TEXTAINER GROUP HOLDINGS LTD
Form 6-K
August 14, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 UNDER

THE SECURITIES EXCHANGE ACT OF 1934

For the three months ended June 30, 2012

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 x 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 x

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

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This report contains the quarterly report of Textainer Group Holdings Limited for the three months ended June 30, 2012.

1. Quarterly Report of Textainer Group Holdings Limited for the Three and Six Months Ended June 30, 2012

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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Exhibit 1

TEXTAINER GROUP HOLDINGS LIMITED

Quarterly Report on Form 6-K for the Three Months Ended June 30, 2012

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INFORMATION REGARDING FORWARD-LOOKING STATEMENTS; CAUTIONARY LANGUAGE

This Quarterly Report on Form 6-K, including the section entitled Item 2, *Management s Discussion and Analysis of Financial Condition and Results of Operations* , contains forward-looking statements within the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements that are not statements of historical facts and may relate to, but are not limited to, expectations or estimates of future operating results or financial performance, capital expenditures, regulatory compliance, plans for growth and future operations, as well as assumptions relating to the foregoing. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, expect, plan, anticipate, believe, estimate, predict, intend, potential, con 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, (ii) our belief that our liquidity has not been materially impacted by the current credit environment and (iii) 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/A for the fiscal year ended December 31, 2011 filed with the U.S. Securities and Exchange Commission (the SEC) on June 27, 2012 (our 2011 Form 20-F/A).

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 2011 Form 20-F/A, 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 2011 Form 20-F/A 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 2011 Form 20-F/A 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

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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 2011 Form 20-F/A.

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ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

Three and Six Months ended June 30, 2012 and 2011

(Unaudited)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues:				
Lease rental income	$ 91,791	$ 83,049	$ 179,679	$ 155,408
Management fees	7,293	7,615	14,094	15,299
Trading container sales proceeds	12,744	5,655	24,281	10,420
Gains on sale of containers, net	8,162	9,417	19,451	15,811
Total revenues	119,990	105,736	237,505	196,938
Operating expenses:				
Direct container expense	6,104	4,315	12,164	8,273
Cost of trading containers sold	11,130	5,024	21,132	9,190
Depreciation expense	22,801	24,001	44,381	42,867
Amortization expense	1,299	1,574	2,605	3,332
General and administrative expense	5,822	6,043	11,545	12,241
Short-term incentive compensation expense	1,322	1,494	2,314	2,453
Long-term incentive compensation expense	1,524	1,372	3,678	3,108
Bad debt expense, net	743	408	2,461	544
Gain on sale of containers to noncontrolling interest		(19,773)		(19,773)
Total operating expenses	50,745	24,458	100,280	62,235
Income from operations	69,245	81,278	137,225	134,703
Other income (expense):				
Interest expense	(18,531)	(9,011)	(33,250)	(16,534)
Interest income	35	7	63	14
Realized losses on interest rate swaps and caps, net	(2,529)	(2,765)	(5,079)	(5,407)
Unrealized gains (losses) on interest rate swaps and caps, net	1,025	(4,453)	2,073	(2,242)
Other, net	(1)	(79)	(2)	(130)
Net other expense	(20,001)	(16,301)	(36,195)	(24,299)
Income before income tax and noncontrolling interest	49,244	64,977	101,030	110,404
Income tax expense	(4,122)	(3,766)	(6,445)	(6,380)

Net income	45,122	61,211	94,585	104,024
Less: Net loss (income) attributable to the noncontrolling interest	687	(9,514)	1,134	(15,137)
Net income attributable to Textainer Group Holdings Limited common shareholders	$ 45,809	$ 51,697	$ 95,719	$ 88,887
Net income attributable to Textainer Group Holdings Limited common shareholders per share:				
Basic	$ 0.92	$ 1.06	$ 1.93	$ 1.82
Diluted	$ 0.91	$ 1.03	$ 1.90	$ 1.78
Weighted average shares outstanding (in thousands):				
Basic	49,543	48,899	49,484	48,780
Diluted	50,358	49,975	50,442	49,855
Other comprehensive income:				
Foreign currency translation adjustments	(72)	38	5	120
Comprehensive income	45,050	61,249	94,590	104,144
Less: Comprehensive loss (income) attributable to the noncontrolling interest	687	(9,514)	1,134	(15,137)
Comprehensive income attributable to Textainer Group Holdings Limited common shareholders	$ 45,737	$ 51,735	$ 95,724	$ 89,007

See accompanying notes to condensed consolidated financial statements.

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TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

June 30, 2012 and December 31, 2011

(Unaudited)

(All currency expressed in United States dollars in thousands)

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	$ 82,152	$ 74,816
Accounts receivable, net of allowance for doubtful accounts of $8,751 and $7,840 in 2012 and 2011, respectively	88,689	86,428
Net investment in direct financing and sales-type leases	30,472	25,075
Trading containers	15,081	12,970
Containers held for sale	9,250	7,832
Prepaid expenses	17,945	10,243
Deferred taxes	2,441	2,443
Due from affiliates, net	14	
Total current assets	246,044	219,807
Restricted cash	46,628	45,858
Containers, net of accumulated depreciation of $407,021 and $377,731 at 2012 and 2011, respectively	2,313,057	1,903,855
Net investment in direct financing and sales-type leases	106,888	85,121
Fixed assets, net of accumulated depreciation of $8,805 and $9,027 at 2012 and 2011, respectively	1,680	1,717
Intangible assets, net of accumulated amortization of $33,549 and $33,340 at 2012 and 2011, respectively	43,845	46,675
Other assets	15,912	7,171
Total assets	$ 2,774,054	$ 2,310,204
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 3,116	$ 2,616
Accrued expenses	12,033	18,491
Container contracts payable	232,221	25,510
Deferred revenue	2,558	6,245
Due to owners, net	14,195	15,812
Revolving credit facilities	123,500	
Secured debt facility		41,035
Bonds payable	131,500	91,500
Total current liabilities	519,123	201,209
Revolving credit facilities	36,084	133,047
Secured debt facilities	642,000	779,383
Bonds payable	772,041	464,226
Deferred revenue	73	1,136
Interest rate swaps and caps	14,037	16,110
Income tax payable	27,363	22,729
Deferred taxes	6,672	7,438
Total liabilities	2,017,393	1,625,278

Equity:		
Textainer Group Holdings Limited shareholders equity:		
Common shares, $0.01 par value. Authorized 140,000,000 shares; issued and outstanding 49,567,852 and 48,951,114 at 2012 and 2011, respectively	496	490
Additional paid-in capital	165,114	154,460
Accumulated other comprehensive loss	(23)	(28)
Retained earnings	586,521	528,906
Total Textainer Group Holdings Limited shareholders equity	752,108	683,828
Noncontrolling interest	4,553	1,098
Total equity	756,661	684,926
Total liabilities and equity	$ 2,774,054	$ 2,310,204

See accompanying notes to condensed consolidated financial statements.

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TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Six Months Ended June 30, 2012 and 2011

(Unaudited)

(All currency expressed in United States dollars in thousands)

	Six Months Ended June 30,	
	2012	**2011**
Cash flows from operating activities:		
Net income	$ 94,585	$ 104,024
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	44,381	42,867
Bad debt expense, net	2,461	544
Unrealized (gains) losses on interest rate swaps and caps, net	(2,073)	2,242
Amortization of debt issuance costs	6,370	3,679
Amortization of intangible assets	2,605	3,332
Amortization of acquired net below-market leases	(33)	(294)
Amortization of deferred revenue	(4,532)	(3,907)
Amortization of unearned income on direct financing and sales-type leases	(5,407)	(4,551)
Gains on sale of containers, net	(19,451)	(15,811)
Gain on sale of containers to noncontrolling interest		(19,773)
Share-based compensation expense	4,190	3,261
Changes in operating assets and liabilities	(14,571)	(19,619)
Total adjustments	13,940	(8,030)
Net cash provided by operating activities	108,525	95,994
Cash flows from investing activities:		
Purchase of containers and fixed assets	(316,021)	(527,085)
Payment for Textainer Marine Containers Ltd. capital restructuring, net of cash acquired		(3,786)
Proceeds from sale of containers and fixed assets	47,563	35,410
Receipt of principal payments on direct financing and sales-type leases	18,157	14,973
Net cash used in investing activities	(250,301)	(480,488)
Cash flows from financing activities:		
Proceeds from revolving credit facilities	150,530	137,000
Principal payments on revolving credit facilities	(123,993)	(40,000)
Proceeds from secured debt facilities	654,000	336,000
Principal payments on secured debt facilities	(832,697)	(353,803)
Proceeds from bonds payable	400,000	400,000
Principal payments on bonds payable	(52,418)	(25,750)
Increase in restricted cash	(770)	(20,907)
Debt issuance costs	(18,500)	(7,472)
Issuance of common shares upon exercise of share options	3,763	5,626
Excess tax benefit from share-based compensation awards	2,707	3,034

Capital contributions from noncontrolling interest	4,589	
Dividends paid	(38,104)	(29,273)
Net cash provided by financing activities	149,107	404,455
Effect of exchange rate changes	5	120
Net increase in cash and cash equivalents	7,336	20,081
Cash and cash equivalents, beginning of the year	74,816	57,081
Cash and cash equivalents, end of period	$ 82,152	$ 77,162

See accompanying notes to condensed consolidated financial statements.

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TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Six Months Ended June 30, 2012 and 2011

(Unaudited)

(All currency expressed in United States dollars in thousands)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest and realized losses on interest rate swaps and caps, net	$ 31,562	$ 17,739
Net income taxes paid	$ 254	$ 99
Supplemental disclosures of noncash investing activities:		
Increase in accrued container purchases	$ 206,711	$ 55,506
Containers placed in direct financing and sales-type leases	$ 55,876	$ 24,758
Intangible assets relinquished for container purchases	$ 258	$ 7,646
Contribution of nonmonetary assets for Textainer Marine Containers Ltd. capital restructuring:		
Net investment in direct financing and sales-type leases	$	$ 8,896
Containers, net	$	$ 124,153

See accompanying notes to condensed consolidated financial statements.

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TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2012 and 2011

(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, 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 7 Segment Information).

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Company utilizes the accrual method of accounting.

Certain information and footnote disclosure normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (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/A for the fiscal year ended December 31, 2011 filed with the Securities and Exchange Commission on June 27, 2012.

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 consolidated financial position as of June 30, 2012, and the Company s consolidated results of operations for the three and six months ended June 30, 2012 and 2011 and the consolidated cash flows for the six months ended June 30, 2012 and 2011. 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, 2012.

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. All material intercompany balances have been eliminated in consolidation.

On August 5, 2011, a joint venture, TW Container Leasing, Ltd. (TW) (a Bermuda company), was formed between the Company s wholly owned subsidiary, Textainer Limited (TL), and Wells Fargo Container Corp. (WFC). The purpose of TW is to lease containers to lessees under direct financing leases. TW is governed by members, credit and management agreements. Under the members agreement, TL owns 25% and WFC owns 75% of the common shares and related voting rights of TW and TW s profits and losses are allocated to TL and WFC on the same basis as their ownership percentages. TL also has two seats and WFC has six seats on TW s board of directors, with each seat having equal voting rights, provided, however, that the approval of at least one TL-appointed director is required for any action of the board of directors. Under a credit agreement, dated as of August 5, 2011, with certain lenders and Wells Fargo Securities, LLC (WFS), as administrative agent for the lenders, TW maintains a revolving credit facility with an aggregate commitment of up to $425,000 for the origination of direct financing leases to finance up to 85% of the book value of TW s net investment in direct financing leases (see Note 6 Revolving Credit Facilities, Bonds Payable and Secured Debt Facilities, and Derivative Instruments). Both WFC and WFS are direct and indirect wholly owned subsidiaries of Wells Fargo and Company. The remaining cost of originating direct

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TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

June 30, 2012 and 2011

(Unaudited)

(All currency expressed in United States dollars in thousands)

financing leases will be provided in the form of capital contributions from TL and WFC, split 25% and 75%, respectively. Under the management agreement, the Company s wholly owned subsidiary, Textainer Equipment Management Limited (TEML), manages all of TW s containers, making day-to-day decisions regarding the marketing, servicing and design of TW s direct financing leases.

Based on the combined design and provisions of TW s members, credit and management agreements, the Company has determined that TW is a Variable Interest Entity (VIE) and that the Company is the primary beneficiary of TW by virtue of its role as manager and its equity ownership in the entity. An entity is the primary beneficiary of a VIE if it meets both of the following criteria:

The power to direct the activities of a VIE that most significantly impact the VIE s economic performance; and

The obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be potentially significant to the VIE.

Accordingly, the Company includes TW s financial statements in its consolidated financial statements. The equity owned by WFC in TW is shown as a noncontrolling interest on the Company s consolidated balance sheet and the net income (loss) attributable to its operations is included in net income (loss) attributable to noncontrolling interest on the Company s consolidated statement of income.

(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 8 Commitments and Contingencies *Restricted Cash*) with various financial institutions. These financial institutions are located in the United States, Canada, Bermuda, Singapore, the United Kingdom, the Netherlands and Malaysia. 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.

(d) Intangible Assets

Intangible assets, consisting primarily of exclusive rights to manage container fleets, are amortized over the expected life of the contracts based on forecasted income to the Company. The contract terms range from 11 to 13 years. The Company reviews its intangible assets for impairment if events and circumstances indicate that the carrying amount of the intangible assets may not be recoverable. The Company compares the carrying value of the intangible assets to expected future undiscounted cash flows for the purpose of assessing the recoverability of the recorded amounts. If the carrying amount exceeds expected undiscounted cash flows, the intangible assets are reduced to their fair value.

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TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

June 30, 2012 and 2011

(Unaudited)

(All currency expressed in United States dollars in thousands)

The changes in the carrying amount of intangible assets during the six months ended June 30, 2012 are as follows:

Balance as of December 31, 2011	$ 46,675
Amortization of step acquisition adjustment related to lease contracts (1)	33
Amortization expense	(2,605)
Reduction arising from the relinquishment of management rights from the purchase of containers	(258)
Balance as of June 30, 2012	$ 43,845

(1) Represents amortization of a step acquisition adjustment related to TL s purchase of 3,000 additional Class A shares of Textainer Marine Containers Limited (TMCL) on November 1, 2007. The adjustment was recorded to increase the balance of the lease contracts to an amount that equaled the fair market value of the lease contracts on the date of acquisition and the related amortization is included in lease rental income in the accompanying condensed consolidated statements of comprehensive income.

The following is a schedule, by year, of future amortization of intangible assets as of June 30, 2012:

Twelve months ending June 30:	
2013	$ 5,465
2014	5,649
2015	5,684
2016	5,795
2017 and thereafter	21,252
Total future amortization of intangible assets	$ 43,845

(e) Lease Rental Income

Lease rental income arises principally from the renting of containers owned by the Company to various international shipping lines. Revenue is recorded when earned according to the terms of the container rental contracts. These contracts are typically for terms of five years or less and are generally classified as operating leases.

Under long-term lease agreements, containers are usually leased from the Company for periods 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 and sales-type leases, a container is 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 leases. Under sales-type leases, a gain or loss is recognized at the inception of the leases by subtracting the book value of the containers from the estimated fair value of the containers and the remaining revenue is earned and recognized over the lease terms so as to produce a constant periodic rate of return on the net investment in the leases. Container leases generally do not include step-rent provisions or lease concessions, nor do they depend on indices or rates.

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TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

June 30, 2012 and 2011

(Unaudited)

(All currency expressed in United States dollars in thousands)

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.