrial group listed on the JSE with subsidiaries listed on the Sydney and London Stock Exchanges. From 1984 to 1991, he held various senior executive positions in the banking sector in South Africa, lastly as chief executive officer of Senbank, the corporate/merchant banking



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arm of Bankorp Group Ltd. Prior to entering the business world, Mr. van der Merwe practiced as an attorney at law in Johannesburg, South Africa. Mr. van der Merwe holds Bachelor of Arts and L.L.B degrees in Law from the University of Stellenbosch in South Africa, and a Master of Law in Tax Law from the University of the Witwatersrand in South Africa.

### *Executive Officers*

For certain biographical information about Dudley R. Cottingham and John A. Maccarone, see **Directors** above. Mr. Cottingham has tendered his resignation from all officer and employee positions (excluding, for the avoidance of doubt, the position of director) with us and our subsidiaries, effective upon the listing of our shares on the NYSE, in order to serve on our audit committee as an independent director.

**Philip K. Brewer** has served as our executive vice president since January 2006. He is responsible for managing our capital structure and identifying new sources of finance for our company, as well as overseeing the management and coordinating the activities of our risk management, military and logistics, and resale divisions. Mr. Brewer is also a director and treasurer for the National Portable Storage Association, a trade association for companies that rent, sell or lease portable storage containers. Mr. Brewer was senior vice president of our asset management group from 1999 to 2005 and senior vice president of our capital markets group from 1996 to 1998. Prior to joining our company in 1996, Mr. Brewer worked at Bankers Trust starting in 1990 as a vice president and ending as a managing director and president of its Indonesian subsidiary. From 1989 to 1990, he was vice president in corporate finance at Jardine Fleming, a company based in Indonesia. From 1987 to 1989, he was capital markets advisor to the United States Agency for International Development in Indonesia. From 1984 to 1987, he was an associate with Drexel Burnham Lambert, an investment banking firm. Mr. Brewer holds a B.A. in Economics and Political Science from Colgate University and a M.B.A. in Finance from Columbia University.

**Ernest J. Furtado** has served as our first vice president, senior vice president, chief financial officer and assistant secretary since May 2007, and was our first vice president, senior vice president, chief financial officer and secretary from 1999 to May 2007. Prior to joining our company in 1991, Mr. Furtado was controller for Itel Instant Space, a container leasing company based in San Francisco, California, and manager of accounting for Itel Containers International Corporation, a container leasing company based in San Francisco, California. Mr. Furtado is a Certified Public Accountant and holds a B.S. in Business Administration from the University of California at Berkeley and a M.B.A. in Information Systems from Golden Gate University.

**Robert D. Pedersen** has served as our executive vice president responsible for worldwide sales and marketing related activities and operations since January 2006. Mr. Pedersen was senior vice president of our leasing group from 1999 to 2005. From 1991 to 1999, Mr. Pedersen held several positions within our company, and from 1978 through 1991, he worked in various capacities for Klinge Cool, a manufacturer of refrigerated container cooling units, XTRA, a container lessor, and Maersk Line, a container shipping line. Mr. Pedersen is a graduate of the A.P. Moller Shipping and Transportation Program and the Merkonom Business School in Copenhagen, where he majored in Company Organization.

### **Board of Directors**

Our board of directors currently consists of eleven members. Our bye-laws provide that our board of directors shall consist of from five to twelve directors, as the board of directors may determine from time to time.

Mr. Maccarone, Mr. Hoelter and Halco are currently parties to a shareholder agreement governing the election of Mr. Maccarone and Mr. Hoelter to the board of directors and granting certain rights to the parties, including rights of first refusal to Halco to purchase the shares beneficially owned by Mr. Maccarone and Mr. Hoelter, and certain co-sale rights and obligations. This shareholder agreement will be terminated upon the completion of this offering.

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### **Corporate Governance Practices**

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 NYSE's 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. 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, a majority of our 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.

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 2007 Share Incentive Plan. However, our compensation committee is not comprised solely of independent directors. The members of our compensation committee are Messrs. Cottingham, Hoelter, Neil Jowell, Nurek and Shwiel. Mr. Hoelter provides consulting services to us, for which he receives payment in addition to the fees he receives as a member of our board of directors. Messrs. Neil Jowell and Nurek are directors of Tencor. Our board of directors has adopted a compensation committee charter, to be effective immediately prior to the effectiveness of this offering.

In accordance with NYSE rules, we have formed an audit committee responsible for advising the board regarding the selection of independent auditors and evaluating our internal controls. Our audit committee need not have three members and the members need not comply with the NYSE's standards of independence for domestic issuers. Our audit committee has five members, Messrs. Shwiel, Cottingham, Neil Jowell, McQueen and Hoelter. Messrs. Shwiel and Cottingham are voting members of the committee and either are or will be independent as that term is defined in Rule 10A-3 under the Exchange Act upon the listing of our shares with the NYSE. The other three members are representatives of Tencor and have no voting rights. Our board of directors has adopted an audit committee charter, to be effective immediately prior to the effectiveness of this offering.

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 board of directors has adopted a nominating and governance committee charter, to be effective immediately prior to the effectiveness of this offering.

Under Bermuda law, we are not required to obtain shareholder consent prior to issuing securities or adopting share compensation plans. However, we sought and received the approval of our shareholders for our 2007 Share Incentive Plan on September 4, 2007. 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. However, we have adopted both corporate governance guidelines and a code of business conduct, in each case, to be effective immediately prior to the effectiveness of this offering.

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As a foreign private issuer, we are not required to solicit proxies or provide proxy statements to the NYSE, and we do not expect to provide proxy statements to the NYSE.

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### **Executive Officer and Director Compensation**

The aggregate direct compensation we paid to our executive officers as a group (four persons) for the year ended December 31, 2006 was approximately \$3.1 million, which included approximately \$1.6 million in bonuses and approximately \$18,000 in funds set aside or accrued to provide for life insurance, retirement, or similar benefits. This amount does not include expenses we incurred for other payments, including dues for professional and business associations, business travel and other expenses. We did not pay our officers who also serve as directors any separate compensation for their directorship during 2006, other than reimbursements for travel expenses.

All of our full-time employees, including employees of our direct and indirect subsidiaries and dedicated agents and our executive officers, were eligible to participate in our 2006 Short Term Incentive Plan. Under that plan, all eligible employees received an incentive award based on their respective job classification and our return on equity. In 2006, each of our executive officers received greater than 200% of his target incentive award. For fiscal year 2007, all of our full-time employees, including employees of our direct and indirect subsidiaries and dedicated agents and our executive officers, will be eligible to participate in our 2007 Short Term Incentive Plan. Under that plan, all eligible employees are expected to receive a cash incentive award based upon their respective job classification and our return on equity.

The aggregate direct compensation we paid to our directors who are not officers for their services as directors as a group for the year ended December 31, 2006 was approximately \$214,000, including \$96,000 paid to Halco as a management fee and consulting fees paid to certain of our directors. Some directors were also reimbursed for expenses incurred in order to attend board or committee meetings.

### **Employment and Consulting Agreements with Executive Officers and Directors**

We have entered into employment agreements with all of our executive officers. Each of these employment agreements contains provisions requiring us to make certain severance payments in case the executive officer is terminated without cause. The agreements terminate upon termination of employment. Employment is at-will for each of our executive officers and they may be terminated at any time for any reason.

Our subsidiary, Textainer Equipment Management Limited, had previously entered into an employment agreement with Dudley R. Cottingham, one of our directors, in connection with his position as president of that subsidiary. Mr. Cottingham has tendered his resignation from all officer and employee positions (excluding, for the avoidance of doubt, the position of director) with us and our subsidiaries, effective upon the listing of our shares on the NYSE.

We have entered into a management agreement with Halco, our majority shareholder, for provision of management services in connection with certain directors acting as representatives of Halco. In addition, in the past we have entered into consulting arrangements with Mr. Hoelter, one of our directors. Other than as disclosed above, none of our directors has service contracts with us or any of our subsidiaries providing for benefits upon termination of employment.

### **Indemnification Agreements**

We have entered into, or expect to enter into prior to the closing of this offering, separate indemnification agreements with our directors and senior management 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 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.

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### **2007 Share Incentive Plan**

Our board of directors adopted the 2007 Share Incentive Plan on August 9, 2007, and our shareholders approved the 2007 Share Incentive Plan on September 4, 2007. The maximum number of common shares of Textainer Group Holdings Limited that may be granted pursuant to the 2007 Share Incentive Plan will be 8% of the number of common shares issued and outstanding forty-five (45) days following this offering, but in no event will the maximum aggregate number of common shares exceed four million shares (and of these four million shares, as many as four million may be available for grants as incentive stock options), subject to adjustments for share splits, share dividends or other similar changes in our common shares or our capital structure. The shares to be issued pursuant to awards under the 2007 Share Incentive Plan may be authorized, but unissued, or reacquired common shares. As of October 5, 2007, we have not granted any awards and therefore the maximum number of common shares under the 2007 Share Incentive Plan remains available for future grant.

The 2007 Share Incentive Plan provides for the grant of share options, restricted shares, restricted share units, share appreciation rights and dividend equivalent rights, collectively referred to as awards. Share options granted under the 2007 Share Incentive Plan may be either incentive share options under the provisions of Section 422 of the Code, or non-qualified share options. We may grant incentive share options only to our employees or employees of any parent or subsidiary of Textainer Group Holdings Limited. Awards other than incentive share options may be granted to our employees, directors and consultants or the employees, directors and consultants of any parent or subsidiary of Textainer Group Holdings Limited.

Our board of directors or a committee designated by our board of directors, referred to as the plan administrator, will administer the 2007 Share Incentive Plan, including selecting the award recipients, determining the number of shares to be subject to each award, determining the exercise or purchase price of each award and determining the vesting and exercise periods of each award. Awards under the plan may vest upon the passage of time or upon the attainment of certain performance criteria. The performance criteria established by the plan administrator may be based on any one of, or combination of, the following: (i) increase in share price, (ii) earnings per share, (iii) total shareholder return, (iv) operating margin, (v) gross margin, (vi) return on equity, (vii) return on assets, (viii) return on investment, (ix) operating income, (x) net operating income, (xi) pre-tax profit, (xii) cash flow, (xiii) revenue, (xiv) expenses, (xv) earnings before interest, taxes and depreciation, (xvi) economic value added and (xvii) market share.

The exercise price of all share options granted under the 2007 Share Incentive Plan will be at least equal to 100% of the fair market value of our common shares on the date of grant. If, however, incentive share options are granted to an employee who owns shares possessing more than 10% of the voting power of all classes of our common shares or the shares of any parent or subsidiary, the exercise price of any incentive share option granted must equal at least 110% of the fair market value on the grant date and the maximum term of these incentive share options must not exceed five years. The maximum term of all other awards under the 2007 Share Incentive Plan will be ten years. The base appreciation amount of any share appreciation right and the exercise price or purchase price, if any, of any awards intended to be performance-based compensation (within the meaning of Section 162(m) of the Code) will be at least equal to 100% of the fair market value of our common shares on the date of grant. The plan administrator will determine the term and exercise or purchase price of any other awards granted under the 2007 Share Incentive Plan.

Under the 2007 Share Incentive Plan, incentive share options may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised during the lifetime of the participant only by the participant. Other awards shall be transferable by will or by the laws of descent or distribution and to the extent provided in the award agreement. The 2007 Share Incentive Plan permits the designation of beneficiaries by holders of awards, including incentive share options.

In the event a participant in the 2007 Share Incentive Plan terminates employment or is terminated by us (or by our parent or subsidiary) without cause, any options which have become exercisable prior to the time of

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termination will remain exercisable for three months from the date of termination (unless a shorter or longer period of time is determined by the plan administrator). In the event a participant in the 2007 Share Incentive Plan is terminated by us (or by our parent or subsidiary) for cause, any options which have become exercisable prior to the time of termination will immediately terminate. If termination was caused by death or disability, any options which have become exercisable prior to the time of termination, will remain exercisable for twelve months from the date of termination (unless a shorter or longer period of time is determined by the plan administrator). Unless an individual award agreement otherwise provides, all vesting of all other awards will generally terminate upon the date of termination.

Following the date that the exemption from application of Section 162(m) of the Code ceases to apply, the maximum number of common shares with respect to which options and share appreciation rights may be granted to a participant in any calendar year will be two million common shares. In connection with a participant's commencement of service with us, a participant may be granted options and share appreciation rights for up to an additional two million common shares that will not count against the foregoing limitation. In addition and also following the date that the exemption from application of Section 162(m) of the Code ceases to apply, for awards of restricted shares and restricted share units that are intended to be performance-based compensation (within the meaning of Section 162(m)), the maximum number of common shares with respect to which such awards may be granted to a participant in any calendar year will be two million common shares.

Subject to any required action by our shareholders, the number of common shares covered by outstanding awards, the number of common shares that have been authorized for issuance under the 2007 Share Incentive Plan, the exercise or purchase price of each outstanding award, the maximum number of common shares that may be granted subject to awards to a participant in any calendar year, and the like, shall be proportionally adjusted by the plan administrator in the event of any increase or decrease in the number of issued common shares resulting from certain changes in our capital structure as described in the 2007 Share Incentive Plan.

In the event of a corporate transaction or a change in control of Textainer Group Holdings Limited, all outstanding awards under the 2007 Share Incentive Plan will terminate unless the acquirer assumes or replaces such awards. In addition and except as otherwise provided in an individual award agreement, assumed or replaced awards will automatically become fully vested if a participant is terminated by the acquirer without cause within twelve months after a corporate transaction. In the event of a corporate transaction where the acquirer does not assume or replace awards granted under the 2007 Share Incentive Plan, all of these awards become fully vested immediately prior to the consummation of the corporate transaction. In the event of a change in control and except as otherwise provided in an individual award agreement, outstanding awards will automatically become fully vested if a participant is terminated by the acquirer without cause within twelve months after such change in control.

Under the 2007 Share Incentive Plan, a corporate transaction is generally defined as:

acquisition of 50% or more of the common shares by any individual or entity including by tender offer;

a reverse merger or amalgamation in which 40% or more of the common shares by an individual or entity is acquired;

a sale, transfer or other disposition of all or substantially all of the assets of Textainer Group Holdings Limited;

a merger, amalgamation or consolidation in which Textainer Group Holdings Limited is not the surviving entity; or

a complete liquidation or dissolution.

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Under the 2007 Share Incentive Plan, a change in control is generally defined as:

acquisition of 50% or more of the common shares by any individual or entity which a majority of our board of directors (who have served on the board for at least 12 months) do not recommend that our shareholders accept, or

a change in the composition of the board of directors as a result of contested elections over a period of 12 months or less. Unless terminated sooner, the 2007 Share Incentive Plan will automatically terminate in 2017. The board of directors will have authority to amend or terminate the 2007 Share Incentive Plan. To the extent necessary to comply with applicable provisions of federal securities laws, state corporate and securities laws, the Code, the rules of any applicable stock exchange or national market system, and the rules of any non-U.S. jurisdiction applicable to awards granted to residents therein, we will obtain shareholder approval of any such amendment to the 2007 Share Incentive Plan in such a manner and to such a degree as required.

### **2008 Bonus Plan**

On September 21, 2007, our board of directors approved the Textainer Group Holdings Limited 2008 Bonus Plan (the Bonus Plan). The Bonus Plan provides for incentive payments to our employees and those of our affiliates, including our dedicated agents and key executives who may be affected by Section 162(m) of the Internal Revenue Code of 1986, as amended (Code). Although the Bonus Plan permits the awards to be paid in shares, we expect that the awards will be cash-based. The Bonus Plan is designed to provide incentive awards based on the achievement of goals relating to our performance and the performance of our individual business units, and to qualify certain components of compensation paid to certain of our key executives for the tax deductibility exception under Code Section 162(m) while maintaining a degree of flexibility in the amount of incentive compensation paid to such individuals. Under the Bonus Plan, performance goals may relate to one or more of the following measures, for the company as a whole, a line of business, service or product: increase in share price, earnings per share, total shareholder return, operating margin, gross margin, return on equity, return on assets, return on investment, operating income, net operating income, pre-tax income, cash flow, revenue, expenses, earnings before interest, taxes and depreciation, economic value added, market share, corporate overhead costs, liquidity management, net interest income, net interest income margin, return on capital invested, shareholders' equity, income (before income tax expense), residual earnings after reduction for certain compensation expenses, net income, profitability of an identifiable business unit or product, or performance relative to a peer group of companies on any of the foregoing measures. The Bonus Plan replaces our 2007 Short Term Incentive Plan for the fiscal year beginning in 2008.

Code Section 162(m) generally disallows a Federal income tax deduction to any publicly held corporation for non-performance based compensation paid in excess of \$1,000,000 in any taxable year to the chief executive officer or any of the four other most highly compensated executive officers employed on the last day of the taxable year. We intend to structure awards under the Bonus Plan so that compensation resulting therefrom would be qualified performance based compensation eligible for continued deductibility. The Bonus Plan will be administered by a committee to be appointed by our board of directors, which will select the employees who will be eligible to receive awards, the target pay-out level and the performance targets. The maximum performance award payable to any individual for any performance period is \$2,000,000. Each performance period will be a period of three years or less, as determined by the committee. The committee may establish programs under the Bonus Plan permitting select participants to defer receipt of awards.

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**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, we have in the past, and we expect to continue to, extend loans to our employees in connection with their acquisition of our shares in accordance with our various employees' share schemes. As of August 31, 2007, approximately \$641,000 was outstanding on such loans to employees. Since January 1, 2004, the largest amount outstanding under any loans to executive officers was \$679,600. Since January 1, 2006, we provided loans of \$56,200 to each of Mr. Brewer and Mr. Furtado on each of March 13, 2006 and March 13, 2007 in connection with this program. Since January 1, 2006, Mr. Brewer has owed us up to \$453,069 (on March 23, 2006). Mr. Brewer paid off his entire remaining loan balance on July 16, 2007. Since January 1, 2006, Mr. Furtado has owed us up to \$155,200 (on March 23, 2006). Mr. Furtado paid off his entire remaining loan balance on March 23, 2007. Currently there are no loans outstanding to our directors or executive officers, and we will not 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. The interest rate on these loans to executive officers were calculated annually on or about March 1 of each year at a rate equal to 0.5% per annum above our effective interest rate before tax, which is currently set at 5.7%.

**Indemnification of Officers and Directors**

We have entered into, or expect to enter into prior to the closing of this offering, 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 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.

**Shareholder Agreement**

There is currently a Shareholder Agreement in effect between Mr. Maccarone, Mr. Hoelter and Halco governing the election of Mr. Maccarone and Mr. Hoelter to the board of directors and granting certain rights to the parties, including rights of first refusal to Halco to purchase the shares beneficially owned by Mr. Maccarone and Mr. Hoelter, and certain co-sale rights and obligations. The Shareholder Agreement will be terminated upon the completion of this offering.

**Agreements with IKK Group**

Textainer Equipment Management Limited has entered into a management agreement with IKK Foundation, related to Textainer Equipment Management Limited's management of containers owned by IKK Foundation. Director Isam Kabbani is the beneficial owner of IKK Foundation. In 2006, we managed approximately 10,700 TEU for IKK Foundation and received approximately \$221,000 in management fees.



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### **Insurance Services**

Through October 2006, director James Owens provided insurance consulting, advisory and brokerage services to us in his capacity as an employee and director of Foreign Business Indemnity Limited ( FBIL ), an entity effectively wholly owned by Mr. Owens' wife. In October 2006, Heath Lambert Limited purchased a portfolio of insurance broker client accounts from FBIL, which included FBIL's account with us. Following the sale of accounts to Heath Lambert, FBIL entered into a consultancy agreement with Heath Lambert, which provides that Mr. Owens will supply consultancy services to Heath Lambert with respect to such accounts, including services related to our account. Future payments to FBIL under the terms of its agreements with Heath Lambert could be based in part on fees received by Heath Lambert from us. In addition, FBIL continues to provide direct brokerage services to Trenchor with respect to its directors' and officers' insurance, which includes coverage for our directors and officers. We have obtained our own separate directors' and officers' insurance and are no longer covered by Trenchor's policy. FBIL received approximately \$155,000 from us for insurance-related services during fiscal year 2006.

### **Relationships and Agreements with Entities Related to Trenchor Limited**

Halco is wholly owned by Halco Trust, a discretionary trust with an independent trustee. Trenchor and certain of Trenchor's subsidiaries are the sole discretionary beneficiaries of Halco Trust. The protectors of the trust are Neil I. Jowell, Cecil Jowell, and James McQueen, all of whom are members of our board of directors and the board of directors of Trenchor. In addition, two of our directors, Cecil Jowell and James McQueen, are also members of the board of directors of Halco. For the year ended December 31, 2006, we paid approximately \$96,000 to Halco as a management fee for the services of the directors who are representatives of Halco.

We have entered into an agreement with LAPCO, an associate of Halco, 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 2006, we received approximately \$4.5 million in management fees, \$752,000 in sales commissions and \$268,000 in acquisition fees from LAPCO. Fees received under the LAPCO agreement accounted for 11.4% of total combined container management and container resale segment revenue and 2.4% of total revenue. LAPCO is free to compete against us with respect to its investment in containers and uses our competitors to manage some of its containers.

On November 28, 2006, Trenchor Containers (Proprietary) Limited, a subsidiary of Trenchor, Textainer Limited and Textainer Equipment Management Limited entered into a letter agreement related to a settlement with a third party and the sale of a South African container manufacturing plant. This third party owed money to Trenchor and had alleged certain claims against Textainer Limited and Textainer Equipment Management Limited. Pursuant to this letter agreement, the third party agreed to return the plant to Trenchor in lieu of its liabilities and Textainer Limited and Textainer Equipment Management Limited agreed to cover Trenchor's possible losses upon the sale of the plant, if any, up to a limitation of \$750,000, in settlement of the alleged third party claims against them. If the proceeds from the sale of the plant were to exceed \$3.3 million, Trenchor on the one hand, and Textainer Limited and Textainer Equipment Management Limited on the other hand would share equally in the proceeds in excess of that amount. On August 23, 2007, Trenchor entered into a sale agreement with a third party to sell the plant for a total of \$4.8 million, payable in several installments subject to certain conditions being satisfied. Upon the satisfaction of such conditions and the receipt of funds, we will reverse our previously recorded \$750,000 reserve related to this matter and recognize our share of the profits from the sale. We are not a party to the sale agreement.

Halco has indicated to the underwriters its interest in acquiring 2,100,000 common shares in this offering at the initial offering price. These shares will not be purchased unless the offering to the public is consummated. Halco is not under any obligation to purchase any shares in this offering and its interest in purchasing shares in this offering is not a commitment to do so. These shares, if purchased, will be subject to the 180-day lock-up agreement that Halco signed with the representatives of the underwriters in connection with this offering. The

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underwriters are not entitled to any discount or commission on these shares. After taking into account this offering, including the full exercise of the over-allotment option by the underwriters, and assuming that Halco purchases 2,100,000 common shares in this offering, based upon beneficial ownership of our issued and outstanding common shares as of October 5, 2007, Halco and Trecor will collectively beneficially own approximately 60.8% of our issued and outstanding common shares. The common shares that are purchased by Halco in this offering will not be freely tradable in the public market due to Halco's status as our affiliate, as such term is defined in Rule 144 under the Securities Act, and due to certain contractual restrictions contained in its lock-up agreement with the underwriters. See Shares Eligible for Future Sale for further details on these trading restrictions.

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The following table presents information regarding the beneficial ownership of our shares prior to and immediately after the completion of this offering by:

each person or entity that we know beneficially owns or will beneficially own, after the completion of this offering, more than 5% of our issued and outstanding shares;

each director, director nominee and executive officer; and

all of our directors, director nominees and executive officers as a group.

Beneficial ownership of shares is determined in accordance with the rules of the SEC and generally includes any shares over which a person exercises sole or shared voting or investment power. The percentage of beneficial ownership of our shares owned prior to this offering is based on 38,604,640 common shares issued and outstanding on October 5, 2007. The percentage of beneficial ownership of our shares immediately after the completion of this offering is based on 48,954,640 shares that will be outstanding after taking into account this offering, including the full exercise of the over-allotment option by the underwriters.

Holders	Shares Beneficially		Shares Beneficially	
	Owned Prior		Owned After	
	to this Offering Shares	%	this Offering Shares	%
<b>5% Shareholders</b>				
Halco Holdings Inc.(1)	27,678,802	71.7%	29,778,802	60.8%(2)
Trencor Limited(1)	27,678,802	71.7%	29,778,802	60.8%(2)
<b>Directors and Executive Officers</b>				
Dudley R. Cottingham		*		*
James E. Hoelter(3)	29,756,548	77.1%	31,856,548	65.1%(2)
Cecil Jowell(4)	28,275,758	73.2%	30,375,758	62.0%(2)
Neil I. Jowell(5)	28,275,758	73.2%	30,375,758	62.0%(2)
Isam K. Kabbani(6)	799,500	2.0%	799,500	1.6%
John A. Maccarone(7)	2,076,746	5.4%	2,076,746	4.2%
James E. McQueen(8)	27,678,802	71.7%	29,778,802	60.8%(2)
David M. Nurek		*		*
Hendrik van der Merwe(9)	27,678,802	71.7%	29,778,802	60.8%(2)
James A. C. Owens		*		*
Hyman Shwiel		*		*
Ernest J. Furtado(10)	260,000	*	260,000	*
Philip K. Brewer(11)	280,000	*	280,000	*
Robert D. Pedersen	280,000	*	280,000	*
Current directors and executive officers (14 persons) as a group	34,049,750	88.2%	36,149,750	73.8%(2)

\* Less than 1%.

- (1) Includes 27,678,802 shares held by Halco. Halco is wholly owned by Halco Trust, a discretionary trust with an independent trustee. Trencor and certain of Trencor's subsidiaries are the sole discretionary beneficiaries of Halco Trust. The protectors of the trust are Mr. Neil Jowell, the chairman of both our board of directors and the board of directors of Trencor, and Mr. Cecil Jowell and Mr. McQueen, both

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members of our board of directors and the board of directors of Tencor. Approximately 7.6 million shares have been pledged as security in connection with the bank debt of LAPCO, an entity associated with Halco.

- (2) Includes 2,100,000 common shares which we expect to be sold to Halco. These shares will not be purchased by Halco unless the offering to the public is consummated. Halco is not under any obligation to purchase

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any shares in this offering and its interest in purchasing shares in this offering is not a commitment to do so. These shares, if purchased, will be subject to the 180 day lock-up agreement that Halco signed with the representatives of the underwriters in connection with this offering. The underwriters are not entitled to any discount or commission on these shares.

- (3) Includes 27,678,802 shares held by Halco, 113,844 shares held by the James E. Hoelter & Virginia S. Hoelter Trust, 1,086,156 shares held by the JEH-VSH Limited Partnership #1, and 877,746 shares held by the JEH-VSH Limited Partnership #2. The general partners of each of the partnerships are James and Virginia Hoelter. Mr. Hoelter is a director of Trecor. Mr. Hoelter disclaims beneficial ownership, except to the extent of his pecuniary interest therein, if any, of the shares held by Halco.
- (4) Includes 596,956 held by EA Finance, a company owned by a trust in which members of Mr. Cecil Jowell's family are discretionary beneficiaries, and 27,678,802 shares held by Halco. Mr. Cecil Jowell is one of our directors, a director of Halco, a protector of the Halco Trust and a member of the board of directors of Trecor. In addition, Mr. Cecil Jowell has a significant ownership interest in Trecor both directly and indirectly, including indirectly through interests in Mobile Industries, which owns approximately 46% of Trecor. Mr. Cecil Jowell is also the chairman of Mobile Industries. Mr. Cecil Jowell disclaims beneficial ownership, except to the extent of his pecuniary interest therein, if any, of the shares held by EA Finance and Halco.
- (5) Includes 596,956 held by EA Finance, a company owned by a trust in which members of Mr. Neil Jowell's family are discretionary beneficiaries, and 27,678,802 shares held by Halco. Mr. Neil Jowell is one of our directors, a protector of the Halco Trust and a member of the board of directors of Trecor. In addition, Mr. Neil Jowell has a significant ownership interest in Trecor both directly and indirectly, including indirectly through interests in Mobile Industries, which owned approximately 46% of Trecor as of December 31, 2006. Mr. Neil Jowell is also a director of Mobile Industries. Mr. Neil Jowell disclaims beneficial ownership, except to the extent of his pecuniary interest therein, if any, of the shares held by EA Finance and Halco.
- (6) All shares are held by IKK Foundation, an affiliate of Mr. Kabbani.
- (7) Includes 2,055,316 shares held by the Maccarone Family Partnership L.P. and 21,430 shares held by the Maccarone Revocable Trust.
- (8) All shares are held by Halco. Mr. McQueen is one of our directors, a director of Halco, a protector of the Halco Trust and a member of the board of directors of Trecor. Mr. McQueen disclaims beneficial ownership, except to the extent of his pecuniary interest therein, if any, of the shares held by Halco.
- (9) All shares are held by Halco. Mr. van der Merwe is one of our directors and a member of the board of directors of Trecor. Mr. van der Merwe disclaims beneficial ownership, except to the extent of his pecuniary interest therein, if any, of the shares held by Halco.
- (10) All shares held by Ernest James Furtado and Barbara Ann Pelletreau, Trustees of the Furtado-Pelletreau 2003 Revocable Living Trust UDT dated November 28, 2003.
- (11) All shares are held by the Brewer-Sillan Family Trust.

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### **DESCRIPTION OF SHARE CAPITAL**

*The following description of our share capital summarizes certain provisions of our memorandum of association and our bye-laws that will become effective as of the closing of this offering. Such summaries do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all of the provisions of our memorandum of association and bye-laws, copies of which have been filed as exhibits to the registration statement of which this prospectus forms a part. Prospective investors are urged to read the exhibits for a complete understanding of our memorandum of association and bye-laws.*

#### **General**

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. Our registered office is located at 16 Par-La-Ville Road, Hamilton HM HX Bermuda.

#### **Share Capital**

As of the date of this prospectus, our authorized share capital consists of 140,000,000 common shares, par value US \$0.01 per share, and 10,000,000 preference shares, par value US \$0.01 per share. As of the date of this prospectus, there are 38,604,640 common shares and no preference shares issued and outstanding. As of June 30, 2007, 6,230,132 common shares and no preference shares were held in the U.S. by 23 shareholders. After giving effect to the sale of common shares in this offering, we will have a total of 47,604,640 common shares issued and outstanding. As of June 30, 2007, except for 530,000 shares that were issued pursuant to exercises of options whereby we loaned our employees the exercise price, all of our issued and outstanding shares issued prior to completion of this offering are fully paid. All of our common shares to be issued in this offering will be issued fully paid.

Pursuant to our bye-laws, subject to the requirements of the NYSE and to any resolution of the shareholders to the contrary, our board of directors is authorized to issue any of our authorized but unissued shares. There are no limitations on the right of non-Bermudians or non-residents of Bermuda to hold or vote our shares.

#### *Common Shares*

Holders of common shares have no pre-emptive, redemption, conversion or sinking fund rights. Holders of common shares are entitled to one vote per share on all matters submitted to a vote of holders of common shares. Unless a different majority is required by law or by our bye-laws, resolutions to be approved by holders of common shares require approval by a simple majority of votes cast at a meeting at which a quorum is present.

In the event of our liquidation, dissolution or winding up, the holders of common shares are entitled to share equally and ratably in our assets, if any, remaining after the payment of all of our debts and liabilities, subject to any liquidation preference on any issued and outstanding preference shares.

#### *Preference Shares*

Pursuant to the Companies Act and our bye-laws, our board of directors by resolution may establish one or more series of preference shares having such number of shares, designations, dividend rates, relative voting rights, conversion or exchange rights, redemption rights, liquidation rights and other relative participation, optional or other special rights, qualifications, limitations or restrictions as may be fixed by the board of directors without any further shareholder approval. Such rights, preferences, powers and limitations as may be established could have the effect of discouraging an attempt to obtain control of us.

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### **Dividend Rights**

Under the Companies Act, a company may not declare or pay dividends if there are reasonable grounds for believing either that the company is, or would after the payment be, unable to pay its liabilities as they become due or that the realizable value of its assets would thereby be less than the sum of its liabilities and issued share capital (par value) and share premium accounts (share premium being the amount of consideration paid for the subscription of shares in excess of the par value of those shares). Our credit facility contains restrictions on the payment of dividends. We will not be allowed to pay dividends if we are in default under (or such payment would cause a default under) our revolving credit facility, 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 (i) a minimum net worth level (which level would decrease by the amount of any dividend paid), (ii) a maximum ratio of consolidated funded debt to consolidated tangible net worth (which amount would decrease by the amount of any dividend paid) and (iii) a minimum ratio of certain income (which amount would decrease by the amount of any dividend paid) to current obligations. Please see Description of Indebtedness Credit Facility for a description of these covenants. There are no restrictions on our ability to transfer funds (other than funds denominated in Bermuda dollars) in and out of Bermuda or to pay dividends to U.S. residents who are holders of our common shares.

### **Modification of Shareholder Rights**

If at any time we have more than one class of shares, the rights attaching to any class, unless otherwise provided for by the terms of issue of the relevant class, may be varied by us either: (i) with the consent in writing of the holders of 75% of the issued shares of that class; or (ii) with the sanction of a resolution passed by a majority of the votes cast at a general meeting of the relevant class of shareholders at which a quorum consisting of at least two persons holding or representing one-third of the issued shares of the relevant class is present. Our bye-laws specify that the creation or issue of shares ranking equally with existing shares will not, unless expressly provided by the terms of issue of existing shares, vary the rights attached to existing shares. In addition, the creation or issue of preference shares ranking prior to common shares will not be deemed to vary the rights attached to common shares or, subject to the terms of any other series of preference, to vary the rights attached to any other series of preference shares.

### **Transfer of Shares**

Our board of directors may in its absolute discretion, and without assigning any reason, refuse to register the transfer of a share that is not fully paid. Our board of directors may also refuse to recognize an instrument of transfer of a share unless it is accompanied by the relevant share certificate and such other evidence of the transferor's right to make the transfer as our board of directors shall reasonably require. Subject to these restrictions, a holder of common shares may transfer the title to all or any of his common shares by completing a form of transfer in the form set out in our bye-laws (or as near thereto as circumstances admit) or in such other common form as the board of directors may accept. The instrument of transfer must be signed by the transferor and transferee, although in the case of a fully paid share our board of directors may accept the instrument signed only by the transferor.

### **Meetings of Shareholders**

Our bye-laws and Bermuda law provide that any resolution required or permitted to be passed by our shareholders must be passed at an annual or special general meeting of our shareholders or by the written consent of our shareholders. A written resolution is passed when it is signed by shareholders who at the date the notice of such written resolution is given represent such majority of votes as would be required if the resolution was voted on at a shareholders' meeting at which all shareholders entitled to attend and vote thereat were present and voting. Under Bermuda law, a company is required to convene at least one general meeting of shareholders each calendar year. Bermuda law provides that a special general meeting of shareholders may be called by the board of directors of a company and must be called upon the request of shareholders holding not less than 10% of the

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paid-up capital of the company carrying the right to vote at general meetings. Bermuda law also requires that shareholders be given at least five days advance notice of a general meeting, but the accidental omission to give notice to any person does not invalidate the proceedings at a meeting. Our bye-laws provide that our board of directors, the president or the chairman (if any) may convene an annual general meeting or a special general meeting. Under our bye-laws, at least 5 days notice of an annual general meeting or a special general meeting must be given to each shareholder entitled to vote at such meeting. This notice requirement is subject to the ability to hold such meetings on shorter notice if such notice is agreed: (i) in the case of an annual general meeting by all of the shareholders entitled to attend and vote at such meeting; or (ii) in the case of a special general meeting by a majority in number of the shareholders entitled to attend and vote at the meeting holding not less than 95% in nominal value of the shares entitled to vote at such meeting. The quorum required for a general meeting of shareholders is two or more persons present in person at the start of the meeting and representing in person or by proxy in excess of 50% of our issued and outstanding voting shares.

## **Access to Books and Records and Dissemination of Information**

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda. These documents include the company's memorandum of association, including its objects and powers, and certain alterations to its memorandum of association. The shareholders have the additional right to inspect the bye-laws of the company, minutes of general meetings of shareholders and the company's audited financial statements, which must be presented at the annual general meeting. The register of members of a company is also open to inspection by shareholders and by members of the general public without charge. The register of members is required to be open for inspection for not less than two hours in any business day (subject to the ability of a company to close the register of shareholders for not more than thirty days in a year). A company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. A company is required to keep at its registered office a register of directors and officers that is open for inspection for not less than two hours in any business day by members of the public without charge. Bermuda law does not, however, provide a general right for shareholders to inspect or obtain copies of any other corporate records.

## **Election and Removal of Directors**

Any shareholder wishing to propose for election as a director someone who is not an existing director or is not proposed by our board of directors must give notice of the intention to propose the person for election. Where a person is to be proposed for election as a director at an annual general meeting by a shareholder, that notice must be given not less than 90 days nor more than 120 days before the anniversary of the last annual general meeting prior to the giving of the notice or, in the event the annual general meeting is called for a date that is not 30 days before or after such anniversary, the notice must be given not later than ten days following the earlier of the date on which notice of the annual general meeting was posted to shareholders or the date on which public disclosure of the date of the annual general meeting was made. Where a director is to be elected at a special general meeting, that notice must be given not later than 10 days following the earlier of the date on which notice of the special general meeting was posted to members or the date on which public disclosure of the special general meeting was made.

A director may be removed (i) for cause by the affirmative vote of the holders of a majority of the votes cast at a meeting, or (ii) without cause upon the affirmative vote of 66% of the shares then issued and outstanding and entitled to vote on the resolution; in each case provided that notice of the shareholders meeting convened to remove the director is given to the director. The notice must contain a statement of the intention to remove the director and must be served on the director not less than 14 days before the meeting. The director is entitled to attend the meeting and be heard on the motion for his removal.



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### **Proceedings of Board of Directors**

Our bye-laws provide that our business is to be managed and conducted by our board of directors. Bermuda law requires that our directors be individuals, but there is no requirement in our bye-laws or Bermuda law that directors hold any of our shares.

The remuneration of our directors is determined by our board, and there is no requirement that a specified number or percentage of independent directors must approve any such determination. Our directors may also be paid all travel, hotel and other expenses properly incurred by them in connection with our business or their duties as directors.

Provided a director discloses a direct or indirect interest in any contract or arrangement with us as required by Bermuda law, such director is entitled to vote in respect of any such contract or arrangement in which he or she is interested unless he or she is disqualified from voting by the chairman of the relevant board meeting. Under Bermuda law, a director (including the spouse or children of the director or any company of which such director, spouse or children own or control more than 20% of the capital or loan debt) cannot borrow from us, (except loans made to directors who are bona fide employees or former employees pursuant to an employees' share scheme), unless shareholders holding 90% of the total voting rights have consented to the loan.

### **Waiver of Claims by Shareholders; Indemnification of Directors and Officers**

Section 98 of the Companies Act provides generally that a Bermuda company may indemnify its directors, officers and auditors against any liability which by virtue of any rule or law would otherwise be imposed on them in respect of any negligence, default, breach of duty or breach of trust, except in cases where such liability arises from fraud or dishonesty of which such director, officer or auditor may be guilty in relation to the company. Section 98 further provides that a Bermuda company may indemnify its directors, officers and auditors against any liability incurred by them in defending any proceedings, whether civil or criminal, in which judgment is awarded in their favor or in which they are acquitted or granted relief by the Supreme Court of Bermuda pursuant to section 281 of the Companies Act.

We have adopted provisions in our bye-laws that provide that we shall indemnify our officers and directors in respect of their actions and omissions, except in respect of their fraud or dishonesty. Our bye-laws provide that the shareholders waive all claims or rights of action that they might have, individually or on behalf of the company, against any of the company's directors or officers for any act or failure to act in the performance of such director's or officer's duties, except in respect of any fraud or dishonesty of such director or officer. Section 98A of the Companies Act permits us to purchase and maintain insurance for the benefit of any officer or director in respect of any loss or liability attaching to him in respect of any negligence, default, breach of duty or breach of trust, whether or not we may otherwise indemnify such officer or director. We have purchased and maintain a directors' and officers' liability policy for such a purpose.

We have entered into, or expect to enter into prior to the closing of this offering, separate indemnification agreements with our directors and senior management 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 their immediate family members, against liabilities that may arise by reason of the 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.

### **Amendment of Memorandum of Association and Bye-Laws**

Bermuda law provides that the memorandum of association of a company may be amended by a resolution passed at a general meeting of shareholders. Our bye-laws provide that no bye-law shall be rescinded, altered or amended, and no new bye-law shall be made, unless it shall have been approved by a resolution of our board of

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directors, including the affirmative vote of not less than 66% of the directors then in office, and by a resolution of the shareholders, including the affirmative vote of not less than 66% of the shares issued and outstanding.

Under Bermuda law, the holders of an aggregate of not less than 20% in par value of a company's issued share capital, or any class thereof, have the right to apply to the Supreme Court of Bermuda for an annulment of any amendment of the memorandum of association adopted by shareholders at any general meeting, other than an amendment which alters or reduces a company's share capital as provided in the Companies Act. Where such an application is made, the amendment becomes effective only to the extent that it is confirmed by the Bermuda court. An application for an annulment of an amendment of the memorandum of association must be made within twenty-one days after the date on which the resolution altering the company's memorandum of association is passed and may be made on behalf of persons entitled to make the application by one or more of their number as they may appoint in writing for the purpose. No application may be made by shareholders voting in favor of the amendment.

## **Amalgamations and Business Combinations**

The amalgamation of a Bermuda company with another company or corporation (other than certain affiliated companies) requires the amalgamation agreement to be approved by the company's board of directors and by its shareholders.

Unless the company's bye-laws provide otherwise, the approval of 75% of the shareholders voting at such meeting is required to approve the amalgamation agreement, and the quorum for such meeting must be two persons holding or representing more than one-third of the issued shares of the company. Our bye-laws provide that a merger or an amalgamation (other than with a wholly owned subsidiary or as described below) that has been approved by the board must only be approved by a majority of the votes cast at a general meeting of the shareholders at which the quorum shall be two or more persons present in person and representing in person or by proxy in excess of 50% of all issued and outstanding common voting shares. Any merger or amalgamation or other business combination (as defined in our bye-laws) not approved by our board must be approved by the holders or not less than 66% of our issued and outstanding voting shares.

Under Bermuda law, in the event of an amalgamation of a Bermuda company with another company or corporation, a shareholder of the Bermuda company who did not vote in favor of the amalgamation and who is not satisfied that fair value has been offered for such shareholder's shares may, within one month of notice of the shareholders meeting, apply to the Supreme Court of Bermuda to appraise the fair value of those shares.

Our bye-laws also contain provisions regarding business combinations with interested shareholders. Pursuant to our bye-laws, in addition to any other approval that may be required by applicable law, any business combination with an interested shareholder within a period of three years after the date of the transaction in which the person became an interested shareholder must be approved by our board and authorized at an annual or special general meeting by the affirmative vote of at least 66% of our issued and outstanding voting shares that are not owned by the interested shareholder, unless: (i) prior to the time that the shareholder becoming an interested shareholder, our board of directors approved either the business combination or the transaction that resulted in the shareholder becoming an interested shareholder; or (ii) upon consummation of the transaction that resulted in the shareholder becoming an interested shareholder, the interested shareholder owned at least 85% of our issued and outstanding voting shares at the time the transaction commenced. For purposes of these provisions, business combinations include mergers, amalgamations, consolidations and certain sales, leases, exchanges, mortgages, pledges, transfers and other dispositions of assets, issuances and transfers of shares and other transactions resulting in a financial benefit to an interested shareholder. An interested shareholder is a person that beneficially owns 15% or more of our issued and outstanding voting shares and any person affiliated or associated with us that owned 15% or more of our issued and outstanding voting shares at any time three years prior to the relevant time.

## **Shareholder Suits**

Class actions and derivative actions are generally not available to shareholders under Bermuda law. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the

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name of a company to remedy a wrong to the company where the act complained of is alleged to be beyond the corporate power of the company or illegal, or would result in the violation of the company's memorandum of association or bye-laws. Furthermore, consideration would be given by a Bermuda court to acts that are alleged to constitute a fraud against the minority shareholders or for instance, where an act requires the approval of a greater percentage of the company's shareholders than that which actually approved it.

When the affairs of a company are being conducted in a manner which is oppressive or prejudicial to the interests of some part of the shareholders, one or more shareholders may apply to the Supreme Court of Bermuda, which may make such order as it sees fit, including an order regulating the conduct of the company's affairs in the future or ordering the purchase of the shares of any shareholders by other shareholders or by the company.

Our bye-laws contain a provision by virtue of which our shareholders waive any claim or right of action that they have, both individually and on our behalf, against any director or officer in relation to any action or failure to take any action by such director or officer, except in respect of any fraud or dishonesty of such director or officer. However, the operation of this provision as a waiver of the right to sue for violations of federal securities laws may not be enforceable in U.S. courts.

## **Capitalization of Profits and Reserves**

Pursuant to our bye-laws, our board of directors may (i) capitalize any part of the amount of our share premium or other reserve accounts or any amount credited to our profit and loss account or otherwise available for distribution by applying such sum in paying up unissued shares to be allotted as fully paid bonus shares pro-rata (except in connection with the conversion of shares) to the shareholders; or (ii) capitalize any sum standing to the credit of a reserve account or sums otherwise available for dividend or distribution by paying up in full partly paid or nil paid shares of those shareholders who would have been entitled to such sums if they were distributed by way of dividend or distribution.

## **Untraced Shareholders**

Our bye-laws provide that our board of directors may treat as forfeited any dividend or other monies payable in respect of any shares that remain unclaimed for five (5) years from the date when such monies became due for payment. In addition, we are entitled to cease sending dividend warrants and checks by mail or otherwise to a shareholder if such instruments have been returned undelivered to, or left uncashed by, such shareholder on at least two consecutive occasions or, following one such occasion, reasonable inquiries have failed to establish the shareholder's new address. This entitlement ceases if the shareholder claims a dividend or cashes a dividend warrant or check.

## **Compulsory Acquisition of Shares Held by Minority Holders**

An acquiring party is generally able to acquire compulsorily the common shares of minority holders in the following ways:

(1) By a procedure under the Companies Act known as a "scheme of arrangement". A scheme of arrangement could be effected by obtaining the agreement of the company and of holders of common shares, representing in the aggregate a majority in number and at least 75% in value of the common shareholders present and voting at a court ordered meeting held to consider the scheme or arrangement. The scheme of arrangement must then be sanctioned by the Bermuda Supreme Court. If a scheme of arrangement receives all necessary agreements and sanctions, upon the filing of the court order with the Registrar of Companies in Bermuda, all holders of common shares could be compelled to sell their shares under the terms of the scheme of arrangement.

(2) If the acquiring party is a company, it may compulsorily acquire all the shares of the target company, by acquiring pursuant to a tender offer 90% of the shares or class of shares not already owned by, or by a nominee for, the acquiring party (the offeror), or any of its subsidiaries. If an offeror has, within four months after the

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making of any offer for all the shares or class of shares not owned by, or by a nominee for, the offeror, or any of its subsidiaries, obtained the approval of the holders of 90% or more of all the shares to which the offer relates, the offeror may, at any time within two months beginning with the date on which the approval was obtained, require by notice any nontendering shareholder to transfer its shares on the same terms as the original offer. In those circumstances, nontendering shareholders will be compelled to sell their shares unless the Supreme Court of Bermuda (on application made within a one-month period from the date of the offeror's notice of its intention to acquire such shares) orders otherwise.

(3) Where one or more parties holds not less than 95% of the shares of a class of shares of a company, such holder(s) may, pursuant to a notice given to the remaining shareholders or class of shareholders, acquire the shares of such remaining shareholders or class of shareholders. When this notice is given, the acquiring party is entitled and bound to acquire the shares of the remaining shareholders on the terms set out in the notice, unless a remaining shareholder, within one month of receiving such notice, applies to the Supreme Court of Bermuda for an appraisal of the value of their shares. This provision only applies where the acquiring party offers the same terms to all holders of shares whose shares are being acquired.

### **Certain Provisions of Bermuda Law**

We have been designated by the Bermuda Monetary Authority as a non-resident for Bermuda exchange control purposes. This designation allows us to engage in transactions in currencies other than the Bermuda dollar, and there are no restrictions on our ability to transfer funds (other than funds denominated in Bermuda dollars) in and out of Bermuda or to pay dividends to U.S. residents who are holders of our common shares.

The Bermuda Monetary Authority has given its consent for the issue and free transferability of all of the common shares that are the subject of this offering to and between non-residents of Bermuda for exchange control purposes, provided our shares are and remain listed on an appointed stock exchange, which includes the NYSE. Approvals or permissions given by the Bermuda Monetary Authority do not constitute a guarantee by the Bermuda Monetary Authority as to our performance or our creditworthiness. Accordingly, in giving such consent or permissions, the Bermuda Monetary Authority shall not be liable for the financial soundness, performance or default of our business or for the correctness of any opinions or statements expressed in this prospectus. Certain issues and transfers of common shares involving persons deemed resident in Bermuda for exchange control purposes require the specific consent of the Bermuda Monetary Authority.

This prospectus will be filed with the Registrar of Companies in Bermuda pursuant to Part III of the Companies Act. In accepting this prospectus for filing, the Registrar of Companies in Bermuda shall not be liable for the financial soundness, performance or default of our business or for the correctness of any opinions or statements expressed in this prospectus.

In accordance with Bermuda law, share certificates are only issued in the names of companies, partnerships or individuals. In the case of a shareholder acting in a special capacity (for example as a trustee), certificates may, at the request of the shareholder, record the capacity in which the shareholder is acting. Notwithstanding such recording of any special capacity, we are not bound to investigate or see to the execution of any such trust. We will take no notice of any trust applicable to any of our shares, whether or not we have been notified of such trust.

### **Transfer Agent and Registrar**

A register of holders of the common shares will be maintained by Continental Management Limited in Bermuda and a branch register will be maintained in the United States by Computershare Limited. The transfer agent and branch registrar for our common shares is Computershare Limited, P.O. Box 219045, Kansas City, Missouri 64121-9045.

### **NYSE Listing**

Our application to have the common shares listed on the NYSE under the symbol **TGH** has been approved.

**Table of Contents****SHARES ELIGIBLE FOR FUTURE SALE**

Immediately prior to this offering, there has been no public market for our common shares. We cannot predict the effect, if any, that market sales of our common shares by us or by our existing shareholders or the availability of our common shares for sale will have on the market price prevailing from time to time. As we describe below, only a limited number of shares will be available for sale shortly after this offering due to contractual and legal restrictions on resale. Nevertheless, sales of our common shares in the public market after the restrictions lapse, or the perception that those sales may occur, could cause the prevailing market price to decrease or to be lower than it might be in the absence of those sales or perceptions. Furthermore, since only a limited number of shares will be available for sale shortly after this offering because of contractual and legal restrictions on resale described below, sales of substantial amounts of common shares in the public market after the restrictions lapse could adversely affect the prevailing market price for our common shares as well as our ability to raise equity capital in the future.

Upon the closing of this offering, we will have 47,604,640 common shares issued and outstanding. The common shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act. However, if shares are purchased by our affiliates, as that term is defined in Rule 144 under the Securities Act, including any shares that may be sold to Halco in this offering, their sales of our common shares will not be freely tradable and will be subject to volume limitations and other restrictions that are described below.

Other than shares to be sold in this offering, the other common shares issued and outstanding upon completion of this offering were issued and sold in reliance on exemptions from the registration requirements of the Securities Act or in transactions outside of the U.S. and not subject to the Securities Act. These securities may be sold in the public market only if they are registered under the Securities Act, or if they qualify for an exemption from registration under Section 4(1) of the Securities Act or Rule 144 thereunder. These rules are summarized below.

Our common shares issued and outstanding upon closing of this offering will be eligible for sale into the public market as follows:

Approximate Number of Shares	Description
6,900,000	After the date of this prospectus, freely tradable shares sold in this offering (after taking into account the 2,100,000 common shares which we expect to be sold to Halco in this offering).
40,704,640	After the expiration of the lock-up period, which will extend for at least 180 days from the date of this prospectus, except as otherwise discussed below, these additional common shares will be saleable, subject, in some cases, to holding periods and volume limitations. However, these shares that are subject to holding periods and volume limitations may be sold earlier if the holders exercise any available registration rights.

**Regulation S**

Shares offered and sold outside the U.S. without registration under the Securities Act may be resold into the U.S. or to a U.S. person under Section 4(1) of the Securities Act if the holder is not an affiliate of ours or an underwriter or dealer in securities.

**Rule 144**

In general, under Rule 144 under the Securities Act currently in effect, beginning 90 days after the date of this prospectus, a person who is an affiliate of Textainer or has purchased restricted securities and has

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beneficially owned those common shares for at least one year, would be entitled to sell, within any three-month period, a number of shares that does not exceed the greater of:

1% of the number of common shares then issued and outstanding, which will equal approximately 489,546 shares immediately after this offering; or

the average weekly trading volume of our common shares on the NYSE during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

### **Rule 144(k)**

Under Rule 144(k) under the Securities Act as in effect on the date of this prospectus, a person who is not deemed to have been one of our affiliates at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, including the holding period of any prior owner other than an affiliate, is entitled to sell the shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. No common shares will qualify for resale under Rule 144(k) within 180 days of the date of this prospectus.

### **Rule 701**

Rule 701 under the Securities Act, as in effect on the date of this prospectus, permits resales of shares in reliance upon Rule 144 but without compliance with certain restrictions of Rule 144, including the holding period requirement. Most of our employees, executive officers, directors or consultants who purchased shares under a written compensatory plan or contract may be entitled to rely on the resale provisions of Rule 701, but all holders of Rule 701 shares are required to wait until 90 days after the date of this prospectus before selling their shares. However, substantially all Rule 701 shares are subject to lock-up agreements as described below and under "Underwriting" and will become eligible for sale at the expiration of those agreements.

### **Share Incentives**

Following completion of this offering, we intend to file a registration statement on Form S-8 under the Securities Act to register the common shares issued or issuable under our 2007 Share Incentive Plan as soon as practicable. We have reserved a maximum of 8% of our issued and outstanding common shares as of forty-five (45) days after the completion of this offering for issuance under our 2007 Share Incentive Plan. The registration statement on Form S-8 is expected to become effective automatically upon filing. As of the date of this prospectus, there are no options outstanding. Common shares issued upon exercise of a share option and registered under the Form S-8 registration statement will, subject to vesting provisions and Rule 144 volume limitations applicable to our affiliates, be available for sale in the public market, immediately following the expiration of or release from the lock-up agreements.

### **Lock-Up Agreements**

We, along with our directors, executive officers and each of our shareholders representing over 5% of our fully diluted share capital, have agreed with the underwriters that for a period of at least 180 days following the date of this prospectus, we or they will not offer, sell, assign, transfer, pledge, contract to sell or otherwise dispose of or hedge any of our common shares or any securities convertible into or exchangeable for common shares, subject to specified exceptions, including any of our common shares that may be purchased by Halco in this offering. Credit Suisse Securities (USA) LLC on behalf of the underwriters may, in its sole discretion, at any time without prior notice, release all or any portion of the shares from the restrictions in any such agreement. We have been advised by Credit Suisse Securities (USA) LLC that, when determining whether or not to release

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shares from the lock-up agreements, it will consider, among other factors, the shareholder's reasons for requesting the release, the number of shares for which the release is being requested and market conditions at the time. There are no agreements between Credit Suisse Securities (USA) LLC and any of our shareholders or affiliates releasing them from these lock-up agreements prior to the expiration of the 180-day period. Notwithstanding the foregoing, for the purposes of allowing the underwriters to comply with NASD Rule 2711(f)(4), if, under certain circumstances during the 16-day period beginning on the last day of the lock-up period, we release earnings results or publicly announce other material news or a material event relating to us is publicly announced, the 180 day lock-up period will be extended until 18 days following the date of release of the earnings results or the announcement of the material news or material event, as applicable.

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**MATERIAL UNITED STATES AND BERMUDA INCOME TAX CONSEQUENCES**

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.

**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 subsidiaries have obtained assurance from the Bermuda Minister of Finance under the Exempted Undertakings Tax Protection Act of 1966 that, if any legislation is enacted in Bermuda imposing any tax computed on profits, income, or 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 28, 2016 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 to any taxes payable by us in respect of real property owned or leased by us in Bermuda. Given the limited duration of the Minister of Finance's assurance, we cannot be certain that we will not be subject to any Bermuda tax after March 28, 2016. As an exempted company, we are required to pay to the Bermuda government an annual fee presently not to exceed \$29,220, 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 in effect and all of which are subject to differing interpretations or to change, possibly with retroactive effect. 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 the 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; expatriates of the U.S.; persons subject to the alternative minimum



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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, or foreign or other tax jurisdiction and the possible effects of changes in U.S. federal or other tax laws.**

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. 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 35% for a corporation's effectively connected income and 30% for the branch profits tax.

One of our non-U.S. subsidiaries, Textainer Limited, earns income that is effectively connected with its conduct of a trade or business within the U.S., and such effectively connected income is subject to U.S. federal income tax. Textainer Limited files U.S. federal income tax returns.



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We believe that we and the rest of our non-U.S. subsidiaries conduct our operations so that we and the rest of our non-U.S. subsidiaries are not engaged in a trade or business within the U.S. and therefore do not earn effectively connected income that would be subject to U.S. federal income tax. However, the determination of whether a person is engaged in a U.S. trade or business is based on a highly factual analysis, there is no direct guidance as to which activities constitute being engaged in a U.S. trade or business, and it is unclear how a court would construe the existing indirect authorities. Accordingly, it is possible that the IRS will conclude that we and the rest of our non-U.S. subsidiaries are engaged in a U.S. trade or business and earn effectively connected income that is subject to U.S. federal income tax. One of our non-U.S. subsidiaries, Textainer Equipment Management Limited, files protective U.S. federal income tax returns in order to preserve the right to claim deductions and credits if it is ever determined that it is engaged in a U.S. trade or business and earns effectively connected income that is subject to U.S. federal income tax.

Regardless of whether we and the rest of our non-U.S. subsidiaries are deemed to be engaged in a U.S. trade or business, we and all of our non-U.S. subsidiaries (including Textainer Limited) are also subject to U.S. federal income tax imposed via 30% withholding 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 dividends and certain interest on investments), to the extent such amounts are not effectively connected income. This 30% U.S. withholding tax is subject to reduction by applicable treaties. Distributions by our U.S. subsidiaries to us and our non-U.S. subsidiaries 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 at regular corporate rates on their worldwide income, regardless of its source, subject to reduction by allowable foreign tax credits.

Furthermore, any of our U.S. subsidiaries could be subject to additional U.S. tax on a portion of its income if it is considered to be a PHC for U.S. federal income tax purposes. A U.S. corporation will be classified as a PHC for U.S. federal income tax purposes in a given taxable year if (i) at any time during the last half of such taxable year, five or fewer individuals (without regard to their citizenship or residency) own or are deemed to own (pursuant to certain constructive ownership rules) more than 50% of the stock of the corporation by value; and (ii) at least 60% of the corporation's adjusted ordinary gross income, as determined for U.S. federal income tax purposes, for such taxable year consists of personal holding company income. Personal holding company income includes, among other things, dividends, interest, royalties, annuities and, under certain circumstances, rents. The PHC rules do not apply to non-U.S. corporations.

If any of our U.S. subsidiaries are or become a PHC in a given taxable year, such corporation will be subject to an additional 15% tax on its undistributed personal holding company income, which includes the company's taxable income, subject to certain adjustments. For taxable years beginning after December 31, 2010, the tax rate on undistributed personal holding company income is scheduled to increase to the highest marginal rate applicable to the ordinary income of individuals, which is currently 35%.

We believe that none of our U.S. subsidiaries should be considered PHCs. In addition, we intend to cause our U.S. subsidiaries to manage their affairs in a manner that reduces the possibility that they will meet the 60% income threshold. However, because of the lack of complete information regarding our ultimate share ownership (i.e., particularly as determined by constructive ownership rules), we cannot assure you that none of our U.S. subsidiaries will become PHCs following this offering or in the future, or that the amount of U.S. federal income tax that would be imposed would be immaterial.

### *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. We consider the transactions among our

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subsidiaries and us to be at arm's-length terms. However, 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. 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 PFIC for U.S. federal income tax purposes. For a discussion of the rules that apply if we are treated as a PFIC, see the discussion in *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. Dividends paid by us are not expected to 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.

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.

We do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, you should expect that a distribution will be reported as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

*Qualified Dividend Income.* With respect to non-corporate U.S. Holders (i.e., individuals, trusts, and estates), for taxable years beginning before January 1, 2011, dividends that are treated as qualified dividend income ( QDI ) are taxable at a maximum tax rate of 15%. 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, it is expected that our common shares will be readily tradable as a result of being listed on the NYSE, although there can be no assurance that our common shares will be readily tradable or will continue to be readily tradable in the future.

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 expect that we should be treated as a PFIC for our current taxable year. However, we can be treated as a PFIC. 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.

Moreover, a dividend will not be treated as QDI to the extent you are under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property. 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.

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*In-Kind Distributions.* 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).

Special rules may apply to electing individuals whose foreign source income during the taxable year consists entirely of *qualified passive income* and whose creditable foreign taxes paid or accrued during the taxable year do not exceed \$300 (\$600 in the case of a joint return).

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 realized 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 (currently, with a maximum rate of 15% for taxable years beginning before January 1, 2011) will apply to non-corporate U.S. Holders. 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 at your marginal income tax rate. The deductibility of capital losses is subject to limitations.

Any gain or loss recognized 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,

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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.

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 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 our projected revenues and projected capital expenditures, the valuation of our assets, and our expected election to treat certain of our subsidiaries as disregarded entities for U.S. federal income tax purposes. If our actual revenues and capital expenditures do not match our projections, we may be a PFIC. For example, if we do not spend enough of the cash (a passive asset) we raise from any financing transactions we may undertake, the relative percentage of our passive assets will increase. In calculating goodwill (an active asset), we have valued our total 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 goodwill and we may be a PFIC. Furthermore, we have made a number of assumptions regarding the amount of value allocable to goodwill. We believe our valuation approach is reasonable. However, it is possible that the IRS will challenge the valuation of our goodwill, which may result in our being a PFIC.

We do not expect that we should be treated as a PFIC for our current taxable year and we intend to use reasonable efforts to avoid PFIC status. 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. If we determine that we are a PFIC, we will take reasonable steps to notify you.

*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 makes an election to treat us as a qualified electing fund ( QEF ) under Section 1295 of the Code (a QEF Election ) or 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;

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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. You may terminate this deemed PFIC status by electing to recognize gain (which will be taxed under the default tax rules of Section 1291 of the Code discussed above) as if your common shares had been sold on the last day of the last taxable year for which we were a PFIC.

If we are a PFIC in any year with respect to you, you will be required to file an annual return on IRS Form 8621 regarding distributions received on common shares and any gain realized on the disposition of common shares.

*QEF Election.* If you make a QEF Election, you generally will not be subject to the default rules of Section 1291 of the Code discussed above. Instead, you will be subject to current U.S. federal income tax on your pro rata share of our ordinary earnings and net capital gain, regardless of whether such amounts are actually distributed to you by us. However, you can make a QEF Election only if we agree to furnish you annually with certain tax information, and we currently do not intend to prepare or provide such information.

*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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### *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.

### **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.



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*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.

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**ENFORCEABILITY OF CIVIL LIABILITIES**

We are a Bermuda exempted company. As a result, the rights of holders of our common shares will be governed by Bermuda law and our memorandum of association and bye-laws. The rights of shareholders under Bermuda law may differ from the rights of shareholders of companies incorporated in other jurisdictions. Most of our directors and some of the named experts referred to in this prospectus are not residents of the U.S., and a substantial portion of our assets is located outside the U.S. As a result, it may be difficult for investors to effect service of process on those persons in the U.S. and to enforce in the U.S. judgments obtained in U.S. courts against us or those persons based on the civil liability provisions of the U.S. securities laws. We have been advised by our special Bermuda counsel, Conyers Dill & Pearman, that uncertainty exists as to whether courts in Bermuda will enforce judgments obtained in other jurisdictions (including the U.S.) against us or our directors or officers under the securities laws of those jurisdictions or entertain actions in Bermuda against us or our directors or officers under the securities laws of other jurisdictions.

We have expressly submitted to the jurisdiction of the U.S. federal and California state courts sitting in San Francisco, California for the purpose of any suit, action or proceeding arising out of this offering, and we have appointed our principal administrative office in San Francisco, California to accept service of process in any such action. The Bermuda Monetary Authority has given its consent for the issue and free transferability of all of the common shares that are the subject of this offering to and between non-residents of Bermuda for exchange control purposes, provided our shares are and remain listed on an appointed stock exchange, which includes the NYSE. Approvals or permissions given by the Bermuda Monetary Authority do not constitute a guarantee by the Bermuda Monetary Authority as to our performance or our creditworthiness. Accordingly, in giving such consent or permissions, the Bermuda Monetary Authority shall not be liable for the financial soundness, performance or default of our business or for the correctness of any opinions or statements expressed in this prospectus. Certain issues and transfers of common shares involving persons deemed resident in Bermuda for exchange control purposes require the specific consent of the Bermuda Monetary Authority.

**Table of Contents****UNDERWRITING**

Under the terms and subject to the conditions contained in an underwriting agreement dated October 9, 2007, we have agreed to sell to the underwriters named below, for whom Credit Suisse Securities (USA) LLC and Wachovia Capital Markets, LLC are acting as representatives, the following respective numbers of common shares:

<b>Underwriter</b>	<b>Number of Shares</b>
Credit Suisse Securities (USA) LLC(1)	3,375,000
Wachovia Capital Markets, LLC(2)	3,375,000
Jefferies & Company, Inc.	900,000
Piper Jaffray & Co.	900,000
Fortis Securities LLC	450,000
Total	9,000,000

(1) 11 Madison Avenue, New York, NY 10010

(2) 375 Park Avenue, New York, NY 10152

The underwriting agreement provides that the underwriters are obligated to purchase all the common shares in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

We have granted to the underwriters a 30-day option to purchase on a pro rata basis up to 1,350,000 additional shares from us at the initial public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common shares.

The underwriters propose to offer the common shares initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a selling concession of \$0.6633 per share. After the initial public offering, the representatives may change the public offering price and concession and discount to broker/dealers.

As described under Related Party Transactions Relationships and Agreements with Entities Related to Tencor Limited as part of this offering, Halco has indicated to the underwriters its interest in acquiring 2,100,000 common shares in this offering at the initial offering price. The underwriters are not entitled to any discount or commission on these shares. These shares will not be purchased unless the offering to the public is consummated. Halco is not under any obligation to purchase any shares in this offering and its interest in purchasing shares in this offering is not a commitment to do so. These shares, if purchased, will be subject to the 180-day lock-up agreement that Halco signed with the representatives of the underwriters in connection with this offering. After taking into account this offering, including the full exercise of the over-allotment option by the underwriters, and assuming that Halco purchases 2,100,000 common shares in this offering, based upon beneficial ownership of our issued and outstanding common shares as of October 5, 2007, Halco and Tencor collectively will beneficially own approximately 60.8% of our issued and outstanding common shares.

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The following table summarizes the compensation and estimated expenses we will pay. The per share amounts for underwriting discounts and commissions are based only on the shares sold to the public and not on the shares that are expected to be sold to Halco, for which the underwriters will not receive any discounts or commissions:

	Per Share		Total	
	Without Over-allotment	With Over-allotment	Without Over-allotment	With Over-allotment
Underwriting Discounts & Commissions paid by us	\$1.1055	\$1.1055	\$ 7,627,950	\$ 9,120,375
Expenses payable by us	\$0.4131	\$0.3455	\$ 2,850,255	\$ 2,850,255

The underwriters have informed us that they do not expect sales to accounts over which the underwriters have discretionary authority to exceed 5% of the common shares being offered.

We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to, any of our common shares or securities convertible into or exchangeable or exercisable for any of our common shares, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, without the prior written consent of Credit Suisse Securities (USA) LLC for a period of 180 days after the date of this prospectus. However, in the event that either (1) during the last 17 days of the lock-up period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the lock-up period, then in either case the expiration of the lock-up will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable, unless Credit Suisse Securities (USA) LLC and Wachovia Capital Markets, LLC waive, in writing, such an extension.

Our officers and directors and existing shareholders holding more than 5% of our common shares have agreed that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any of our common shares or securities convertible into or exchangeable or exercisable for any of our common shares, including any of our common shares that may be purchased by Halco in this offering enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common shares, whether any of these transactions are to be settled by delivery of our common shares or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse Securities (USA) LLC and Wachovia Capital Markets, LLC for a period of 180 days after the date of this prospectus. However, in the event that either (1) during the last 17 days of the lock-up period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the lock-up period, then in either case the expiration of the lock-up will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable, unless Credit Suisse Securities (USA) LLC and Wachovia Capital Markets, LLC waive, in writing, such an extension.

We have agreed to indemnify the underwriters and Credit Suisse Securities (USA) LLC in its capacity as qualified independent underwriter against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

Our application to have the common shares listed on the NYSE under the symbol TGH has been approved.

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Certain of the underwriters and their respective affiliates have from time to time performed, and may in the future perform, various financial advisory, commercial banking and investment banking services for us and for our affiliates in the ordinary course of business for which they have received and would receive customary compensation. In particular, Wachovia Capital Markets, LLC was an initial purchaser of our bonds. In addition, Fortis Capital Corp., an affiliate of Fortis Securities LLC, acts as a lender under our revolving credit facility and as co-manager and lender under our secured debt facility. Fortis Securities LLC was an initial purchaser of our bond. FB, affiliates of Fortis Securities LLC, holds a 27.7% equity interest in Textainer Marine Containers Limited. Milton J. Anderson and Merijn Zondag, each a director of Textainer Marine Containers Limited, are managers of FB Transportation Capital LLC, an affiliate of Fortis Securities LLC.

We have agreed in principle with FB that Textainer Limited will acquire half of their interest in our subsidiary, Textainer Marine Containers Limited at a cash price equal to (i) 25% of the total shareholders' equity of the Class A Shares of Textainer Marine Containers Limited on the day immediately preceding the closing of such acquisition, plus (ii) \$18.0 million. In addition, as part of the consideration, at least 50% of the total annual capital expenditures of the company on new containers, as measured under GAAP, will be allocated to the Class A portion of Textainer Marine Containers Limited for a three-year period after the close of this transaction. FB shall hold 25% of all issued and outstanding Class A Shares of Textainer Marine Containers Limited after the close of this transaction. We will use part of the proceeds from this offering to pay for this purchase. Thus, the underwriters must demonstrate compliance with Rule 2710(h) of the Conduct Rules of the National Association of Securities Dealers, Inc. Accordingly, this offering is made in compliance with the applicable provisions of Rule 2710(h) of the Conduct Rules. Rule 2710(h) requires that the initial public offering price of the shares of common stock not be higher than that recommended by a qualified independent underwriter, as defined by the National Association of Securities Dealers, Inc. Credit Suisse Securities (USA) LLC has served in that capacity and performed due diligence investigations and reviewed and participated in the preparation of the registration statement of which this prospectus is part.

Prior to the offering, there has been no market for our common shares. The initial public offering price was determined by negotiation between us, the underwriters and Credit Suisse Securities (USA) LLC in its capacity as qualified independent underwriter and does not necessarily reflect the market price of the common shares following the offering. The principal factors that were considered in determining the initial public offering price included:

the information presented in this prospectus and otherwise available to the underwriters;

the history of and the prospects for the industry in which we will compete;

the ability of our management;

the prospects for our future earnings;

the present state of our development and our current financial condition;

the recent market prices of, and the demand for, publicly traded common stock of generally comparable companies; and

the general condition of the securities markets at the time of the offering.

We offer no assurances that the initial public offering price corresponds to the price at which the common shares will trade in the public market subsequent to this offering or that an active trading market for the common shares will develop and continue after the offering.

In connection with the offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Exchange Act.

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Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

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Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.

Syndicate covering transactions involve purchases of the common shares in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common shares originally sold by the syndicate member are purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

In passive market making, market makers in the common shares who are underwriters or prospective underwriters may, subject to limitations, make bids for or purchases of our common shares until the time, if any, at which a stabilizing bid is made. These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common shares or preventing or retarding a decline in the market price of the common shares. As a result, the price of our common shares may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the NYSE or otherwise and, if commenced, may be discontinued at any time.

A prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters, or selling group members, if any, participating in this offering and one or more of the underwriters participating in this offering may distribute prospectuses electronically. The representatives may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations.

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**NOTICE TO CANADIAN RESIDENTS**

*Resale Restrictions*

The distribution of the common shares in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of common shares are made. Any resale of the common shares in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the common shares.

*Representations of Purchasers*

By purchasing common shares in Canada and accepting a purchase confirmation a purchaser is representing to us and the dealer from whom the purchase confirmation is received that:

the purchaser is entitled under applicable provincial securities laws to purchase the common shares without the benefit of a prospectus qualified under those securities laws,

where required by law, that the purchaser is purchasing as principal and not as agent,

the purchaser has reviewed the text above under Resale Restrictions, and

the purchaser acknowledges and consents to the provision of specified information concerning its purchase of the common shares to the regulatory authority that by law is entitled to collect the information.

Further details concerning the legal authority for this information is available on request.

*Rights of Action Ontario Purchasers Only*

Under Ontario securities legislation, certain purchasers who purchase a security offered by this prospectus during the period of distribution will have a statutory right of action for damages, or while still the owner of the common shares, for rescission against us in the event that this prospectus contains a misrepresentation without regard to whether the purchaser relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the common shares. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the common shares. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us. In no case will the amount recoverable in any action exceed the price at which the common shares were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we will have no liability. In the case of an action for damages, we will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the common shares as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

*Enforcement of Legal Rights*

All of our directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.





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### *Taxation and Eligibility for Investment*

Canadian purchasers of the common shares should consult their own legal and tax advisors with respect to the tax consequences of an investment in the common shares in their particular circumstances and about the eligibility of the common shares for investment by the purchaser under relevant Canadian legislation.

## **LEGAL MATTERS**

The validity of the common shares offered in this prospectus and other legal matters relating to Bermuda law will be passed upon for us by Conyers Dill & Pearman, Hamilton, Bermuda, special Bermuda counsel. Various U.S. law matters relating to this offering will be passed upon for us by Morrison & Foerster LLP, San Francisco, California, special U.S. counsel. The underwriters have been represented by Cravath, Swaine & Moore LLP, New York, New York.

## **EXPERTS**

The consolidated financial statements and schedules for Textainer Group Holdings Limited as of December 31, 2006 and 2005 and for each of the years in the three-year period ended December 31, 2006 have been included herein in reliance upon the report of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing. The audit report covering the December 31, 2006 consolidated financial statements refers to a change in accounting policy for maintenance expense.

## **WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the SEC a registration statement on Form F-1 under the Securities Act, with respect to the common shares being offered by this prospectus. This prospectus does not contain all of the information in the registration statement and its exhibits. For further information with respect to Textainer and the common shares offered by this prospectus, we refer you to the registration statement and its exhibits. You can read our SEC filings, including the registration statement, 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. When the common shares begin trading on the NYSE, copies of reports and other information may also be inspected in the offices of the NYSE, 20 Broad Street, New York, New York 10005.

As a result of this offering, we will become subject to the reporting requirements of the Exchange Act, and will file reports, including annual reports on Form 20-F, and other information with the SEC. However, as a foreign private issuer, we are exempt from the rules under the Exchange Act relating to the furnishing and content of proxy statements and relating to short swing profits reporting and liability. In addition, we are not required to file annual, quarterly or current reports and financial statements as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we will file, as long as we are required to do so, within 180 days after the end of each fiscal year, an annual report on Form 20-F containing consolidated financial statements audited by an independent public accounting firm. We also intend to file quarterly reports on Form 6-K with the SEC.

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**TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors

Textainer Group Holdings Limited:

We have audited the accompanying consolidated balance sheets of Textainer Group Holdings Limited and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2006. In connection with our audits of the consolidated financial statements, we also have audited the related financial statement schedules. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Textainer Group Holdings Limited and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 1(l) to the consolidated financial statements, effective January 1, 2007 the Company adopted FASB Staff Position AUG AIR-1 (FSP), Accounting for Planned Major Maintenance. The FSP was retrospectively applied adjusting all financial statements presented.

/s/ KPMG LLP  
San Francisco, California  
September 25, 2007

**Table of Contents****TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

Consolidated Balance Sheets

December 31, 2006 and 2005

(All currency expressed in United States dollars in thousands)

	2006	2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 41,163	\$ 42,231
Accounts receivable, net of allowance for doubtful accounts of \$2,320 and \$2,199 in 2006 and 2005, respectively	41,348	42,227
Net investment in direct finance leases	6,182	4,414
Containers held for resale	3,964	4,297
Prepaid expenses	2,009	1,963
Deferred taxes	380	334
Due from affiliates, net	15	51
<b>Total current assets</b>	<b>95,061</b>	<b>95,517</b>
Restricted cash	21,989	13,379
Containers, net	763,612	722,611
Net investment in direct finance leases	36,040	28,597
Fixed assets, net	1,340	1,731
Intangible assets, net	17,960	-
Derivative instruments	3,992	4,566
Other assets	4,239	4,364
<b>Total assets</b>	<b>\$ 944,233</b>	<b>\$ 870,765</b>
<b>Liabilities and Shareholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 4,618	\$ 7,771
Accrued expenses	21,079	20,708
Container contracts payable	32,927	2,554
Due to owners, net	6,570	6,011
Bonds payable	58,000	58,000
<b>Total current liabilities</b>	<b>123,194</b>	<b>95,044</b>
Secured debt facility	53,000	-
Bonds payable	430,167	488,167
Deferred taxes	10,656	9,580
<b>Total liabilities</b>	<b>617,017</b>	<b>592,791</b>
Minority interest	85,922	66,423
Shareholders equity:		
Common shares, \$0.01 par value. Authorized 120,000,000 shares; issued and outstanding 38,274,640 and 38,056,516 shares at 2006 and 2005, respectively	383	381
Additional paid-in capital	24,093	23,706
Notes receivable from shareholders	(1,180)	(1,299)
Accumulated other comprehensive income	380	30

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Retained earnings	217,618	188,733
Total shareholders' equity	241,294	211,551
Total liabilities and shareholders' equity	\$ 944,233	\$ 870,765

**See accompanying notes to consolidated financial statements.**

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**Table of Contents****TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

## Consolidated Statements of Income

Years ended December 31, 2006, 2005 and 2004

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

	2006	2005	2004
<b>Revenues:</b>			
Lease rental income	\$ 186,093	\$ 188,904	\$ 147,152
Management fees	16,194	15,472	17,942
Trading container sales proceeds	14,137	16,046	8,429
Incentive management fees and general partner distributions		2,874	1,579
Gain on sale of containers, net	9,558	10,456	4,275
Other	480	648	940
<b>Total revenues</b>	<b>226,462</b>	<b>234,400</b>	<b>180,317</b>
<b>Operating expenses:</b>			
Direct container expense	29,757	24,314	16,431
Cost of trading containers sold	11,480	12,944	6,235
Depreciation expense	54,330	60,792	48,321
Amortization expense	1,023		
General and administrative expense	16,155	16,567	16,807
Incentive compensation expense	4,694	5,140	4,507
Bad debt expense, net	664	91	868
<b>Total operating expenses</b>	<b>118,103</b>	<b>119,848</b>	<b>93,169</b>
<b>Income from operations</b>	<b>108,359</b>	<b>114,552</b>	<b>87,148</b>
<b>Other income (expense):</b>			
Interest expense	(33,083)	(27,491)	(13,434)
Interest income	2,286	1,086	399
Realized and unrealized gains (losses) on derivative instruments, net	2,274	4,535	(889)
Other, net	243	(2,648)	(237)
<b>Net other expense</b>	<b>(28,280)</b>	<b>(24,518)</b>	<b>(14,161)</b>
<b>Income before income tax and minority interest</b>	<b>80,079</b>	<b>90,034</b>	<b>72,987</b>
<b>Income tax expense</b>	<b>(4,299)</b>	<b>(4,662)</b>	<b>(4,011)</b>
<b>Minority interest expense</b>	<b>(19,499)</b>	<b>(22,393)</b>	<b>(15,382)</b>
<b>Net income</b>	<b>\$ 56,281</b>	<b>\$ 62,979</b>	<b>\$ 53,594</b>
<b>Net income per share:</b>			
Basic	\$ 1.47	\$ 1.65	\$ 1.41
Diluted	\$ 1.46	\$ 1.63	\$ 1.39
<b>Weighted average shares outstanding (in thousands):</b>			
Basic	38,186	38,142	38,022

Diluted

38,488

38,598

38,490

**See accompanying notes to consolidated financial statements.**

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**Table of Contents****TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

Consolidated Statements of Shareholders Equity and Comprehensive Income

Years ended December 31, 2006, 2005 and 2004

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

	Common shares		Additional paid-in capital	Notes receivable from shareholders	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders equity
	Shares	Amount					
Balances, December 31, 2003	37,907,458	\$ 379	\$ 21,158	\$ (1,640)	\$ 13	\$ 121,142	\$ 141,052
Dividends to shareholders						(20,913)	(20,913)
Exercise of share options	210,000	2	603	(309)			296
Repayment of notes receivable from shareholders				461			461
Repurchase and retirement of common shares	(900)		(1)			(2)	(3)
Comprehensive income:							
Net income						53,594	53,594
Foreign currency translation adjustments					250		250
<b>Total comprehensive income</b>							<b>53,844</b>
Balances, December 31, 2004	38,116,558	381	21,760	(1,488)	263	153,821	174,737
Dividends to shareholders						(26,762)	(26,762)
Exercise of share options	250,000	3	1,029	(566)			466
Share option plan obligation			1,391				1,391
Repayment of notes receivable from shareholders				755			755
Repurchase and retirement of common shares	(310,042)	(3)	(474)			(1,305)	(1,782)
Comprehensive income:							
Net income						62,979	62,979
Foreign currency translation adjustments					(233)		(233)
<b>Total comprehensive income</b>							<b>62,746</b>
Balances, December 31, 2005	38,056,516	381	23,706	(1,299)	30	188,733	211,551
Dividends to shareholders						(27,311)	(27,311)
Exercise of share options	230,000	2	593	(539)			56
Share option plan obligation			(479)				(479)
Share option plan expense			285				285
Repayment of notes receivable from shareholders				658			658
Repurchase and retirement of common shares	(11,876)		(12)			(85)	(97)
Comprehensive income:							
Net income						56,281	56,281
Foreign currency translation adjustments					350		350
<b>Total comprehensive income</b>							<b>56,631</b>

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Balances, December 31, 2006	38,274,640	\$ 383	\$ 24,093	\$ (1,180)	\$ 380	\$ 217,618	\$ 241,294
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**See accompanying notes to consolidated financial statements.**

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**Table of Contents****TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

## Consolidated Statements of Cash Flows

Years ended December 31, 2006, 2005 and 2004

(All currency expressed in United States dollars in thousands)

	2006	2005	2004
<b>Cash flows from operating activities:</b>			
Net income	\$ 56,281	\$ 62,979	\$ 53,594
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Depreciation expense	54,330	60,792	48,321
Provision for containers held for resale	(1)	26	7
Bad debt expense, net	664	91	868
Unrealized losses (gains) on derivative instruments, net	574	(8,688)	(9,016)
Amortization of debt issuance costs	1,405	3,323	1,423
Amortization of intangible assets	1,023		
Gain on sale of containers, net	(9,558)	(10,456)	(4,275)
Share option plan expense	285	1,391	
Minority interest expense	19,499	22,393	15,382
<b>Decrease (increase) in:</b>			
Accounts receivable, net	215	3,836	(19,997)
Containers held for resale	334	(3,523)	(281)
Prepaid expenses	1,293	5,539	1,193
Due from affiliates, net	36	372	(14)
Other assets	(1,280)	(5,546)	(1,449)
<b>(Decrease) increase in:</b>			
Accounts payable	(3,153)	3,218	1,666
Accrued expenses	(108)	(754)	9,665
Due to owners, net	559	(5,701)	6,489
Deferred taxes, net	1,030	313	2,267
<b>Total adjustments</b>	<b>67,147</b>	<b>66,626</b>	<b>52,249</b>
<b>Net cash provided by operating activities</b>	<b>123,428</b>	<b>129,605</b>	<b>105,843</b>
<b>Cash flows from investing activities:</b>			
Decrease in investments in affiliates		446	106
Purchase of containers and fixed assets	(104,818)	(158,193)	(194,634)
Purchase of intangible assets	(18,983)		
Proceeds from sale of containers and fixed assets	34,142	30,796	15,751
Receipt of principal payments on direct finance leases	6,456	5,333	4,522
<b>Net cash used in investing activities</b>	<b>(83,203)</b>	<b>(121,618)</b>	<b>(174,255)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from revolving credit facility			(290)
Proceeds from secured debt facility	74,000	301,000	151,000
Principal payments on secured debt facility	(21,000)	(596,969)	(19,000)
Proceeds from bonds payable		580,000	
Principal payments on bonds payable	(58,000)	(241,333)	(30,000)
Increase in restricted cash	(8,610)	(3,078)	(667)

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Debt issuance costs	(1,339)	(6,174)	(787)
Issuance of common shares	56	466	296
Repayments of notes receivable from shareholders	658	755	461
Retirement of common shares	(97)	(1,782)	(3)
Dividends paid	(27,311)	(26,762)	(20,913)
<b>Net cash (used in) provided by financing activities</b>	<b>(41,643)</b>	<b>6,123</b>	<b>80,097</b>
Effect of exchange rate changes	350	(233)	250
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(1,068)</b>	<b>13,877</b>	<b>11,935</b>
Cash and cash equivalents, beginning of the year	42,231	28,354	16,419
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 41,163</b>	<b>\$ 42,231</b>	<b>\$ 28,354</b>

(Continued)

**See accompanying notes to consolidated financial statements.**

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**Table of Contents**

**TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended December 31, 2006, 2005 and 2004

(All currency expressed in United States dollars in thousands)

	2006	2005	2004
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid during the year for:			
Interest	\$ 28,812	\$ 28,518	\$ 21,339
Income taxes	\$ 981	\$ 830	\$ 238
<b>Supplemental disclosures of noncash investing activities:</b>			
Increase (decrease) in accrued container purchases	\$ 30,373	\$ (70,902)	\$ 69,504
Containers placed in direct finance leases	\$ 15,667	\$ 32,602	\$ 2,796

**See accompanying notes to consolidated financial statements.**

**Table of Contents**

**TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2006, 2005 and 2004

(All currency expressed in United States dollars in thousands)

**(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 corporations, Textainer Group Holdings Limited and subsidiaries (the Company), involved in the purchase, management, leasing and resale of a fleet of marine cargo containers. The Company manages and provides administrative support to the affiliated and unaffiliated owners (the Owners) of the containers and structures and manages container leasing investment programs. The Company was the general partner of six limited partnerships (the Partnerships) that were Owners. The Partnerships were terminated on August 22, 2005.

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

The Company conducts its business activities in four main areas: container management, container ownership, container resale and military management. These activities are described below (also see Note 8, Segment Information).

**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. Revenues, customer accounts receivable, operating expenses, and vendor payables arising from direct container operations of the managed portion of the Owner's fleet have been excluded from the Company's financial statements.

Management fees are typically a percentage of net operating income of each Owner's fleet and consist of fees earned by the Company for services related to management of the containers, and net acquisition fees earned on the acquisition of containers. Expenses related to the provision of management services include general and administrative expense, incentive compensation expense and amortization expense.

**Container Ownership**

The Company's containers consist primarily of standard dry freight containers, but also include special-purpose containers. These containers are financed through reinvested earnings, a secured debt facility provided by banks, and bonds payable to investors. Expenses related to lease rental income include direct container expenses, depreciation expense and interest expense.

**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 only the cost of equipment purchased for resale that

was sold as well as the related selling costs. The Company earns sales commissions related to sale of the containers that it manages.

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**TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

Notes to Consolidated Financial Statements Continued

December 31, 2006, 2005 and 2004

(All currency expressed in United States dollars in thousands)

**Military Management**

In June 2003, the Company entered into a management agreement to provide a management information system and source containers and related equipment for the U.S. military. In the event that containers are not available within the managed fleet, the Company will fulfill its obligations to this customer by subleasing containers and equipment from shipping lines and other leasing companies. The contract is renewable annually. Management fees earned from this contract for the years ended December 31, 2006, 2005 and 2004 were \$1,680, \$1,632 and \$1,584, respectively.

***(b) Principles of Consolidation***

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

The majority of the container equipment included in the accompanying consolidated financial statements is owned by an entity (Textainer Marine Containers Limited or TMCL) which is 72.63% and 76.41% owned by the Company as of December 31, 2006 and 2005, respectively. The Company manages the equipment and controls the day to day operations of this entity. Under the terms of the ownership agreement certain voting matters are based on ownership interest and others are shared equally between the Company and the minority shareholders. The amounts attributable to the minority shareholders are reflected as minority interest in the accompanying financial statements.

***(c) Cash and Cash Equivalents***

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

***(d) Investments in Partnerships***

Investments in the Partnerships were recognized using the cost method of accounting. General partner distributions from the Partnerships were recorded as income in the month in which the distributions were made by the Partnerships.

On April 18, 2005, the Partnerships sold substantially all of their assets. On August 18, 2005, the Company received the last of two final general partner distributions which represented a return of investment capital and income, and the Partnerships were subsequently terminated.

***(e) Intangible Assets***

On July 1, 2006, the Company assumed management of a competitor's fleet of approximately 211,000 containers by purchasing the management contracts for \$18,983. The purchase price will be fully amortized over the expected 11-year life of the contract on a pro-rata basis to the expected management fees. The assets will be evaluated for impairment by applying the recognition and measurement provisions of FAS 144, Accounting for Impairment or Disposal of Long-Lived Assets, and an impairment loss shall be recognized if the carrying amount is not recoverable and its carrying amount exceeds its fair value. Amortization expense for the year ended December 31, 2006 was





**Table of Contents****TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

Notes to Consolidated Financial Statements - Continued

December 31, 2006, 2005 and 2004

(All currency expressed in United States dollars in thousands)

\$1,023. The following is a schedule, by year, of future amortization of intangible assets as of December 31, 2006:

Year ending December 31:	
2007	\$ 2,141
2008	2,160
2009	2,323
2010	2,798
2011	3,616
2012 and thereafter	4,922
Total future amortization of intangible assets	 \$ 17,960

**(f) Lease Rental Income**

Leasing income arises principally from the renting of containers owned by the Company to various international shipping lines. Revenue is recorded when earned according to the terms of the container rental contracts. These contracts are typically for terms of five years or less and are generally classified as operating leases.

Under long-term lease agreements, containers are usually leased from the Company for periods of three to five 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 finance leases, the containers are usually leased from the Company for the remainder of the container's useful life with a bargain purchase option at the end of the lease term. Revenue is earned and recognized on direct finance leases over the lease terms so as to produce a constant periodic rate of return on the net investment in the lease.

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

The following is a schedule, by year, of future minimum lease payments receivable under the long-term leases as of December 31, 2006:

Year ending December 31:	
2007	\$ 80,234
2008	57,016
2009	38,861
2010	20,184
2011 and thereafter	14,306
Total future minimum lease payments receivable	 \$ 210,601

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

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**Table of Contents**

**TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

Notes to Consolidated Financial Statements Continued

December 31, 2006, 2005 and 2004

(All currency expressed in United States dollars in thousands)

***(g) Direct Container Expense***

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

***(h) 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 market value. The cost of trading containers sold is specifically identified.

***(i) Foreign Currencies***

A functional currency is determined for each of the entities within the Company based on the currency of the primary economic environment in which the entity operates. The Company's functional currency is the U.S. dollar. Assets and liabilities denominated in a currency other than the entity's functional currency are remeasured into its functional currency at the balance sheet date with a gain or loss recognized in current year net income. Foreign currency exchange gains and 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 (losses), reported in Other, net in the Consolidated Statement of Income were (\$189), \$132, and (\$85) for the years ended December 31, 2006, 2005 and 2004, respectively. For consolidation purposes, the financial statements are then 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 (Invoice) and the associated transportation costs incurred in moving the containers from the manufacturer to the containers' first destined port (Initial Repo). Containers purchased new are depreciated using the straight-line method over their estimated useful lives of 12 years to an estimated dollar residual value. Containers purchased used are depreciated based upon their remaining useful lives at the date of acquisition to an estimated dollar residual value. The Company evaluates the estimated residual values and remaining estimated useful lives on an ongoing basis. During the last few years, the Company experienced a significant increase in resale prices, as a result of both higher utilization decreasing the number of containers available for sale and the increased cost of new containers. Based on this extended period of higher realized residual values and an expectation that new equipment prices will remain near current levels the Company increased the estimated future residual values during 2006. The increase in residual values during 2006 caused a decrease in depreciation expense of \$5.6 million and assuming no change in equipment cost balances the change would result in a decrease in depreciation expense of \$16.8 million per year. Depreciation expense may fluctuate in future periods based on fluctuations in these estimates. During the years ended December 31, 2006, 2005 and 2004, the Company recorded an impairment of \$183, \$496 and \$902, which is included in depreciation expense in the accompanying consolidated statements of income, to write down the value of 989, 2,594 and 2,738 containers identified for sale, respectively, to their estimated fair value. The fair value was estimated based on recent gross sales proceeds. When containers are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized.

**Table of Contents****TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

Notes to Consolidated Financial Statements Continued

December 31, 2006, 2005 and 2004

(All currency expressed in United States dollars in thousands)

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

The Company reviews its containers and fixed assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The Company compares the carrying value of the containers to expected future undiscounted cash flows for the purpose of assessing the recoverability of the recorded amounts. If the carrying value exceeds expected future undiscounted cash flows, the assets are reduced to fair value. 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 has evaluated the recoverability of the recorded amount of container rental equipment at December 31, 2006 and 2005, and determined that a reduction in the carrying values of containers held for continued use was not required, but a write-down in the value of certain containers identified for sale was required.

At December 31, 2006 and 2005, the carrying value of 864 and 1,111 containers identified for sale included impairment charges of \$166 and \$269, respectively. The carrying value of these containers identified for sale amounted to \$719 and \$984 as of December 31, 2006 and 2005, respectively, and is included in containers, net on the consolidated balance sheets.

During the years ended December 31, 2006, 2005 and 2004, the Company recorded the following net gain on sales of containers:

	2006		2005		2004	
	Units	Amount	Units	Amount	Units	Amount
Gain on sales of previously written down containers, net	1,359	\$ 1,594	1,604	\$ 1,453	2,699	\$ 1,711
Gain on sales of containers not written down, net	26,206	7,964	21,930	9,003	10,446	2,564
<b>Gain on sales of containers, net</b>	<b>27,565</b>	<b>\$ 9,558</b>	<b>23,534</b>	<b>\$ 10,456</b>	<b>13,145</b>	<b>\$ 4,275</b>

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 cautions that 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 unlikely.



**Table of Contents****TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

Notes to Consolidated Financial Statements Continued

December 31, 2006, 2005 and 2004

(All currency expressed in United States dollars in thousands)

**(l) Damage Protection Plan Repair Cost Reserve**

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

On September 8, 2006, the FASB posted the Staff Position (FSP), *Accounting for Planned Major Maintenance Activities*. The FSP amends certain provisions in the AICPA Industry Audit Guide, Audits of Airlines, and APB Opinion No. 28, *Interim Financial Reporting*. FSP AUG AIR-1 prohibits the use of the currently allowed accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial statements. This guidance is effective for the first fiscal period beginning after December 15, 2006, and shall be applied retrospectively for all financial statements presented, unless impracticable to do so.

For containers not subject to a DPP and for containers where DPP is billed upon drop off, we previously accrued for repairs once we had made the decision to repair the container, which is made in advance of us incurring the repair obligations, however, these accruals have typically been insignificant. For containers covered by per diem DPP, we previously provided a reserve sufficient to cover the Company's estimated future container repair costs at the end of the container's lease term.

The Company adopted FSP AUG AIR-1 effective January 1, 2007. Accordingly, we have retroactively adjusted all financial statements presented to reflect the direct expense method of accounting for maintenance, a method permitted under this Staff Position. The effect of adopting this standard on our previously reported financial statements are as follows:

	Years ended December 31		
	2006	2005	2004
Increase (decrease) in:			
Consolidated statements of income:			
Direct container expense	\$ (406)	\$ (1,903)	\$ (2,255)
Total operating expense	\$ (406)	\$ (1,903)	\$ (2,255)
Income from operations	\$ 406	\$ 1,903	\$ 2,255
Income before income tax and minority interest	\$ 406	\$ 1,903	\$ 2,255
Minority interest expense	\$ 445	\$ 753	\$ 877
Net income	\$ (39)	\$ 1,150	\$ 1,378
Basic and diluted earnings per share	\$ (0.00)	\$ 0.03	\$ 0.04

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	December 31, 2006	2005	January 1 2004
Increase (decrease) in:			
Consolidated balance sheets:			
Damage protection plan repair cost reserve	\$ (8,648)	\$ (8,242)	(6,338)
Total current liabilities	\$ (8,648)	\$ (8,242)	(6,338)
Total liabilities	\$ (8,648)	\$ (8,242)	(6,338)
Minority interest	\$ 3,081	\$ 2,636	1,882
Retained earnings	\$ 5,567	\$ 5,606	4,456
Total shareholders' equity	\$ 5,567	\$ 5,606	4,456

**(m) Concentrations**

Although substantially all of the Company's income from operations is derived from assets employed in foreign concentrations, virtually all of this income is denominated in U.S. dollars. The Company does pay some of its expenses in various foreign currencies. For the years ended December 31, 2006, 2005 and 2004, \$12,377 or 41%, \$8,977 or 34% and \$6,639 or 36%, respectively, of the Company's direct container expenses were paid in 15 different foreign currencies. The Company does not hedge these container expenses as there are no significant payments made in any one foreign currency and the Company's contract with the U.S. military contains a provision to protect it from fluctuations in exchange rates for payments made in foreign currencies.

The Company's customers are international shipping lines, which transport goods on international trade routes. Once the containers are on hire with a lessee, the Company does not track their location. The domicile of the lessee is not indicative of where the lessee is transporting the containers. The Company's business risk in its foreign concentrations lies with the creditworthiness of the lessees rather than the geographic location of the containers or the domicile of the lessees. Revenue from one lessee amounted to \$20,100, \$20,027 and \$16,836 or 11% of the Company's lease rental income for the three years ended December 31, 2006, 2005 and 2004, respectively. No single lessee accounted for more than 10% of the accounts receivable, net as of December 31, 2006 and 2005.

**(n) Fair Value of Financial Instruments**

In accordance with Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Value of Financial Instruments*, 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 book value of those financial instruments. At December 31, 2006 and 2005, the fair value of the Company's financial instruments approximates the related book value of such instruments.

**(o) Derivative Instruments**

The Company has entered into various interest rate cap and swap 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 and unrealized gains (losses) on derivative instruments, net in the consolidated statement of income.





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

The Company's interest rate swap agreements have expiration dates between February 2007 and December 2010. The cumulative fair value of these agreements was \$3,992 and \$4,566 as of December 31, 2006 and 2005, respectively.

The Company's interest rate cap agreements have expiration dates between June 2007 and November 2015.

***(p) Share Options***

Under Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), and Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure - an amendment of SFAS 123*, prior to January 1, 2006, the Company had an alternative of recognizing related compensation expense by adopting the fair value method or to continue to measure compensation using the intrinsic value approach under Accounting Principles Board (APB) Opinion No. 25, as amended. Prior to January 1, 2006, the Company used the measurement prescribed by APB Opinion No. 25 and followed the disclosure requirements of SFAS 123 to account for share options, and accordingly, recognized no compensation cost associated with the share option plans if the share option price approximated fair market value at the time of grant. No compensation costs were recognized for the 1997 Plan and 1998 Plan using this accounting method during the years ended December 31, 2005 and 2004. The 2001 Plan was an equity classified plan, with its grants accounted for as variable awards in accordance with EITF 00-23, *Issues Related to the Accounting for Stock Compensation*, under APB Opinion 25 and FASB Interpretations No. 44 due to the book value payment option at the employees' discretion included in the plan. Compensation expense for the 2001 Plan is computed based upon a formula value until the Put Option is exercised or expires. Compensation expense associated with the Plans, which was part of general and administrative expense, for the years ended December 31, 2005 and 2004, were \$210 and \$717, respectively.

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS 123R) using the modified prospective application transition method and consequently has not retroactively adjusted results from prior periods. SFAS 123R requires measurement of all employee stock-based compensation awards at the grant date using a fair-value method and recording of such expense in the consolidated financial statements over the requisite service period. The Company accounts for the 2001 Plan as a tandem award. As such the Company continued to classify the options in equity under the provisions of SFAS 123R but records a liability for the fair-value of the put feature for all vested and unvested awards. The liability will be remeasured each reporting period until the put is exercised or cancelled with the change recorded as compensation expense. For the options that vested prior to the adoption date, which includes the options under all plans, excluding the 2001 plan, no further accounting is required under the modified transition provision, except for accounting for the put options as discussed above. Under this transition method, compensation cost associated with share options includes amortization related to remaining unvested portion of all share option awards granted prior to January 1, 2006, based on the grant date fair value estimated in accordance with the original provision

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of SFAS 123. For the year ended December 31, 2006, the Company recorded share-based compensation expense of \$285 under the fair-value provisions of SFAS 123R. The Company determined that the put feature had no value throughout the year and there was no cumulative effect adjustment as of January 1, 2006.

**(q) Comprehensive Income (Loss)**

In accordance with Statement of Financial Accounting Standards No. 130, *Reporting Comprehensive Income* (SFAS 130), the Company reports changes in equity from all sources. The effect of SFAS 130 is limited to the form and content of the Company's disclosures of its foreign currency translation adjustment as a component of other comprehensive income (loss).

**(r) 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, accounts receivable, and accruals.

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

**(s) Reclassifications**

Certain reclassifications of 2005 and 2004 amounts have been made in order to conform with the 2006 financial statement presentation.

**(t) Net income per share**

Basic net income per share is computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted income per share reflects the potential dilution that could occur if all outstanding share options were exercised or converted into common shares. For the years ended December 31, 2006, 2005 and 2004, all share options to acquire common shares were dilutive. A reconciliation of the numerator and denominator of basic EPS with that of diluted EPS is presented as follows:

	2006	2005	2004
Numerator			
Net income - basic and diluted EPS	\$ 56,281	\$ 62,979	\$ 53,594
Denominator			
Weighted average common shares outstanding - basic	38,186	38,142	38,022

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Dilutive stock options	302	456	468
Weighted average common shares outstanding diluted	38,488	38,598	38,490
Earnings per common share			
Basic	\$ 1.47	\$ 1.65	\$ 1.41
Diluted	\$ 1.46	\$ 1.63	\$ 1.39

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**(u) Recently Issued Accounting Standards**

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). The purpose of SFAS 157 is to define fair value, establish a framework for measuring fair value and enhance disclosures about fair value measurements. The measurement and disclosure requirements are effective for periods beginning after November 15, 2007. We are currently evaluating the effect that the adoption of SFAS 157 will have on our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*. Under this pronouncement, companies may elect to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reporting earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. However, SFAS No. 159 specifically includes financial assets and financial liabilities recognized under leases (as defined in SFAS No. 13, *Accounting for Leases*), as among those items not eligible for the fair value measurement option except contingent obligations for cancelled leases and guarantees of third-party lease obligations. This statement is effective for fiscal years that begin after November 15, 2007. We do not expect the adoption of SFAS No. 159 to have a material effect on our consolidated financial position or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. This Interpretation defines the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 is effective for fiscal years beginning after December 15, 2006. We have evaluated the effect of adoption of FIN 48 on our financial position and results of operations and concluded it will not be material.

**(2) Transactions with Affiliates and Owners**

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

Management fees, including acquisition fees and sales commissions for the years ended December 31, 2006, 2005 and 2004 were as follows:

	2006	2005	2004
Fees from affiliated Owner	\$ 5,628	\$ 5,985	\$ 10,420
Fees from unaffiliated Owners	8,886	7,855	5,938
Fees from Owners	14,514	13,840	16,358
Other fees	1,680	1,632	1,584
Total management fees	\$ 16,194	\$ 15,472	\$ 17,942

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Incentive management fees and general partner distributions were earned in connection with management of the Partnerships. These amounts for the years ended December 31, 2006, 2005 and 2004 were \$0, \$2,874 and \$1,579, respectively. On August 18, 2005, the Company received the last of two final general partner distributions which represented a return of investment capital and income.

Due to Owners, net represents lease rentals collected on behalf of and payable to Owners, net of direct expenses and management fees receivable. Due to Owners, net at December 31, 2006 and 2005 consisted of the following:

	2006	2005
Affiliated Owner	\$ 765	\$ 1,811
Unaffiliated Owners	5,805	4,200
<b>Total due to Owners, net</b>	<b>\$ 6,570</b>	<b>\$ 6,011</b>

**(3) Direct Finance Leases**

The Company leases containers under several direct finance leases. The Company had 19,746 and 16,328 containers under direct finance leases as of December 31, 2006 and 2005, respectively.

The components of the net investment in direct finance leases as of December 31, 2006 and 2005 were as follows:

	2006	2005
Future minimum lease payments receivable	\$ 54,253	\$ 48,490
Less unearned income	(12,031)	(15,479)
<b>Net investment in direct finance leases</b>	<b>\$ 42,222</b>	<b>\$ 33,011</b>
Amounts due within one year	\$ 6,182	\$ 4,414
Amounts due beyond one year	36,040	28,597
<b>Net investment in direct finance leases</b>	<b>\$ 42,222</b>	<b>\$ 33,011</b>

The following is a schedule by year of future minimum lease payments receivable under these direct finance leases as of December 31, 2006:

Year ending December 31:	
2007	\$ 8,753
2008	7,245

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2009	6,640
2010	6,018
2011 and thereafter	25,597
<b>Total future minimum lease payments receivable</b>	<b>\$ 54,253</b>

Lease rental income includes income earned from direct finance leases in the amount of \$3,587, \$3,158 and \$1,099 for the years ended December 31, 2006, 2005 and 2004, respectively.

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**(4) Containers and Fixed Assets**

Containers, net at December 31, 2006 and 2005 consisted of the following:

	2006	2005
Containers	\$ 1,078,916	\$ 1,005,956
Less accumulated depreciation	(315,304)	(283,345)
<b>Containers, net</b>	<b>\$ 763,612</b>	<b>\$ 722,611</b>

All owned containers are pledged as collateral for debt as of December 31, 2006 and 2005.

Fixed assets, net at December 31, 2006 and 2005 consisted of the following:

	2006	2005
Computer equipment and software	\$ 5,865	\$ 6,343
Office furniture and equipment	1,848	1,830
Automobiles	191	180
Leasehold improvements	1,112	1,062
	9,016	9,415
Less accumulated depreciation	(7,676)	(7,684)
<b>Fixed assets, net</b>	<b>\$ 1,340</b>	<b>\$ 1,731</b>

**(5) Accrued Expenses**

Accrued expenses at December 31, 2006 and 2005 consisted of the following:

	2006	2005
Interest payable	\$ 1,423	\$ 1,406
Accrued compensation	4,966	5,327
Direct container expense	2,500	3,153
Other	12,190	10,822
<b>Total accrued expenses</b>	<b>\$ 21,079</b>	<b>\$ 20,708</b>

**(6) Income Taxes**

The Company is not subject to taxation in its country of incorporation; however, the Company is subject to taxation in certain other jurisdictions due to the nature of the Company's operations. The Company estimates its tax liability based upon its understanding of the tax laws of the various countries in which it operates. Current and deferred income taxes reflect temporary differences attributable to various jurisdictions at different statutory rates. Income tax expense attributable to income from continuing operations for the years ended December 31, 2006, 2005



and 2004 consisted of the following:

	2006	2005	2004
Current			
Bermuda	\$	\$	\$
Foreign	3,269	4,349	1,744
	3,269	4,349	1,744
Deferred			
Bermuda			
Foreign	1,030	313	2,267
	1,030	313	2,267
	\$ 4,299	\$ 4,662	\$ 4,011

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The components of income before income taxes and minority interest were as follows:

	2006	2005	2004
Bermuda sources	\$	\$	\$
Foreign sources	80,079	90,034	72,987
	\$ 80,079	\$ 90,034	\$ 72,987

Reconciliations of the statutory Bermuda income tax rate to the consolidated effective income tax rate for each fiscal year were as follows:

	2006	2005	2004
Bermuda tax rate	0.00%	0.00%	0.00%
Income taxable in foreign jurisdictions	5.37%	5.18%	5.50%
	5.37%	5.18%	5.50%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2006 and 2005 are presented below:

	2006	2005
Deferred tax assets:		
Net operating loss	\$ 1,439	\$ 2,518
Other	1,795	1,876
Deferred tax assets	3,234	4,394
Deferred tax liabilities:		
Containers	12,209	11,965
Other	1,301	1,675
Deferred tax liabilities	13,510	13,640
Net deferred tax liability	\$ 10,276	\$ 9,246

In assessing the realizability of deferred tax assets, the Company's management considers whether it is more likely than not that the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company's management considers the projected future taxable income for making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which

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the deferred tax assets are deductible, the Company's management believes it is more likely than not the Company will realize the benefits of these deductible differences noted above. The Company has net operating loss carryforwards of \$4,232 that will begin to expire from 2009 through 2023 if not utilized.

The Company's foreign tax returns, including the United States, are subject to routine compliance reviews by the various tax authorities. The Company accrues for foreign tax contingencies based upon its best estimate of the additional taxes, interest and penalties expected to be paid. These estimates are updated over time as more definitive information becomes available from taxing authorities, completion of tax audits, expiration of statute of limitations, or upon occurrence of other events. An audit by the IRS in the United States is currently ongoing and to date no matters have arisen to alter the Company's accounting for income taxes.

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The accompanying consolidated financial statements do not reflect the income taxes that would be payable to foreign taxing jurisdictions if the earnings of a group of corporations operating in those jurisdictions were to be transferred out of such jurisdictions, because such earnings are intended to be permanently reinvested in those countries. At December 31, 2006, cumulative earnings of approximately \$24,857 would be subject to income taxes of approximately \$6,404 if such earnings of foreign corporations were transferred out of such jurisdictions in the form of dividends.

**(7) Revolving Credit Facility, Bonds Payable and Secured Debt Facility, and Derivative Instruments**

***Revolving Credit Facility***

The Company has a credit agreement, as amended on December 22, 2006 (Credit Agreement), with a group of banks (Bank Group) to provide a revolving credit facility (Credit Facility) in the amount of \$45 million. The Credit Agreement also provides a \$25 million letter of Credit Facility included within the \$45 million commitment. This Credit Facility provides for payments of interest only during its term beginning on its inception date through January 31, 2007 (Conversion Date), with a provision for the Credit Facility to convert to a two-year fully amortizing note payable after the Conversion Date. Principal amortization will be on a quarterly basis, beginning on the last day of the first calendar quarter of the Conversion Date. Given the existing Conversion Date of January 31, 2007, principal amortization would begin on March 31, 2007. Interest on the outstanding amount due under this Credit Facility can be based either on the U.S. prime rate or LIBOR plus 1.75%. The Company has no outstanding principal under its Credit Facility as of December 31, 2006 and 2005. The Company had one outstanding \$3,812 letter of credit as of December 31, 2006.

Although the Credit Facility is not secured by the Company's containers, under the terms of the Credit Facility the total outstanding principal of all the Company's debt may not exceed the lesser of the commitment amount or a formula based on the Company's net book value of containers and outstanding debt. The Credit Facility Maximum was \$45 million as of December 31, 2006.

TGH acts as a guarantor of this Credit Facility. The Credit Facility contains restrictive covenants regarding limitations on certain obligations, investments, and leverage. In addition, the Credit Facility contains certain restrictive covenants on TGH net worth, leverage, debt service, and interest coverage. The Company are in compliance with all such covenants at December 31, 2006. There is a commitment fee of 0.375% on the unused portion of the Credit Facility, which is payable in arrears. In addition, there is an agent's fee of 0.125% on the commitment amount, which is payable quarterly in advance.

***Bonds Payable and Secured Debt Facility***

The Company has a securitization agreement (Securitization Agreement) with several banks (Banks) that provided for the issuance of \$300 million in variable rate amortizing bonds (2001-1 Bonds) and a secured debt facility (Secured Debt Facility). The Securitization Agreement, originally dated August 11, 2000, was amended and restated on November 29, 2001, to provide for the 2001-1 Bonds in addition to the Secured Debt Facility.

The Securitization Agreement was amended and restated on May 26, 2005 for the issuance of \$580 million in variable rate amortizing bonds (2005-1 Bonds). The 2005-1 Bonds were purchased by various institutional investors. The proceeds of the 2005-1 Bonds were used primarily to pay off the 2001-1 Bonds and to refinance certain principal outstanding under the Company's Secured Debt Facility. All unamortized debt issuance costs related to the 2001-1 Bonds of \$1,909 were charged to expense.

The \$580 million in 2005-1 Bonds represent fully amortizing notes payable on a straight-line basis over a scheduled payment term of 10 years, but not to exceed the maximum payment term of 15 years. Under a



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10-year amortization schedule, \$58 million in 2005-1 Bond principal will amortize per year. Under the terms of the 2005-1 Bonds, both principal and interest incurred are payable monthly. The Company is not permitted to make voluntary prepayments of all, or a portion of, the principal balance of the 2005-1 Bonds prior to the payment date occurring in June 2008. Ultimate payment of the 2005-1 Bond principal has been insured by Ambac Assurance Corporation and the cost, 0.275% on the outstanding principal balance, of this insurance coverage is recognized as incurred on a monthly basis.

The interest rate for the outstanding principal balance of the 2005-1 Bonds equals one-month LIBOR plus 0.25%. The target final payment date and legal final payment date are May 15, 2015 and May 15, 2020, respectively.

The Company's primary ongoing container financing requirements are funded by the Secured Debt Facility. The Secured Debt Facility provided a total commitment in the amount of \$300 million and \$400 million as of December 31, 2006 and 2005, respectively. The Secured Debt Facility provides for payments of interest only during the period from its inception until its Conversion Date as defined within the Securitization Agreement, with a provision for the Secured Debt Facility to then convert to a 10-year, but not to exceed the maximum term of 15-year, fully amortizing note payable on the Conversion Date. Under the Secured Debt Facility terms of the Securitization Agreement, as amended on June 8, 2006, the Conversion Date is defined as June 6, 2008. Given a Conversion Date of June 6, 2008, first principal payment would be on July 15, 2008. Interest on the outstanding amount due under this Secured Debt Facility, both prior and subsequent to the Conversion Date, equals LIBOR plus 0.32%. There is a commitment fee of 0.10% on the unused portion of the Secured Debt Facility, which is payable in arrears. Effective on June 8, 2006, ultimate payment of the Secured Debt Facility principal has been insured by Ambac Assurance Corporation. The cost, 0.26% on the outstanding principal balance plus 0.09% on the unused portion of the Secured Debt Facility, of this insurance coverage is recognized as incurred on a monthly basis.

Under the terms of the 2005-1 Bonds and Secured Debt Facility, the total outstanding principal of these two programs may not exceed an amount (Asset Base) which is calculated by a formula based on TMCL's book value of equipment, restricted cash and direct finance leases. The total obligations under the 2005-1 Bonds and the Secured Debt Facility are collateralized by a pledge of the securitization entity's assets. TMCL's total assets amounted to \$860,665 as of December 31, 2006. The 2005-1 Bonds and the Secured Debt Facility also contain restrictive covenants regarding the average age of the securitization entity's container fleet, certain earnings ratios, ability to incur other obligations and to distribute earnings, TGH's container management subsidiary net income and debt levels, and overall Asset Base minimums, in which the securitization entity and TGH's container management subsidiary were in compliance at December 31, 2006.

The debt covenants noted above for the Credit Facility, Secured Debt Facility and 2005-1 Bonds restrict the ability of subsidiaries to dividend or loan cash to TGH and at December 31, 2006 the amount of restricted net assets was \$79,078.

The following represents the Company's debt obligations as of December 31, 2006 and 2005:

<b>Bonds Payable and Secured Debt Facility</b>	<b>2006</b>	<b>2005</b>
2005-1 Bonds, interest at 5.60% and 4.62%, at December 31, 2006 and 2005, respectively	\$ 488,167	\$ 546,167
Secured Debt Facility, weighted average interest at 5.67% and 0%, at December 31, 2006 and 2005, respectively	53,000	
<b>Total debt obligations</b>	<b>\$ 541,167</b>	<b>\$ 546,167</b>
Amount due within one year	\$ 58,000	\$ 58,000
Amounts due beyond one year	\$ 483,167	\$ 488,167



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The following is a schedule by year, of future scheduled repayments, as of December 31, 2006:

	Secured Debt Facility	2005-1 Bonds
Year ending December 31:		
2007	\$	\$ 58,000
2008	2,650	58,000
2009	5,300	58,000
2010	5,300	58,000
2011 and thereafter	39,750	256,167
	\$ 53,000	\$ 488,167

**Derivative Instruments**

The Company has entered into several interest rate cap and swap agreements with several banks to reduce the impact of changes in interest rates associated with its Bonds Payable and Secured Debt Facility. The following is a summary of the Company's derivative instruments as of December 31, 2006:

Derivative instruments	Notional amount
Interest rate cap contracts with several banks which cap one-month LIBOR rates fixed between 8.05% and 8.40% per annum, nonamortizing notional amounts, with termination dates through November 2007	\$ 105,000
Interest rate swap contracts with several banks, with one-month LIBOR rates fixed between 3.35% and 5.43% per annum, amortizing notional amounts, with termination dates through December 2010	319,080
Total notional amount as of December 31, 2006	\$ 424,080

During January 2007, the Company entered into an interest rate swap contract with a bank, with one-month LIBOR rate fixed at 5.106% per annum, in amortizing notional amount with initial notional amount of \$25,000 and a term from January 17, 2007 through July 15, 2009.

During February 2007, the Company entered into an interest rate swap contract with a bank, with one-month LIBOR rate fixed at 5.095% per annum, in amortizing notional amount with initial notional amount of \$20,000 and a term from February 15, 2007 through August 15, 2009.

The Company's interest rate swap agreements had a cumulative fair asset value of \$3,992 and \$4,566 as of December 31, 2006 and 2005, respectively. The change in fair value was recorded in the consolidated statement of income as part of realized and unrealized gains (losses) on derivative instruments, net.

Realized and unrealized gains (losses) on derivative instruments, net were comprised of the following for the years ended December 31, 2006, 2005 and 2004, respectively:



	<b>2006</b>	<b>2005</b>	<b>2004</b>
Realized gains (losses) on derivative instruments	\$ 2,848	\$ (4,153)	\$ (9,905)
Unrealized (losses) gains on derivative instruments	(574)	8,688	9,016
Realized and unrealized gains (losses) on derivative instruments, net	\$ 2,274	\$ 4,535	\$ (889)

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**Table of Contents****TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

Notes to Consolidated Financial Statements Continued

December 31, 2006, 2005 and 2004

(All currency expressed in United States dollars in thousands)

**(8) Segment Information**

As described in Note 1(a) Nature of Operations, the Company operates in four reportable segments: container management, container ownership, container resale and military management. The following tables show segment information for the years ended December 31, 2006, 2005 and 2004, reconciled to the Company's income before taxes as shown in its consolidated statements of income:

<b>2006</b>	<b>Container Management</b>	<b>Container Ownership</b>	<b>Container Resale</b>	<b>Military Management</b>	<b>Other</b>	<b>Eliminations</b>	<b>Totals</b>
Lease rental income	\$	\$ 181,481	\$	\$ 4,612	\$	\$	\$ 186,093
Management fees	29,161		4,946	1,680		(19,593)	16,194
Trading container sales proceeds			14,137				14,137
Gain on sale of containers, net	(2)	9,560					9,558
Other revenue	71				409		480
<b>Total revenue</b>	\$ 29,230	\$ 191,041	\$ 19,083	\$ 6,292	\$ 409	\$ (19,593)	\$ 226,462
Depreciation expense	\$ 611	\$ 54,574	\$	\$ 88	\$	\$ (943)	\$ 54,330
Interest expense	\$	\$ 33,083	\$	\$	\$	\$	\$ 33,083
Segment income before taxes	\$ 11,523	\$ 42,949	\$ 5,458	\$ 1,172	\$ 119	\$ (641)	\$ 60,580
Total assets	\$ 49,058	\$ 960,780	\$ 5,299	\$ 1,276	\$ (53,073)	\$ (19,107)	\$ 944,233
Purchases of long-lived assets	\$ 19,293	\$ 104,508	\$	\$	\$	\$	\$ 123,801
<b>2005</b>							
Lease rental income	\$	\$ 183,737	\$	\$ 5,167	\$	\$	\$ 188,904
Management fees	29,497		4,284	1,632		(19,941)	15,472
Trading container sales proceeds			16,046				16,046
Incentive management fees and general partner distributions	305	2,006			563		2,874
Gain on sale of containers, net	(2)	10,458					10,456
Other revenue	102				546		648
<b>Total revenue</b>	\$ 29,902	\$ 196,201	\$ 20,330	\$ 6,799	\$ 1,109	\$ (19,941)	\$ 234,400
Depreciation expense	\$ 837	\$ 60,701	\$	\$ 99	\$	\$ (845)	\$ 60,792
Interest expense	\$	\$ 27,491	\$	\$	\$	\$	\$ 27,491
Segment income before taxes	\$ 13,761	\$ 47,397	\$ 5,447	\$ 738	\$ 92	\$ 206	\$ 67,641

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Total assets	\$	29,646	\$	867,472	\$	8,082	\$	1,331	\$	(17,401)	\$	(18,365)	\$	870,765
Purchases of long-lived assets	\$	516	\$	157,677	\$		\$		\$		\$		\$	158,193
<b>2004</b>														
Lease rental income	\$		\$	143,885	\$		\$	3,267	\$		\$		\$	147,152
Management fees		33,013				2,278		1,584				(18,933)		17,942
Trading container sales proceeds						8,429								8,429
Incentive management fees and general partner distributions		474		269						836				1,579
Gain on sale of containers, net		(3)		4,278										4,275
Other revenue		215								725				940
Total revenue	\$	33,699	\$	148,432	\$	10,707	\$	4,851	\$	1,561	\$	(18,933)	\$	180,317
Depreciation expense	\$	803	\$	47,903	\$		\$	99	\$		\$	(484)	\$	48,321
Interest expense	\$		\$	13,434	\$		\$		\$		\$		\$	13,434
Segment income before taxes	\$	17,604	\$	38,601	\$	2,731	\$	740	\$	(152)	\$	(1,919)	\$	57,605
Total assets	\$	32,126	\$	817,108	\$	2,430	\$	2,120	\$	(1,208)	\$	(5,997)	\$	846,579
Purchases of long-lived assets	\$	1,261	\$	193,373	\$		\$		\$		\$		\$	194,634

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**Table of Contents****TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

Notes to Consolidated Financial Statements - Continued

December 31, 2006, 2005 and 2004

(All currency expressed in United States dollars in thousands)

Amounts reported in the "Other" column represent activity related to management of the Partnership business and a small start up business that was discontinued and neither is related to the remaining active business segments. Amounts reported in the "Eliminations" column represent inter-segment management fees between the Container Management and Container Ownership segments.

**Geographic Segment Information**

The Company's container lessees use containers for their global trade utilizing many worldwide trade routes. The Company earns its revenue from international carriers when the containers are in use and carrying cargo around the world. Substantially all of the Company's leasing related revenue are denominated in U.S. dollars. As all of the Company's containers are used internationally, where no one container is domiciled in one particular place for a prolonged period of time, all of the Company's long-lived assets are considered to be international with no single country of use.

**(9) Commitments and Contingencies****(a) Leases**

The Company has entered into several operating leases for office space. Rent expense amounted to \$1,396, \$1,330 and \$1,309 for the years ended December 31, 2006, 2005 and 2004, respectively.

Future minimum lease payment obligations under the Company's noncancelable operating leases at December 31, 2006 were as follows:

	<b>Operating leasing</b>
Year ending December 31:	
2007	\$ 1,287
2008	1,303
2009	1,310
2010	1,217
2011 and thereafter	1,429
<b>Total</b>	<b>\$ 6,546</b>

**(b) Restricted Cash**

The Company had \$4,436 and \$0 of restricted interest-bearing cash account as additional collateral for outstanding borrowings under the Company's Credit Facility as of December 31, 2006 and 2005, respectively.

Restricted interest-bearing cash accounts were established by the Company as additional collateral for outstanding borrowings under the Company's Secured Debt Facility and 2005-1 Bonds. The total balance of these restricted cash accounts was \$17,553 and \$13,379 as of

December 31, 2006 and 2005, respectively.

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**TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

Notes to Consolidated Financial Statements Continued

December 31, 2006, 2005 and 2004

(All currency expressed in United States dollars in thousands)

***(c) Trading Container Purchase Commitment***

The Company entered into an agreement in December 2006 with a shipping line to purchase up to \$4,357 of containers to be resold. The agreement expires at the earlier of December 2007 or when all the equipment has been delivered.

***(d) Container Commitments***

At December 31, 2006, the Company had placed orders with manufacturers for containers to be delivered subsequent to December 31, 2006 in the total amount of \$18,033.

***(e) Legal Proceedings***

In 2005 the Company reserved \$2.5 million to resolve a dispute with a container manufacturer. The Company paid \$1.3 million pursuant to a court order. On November 28, 2006, the Company and its parent company, Trenchor Limited, entered into a letter agreement related to a settlement with this container manufacturer and the sale of a South African container manufacturing plant. This container manufacturer owed money to Trenchor and had claims against the Company. Pursuant to this letter agreement, the container manufacturer agreed to return the plant to Trenchor in lieu of its liabilities and the Company agreed to cover Trenchor's losses upon the sale of the plant, up to a limit of \$750, in settlement of the container manufacturer's claims against them. The \$450 reduction in the reserve was released to income in 2006. On August 23, 2007, Trenchor entered into a sale agreement with a third party to sell the plant for an amount that would not result in any loss being recorded. This sale is subject to certain conditions being satisfied and the Company will reduce its reserve at such time as the conditions have been satisfied and the funds have been received from the buyer of the plant.

***(f) Legal Proceedings on the Sale of the Partnerships Assets***

On April 18, 2005, the Partnerships sold substantially all of their assets to RFH Ltd, an unaffiliated entity. As part of this sale transaction, RFH engaged the Company, one of the general partners, to manage the containers RFH bought.

Five lawsuits were filed between March 2005 and March 2007 in state and federal court, initiated by certain limited partners. The limited partners in the state and federal actions allege that the Company breached its fiduciary duty by engaging in self-dealing and conflicted transactions in entering into the Asset Sale. In the federal case, there is an additional allegation that the Company violated federal securities laws because proxy statements issued in connection with the sale of assets were materially false or misleading. The lawsuits seek certain remedies from the Partnerships and the Company. On January 10, 2007, the federal case was dismissed, with prejudice, and has since been timely appealed. Discovery is ongoing in the state case. While it is not possible to predict or determine the outcome of these lawsuits, the Company believes that these lawsuits are without merit. The Company intends to vigorously defend against the lawsuits. At this time, an estimate of the range of loss resulting from these proceedings cannot be made.

**Table of Contents****TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

Notes to Consolidated Financial Statements Continued

December 31, 2006, 2005 and 2004

(All currency expressed in United States dollars in thousands)

**(10) Share Option Plans**

Through five share option plans, the 1994 Plan, the 1996 Plan, the 1997 Plan, the 1998 Plan, and the 2001 Plan, the Company has granted share options to certain employees to purchase shares of its common shares. The share option plan details are as follows:

	Shares authorized	Shares granted	Exercise price
1994 Plan	1,080,000	1,080,000	\$ 1.32
1996 Plan	100,000	100,000	\$ 2.01
1997 Plan	1,040,000	1,040,000	\$ 2.17
1998 Plan	80,000	80,000	\$ 2.42
2001 Plan	800,000	750,000	\$ 2.81
	3,100,000	3,050,000	

Options are granted at exercise prices equal to fair market value which management believes approximates the fully diluted per share net book value of the Company's common shares at the calendar year end subsequent to the date of adoption. The Company's common shares typically only trades between the Company and the employees. Each employee's options vest in increments of 20% per year beginning approximately one year after an option's grant date. Unless terminated pursuant to certain provisions within the share option plans, including discontinuance of employment with the Company, all unexercised options expire between December 31, 2007 and 2011. The Company has committed to repurchase any shares exercised under the plans (the Put Option) from any employees who terminate their employment during a three-month put period that begins 12 months after the employee's termination, at the Company's fully diluted per share net book value as of the end of the calendar year immediately preceding the put period.

The following is a summary of activity in the Company's share option plans for the years ended December 31, 2006, 2005 and 2004:

	Share options (common share equivalents)			Weighted average	
	Unvested	Vested	Total	Exercise Price	Expiration Year
Balances, December 31, 2003	450,000	570,000	1,020,000	\$ 2.61	2010
Options exercised during the year		(210,000)	(210,000)	\$ 2.57	2009
Options vested on December 31, 2004	(150,000)	150,000		\$ 2.81	2011
Balances, December 31, 2004	300,000	510,000	810,000	\$ 2.62	2010
Options exercised during the year		(250,000)	(250,000)	\$ 2.61	2010
Options vested on December 31, 2005	(150,000)	150,000		\$ 2.81	2011
Balances, December 31, 2005	150,000	410,000	560,000	\$ 2.63	2010
Options exercised during the year		(230,000)	(230,000)	\$ 2.59	2010
Options vested on December 31, 2006	(150,000)	150,000		\$ 2.81	2011
Balances, December 31, 2006		330,000	330,000	\$ 2.66	2010

All options granted under the 1996 Plan, 1997 Plan and 1998 Plan vested prior to 2004. The fair value of each option granted under the 2001 Plan was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: (i) a risk-free interest rate, 4.7%, is based on the

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**TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

Notes to Consolidated Financial Statements Continued

December 31, 2006, 2005 and 2004

(All currency expressed in United States dollars in thousands)

implied yield on a U.S. Treasury zero-coupon issue with a remaining term equal to the expected term of the option life of 6 years, (ii) the expected stock price volatility, 35%, is based on the historical volatility of the Company's share value as evaluated by an external company, and (iii) the dividend yield of 10.7% reflects the yield on the date of grant. The fair values of the share options granted under the 2001 Plan were not significant. The intrinsic value per share for the options outstanding as of December 31, 2006 was approximately \$6.50 per share.

The Company's board of directors had approved guidelines as described in the 2001 Plan to allow all share option plan participants to exercise their share options and defer payment of the exercise price through execution of a participant's promissory note (the Notes). The Notes, which are payable to the Company, are secured by a pledge of all option shares being purchased. The value of the Notes shall equal the portion of the unpaid exercised price. Interest is accrued as a current asset at 6.02% per annum, which is 0.5% above the Company's current effective interest rate before tax as of December 31, 2006. Interest is payable annually no later than the end of April of the subsequent year. Interest receivable as of December 31, 2006 is \$72. All cash dividends or distributions paid in respect of the option shares secured by the Notes shall be applied to accrued interest. The principal amount of the Notes is due upon the earlier of (1) sale of the shares to a buyer other than the Company, (2) termination of employment, or (3) the initial public offering of the Company's shares. As of December 31, 2006 and 2005, total notes receivable of \$1,180 and \$1,299, respectively, were recorded as a contra-equity item in the Company's shareholders' equity.

In 2005, the Company reclassified the share option plan obligation for the 2001 Plan from a liability to additional paid-in capital. The \$479 amount represents a true-up to the additional paid in capital account to correct amounts recorded in prior periods. The Company considered the magnitude of the error and concluded it was immaterial to the financial statements.

**(11) Subsequent Events**

***Container Contracts Payable***

Container contracts payable of \$32,927 as of December 31, 2006 represent amounts payable to container manufacturers as of December 31, 2006 for containers acquired during 2006. This amount was financed primarily with available cash during the first quarter of 2007.

***Revolving Credit Facility***

The Company's Credit Facility was amended on January 31, 2007 (note 7). The total commitment was increased to \$75 million with the Conversion Date defined as January 31, 2009.

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## Consolidated Balance Sheets

June 30, 2007 and December 31, 2006

(Unaudited)

(All currency expressed in United States dollars in thousands)

	2007	2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 35,900	\$ 41,163
Accounts receivable, net of allowance for doubtful accounts of \$3,004 and \$2,320 in 2007 and 2006, respectively	46,846	41,348
Net investment in direct finance leases	7,232	6,182
Containers held for resale	2,599	3,964
Prepaid expenses	2,670	2,009
Deferred taxes	738	380
Due from affiliates, net	10	15
Total current assets	95,995	95,061
Restricted cash	18,514	21,989
Containers, net	821,221	763,612
Net investment in direct finance leases	39,183	36,040
Fixed assets, net	1,294	1,340
Intangible assets, net	16,890	17,960
Derivative instruments	3,770	3,992
Other assets	3,734	4,239
Total assets	\$ 1,000,601	\$ 944,233
<b>Liabilities and Shareholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 7,877	\$ 4,618
Accrued expenses	19,787	21,079
Container contracts payable	44,597	32,927
Due to owners, net	6,387	6,570
Bonds payable	58,000	58,000
Total current liabilities	136,648	123,194
Revolving credit facility	16,000	
Secured debt facility	92,000	53,000
Bonds payable	401,167	430,167
Deferred taxes	11,209	10,656
Total liabilities	657,024	617,017
Minority interest	95,071	85,922
Shareholders equity:		
	386	383

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Common shares, \$0.01 par value. Authorized 120,000,000 shares; issued and outstanding 38,604,640 and 38,274,640 shares at 2007 and 2006, respectively

Additional paid-in capital	24,945	24,093
Notes receivable from shareholders	(792)	(1,180)
Accumulated other comprehensive income	374	380
Retained earnings	223,593	217,618
<b>Total shareholders' equity</b>	<b>248,506</b>	<b>241,294</b>
Total liabilities and shareholders' equity	\$ 1,000,601	\$ 944,233

**See accompanying notes to consolidated financial statements.**

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**Table of Contents****TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

## Consolidated Statements of Income

Six Months Ended June 30, 2007 and 2006

(Unaudited)

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

	Six Months Ended June 30,	
	2007	2006
<b>Revenues:</b>		
Lease rental income	\$ 96,649	\$ 90,679
Management fees	10,141	6,574
Trading container sales proceeds	7,162	9,287
Gain on sale of containers, net	5,611	4,186
Other	286	182
<b>Total revenues</b>	<b>119,849</b>	<b>110,908</b>
<b>Operating expenses:</b>		
Direct container expense	18,427	15,715
Cost of trading containers sold	5,779	7,708
Depreciation expense	23,391	29,625
Amortization expense	1,070	
General and administrative expense	8,407	8,133
Incentive compensation expense	2,178	1,720
Bad debt expense, net	996	502
<b>Total operating expenses</b>	<b>60,248</b>	<b>63,403</b>
<b>Income from operations</b>	<b>59,601</b>	<b>47,505</b>
<b>Other income (expense):</b>		
Interest expense	(17,251)	(15,385)
Interest income	1,377	1,021
Realized and unrealized gains on derivative instruments, net	1,519	4,607
Other, net	(7)	(145)
<b>Net other expense</b>	<b>(14,362)</b>	<b>(9,902)</b>
<b>Income before income tax and minority interest</b>	<b>45,239</b>	<b>37,603</b>
<b>Income tax expense</b>	<b>(2,775)</b>	<b>(2,061)</b>
<b>Minority interest expense</b>	<b>(9,150)</b>	<b>(10,277)</b>
<b>Net income</b>	<b>\$ 33,314</b>	<b>\$ 25,265</b>
<b>Net income per share:</b>		
Basic	\$ 0.87	\$ 0.66
Diluted	\$ 0.86	\$ 0.66

Weighted average shares outstanding (in thousands):		
Basic	38,494	38,136
Diluted	38,574	38,480

**See accompanying notes to consolidated financial statements.**

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**Table of Contents****TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

Consolidated Statements of Shareholders' Equity and Comprehensive Income

Six months ended June 30, 2007 and 2006

(Unaudited)

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

	Common shares		Additional paid-in capital	Notes receivable from shareholders	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders equity
	Shares	Amount					
Balances, December 31, 2005	38,056,516	\$ 381	\$ 23,706	\$ (1,299)	\$ 30	\$ 188,733	\$ 211,551
Dividends to shareholders						(19,088)	(19,088)
Exercise of share options	120,000	1	337	(338)			
Share option plan obligation			(223)				(223)
Share option plan expense			142				142
Repayment of notes receivable from shareholders				512			512
Repurchase and retirement of common shares	(1,876)		(2)			(13)	(15)
Comprehensive income:							
Net income						25,265	25,265
Foreign currency translation adjustments					208		208
<b>Total comprehensive income</b>							<b>25,473</b>
Balances, June 30, 2006	38,174,640	\$ 382	\$ 23,960	\$ (1,125)	\$ 238	\$ 194,897	\$ 218,352
Balances, December 31, 2006	38,274,640	\$ 383	\$ 24,093	\$ (1,180)	\$ 380	\$ 217,618	\$ 241,294
Cumulative effect from FIN 48 implementation						1,035	1,035
Dividends to shareholders						(28,374)	(28,374)
Exercise of share options	330,000	3	872	(875)			
Share option plan expense			(20)				(20)
Repayment of notes receivable from shareholders				1,263			1,263
Comprehensive income:							
Net income						33,314	33,314
Foreign currency translation adjustments					(6)		(6)
<b>Total comprehensive income</b>							<b>33,308</b>
Balances, June 30, 2007	38,604,640	\$ 386	\$ 24,945	\$ (792)	\$ 374	\$ 223,593	\$ 248,506

See accompanying notes to consolidated financial statements.



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## Consolidated Statements of Cash Flows

Six months ended June 30, 2007 and 2006

(Unaudited)

(All currency expressed in United States dollars in thousands)

	2007	2006
Cash flows from operating activities:		
Net income	\$ 33,314	\$ 25,265
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	23,391	29,625
Provision for containers held for resale	13	(6)
Bad debt expense, net	996	502
Unrealized losses (gains) on derivative instruments, net	222	(3,615)
Amortization of debt issuance costs	661	689
Amortization of intangible assets	1,070	
Gain on sale of containers, net	(5,611)	(4,186)
Share option plan benefit	(20)	(81)
Minority interest expense	9,150	10,277
Decrease (increase) in:		
Accounts receivable, net	(6,494)	3,211
Containers held for resale	1,352	1,689
Prepaid expenses	(393)	756
Due from affiliates, net	5	51
Other assets	(156)	(757)
(Decrease) increase in:		
Accounts payable	3,259	(2,536)
Accrued expenses	(598)	(4,223)
Due to owners, net	(183)	(1,418)
Deferred taxes, net	535	484
Total adjustments	27,199	30,462
Net cash provided by operating activities	60,513	55,727
Cash flows from investing activities:		
Purchase of containers and fixed assets	(93,710)	(24,165)
Purchase of intangible assets		(9,000)
Proceeds from sale of containers and fixed assets	22,874	14,842
Receipt of principal payments on direct finance leases	2,970	3,462
Net cash used in investing activities	(67,866)	(14,861)
Cash flows from financing activities:		
Proceeds from revolving credit facility	34,000	
Principal payments on revolving credit facility	(18,000)	
Proceeds from secured debt facility	75,000	
Principal payments on secured debt facility	(36,000)	



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Principal payments on bonds payable	(29,000)	(29,000)
Decrease (increase) in restricted cash	3,475	(5,978)
Debt issuance costs	(268)	(895)
Repayments of notes receivable from shareholders	1,263	512
Retirement of common shares		(15)
Dividends paid	(28,374)	(19,088)
Net cash provided by (used in) financing activities	2,096	(54,464)
Effect of exchange rate changes	(6)	208
Net decrease in cash and cash equivalents	(5,263)	(13,390)
Cash and cash equivalents, beginning of the period	41,163	42,231
Cash and cash equivalents, end of the period	\$ 35,900	\$ 28,841

(Continued)

See accompanying notes to consolidated financial statements.

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**TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Six months ended June 30, 2007 and 2006

(Unaudited)

(All currency expressed in United States dollars in thousands)

	2007	2006
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 14,695	\$ 13,846
Income taxes	\$ 569	\$ 565
Supplemental disclosures of noncash investing activities:		
Increase in accrued container purchases	\$ 11,670	\$ 37,355
Containers placed in direct finance leases	\$ 7,163	\$ 16,536

**See accompanying notes to consolidated financial statements.**

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**TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(Unaudited)

(All currency expressed in United States dollars in thousands)

**(1) Nature of Business**

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

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

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

**(2) Summary of Significant Accounting Policies**

***(a) Basis of Accounting and Principles of Consolidation***

The Company utilizes the accrual method of accounting.

Certain information and footnote disclosure normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The accompanying unaudited interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal years ended December 31, 2006 and 2005.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal and recurring adjustments) necessary to present fairly our financial position as of June 30, 2007, and the results of our operations and cash flows for the six months ended June 30, 2007 and 2006. These financial statements are not necessarily indicative of the results of operations or cash flows which may be reported for the remainder of 2007.

***(b) Principles of Consolidation***

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

The majority of the container equipment included in the accompanying consolidated financial statements is owned by an entity (Textainer Marine Containers Limited or TMCL) which is 72.29% and 72.63% owned by the Company as of June 30, 2007 and December 31, 2006, respectively. The Company manages the equipment and controls the day-to-day operations of this entity. Under the terms of the ownership agreement certain voting matters are based on ownership interest and others are shared equally between the Company and the minority shareholders. The amounts attributable to the minority shareholder are reflected as minority interest in the accompanying financial statements.

*(c) Intangible Assets*

On July 1, 2006, the Company assumed management of a competitor's fleet of approximately 211,000 containers by purchasing the management contracts for \$18,983. The purchase price will be fully amortized over the expected 11-year life of the contract on a pro-rata basis to the expected management fees. Amortization expense for the six months ended June 30, 2007 was \$1,070.

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**(d) Lease Rental Income**

Leasing income arises principally from the renting of containers owned by the Company to various international shipping lines. Revenue is recorded when earned according to the terms of the container rental contracts. These contracts are typically for terms of five years or less and are generally classified as operating leases.

Under long-term lease agreements, containers are usually leased from the Company for periods of three to five 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 finance leases, the containers are usually leased from the Company for the remainder of the container's useful life with a bargain purchase option at the end of the lease term. Revenue is earned and recognized on direct finance leases over the lease terms so as to produce a constant periodic rate of return on the net investment in the lease.

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

The following is a schedule, by year, of future minimum lease payments receivable under the long-term leases as of June 30, 2007 (unaudited):

Twelve months ending June 30:	
2008	\$ 81,533
2009	55,210
2010	36,581
2011	20,832
2012 and thereafter	9,875
<b>Total future minimum lease payments receivable</b>	<b>\$ 204,031</b>

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

**(e) Containers and Fixed Assets**

Capitalized container costs include the container cost payable to the manufacturer (Invoice) and the associated transportation costs incurred in moving the containers from the manufacturer to the containers' first destined port (Initial Repo). Containers purchased new are depreciated using the straight-line method over their estimated useful lives of 12 years to an estimated dollar residual value. Containers purchased used are depreciated based upon their remaining useful lives at the date of acquisition to an estimated dollar residual value. The Company evaluates the estimated residual values and remaining estimated useful lives on an ongoing basis. During the last few years, the Company experienced a significant increase in resale prices, as a result of both higher utilization decreasing the number of containers available for sale and the increased cost of new containers. Based on this extended period of higher realized residual values and an expectation that new equipment prices will



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remain near current levels the Company increased the estimated future residual values during the third quarter of 2006. Assuming no change in equipment cost balances, the increase would result in a decrease in depreciation expense of \$4.2 million per quarter. Depreciation expense may fluctuate in future periods based on fluctuations in these estimates. During the six months ended June 30, 2007 and 2006, the Company recorded additional depreciation expense in the accompanying consolidated statements of income, to write down the value of these containers identified for sale, respectively, to their estimated fair value as follows:

	Six months ended June 30,			
	2007	2006	Units	Amount
Depreciation expense	782	\$ 143	915	\$ 162

**(f) Income Taxes**

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

On January 1, 2007, the Company adopted FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. FIN 48 requires that the Company recognize in the financial statements the impact of a tax position, if that position is more likely than not being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. On January 1, 2007, the Company adopted FIN 48. The Company has elected to record penalties and interest within income tax expense. The implementation of FIN 48 resulted in a cumulative effect adjustment to increase retained earnings of approximately \$1,035. At January 1, 2007, the Company has recorded tax liabilities for uncertain tax positions of approximately \$7,912, including accrued interest and penalties of \$574. For the six months ended June 30, 2007, an additional income tax expense of approximately \$1,543 was recorded for uncertainties in income taxes. The Company does not believe the total amount of unrecognized benefit as of January 1, 2007 will increase or decrease significantly in the next twelve months. At June 30, 2007, the tax years 2000 to 2006 remain open to review in the United States.

The Company's foreign tax returns, including the United States, are subject to routine compliance review by the various tax authorities. The Company accrues for foreign tax contingencies based upon its best estimate of the additional taxes, interest and penalties expected to be paid. These estimates are updated over time as more definitive information becomes available from taxing authorities, completion of tax audits, expiration of statute of limitations, or upon occurrence of other events. An audit by the IRS in the United States is currently ongoing and to date, no matters have arisen to alter the Company's accounting for income taxes.





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***(g) Damage Protection Plan Repair Cost Reserve and Maintenance Expense***

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

On September 8, 2006, the FASB posted the Staff Position (FSP), *Accounting for Planned Major Maintenance Activities*. The FSP amends certain provisions in the AICPA Industry Audit Guide, Audits of Airlines, and APB Opinion No. 28, *Interim Financial Reporting*. FSP AUG AIR-1 prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial statements.

For containers not subject to a DPP and for containers where DPP is billed upon drop off, we previously accrued for repairs once we had made the decision to repair the container, which is made in advance of us incurring the repair obligations, however the accruals have typically been insignificant. For containers covered by per diem DPP, the Company historically accounted for periodic maintenance and repairs on an accrual basis.

The Company adopted FSP AUG AIR-1 effective January 1, 2007. Accordingly, we have retroactively adjusted all financial statements presented to reflect the direct expense method of accounting for maintenance, a method permitted under this Staff Position. The effects of adopting this standard on the financial statements for the six months ended June 30, 2007 and 2006 (both unaudited) were not material.

***(h) Concentrations***

Although substantially all of the Company's income from operations is derived from assets employed in foreign concentrations, virtually all of this income is denominated in U.S. dollars. The Company does pay some of its expenses in various foreign currencies. For the six months ended June 30, 2007 and 2006, \$7,051 or 38% and \$6,429 or 41%, respectively, of the Company's direct container expenses were paid in 15 different foreign currencies. The Company does not hedge these container expenses as there are no significant payments made in any one foreign currency and the Company's contract with the U.S. military contains a provision to protect it from fluctuations in exchange rates for payments made in foreign currencies.

The Company's customers are international shipping lines, which transport goods on international trade routes. Once the containers are on hire with a lessee, the Company does not track their location. The domicile of the lessee is not indicative of where the lessee is transporting the containers. The Company's business risk in its foreign concentrations lies with the creditworthiness of the lessees rather than the geographic location of the containers or the domicile of the lessees. For the six months ended June 30, 2007 and 2006, revenue from one lessee amounted to \$10,278 or 11% and \$10,021 or 11%, respectively, of the Company's lease rental income. Accounts receivable from one lessee accounted for \$5,564 or 12% of the Company's accounts receivable, net at June 30, 2007. No single lessee accounted for more than 10% of the accounts receivable, net as of December 31, 2006.



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***(i) Derivative Instruments***

The Company has entered into various interest rate cap and swap 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 and unrealized gains (losses) on derivative instruments, net in the consolidated statement of income.

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

The Company's interest rate swap agreements have expiration dates between September 2007 and December 2010. The cumulative fair value of these agreements were assets of \$3,770 and \$3,992 as of June 30, 2007 and December 31, 2006, respectively.

The Company's interest rate cap agreements have expiration dates between August 2007 and November 2015.

***(j) 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, accounts receivable, and accruals.

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

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**(k) Net income per share**

Basic net income per share is computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted income per share reflects the potential dilution that could occur if all outstanding share options were exercised or converted into common shares. For the six months ended June 30, 2007 and 2006, all share options to acquire common shares were dilutive. A reconciliation of the numerator and denominator of basic EPS with that of diluted EPS is presented as follows:

	Six months ended	
	June 30,	
	2007	2006
<b>Numerator</b>		
Net income basic and diluted EPS	\$ 33,314	\$ 25,265
<b>Denominator (in thousands)</b>		
Weighted average common shares outstanding basic	38,494	38,136
Dilutive stock options	80	344
Weighted average common shares outstanding diluted	38,574	38,480
<b>Earnings per common share</b>		
Basic	\$ 0.87	\$ 0.66
Diluted	\$ 0.86	\$ 0.66

**(l) Recently Issued Accounting Standards**

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). The purpose of SFAS 157 is to define fair value, establish a framework for measuring fair value and enhance disclosures about fair value measurements. The measurement and disclosure requirements are effective for periods beginning after November 15, 2007. We are currently evaluating the effect that the adoption of SFAS 157 will have on our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*. Under this pronouncement, companies may elect to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reporting earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. However, SFAS No. 159 specifically includes financial assets and financial liabilities recognized under leases (as defined in SFAS No. 13, *Accounting for Leases*), as among those items not eligible for the fair value measurement option except contingent obligations for cancelled leases and guarantees of third-party lease obligations. This statement is effective for fiscal years that begin after November 15, 2007. We do not expect the adoption of SFAS No. 159 to have a material effect on our consolidated financial position or results of operations.



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**(3) Transactions with Affiliates and Owners**

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

Management fees, including acquisition fees and sales commissions for the six months ended June 30, 2007 and 2006 were as follows:

	<b>Six months ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Fees from affiliated Owners	\$ 3,258	\$ 2,637
Fees from unaffiliated Owners	6,031	3,109
Fees from Owners	9,289	5,746
Other fees	852	828
<b>Total management fees</b>	<b>\$ 10,141</b>	<b>\$ 6,574</b>

Due to Owners, net represents lease rentals collected on behalf of and payable to Owners, net of direct expenses and management fees receivable. Due to Owners, net at June 30, 2007 and December 31, 2006 consisted of the following:

	<b>2007</b>	<b>2006</b>
Affiliated Owner	\$ 798	\$ 765
Unaffiliated Owners	5,589	5,805
<b>Total to Owners, net</b>	<b>\$ 6,387</b>	<b>\$ 6,570</b>

**(4) Revolving Credit Facility, Bonds Payable and Secured Debt Facility, and Derivative Instruments****Revolving Credit Facility**

The Company has a credit agreement, as amended on January 31, 2007 (Credit Agreement), with a group of banks (Bank Group) to provide a revolving credit facility (Credit Facility) in the amount of \$75 million. The Credit Agreement also provides a \$25 million letter of Credit Facility included within the \$75 million commitment. This Credit Facility provides for payments of interest only during its term beginning on its inception date through January 31, 2009 (Conversion Date), with a provision for the Credit Facility to convert to a two-year fully amortizing note payable after the Conversion Date. Principal amortization will be on a quarterly basis, beginning on the last day of the first calendar quarter of the Conversion Date. Given the existing Conversion Date of January 31, 2009, principal amortization would begin on March 31, 2009. Interest on the outstanding amount due under this Credit Facility at June 30, 2007 can be based either on the U.S. prime rate or LIBOR plus

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1.50%. Total outstanding principal under the Credit Facility was \$16 million and \$0 as of June 30, 2007 and December 31, 2006, respectively. The Company had no outstanding letters of credit as of June 30, 2007 and one outstanding \$3,812 letter of credit as of and December 31, 2006.

Although the Credit Facility is not secured by the Company's containers, under the terms of the Credit Facility the total outstanding principal of all the Company's debt may not exceed the lesser of the

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commitment amount or a formula based on the Company's net book value of containers and outstanding debt. The Credit Facility Maximum was \$75 million and \$45 million as of June 30, 2007 and December 31, 2006.

TGH acts as a guarantor of this Credit Facility. The Credit Facility contains restrictive covenants regarding limitations on certain obligations, investments, and leverage. In addition, the Credit Facility contains certain restrictive covenants on TGH net worth, leverage, debt service, and interest coverage. The Company is in compliance with all such covenants at June 30, 2007. There is a commitment fee of 0.25% on the unused portion of the Credit Facility, which is payable in arrears. In addition, there is an agent's fee of 0.125% on the commitment amount, which is payable quarterly in advance.

***Bonds Payable and Secured Debt Facility***

In 2005, the Company issued \$580 million in variable rate amortizing bonds (2005-1 Bonds) to institutional investors. The \$580 million in 2005-1 Bonds represent fully amortizing notes payable on a straight-line basis over a scheduled payment term of 10 years, but not to exceed the maximum payment term of 15 years. Under a 10-year amortization schedule, \$58 million in 2005-1 Bond principal will amortize per year. Under the terms of the 2005-1 Bonds, both principal and interest incurred are payable monthly. The Company is not permitted to make voluntary prepayments of all, or a portion of, the principal balance of the 2005-1 Bonds prior to the payment date occurring in June 2008. Ultimate payment of the 2005-1 Bond principal has been insured by Ambac Assurance Corporation and the cost, 0.275% on the outstanding principal balance, of this insurance coverage is recognized as incurred on a monthly basis.

The interest rate for the outstanding principal balance of the 2005-1 Bonds equals one-month LIBOR plus 0.25%. The target final payment date and legal final payment date are May 15, 2015 and May 15, 2020, respectively.

The Company's primary ongoing container financing requirements are funded by the Secured Debt Facility. The Secured Debt Facility provided a total commitment in the amount of \$300 million as of June 30, 2007. The Secured Debt Facility provides for payments of interest only during the period from its inception until its Conversion Date as defined within the Securitization Agreement, with a provision for the Secured Debt Facility to then convert to a 10-year, but not to exceed the maximum term of 15-year, fully amortizing note payable on the Conversion Date. Under the Secured Debt Facility terms of the Securitization Agreement, as amended on June 8, 2006, the Conversion Date is defined as June 6, 2008. Given a Conversion Date of June 6, 2008, first principal payment would be on July 15, 2008. Interest on the outstanding amount due under this Secured Debt Facility, both prior and subsequent to the Conversion Date, equals LIBOR plus 0.32%. There is a commitment fee of 0.10% on the unused portion of the Secured Debt Facility, which is payable in arrears. Effective on June 8, 2006, ultimate payment of the Secured Debt Facility principal has been insured by Ambac Assurance Corporation. The cost, 0.26% on the outstanding principal balance plus 0.09% on the unused portion of the Secured Debt Facility, of this insurance coverage is recognized as incurred on a monthly basis.

Under the terms of the 2005-1 Bonds and Secured Debt Facility, the total outstanding principal of these two programs may not exceed an amount (Asset Base) which is calculated by a formula based on TMCL's book value of equipment, restricted cash and direct finance leases. The total obligations under the 2005-1 Bonds and the Secured Debt Facility are collateralized by a pledge of the securitization entity's assets. TMCL's total assets amounted to \$902,572 as of June 30, 2007. The 2005-1 Bonds and the Secured Debt Facility also contain restrictive covenants regarding the average age of the securitization entity's container



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fleet, certain earnings ratios, ability to incur other obligations and to distribute earnings, TGH's container management subsidiary net income and debt levels, and overall Asset Base minimums, in which the securitization entity and TGH's container management subsidiary were in compliance at June 30, 2007.

The following represents the Company's debt obligations as of June 30, 2007 and December 31, 2006:

<b>Revolving Credit Facility; Bonds Payable and Secured Debt Facility</b>	<b>2007</b>	<b>2006</b>
Revolving Credit Facility, weighted average interest at 7.43% at June 30, 2007	\$ 16,000	\$
2005-1 Bonds, interest at 5.57% and 5.60%, at June 30, 2007 and December 31, 2006, respectively	459,167	488,167
Secured Debt Facility, weighted average interest at 5.65% and 5.67%, at June 30, 2007 and December 31, 2006, respectively	92,000	53,000
Total debt obligations	\$ 567,167	\$ 541,167
Amount due within one year	\$ 58,000	\$ 58,000
Total due beyond one year	\$ 509,167	\$ 483,167

The following is a schedule by year, of future scheduled repayments, as of June 30, 2007:

<b>Twelve months ending June 30:</b>	<b>Revolving Credit Facility</b>	<b>Secured Debt Facility</b>	<b>2005-1 Bonds</b>
2008	\$	\$	\$ 58,000
2009	2,000	9,200	58,000
2010	4,000	9,200	58,000
2011	10,000	9,200	58,000
2012 and thereafter		64,400	227,167
	\$ 16,000	\$ 92,000	\$ 459,167

The future repayments schedule for the Secured Debt Facility is based on the event that the facility is not extended on the Conversion Date of June 6, 2008 and is then converted into a 10 year fully amortizing note payable.

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**Derivative Instruments**

The Company has entered into several interest rate cap and swap agreements with several banks to reduce the impact of changes in interest rates associated with its bonds payable and Secured Debt Facility. The following is a summary of the Company's derivative instruments as of June 30, 2007:

<b>Derivative instruments</b>	<b>Notional amount</b>
Interest rate cap contracts with several banks which cap one-month LIBOR rates fixed between 8.32% and 8.40% per annum, nonamortizing notional amounts, with termination dates through November 2007	\$ 95,000
Interest rate swap contracts with several banks, with one-month LIBOR rates fixed between 3.35% and 5.32% per annum, amortizing notional amounts, with termination dates through December 2010	347,960
<b>Total notional amount as of June 30, 2007</b>	<b>\$ 442,960</b>

The Company's interest rate swap agreements had a cumulative fair asset value of \$3,770 and \$3,992 as of June 30, 2007 and December 31, 2006, respectively. The change in fair value was recorded in the consolidated statement of income as part of realized and unrealized gains (losses) on derivative instruments, net.

Realized and unrealized gains (losses) on derivative instruments, net were comprised of the following for the six months ended June 30, 2007 and 2006, respectively:

	<b>Six months ended</b>	
	<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>
Realized gains on derivative instruments	\$ 1,741	\$ 992
Unrealized (losses) gains on derivative instruments	(222)	3,615
<b>Realized and unrealized gains on derivative instruments, net</b>	<b>\$ 1,519</b>	<b>\$ 4,607</b>

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**(5) Segment Information**

As described in Note 1, Nature of Business, the Company operates in four reportable segments: container management, container ownership, container resale and military management. The following tables show segment information for the six months ended June 30, 2007 and 2006, reconciled to the Company's income before taxes as shown in its consolidated statements of income:

**Six months ended**

<b>June 30, 2007</b>	<b>Container Management</b>	<b>Container Ownership</b>	<b>Container Resale</b>	<b>Military Management</b>	<b>Other</b>	<b>Eliminations</b>	<b>Totals</b>
Lease rental income	\$	\$ 94,163	\$	\$ 2,486	\$	\$	\$ 96,649
Management fees	18,060		3,440	852		(12,211)	10,141
Trading container sales proceeds			7,162				7,162
Gain on sale of containers, net	(1)	5,612					5,611
Other revenue	19				267		286
Total revenue	\$ 18,078	\$ 99,775	\$ 10,602	\$ 3,338	\$ 267	\$ (12,211)	\$ 119,849
Depreciation expense	\$ 290	\$ 23,621	\$	\$ 36	\$	\$ (556)	\$ 23,391
Interest expense	\$	\$ 17,251	\$	\$	\$	\$	\$ 17,251
Segment income before taxes	\$ 8,825	\$ 23,882	\$ 3,595	\$ 1,066	\$ 64	\$ (1,343)	\$ 36,089
Total assets	\$ 45,872	\$ 1,040,617	\$ 4,123	\$ 1,885	\$ (72,919)	\$ (18,977)	\$ 1,000,601
Purchases of long-lived assets	\$ 279	\$ 93,429	\$	\$ 2	\$	\$	\$ 93,710

**Six months ended**

<b>June 30, 2006</b>	<b>Container Management</b>	<b>Container Ownership</b>	<b>Container Resale</b>	<b>Military Management</b>	<b>Other</b>	<b>Eliminations</b>	<b>Totals</b>
Lease rental income	\$	\$ 87,978	\$	\$ 2,701	\$	\$	\$ 90,679
Management fees	13,027		2,181	828		(9,462)	6,574
Trading container sales proceeds			9,287				9,287
Gain on sale of containers, net	(1)	4,187					4,186
Other revenue	37				145		182
Total revenue	\$ 13,063	\$ 92,165	\$ 11,468	\$ 3,529	\$ 145	\$ (9,462)	\$ 110,908
Depreciation expense	\$ 307	\$ 29,722	\$	\$ 48	\$	\$ (452)	\$ 29,625

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Interest expense	\$	\$ 15,385	\$	\$	\$	\$	\$ 15,385
Segment income before taxes	\$	5,143	\$ 19,260	\$ 2,725	\$ 675	\$ (6)	\$ (471) \$ 27,326
Total assets	\$	35,349	\$ 906,189	\$ 4,615	\$ 2,054	\$ (41,042)	\$ (18,614) \$ 888,551
Purchases of long-lived assets	\$	9,108	\$ 24,057	\$	\$	\$	\$ 33,165

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Amounts reported in the "Other" column represent activity related to management of the Partnership business and a small start-up business that was discontinued and neither is related to the remaining active business segments. Amounts reported in the "Eliminations" column represent inter-segment management fees between the Container Management and Container ownership segments.

**Geographic Segment Information**

The Company's container lessees use containers for their global trade utilizing many worldwide trade routes. The Company earns its revenue from international carriers when the containers are in use and carrying cargo around the world. Substantially all of the Company's leasing related revenue are denominated in U.S. dollars. As all of the Company's containers are used internationally, where no one container is domiciled in one particular place for a prolonged period of time, all of the Company's long-lived assets are considered to be international with no single country of use.

**(6) Commitments and Contingencies****(a) Leases**

The Company has entered into several operating leases for office space. Rent expense amounted to \$714 and \$689 for the six months ended June 30, 2007 and 2006, respectively.

Future minimum lease payment obligations under the Company's noncancelable operating leases at June 30, 2007 (unaudited) were as follows:

	<b>Operating leasing</b>
Twelve months ending June 30:	
2008	\$ 1,460
2009	1,526
2010	1,438
2011	1,331
2012 and thereafter	905
<b>Total</b>	<b>\$ 6,660</b>

**(b) Restricted Cash**

The Company had \$18,514 and \$21,989 of restricted interest-bearing cash account as additional collateral for the Company's outstanding debt obligations as of June 30, 2007 and December 31, 2006, respectively.

***(c) Trading Container Purchase Commitment***

The Company entered into an agreement in December 2006 with a shipping line to purchase up to \$4,357 of containers to be resold. The agreement expires at the earlier of December 2007 or when all the equipment has been delivered and at June 30, 2007, \$2,274 of containers remain to be purchased.

***(d) Container Commitments***

At June 30, 2007, the Company had placed orders with manufacturers for containers to be delivered subsequent to June 30, 2007 in the total amount of \$13,178.

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(All currency expressed in United States dollars in thousands)

***(e) Legal Proceedings***

In 2005 the Company reserved \$2.5 million to resolve a dispute with a container manufacturer. The Company paid \$1.3 million pursuant to a court order. On November 28, 2006, the Company and its parent company, Tencor Limited, entered into a letter agreement related to a settlement with this container manufacturer and the sale of a South African container manufacturing plant. This container manufacturer owed money to Tencor and had claims against the Company. Pursuant to this letter agreement, the container manufacturer agreed to return the plant to Tencor in lieu of its liabilities and the Company agreed to cover Tencor's losses upon the sale of the plant, up to a limit of \$750, in settlement of the container manufacturer's claims against them. The \$450 reduction in the reserve was released to income in the fourth quarter of 2006. There was no change in the status or accounting for this dispute in the six months ended June 30, 2007.

On August 23, 2007, Tencor entered into a sale agreement with a third party to sell the plant for an amount that would not result in any loss being recorded. This sale is subject to certain conditions being satisfied and the Company will reduce its reserve at such time as the conditions have been satisfied and the funds have been received from the buyer of the plant.

***(f) Legal Proceedings on the Sale of the Partnerships' Assets***

On April 18, 2005, the Partnerships sold substantially all of their assets to RFH, Ltd. (RFH). As part of this sale transaction, RFH engaged the Company, one of the general partners, to manage the containers RFH bought.

Five lawsuits were filed between March 2005 and March 2007 in state and federal court, initiated by certain limited partners. The limited partners in the state and federal actions allege that the Company breached its fiduciary duty by engaging in self-dealing and conflicted transactions in entering into the Asset Sale. In the federal case, there is an additional allegation that the Company violated federal securities laws because proxy statements issued in connection with the sale of assets were materially false or misleading. The lawsuits seek certain remedies from the Partnership and the Company. On January 10, 2007, the federal case was dismissed, with prejudice, and has since been timely appealed. Discovery is ongoing in the state case. While it is not possible to predict or determine the outcome of these lawsuits, the Company believes that these lawsuits are without merit. The Company intends to vigorously defend against the lawsuits.

***(7) Subsequent Event***

On July 23, 2007, the Company purchased for \$56.0 million the exclusive rights to manage the container fleet of Capital Lease Limited, Hong Kong (Capital) from Green Eagle Investments N.V., an investment vehicle of DVB Bank America N.V., which had concurrently purchased all of the outstanding capital shares of Capital. The Company began managing the Capital fleet on September 1, 2007.

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## SCHEDULE I - CONDENSED BALANCE SHEETS

December 31, 2006 and 2005

(Parent Company Information - See Notes to Consolidated Financial Statements)

(All currency expressed in United States dollars in thousands)

	2006	2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 815	\$ 100
Prepaid expenses	81	88
<b>Total current assets</b>	<b>896</b>	<b>188</b>
Investments in affiliates	295,650	230,697
<b>Total assets</b>	<b>\$ 296,546</b>	<b>\$ 230,885</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Due to affiliates, net	\$ 55,149	\$ 19,327
Accrued expenses	103	7
<b>Total current liabilities</b>	<b>55,252</b>	<b>19,334</b>
Shareholders' equity:		
Common shares	383	381
Additional paid-in capital	24,093	23,706
Notes receivable from shareholders	(1,180)	(1,299)
Accumulated other comprehensive income	380	30
Retained earnings	217,618	188,733
<b>Total shareholders' equity</b>	<b>241,294</b>	<b>211,551</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 296,546</b>	<b>\$ 230,885</b>



**Table of Contents****TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES**

## SCHEDULE I - CONDENSED STATEMENTS OF INCOME

Years Ended December 31, 2006, 2005 and 2004

(Parent Company Information - See Notes to Consolidated Financial Statements)

(All currency expressed in United States dollars in thousands)

	2006	2005	2004
Operating expenses:			
General and administrative expense	\$ 348	\$ 363	\$ 364
Total operating expenses	348	363	364
Loss from operations	(348)	(363)	(364)
Other income (expense):			
Equity in net income of subsidiaries	56,501	63,192	53,900
Interest income	106	150	98
Other income (expense)	22		(40)
Net other income	56,629	63,342	53,958
Net income	\$ 56,281	\$ 62,979	\$ 53,594

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**Table of Contents****TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES****SCHEDULE I - CONDENSED STATEMENTS OF CASH FLOWS**

Years ended December 31, 2006, 2005 and 2004

(Parent Company Information - See Notes to Consolidated Financial Statements)

(All currency expressed in United States dollars in thousands)

	2006	2005	2004
<b>Cash flows from operating activities:</b>			
Net income	\$ 56,281	\$ 62,979	\$ 53,594
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Equity in income of subsidiaries	(56,501)	(63,192)	(53,900)
Share option plan expense	285	1,391	
<b>Decrease (increase) in:</b>			
Prepaid expenses	7	17	(25)
<b>Increase (decrease) in:</b>			
Accrued expenses	(383)	(464)	625
Total adjustments	(56,592)	(62,248)	(53,300)
<b>Net cash (used in) provided by operating activities</b>	<b>(311)</b>	<b>731</b>	<b>294</b>
<b>Cash flows from investing activities:</b>			
Increase in investments in affiliates, net	(19,252)	(11,412)	(9,209)
Distributions received from subsidiaries	10,800	21,500	25,500
<b>Net cash (used in) provided by investing activities</b>	<b>(8,452)</b>	<b>10,088</b>	<b>16,291</b>
<b>Cash flows from financing activities:</b>			
Issuance of common shares	56	466	296
Repayments of notes receivable from shareholders	658	755	461
Retirement of common shares	(97)	(1,782)	(3)
Dividends paid	(27,311)	(26,762)	(20,913)
Due to affiliates, net	35,822	16,304	3,827
<b>Net cash used in financing activities</b>	<b>9,128</b>	<b>(11,019)</b>	<b>(16,332)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>365</b>	<b>(200)</b>	<b>253</b>
Effect of exchange rate changes	350	(233)	250
<b>Cash and cash equivalents, beginning of the year</b>	<b>100</b>	<b>533</b>	<b>30</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 815</b>	<b>\$ 100</b>	<b>\$ 533</b>

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## Schedule II - Valuation Accounts

Years ended December 31, 2006, 2005 and 2004 and Six months ended June 30, 2007 (unaudited)

(All currency expressed in United States dollars in thousands)

	<b>Balance at Beginning of Period</b>	<b>Additions Charged to Expense</b>	<b>Additions/ (Deductions)</b>	<b>Balance at End of Period</b>
<b>December 31, 2004</b>				
Accounts receivable, allowance for doubtful accounts	\$ 2,247	\$ 868	\$ 1,223	\$ 4,338
<b>December 31, 2005</b>				
Accounts receivable, allowance for doubtful accounts	\$ 4,338	\$ 91	\$ (2,230)	\$ 2,199
<b>December 31, 2006</b>				
Accounts receivable, allowance for doubtful accounts	\$ 2,199	\$ 664	\$ (543)	\$ 2,320
<b>June 30, 2007 (unaudited)</b>				
Accounts receivable, allowance for doubtful accounts	\$ 2,320	\$ 996	\$ (312)	\$ 3,004

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