TEXTAINER GROUP HOLDINGS LTD
Form 6-K
August 14, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO

RULE 13a-16 OR 15d-16 UNDER

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

Commission File Number 001-33725

Textainer Group Holdings Limited

(Translation of Registrant’s name into English)

Century House

16 Par-La-Ville Road

Hamilton HM 08

Bermuda

(441) 296-2500

(Address of principal executive office)

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

Form 20-F Form 40-F

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

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

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

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

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

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

This report contains the quarterly report of Textainer Group Holdings Limited for the three and six months ended June 30, 2017.

Exhibits

1. Quarterly Report of Textainer Group Holdings Limited for the Three and Six Months Ended June 30, 2017.

1

Exhibit 1

TEXTAINER GROUP HOLDINGS LIMITED

Quarterly Report on Form 6-K for the Three and Six Months Ended June 30, 2017

Table of Contents

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS; CAUTIONARY LANGUAGE

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

Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy, and actual results may differ materially from those we anticipated due to a number of uncertainties, many of which cannot be foreseen. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including, among others, the risks we face that are described in the section entitled Item 3, "Key Information -- Risk Factors" included in our Annual Report on Form 20-F for the fiscal year ended December 31, 2016 filed with the U.S. Securities and Exchange Commission (the "SEC") on March 27, 2017 (our "2017 Form 20-F").

We believe that it is important to communicate our expectations about the future to potential investors, shareholders and other readers. However, there may be events in the future that we are not able to accurately predict or control and that may cause actual events or results to differ materially from the expectations expressed in or implied by our forward-looking statements. The risk factors listed in Item 3, "Key Information -- Risk Factors" included in our 2016 Form 20-F, as well as any cautionary language in this Quarterly Report on Form 6-K, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Before you decide to buy, hold or sell our common shares, you should be aware that the occurrence of the events described in Item 3, "Key Information -- Risk Factors" included in our 2016 Form 20-F and elsewhere in this Quarterly Report on Form 6-K could negatively impact our business, cash flows, results of operations, financial condition and share price. Potential investors, shareholders and other readers are cautioned not to place undue reliance on our forward-looking statements.

Forward-looking statements regarding our present plans or expectations for fleet size, management contracts, container purchases, sources and availability of financing, and growth involve risks and uncertainties relative to return expectations and related allocation of resources, and changing economic or competitive conditions, as well as the negotiation of agreements with container investors, which could cause actual results to differ from present plans or expectations, and such differences could be material. Similarly, forward-looking statements regarding our present expectations for operating results and cash flow involve risks and uncertainties related to factors such as utilization rates, per diem rates, container prices, demand for containers by container shipping lines, supply and other factors discussed under Item 3, "Key Information -- Risk Factors" included in our 2016 Form 20-F or elsewhere in this Quarterly Report on Form 6-K, which could also cause actual results to differ from present plans. Such differences could be material.

All future written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. New risks and uncertainties arise from time to time, and we cannot predict those events or how they may affect us. The forward-looking statements contained in this Quarterly Report on Form 6-K speak only as of, and are based on information available to us on, the date of the filing of this Quarterly Report on Form 6-K. We assume no obligation to, and do not plan to, update any forward-looking statements after the date of this Quarterly Report on Form 6-K as a result of new information, future events or developments, except as expressly required by U.S. federal securities laws. You should read this Quarterly Report on Form 6-K and the documents that we reference and have furnished as exhibits with the understanding that we cannot guarantee future results, levels of activity, performance or achievements and that actual results may differ materially from what we expect.

In this Quarterly Report on Form 6-K, unless otherwise specified, all monetary amounts are in U.S. dollars. To the extent that any monetary amounts are not denominated in U.S. dollars, they have been translated into U.S. dollars in accordance with our accounting policies as described in Item 18, “Financial Statements” included in our 2016 Form 20-F.

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

Condensed Consolidated Statements of Comprehensive Loss

Three and Six Months Ended June 30, 2017 and 2016

(Unaudited)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016 [1]	2017	2016 [1]
Revenues:				
Lease rental income	$108,779	$120,465	$216,396	$242,813
Management fees	3,534	3,294	6,756	6,638
Trading container sales proceeds	1,052	3,062	2,852	4,964
Gains on sale of containers, net	5,882	220	9,930	1,246
Total revenues	119,247	127,041	235,934	255,661
Operating expenses:				
Direct container expense	14,889	14,549	34,548	29,178
Cost of trading containers sold	716	3,614	2,005	6,258
Depreciation expense	59,644	51,783	120,252	104,394
Container impairment	714	19,484	4,525	36,776
Amortization expense	948	1,372	1,896	2,746
General and administrative expense	7,309	6,599	14,654	13,765
Short-term incentive compensation expense (benefit)	2	(93)	1,362	680
Long-term incentive compensation expense	1,405	1,498	2,781	3,106
Bad debt expense	108	1,837	360	2,986
Total operating expenses	85,735	100,643	182,383	199,889
Income from operations	33,512	26,398	53,551	55,772
Other (expense) income:				
Interest expense	(29,404)	(20,022)	(58,317)	(39,987)
Write-off of unamortized deferred debt issuance costs and bond discounts	(7,228)	—	(7,228)	—
Interest income	89	103	217	179
Realized losses on interest rate swaps, collars and caps, net	(479)	(2,378)	(1,641)	(4,731)
	(1,232)	(5,022)	1,062	(16,199)

Unrealized (losses) gains on interest rate swaps, collars and caps, net				
Other, net	17	3	3	(5)
Net other expense	(38,237)	(27,316)	(65,904)	(60,743)
Loss before income tax and noncontrolling interests	(4,725)	(918)	(12,353)	(4,971)
Income tax expense, net	(4,767)	(797)	(5,214)	(817)
Net loss	(9,492)	(1,715)	(17,567)	(5,788)
Less: Net loss (income) attributable to the noncontrolling interests	139	(164)	1,240	172
Net loss attributable to Textainer Group Holdings Limited common shareholders	$(9,353)	$(1,879)	$(16,327)	$(5,616)
Net loss attributable to Textainer Group Holdings Limited common shareholders per share:				
Basic	$(0.16)	$(0.03)	$(0.29)	$(0.10)
Diluted	$(0.16)	$(0.03)	$(0.29)	$(0.10)
Weighted average shares outstanding (in thousands):				
Basic	56,803	56,580	56,797	56,575
Diluted	56,803	56,580	56,797	56,575
Other comprehensive income (loss):				
Foreign currency translation adjustments	64	111	96	(2)
Comprehensive loss	(9,428)	(1,604)	(17,471)	(5,790)
Comprehensive (loss) income attributable to the noncontrolling interests	139	(164)	1,240	172
Comprehensive loss attributable to Textainer Group Holdings Limited common shareholders	$(9,289)	$(1,768)	$(16,231)	$(5,618)

(1) Certain amounts for the three and six months ended June 30, 2016 have been restated for immaterial corrections of identified errors pertaining to the classification of certain leases and the calculation of gains on sale of containers, net (see Note 3 “Immaterial Correction of Errors in Prior Periods”).

See accompanying notes to condensed consolidated financial statements.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

June 30, 2017 and December 31, 2016

(Unaudited)

(All currency expressed in United States dollars in thousands)

	2017	2016 [1]
Assets		
Current assets:		
Cash and cash equivalents	$138,727	$84,045
Accounts receivable, net of allowance for doubtful accounts of $28,648 and $31,844 at 2017 and 2016, respectively	72,892	76,547
Net investment in direct financing and sales-type leases	56,568	64,951
Trading containers	3,165	4,363
Containers held for sale	32,856	25,513
Prepaid expenses and other current assets	12,915	13,584
Insurance receivable	25,162	44,785
Due from affiliates, net	1,091	869
Total current assets	343,376	314,657
Restricted cash	86,414	58,078
Containers, net of accumulated depreciation of $1,084,766 and $990,784 at 2017 and 2016, respectively	3,553,155	3,717,542
Net investment in direct financing and sales-type leases	152,073	172,283
Fixed assets, net of accumulated depreciation of $10,513 and $10,136 at 2017 and 2016, respectively	1,741	1,993
Intangible assets, net of accumulated amortization of $42,658 and $40,762 at 2017 and 2016, respectively	13,301	15,197
Interest rate swaps, collars and caps	5,113	4,816
Deferred taxes	1,389	1,385
Other assets	6,749	8,075
Total assets	$4,163,311	$4,294,026
Liabilities and Equity		
Current liabilities:		
Accounts payable	$8,552	$12,060
Accrued expenses	15,381	9,721
Container contracts payable	5,432	11,990
Other liabilities	250	265
Due to owners, net	10,564	18,132
	266,625	205,081

Debt, net of unamortized deferred financing costs of $5,562 and $6,137 at 2017 and 2016, respectively		
Total current liabilities	306,804	257,249
Debt, net of unamortized deferred financing costs of $17,437 and $10,267 at 2017 and 2016, respectively	2,663,559	2,833,216
Interest rate swaps, collars and caps	439	1,204
Income tax payable	8,787	9,076
Deferred taxes	11,183	6,237
Other liabilities	2,141	2,259
Total liabilities	2,992,913	3,109,241
Equity:		
Textainer Group Holdings Limited shareholders' equity:		
Common shares, $0.01 par value. Authorized 140,000,000 shares; 57,443,680 shares issued and 56,813,680 shares outstanding at 2017; 57,417,119 shares issued and 56,787,119 shares outstanding at 2016	575	575
Additional paid-in capital	393,864	390,780
Treasury shares, at cost, 630,000 shares	(9,149)	(9,149)
Accumulated other comprehensive income	(420)	(516)
Retained earnings	727,909	744,236
Total Textainer Group Holdings Limited shareholders’ equity	1,112,779	1,125,926
Noncontrolling interests	57,619	58,859
Total equity	1,170,398	1,184,785
Total liabilities and equity	$4,163,311	$4,294,026

(1) Certain amounts as of December 31, 2016 have been restated for immaterial corrections of identified errors related to the calculation of gains on sale of containers, net, to properly account for lease concessions (see Note 3 “Immaterial Correction of Errors in Prior Periods”) and to reclassify debt balances to conform with the 2017 presentation.

See accompanying notes to condensed consolidated financial statements.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Six Months Ended June 30, 2017 and 2016

(Unaudited)

(All currency expressed in United States dollars in thousands)

	Six Months Ended June 30, 2017	2016 [1]
Cash flows from operating activities:		
Net loss	$(17,567)	$(5,788)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation expense	120,252	104,394
Container impairment	4,525	36,776
Bad debt expense, net	360	2,986
Unrealized (gains) losses on interest rate swaps, collars and caps, net	(1,062)	16,199
Amortization and write-off of unamortized deferred debt issuance costs and accretion of bond discount	14,970	3,765
Amortization of intangible assets	1,896	2,746
Gains on sale of containers, net	(9,930)	(1,246)
Share-based compensation expense	3,084	3,423
Changes in operating assets and liabilities	1,008	(18,767)
Total adjustments	135,103	150,276
Net cash provided by operating activities	117,536	144,488
Cash flows from investing activities:		
Purchase of containers and fixed assets	(24,994)	(228,073)
Proceeds from sale of containers and fixed assets	66,049	61,154
Receipt of payments on direct financing and sales-type leases, net of income earned	32,999	46,318
Insurance proceeds received for unrecoverable containers	13,801	5,500
Net cash provided by (used in) investing activities	87,855	(115,101)
Cash flows from financing activities:		
Proceeds from debt	1,356,000	193,000
Principal payments on debt	(1,458,201)	(203,837)
Debt issuance costs	(20,268)	(1,550)
Net tax benefit from share-based compensation awards	—	(110)
Dividends paid	—	(27,058)
Net cash used in financing activities	(122,469)	(39,555)
Effect of exchange rate changes	96	(2)
Net increase (decrease) in cash, cash equivalents and restricted cash	83,018	(10,170)
Cash, cash equivalents and restricted cash, beginning of the year	142,123	149,511
Cash, cash equivalents and restricted cash, end of period	$225,141	$139,341

(1) Certain amounts for the period ended June 30, 2016 have been restated for immaterial corrections of identified errors pertaining to the classification of certain leases and the calculation of gains on sale of containers, net (see Note 3 "Immaterial Correction of Errors in Prior Periods"), to reclassify debt balances in order to conform with the 2017 presentation and for the adoption of Accounting Standards Update No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments and Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash.

See accompanying notes to condensed consolidated financial statements.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Six Months Ended June 30, 2017 and 2016

(Unaudited)

(All currency expressed in United States dollars in thousands)

	Six Months Ended	
	June 30,	
	2017	2016
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest expense and realized losses on interest rate swaps, collars and caps, net	$51,356	$41,020
Net income taxes paid	$518	$714
Supplemental disclosures of noncash investing activities:		
(Decrease) increase in accrued container purchases	$(6,558)	$25,194
Containers placed in direct financing and sales-type leases	$4,115	$83,854
Decrease in insurance receivable due to a decrease in estimated unrecoverable containers	$6,361	$—

See accompanying notes to condensed consolidated financial statements.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

(1) Nature of Business

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

The Company conducts its business activities in three main areas: Container Ownership, Container Management and Container Resale (see Note 9 "Segment Information").

(2) Accounting Policies and Recent Accounting Pronouncements

(a) Basis of Accounting

Certain information and footnote disclosure normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2016 filed with the Securities and Exchange Commission on March 27, 2017.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal and recurring adjustments) necessary to present fairly the Company's condensed consolidated financial position as of June 30, 2017, and the Company's condensed consolidated results of operations for the three and six months ended June 30, 2017 and 2016 and condensed consolidated cash flows for the six months ended June 30, 2017 and 2016. These condensed consolidated financial statements are not necessarily indicative of the results of operations or cash flows that may be reported for the remainder of the fiscal year ending December 31, 2017.

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

(b) Principles of Consolidation and Variable Interest Entity

The condensed consolidated financial statements of the Company include TGH and all of its subsidiaries in which the Company has a controlling financial interest. The Company determines whether it has a controlling financial interest in an entity by evaluating whether the entity is a voting interest entity ("VME") or a variable interest entity ("VIE") and whether the accounting guidance requires consolidation. All significant intercompany accounts and balances have been eliminated in consolidation.

In February 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2015-02, Consolidation (Topic 810) (“ASU 2016-02”). The Company adopted ASU No. 2015-02 on January 1, 2016 and there was no material impact on our consolidated financial statements.

When evaluating an entity for possible consolidation, the Company must determine whether or not it has a variable interest in the entity. Variable interests are investments or other interests that absorb portions of an entity’s expected losses or receive portions of the entity’s expected returns. The Company’s variable interests may include its decision maker or service provider fees, its direct and indirect investments and investments made by related parties, including related parties under common control. If it is determined that the Company does not have a variable interest in the entity, no further analysis is required and the Company does not consolidate the entity.

If the Company has a variable interest in the entity, it must determine whether that entity is a VIE or a VME.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

The Company considers the following facts and circumstances of individual entities when assessing whether or not an entity is a VIE. An entity is determined to be a VIE if the equity investors:

- do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support; or
- lack one or more of the following characteristics of a controlling financial interest:
  - the power, through voting rights or similar rights, to direct the activities of an entity that most significantly impact the entity's economic performance;
  - the obligation to absorb the expected losses of the entity; or
  - the right to receive the expected residual returns of the entity.

The Company is required to consolidate a VIE if it is determined to have a controlling financial interest in the entity and therefore is deemed to be the primary beneficiary of the VIE. The Company is determined to have a controlling financial interest in a VIE if it has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the aggregate indirect and direct variable interests held by the Company have the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to that VIE.

For entities that do not meet the definition of a VIE, the entity is considered a VME. For these entities, if the Company can exert control over the financial and operating policies of an investee, which can occur if it has a 50% or more voting interest in the entity, the Company consolidates the entity.

The Company has determined that it has a variable interest in TAP Funding Ltd. ("TAP Funding") (a Bermuda company), a joint venture between the Company's wholly-owned subsidiary, Textainer Limited ("TL") (a Bermuda company) and TAP Ltd. ("TAP") in which TL owns 50.1% and TAP owns 49.9% of the common shares of TAP Funding, and that TAP Funding is a VME. The Company consolidates TAP Funding as the Company has a controlling financial interest in TAP Funding.

The Company has determined that it has a variable interest in TW Container Leasing, Ltd. ("TW") (a Bermuda company), a joint venture between the Company's wholly-owned subsidiary, TL, and Wells Fargo Container Corp ("WFC") in which TL owns 25% and WFC owns 75% of the common shares of TW, and that TW is a VIE. The purpose of TW is to lease containers to lessees under direct financing leases. The Company has determined that it is the primary beneficiary of TW by its equity ownership in the entity and by virtue of its role as manager, namely that the Company has the power to direct the activities of TW that most significantly impact TW's economic performance. Accordingly, the Company consolidates TW. The book values of TW's direct financing and sales-type leases and related debt as of June 30, 2017 and December 31, 2016 are disclosed in Note 6 "Direct Financing and Sales-type Leases" and Note 8 "Debt and Derivative Instruments", respectively.

(c) Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents are comprised of interest-bearing deposits or money market securities with original maturities of three months or less. The Company maintains cash and cash equivalents and restricted cash (see Note 10 “Commitments and Contingencies—Restricted Cash”) with various financial institutions. These financial institutions are located in Bermuda, Canada, Hong Kong, Malaysia, Singapore, the United Kingdom and the United States. A significant portion of the Company’s cash and cash equivalents and restricted cash is maintained with a small number of banks and, accordingly, the Company is exposed to the credit risk of these counterparties in respect of the Company’s cash and cash equivalents and restricted cash. Furthermore, the deposits maintained at some of these financial institutions exceed the amount of insurance provided on the deposits. Restricted cash is excluded from cash and cash equivalents and is included in long-term assets.

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (“ASU 2016-18”). The Company early adopted ASU 2016-18 on April 1, 2017, which resulted in a $670 decrease in net cash used in financing activities and the inclusion of restricted cash balances of $33,917 and $34,587 to the beginning of the year and end of period cash, cash equivalents and restricted cash, respectively, in the Company’s

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

condensed consolidated statements of cash flows for the six months ended June 30, 2016 (see Note 2(i) "Recently Issued Accounting Standards").

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

	June 30, 2017	December 31, 2016
Cash and cash equivalents	$138,727	$ 84,045
Restricted cash included in long-term assets	86,414	58,078
Cash at end of period	$225,141	$ 142,123

(d) Containers

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

The Company evaluates the estimated residual values and remaining estimated useful lives on an ongoing basis. The Company takes a long-term view when assessing its residual values and typically does not change its residual values until disposal prices have been significantly above or below residual values between one to two years. The Company has experienced a significant decrease in container resale prices as a result of the decreased cost of new containers. Based on this extended period of lower realized container resale prices, the Company decreased the estimated future residual value of its 20' dry containers, 40' dry containers, 40' high cube dry containers and 40' folding flat rack containers effective July 1, 2016. Over the past few years, the Company has also experienced a significant increase in the useful lives of its 40' dry containers, 20' folding flat rack containers, 20' open top containers and 40' flat rack containers as the Company entered into leases with longer terms on these equipment types. Based on this extended period of longer useful lives and the Company's expectation that new equipment lives on these equipment types would remain near those levels, the Company increased the estimated useful lives of these equipment types effective July 1, 2016. The effect of these changes was an increase in depreciation expense of $10,515 and $21,030 for the three and six months ended June 30, 2017, respectively. Depreciation expense may fluctuate in future periods based on fluctuations in these estimates.

The Company assesses the estimates used in its depreciation policy on a quarterly basis. The Company reassessed the estimates used in its depreciation policy as of June 30, 2017 and determined that there were no changes needed.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

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

	Effective July 1, 2016		January 1, 2016 through June 30, 2016	
	Estimated useful life (years)	Residual Value	Estimated useful life (years)	Residual Value
Dry containers other than open top and flat rack containers:				
20'	13	$ 950	13	$ 1,050
40'	14	$ 1,150	13	$ 1,300
40' high cube	13	$ 1,300	13	$ 1,450
45' high cube dry van	13	$ 1,500	13	$ 1,500
Refrigerated containers:				
20'	12	$ 2,750	12	$ 2,750
20' high cube	12	$ 2,049	12	$ 2,049
40' high cube	12	$ 4,500	12	$ 4,500
Open top and flat rack containers:				
20' folding flat rack	15	$ 1,300	14	$ 1,300
40' folding flat rack	16	$ 1,700	14	$ 2,000
20' open top	15	$ 1,500	14	$ 1,500
40' open top	14	$ 2,500	14	$ 2,500
Tank containers	20	10% of cost	20	10% of cost

The cost, accumulated depreciation and net book value of the Company's leasing equipment by equipment type as of June 30, 2017 and December 31, 2016 were as follows:

June 30, 2017	December 31, 2016 (1)

	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Dry containers other than						