Textainer Group Holdings Ltd

Moderator: Philip Brewer
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Operator: Hello and welcome to the Textainer Group Holdings Limited First Quarter 2010 Earnings call. There will an opportunity for you to ask questions at the end of today's presentation. If you should require any assistance during the program, please press star then zero on your touchtone telephone. For your information, this conference call is being recorded.

I would now like to turn the conference over to Phil Brewer, Executive Vice President.

Philip Brewer: Thank you and welcome to our First Quarter 2010 Earnings conference call. Joining me on this morning's call are John Maccarone, President and Chief Executive Officer, Ernie Furtado, Senior Vice President and Chief Financial Officer and Robert Pedersen, Executive Vice President.

Before I turn the call over to John and Ernie, I would like to point out that this conference call contains forward-looking statements within the meaning of the U.S. Securities laws. These statements involve risks and uncertainties, are only predictions and may differ materially from actual future events or results.

It is possible that the Company's future financial performance may differ from expectations due to a variety of factors. Any forward-looking statements made during this call are based on certain current assumptions and analyses made by the Company in light of its experience, and current perception of historical trends, conditions, expected future development and other factors it currently believes are appropriate.

Any such statements are not a guarantee of future performance and actual results or developments may differ from those projected. Finally, the Company's views, estimates, plans and outlook as described within this call may change subsequent to this discussion.

The Company is under no obligation to modify or update any or all of the statements that are made herein despite any subsequent changes that the Company may make in its views, estimates, plans or outlook for the future.

For a discussion of such risks and uncertainties, see the risk factors included in the Company's annual report on Form 20-F for the year ended December 31, 2009 filed with the Securities and Exchange Commission on March 17 2010.

I would also like to point out that during this call we will discuss non-GAAP financial measures. These non-GAAP measures are not prepared in accordance with generally accepted accounting principles. A reconciliation of the non-GAAP financial measures to the most directly comparable GAAP measures will be provided either on this conference call or can be found in the Company's May 5, 2010 Press Releases.

I would now like to turn the call over to John.

John Maccarone: Thank you. I'd like to turn your attention to slide number three and welcome you to our First Quarter 2010 Earnings conference call. I'll begin today's call by reviewing Textainer's first quarter 2010 highlights, the current market environment and our strategic focus.

I'll then turn the call over to Ernie to discuss our financials and quarterly dividend and finally Phil will give a summary of our recent transactions as well as information on the container sale market. We'll then open it up for questions.

Turning to slide four, after capitalizing on several accretive market transactions last year, combined with improving industry fundamentals, Textainer achieved solid results in the first quarter of 2010.

Specifically included in our highlights from the first quarter, we generated net income attributable to common shareholders of $24.2 million or 50 cents per diluted common share for the first quarter.

Recorded net income attributable to common shareholders, excluding unrealized losses or gains on interest (rate swaps) net, of $25.5 million or 52 cents per common diluted share. We declared a first quarter dividend of 24 cents per share representing an increase of 4.3 percent from our previous quarterly payout, and the fourth increase declared by Textainer since our IPO in October of 2007. During this time, Textainer has declared cumulative dividends of $2.48 per common share since our IPO in October of '07. We increased fleet utilization to an average of 90.1 percent for the first quarter versus an average of 86.4 percent for the fourth quarter of last year. Current utilization as of April 30 was 94.9 percent, which is an improvement of 6.1 percent from the week ending December 31, 2009.

And finally, we strengthened our future growth prospects by ordering more than 70,000 TEU of new containers for delivery in the first half of 2010, representing over $150 million of capital expenditures. This week we are finalizing our July production, which looks to be about 20,000 TEU. So through July we will have ordered 90,000 TEU of new production for delivery through July.

Turning to slide five, some comments about the market outlook. Market conditions continue to improve following a decline in container trade of nearly 10 percent in 2009. Clarkston's, a consultancy has recently revised its projected increase in container volumes for 2010 from a gain of 5.5 percent to a gain of 8.8 percent.

While Alphaliner, another consultancy is even more optimistic with expected volume growth in excess of 10 percent for the current year as demand for Asian exports picks up.

In addition to these positive forecasts, Lloyd's List has reported that idle vessel capacity, at 7.5 percent of the fleet, dropped below 9 percent for the first time since February of 2009. Additionally, the use of super slow steaming is becoming increasingly common on longer trade routes, which requires 5 to 7 percent more containers to carry the same amount of cargo.

And while container manufacturers have resumed production, they are only operating one shift as they continue to experience difficulties in restoring capacity after losing a majority of their skilled laborers during the long shutdown period from the end of the third quarter of 2008 through the end of 2009.

Consequently, we estimate that total new production orders through April delivery were only about 370,000 TEU of which leasing companies accounted for approximately 65 percent. So because of higher container volumes, super slow steaming and lower new container production, we have experienced an increase in utilization.

In fact, here's a simple way to look at the current fundamentals in container supply and demand. At the end of the third quarter of 2008, Textainer had an all time high of fleet utilization of 97.5 percent.

Cargo volumes declined about 10 percent in 2009 and are currently expected to increase by up to 10 percent in 2010. That would put cargo volumes at close to 2008 levels when as I mentioned we had a 97.5 percent utilization.

However, between the end of 2008 and the end of 2010, the world's container fleet may decline by 4 to 5 percent due to retirement of older containers and slow steaming is expected to add 5 to 7 percent to the number of containers needed to carry the same amount of cargo. As a result of these factors, we believe there is a shortage of containers this year.

And now to slide number six, we provide an overview of our strategic focus. Given the improving industry fundamentals, our fleet utilization continues to increase. During the first quarter, our utilization averaged 90.1 percent and currently stands at 94.9 percent.

We expect further increases in our utilization in the second quarter based on recent bookings. We've also successfully improved rates and redelivery schedules in certain cases. As a reminder, every 1 percent improvement in

Textainer's utilization equals approximately $4.4 million in annual pretax income. And every 1 cent improvement in lease rates equates to approximately $3.3 million in annual pretax income.

While we maintain our focus on securing attractive long-term contracts for our existing fleet, we've ordered more than 70,000 TEU of new production including 1,900 TEU of refrigerated containers, for delivery through June.

Notably of the recent orders, 66,000 TEU of the 70,000 TEU has already been committed to long-term lease. We currently have space reserved for more than 100,000 TEU for production in the second half of this year to further enhance our growth prospects.

If the market remains strong, we believe that 2010 could become Textainer's largest new production year in our 30-year history. With over $280 million in available liquidity and a low debt to equity ratio of 1.1 to 1, Textainer's financial position remains strong as we seek to extend our secured debt facility which Phil will discuss later on in the call.

Going forward, we intend to pursue additional opportunities related to accretive acquisitions, purchase leasebacks, trading deals and the purchase of containers we currently manage, as we have consistently done in the past.

In summary, we're very pleased with our first quarter results. The execution of our growth strategy and ongoing improvement in overall market conditions bodes well for Textainer's future performance. I'll now turn the call over to Ernie.

Ernie Furtado: Thank you. Turning to slide seven, I'd like to take this opportunity to review our financial performance for the first quarter ended March 31, 2010. The fleet size at the end of the quarter consisted of 2.2 million TEU, of which 46 percent were owned and the remainder were managed, sub-leased, or on finance lease.

Utilization for the total fleet for the first quarter was 90.1 percent. Revenues were $69.2 million, as compared to $59.6 million for the prior year period. All revenue areas, lease rental income, management fees, trading and container sale proceeds, gain on sales containers and gains on sales type leases, increased in 2010 compared to 2009.

Net income excluding unrealized losses on interest rate swaps net of non-controlling interest was $25.5 million, which represents a 29 percent increase over the $19.8 million in the prior year quarter.

We believe net income excluding unrealized gains or losses on interest rate swaps net is a useful performance measure. These gains or losses are non-cash, non-operating items and Textainer intends to hold its interest rate swaps until maturity. Over the life of an interest rate swap held to maturity, the unrealized gains or losses will net to zero.

Lease rental income increased by $0.5 million, or one percent, compared to the prior year quarter primarily due to a 16.9 percent increase in fleet size partially offset by a 0.6 percentage point decrease in utilization and a three percent decrease in rental rates.

Management fee revenue increased by $0.6 million, or 10 percent. Management fees and sales commissions from the Amficon and Capital Intermodal fleets, which had not been added as of the first quarter 2009, are responsible for $1.1 million of increase, offset by lower management fees due to lower fleet performance and a decrease in the size of the other managed fleets.

Net gain on trading containers sold increased by $0.6 million, or 216 percent, primarily due to a 138 percent increase in the number of units sold. Gains on sales of containers increased by $2.5 million, or 93 percent, primarily due to a 76 percent increase in the number of units sold.

Gains on sales type leases, which represent the difference between the fair market value of containers and their book value at the extension of the leases, increased by $4.5 million due to the addition of 9,898 containers under sale-type leases, compared to 903 containers in the prior year period.

Direct container expense increased by $1.6 million, or 20 percent, primarily due to a higher storage expense. Depreciation expense increased by $1.7 million, or 15 percent, due to an increase in the size of the owned container fleet.

Long-term incentive compensation expense increased by $1.2 million, or 147 percent, due to forfeiture rate adjustments and additional share options and restricted share units granted in November 2009.

Bad debt expense decreased from an expense of $0.7 million, to a recovery of $0.3 million, due to collections on accounts that had previously been included in the allowance for doubtful accounts.

Interest expense decreased by $0.6 million, or 20 percent, primarily due to a decrease in average interest rates of 0.3 percentage points and a decrease in average debt balances which were $27 million lower. Realized losses on interest rate swaps decreased by $1.2 million, or 30 percent, primarily due to a decrease in swap notional amounts between the periods.

Income tax expense decreased by $1.5 million, or 72 percent, due to the effective completion of an IRS examination, the subsequent reduction of unrecognized tax benefits. EBITDA was $45.7 billion, $3.5 million higher than the prior year quarter.

Moving to slide eight, you will see that we have maintained a strong balance sheet during the first quarter of 2010. Of note, as of March 31 our cash position was $56.1 million, our total assets were $1.4 billion and our leverage remains an attractive ratio of 1.1 to 1.

Turning to slide nine, based on our strong financial results, significant contract coverage and industry outlook, Textainer's dividend for the first quarter increased by one cent per share to 24 cents per share. This represents 45 percent of net income excluding unrealized losses on interest rate swaps net of non-controlling interest for the three months ended March 31, 2010.

Dividends have averaged 50 percent of net income excluding unrealized gains or losses since the IPO, enabling the Company to retain capital for growth.

We have paid dividends for 21 consecutive years and it's an important part of the total return that Textainer provides to our shareholders.

Textainer's Board of Directors considers dividends on a quarterly basis. Historically, Textainer has paid about 50 percent of net income excluding unrealized gains or losses on interest rate swaps and dividends. But the Board takes a fresh view every quarter and sets the dividend subject to cash needs for opportunities that may be available to us. We're pleased with our first quarter results. And now, I'll turn it – the call over to Phil.

Philip Brewer: Thanks, Ernie. I will talk about our container sales and trading for the first quarter. But first, I would like to provide an update on the refinancing of Textainer Marine Containers Limited’s $475 million warehouse facility.

This facility must be extended by July 2 or it terms out over 10 years. Earlier this year, we approached both existing and new banks with a request to refinance the facility for two more years. The proposed terms were essentially the same as the existing terms with the exception of an increase in pricing which we believe to be competitive with current market conditions. We have received positive responses from many banks thus far and we expect to have in place arefinancing at attractive terms prior to the rollover date.

Regarding container sales, following a very productive year on this front we are off to a strong start. Last year for the first time in Textainer's history, we sold more than 100,000 containers, 20 percent more than in 2008. Total sales this year are running at a similar rate. However, based on the demand for leased containers as discussed by John, we do not expect this run-rate to continue. As utilization increases the number of containers being disposed, not only by us but also by shipping lines, is decreasing.

We are releasing containers that would have been put to disposal one year ago. And shipping lines are continuing to use their older containers resulting in a limited supply of trading containers. They also continue to use the containers that we have acquired under purchase leasebacks, meaning those containers are also not being redelivered for resale.

The bottom line is that not withstanding to the strong start to the year, we expect to sell fewer in-fleet, trading and purchase leaseback containers in 2010 than in 2009, owing to increased demand.

Used container prices have increased by 10 to 15 percent since the beginning of the year and by more than 20 percent since sales prices reached their lowest point in July 2009. The strongest demand and highest prices continue to be found in Asia. This increase in prices occurred at the same time that sales volumes were also increasing. Additionally, prices are expected to continue to trend upwards due to the strong demand for used containers, the limited supply and the increase in new container prices.

That concludes our opening remarks. I would now like to open the call for questions.

Operator: Certainly, ladies and gentlemen if you have a question at this time please press star, then one, on your touchtone telephone. If your question has been answered and you'd like to remove yourself from the queue, please press the pound key. Our first question comes from Justin Yagerman from Deutsche Bank, your question please.

Rob Salmon: Hey, good morning guys, this is Rob Salmon on for Justin. Over the past several months as the global economy has improved Textainer's seen strong utilization improvement. Could you guys give us a sense of how we should think about the typical seasonality and utilization improvement in a potential economic recovery?

John Maccarone: Good morning, I'll try to answer that question. Right now, we're seeing something that I would say is almost unprecedented in the 34 years that I've been in the container leasing business. There is a real shortage of containers.

Our customers are picking up containers all over the world, as many as they can get their hands on. The new containers that are coming out of the factory are being committed to long-term leases, basically before they're even built. We don't see this situation really slowing down for the next few months as a minimum, perhaps right through the end of the year.

I was reading an article yesterday in the Journal of Commerce and they're already forecasting very significant growth for the remainder of this year as well 2011. Obviously, a lot of caveats, the world economy is subject to change. But right now, it looks like clear sailing for container demand for the foreseeable future.

Rob Salmon: Thanks, that's helpful color. And I guess piggy backing off that strong demand improvement that you guys have seen, in the press release you'd indicated that you've actually been able to go back and get some pricing improvement on existing leases. Could you give us a sense of what sort of lease rate improvement you guys were able to realize in the quarter and what your expectations are looking out for the rest of the year?

Robert Pedersen: Well, we don't have the exact numbers by quarter. But certainly, when it comes to long-term lease extensions we are pushing for rate increases. Our increase levels differentiate depending on what the original rate is and we have a pretty clear strategy of what we want to carryout in that regard.

The biggest increase we've seen in pricing power is actually on the marginal container lease outs. Obviously if you pick up a container right now in a reasonably good location you're going to pay a substantially higher rate than you did a year ago if you needed a container in the same location.

And that's actually, where most of the rental rate increase will come from. It goes without saying that the new container lease out rates are substantially up as both new production prices and cost of funding has increased.

Rob Salmon: All right, thanks, that's again good color. You had alluded to the expectation for the re-sales to kind of trend down. Are there still a lot of opportunities out there on the purchase lease back transactions or on the outright sales as container liners are continuing to restructure their balance sheets?

Philip Brewer: Hi Rob, this is Phil. I think we've been somewhat surprised that there haven't been more purchase lease back opportunities over the past year. There have been a few. We've bid on some, been successful on some and on others, not.

Some we were unable to pursue for credit reasons. But the amount of purchase leasebacks that we've looked at has been smaller than I think we would have expected given the overall financial environment for our shipping line customers.

Rob Salmon: Really, appreciate the guys – the time guys. Thank you.

Operator: Thank you. Our next question comes from Bob Napoli from Piper Jaffray your question please.

Bob Napoli: Good morning, and nice job on the quarter. TAL on their call gave out a statistic that they said that the pricing for lease rates is currently 50 percent above the average lease rate that they have in the portfolio and I was hoping you might be able to give maybe a comparable statistic.

I think their portfolio may be as a – I mean their portfolio's a little bit older so maybe they have a little lower lease rate on average, but I mean that's a pretty astounding number.

John Maccarone: It is Bob. I don't know where they started from to get to that level. I don't think that we have looked at it that way. And you know one of the things that we've been trying to do and I believe we've done, is to concentrate rather than trying to push the lease rate up as a top priority, we have tried to package the containers that we have in Asia with the containers that we have in lower demand locations.

And we've been able to essentially book out almost the entire fleet without spending money on repositioning which typically, as you come out of a down turn you typically would be spending millions and millions of dollars.

Our total repositioning expense for the first four months of the year has been practically nothing. So that's where we see the immediate benefit. The other thing that we've been concentrating on is improving the return schedules as part of the leasing cycle so that when we do start to see a normalization, these containers by and large will have to end up coming back in China and other very strong demand locations.

It's not that we're ignoring rate increases we are being successful. Unfortunately I can't give you the kind of figure that apparently Brian did at TAL, but I think we're really pleased at the way we've been able to clean out our lower demand locations and improve the overall structure of the leases during this cyclical upturn.

Bob Napoli: Well, I mean if you – maybe if you'd look at another, you said your lease rates looking at revenue that the average lease rate was down three percent year over year in the first quarter. If you think about what kind of improvement, do you think you can get in the overall lease rate given current market conditions over the next year?

Maybe that's another way to try to get a hand –I'm trying to get a handle on you know what – how pricing is going to affect and you've given us very good color on utilization. I'm trying to get down the pricing side.

Robert Pedersen: Well, again, don't have specific numbers but a lot of the lease activity we had in the beginning of the first quarter was actually originated from deals that we closed in the fourth quarter of '09 where demand was OK, but not at all at the same level, we've seen in the last two, three months.

So certainly, from the deals that come across the table here, our rates are substantially higher than what we saw for those transactions that were concluded in the fourth quarter last year.

Bob Napoli: And then I guess maybe try to – the lease income in the quarter, and you know I would expect you're going to see pretty big jump in lease income in the second quarter. Lease rental income was down and I think for the industry was relatively, was blasted down in the first quarter.

Some of that drop off fees and – did you have a hit from drop off fees in the quarter? I would imagine that the run rate of lease income at the end of March was much higher than the average for the quarter.

John Maccarone: Yes, I think that's a fair assumption Bob. You know this picture is literally changing by the day and my feeling is that when we look at how the second quarter is going to go, we'll see a significant improvement in performance versus the first quarter.

Bob Napoli: Then just last question. Is – I mean I would imagine, I mean I think I know the answer to the question but your operating expenses are going to, I mean you're going to have very little incremental increase and operating expenses as lease revenue builds.

John Maccarone: Yes, well the storage cost is the single biggest line item and as the utilization improves, storage costs drops down. I mean right now as we speak, the containers that have been booked, but have not yet been picked up, assuming they all get picked up in the next three to four weeks, we would be at close to 98 percent fleet utilization which is really astounding when you think about it.

And then storage costs would literally drop away to a fairly insignificant number.

Bob Napoli: Thank you.

John Maccarone: Thanks Bob.

Operator: Thank you. Once again, ladies and gentleman, if you have a question at this time please press star then one. Our next question comes from Rick Shane from Jeffries and Company, your question please.

Rick Shane: Guys, good morning, thank you for taking my questions.

Philip Brewer: Thank you Rick.

Rick Shane: Really just one thing. I mean obviously business has accelerated tremendously and there's a lot of enthusiasm here. It's an incredibly dramatic shift and one thing that does occur to me is that the shipping lines, your customers have been through a very hard period and even though business is improving rapidly, you have to be concerned about the overall financial well being of your counter parties.

How do you – how are you looking at counter party risk now given improvements for your counter parties, but also the fact that they need to repair balance sheets and how are you managing that as containers are going out as quickly as they are right now?

John Maccarone: Well, with the customers who have not fully recovered, the major customer and some of the smaller ones, we are being very careful about the supply that we have. Some of the very significant transactions have been with what I would call the blue chips of the industry. So we are able to spread the risks.

We never stopped worrying about counter party risk but I think by and large it's being mitigated especially as freight rates increase. I was reading an article yesterday Rick. The Transpacific Trade service contracts, which represent a very large portion of the freight that's carried, were due to be renegotiated effective May 1 and this particular article was talking about the success that the shipping lines have had by effectively limiting space, they've been able to drive the freight rates up.

One figure I saw in the article said that the average freight rates for a 40 foot container from China to Los Angeles under the new service contracts could be $2,000 or more versus the low point in 2009 of $1,000 which didn't even cover costs.

So in Europe, the Asia-Europe service, typically the service contracts are on a quarterly basis, rather than annual and freight rates have been ratcheting up every quarter since the last part of 2009. So from a revenue side, it is looking very good.

The only thing that could really derail things is if the shipping lines put too much capacity back into service too soon to absorb the increase in cargo. So, long answer to a short question, we're constantly focused on counter party risk, but we believe that we're managing it very well.

Philip Brewer: And just one additional point Rick, to keep in mind is when you do have such strong demand for containers and the supply being somewhat tight, it also gives us an ability to have discussions with shipping lines along the lines of “if you'd like additional supply we first need to see improvements in your payment schedules, etc.”

And with the lease we have some ability to have them listen to our request, so again, to reiterate what John said, it's not something we forgot, we – our credit meeting occurs regularly, we monitor our exposure but certainly the risks appear to be declining.

Rick Shane: Great and one way to quantify this, you guys I believe have internal credit ratings ranking your counter parties.

Is there any metric you can give us, for example, on new lease outs, average mix on your credit scale versus where the existing book is?

And again, I don't want to draw too much on this because I realize the high – the rising tide is going to lift everybody pretty nicely, but I at least want to think about this in context of how you reposition the portfolio in a very attractive environment.

Philip Brewer: Well, if you're asking do we monitor, for example, the average Dynamar rating of our fleet and the average Dynamar rating of new lease outs, we don't. I think our credit policy has been described in the past. We have credit limits by CEU for each of our shipping line customers.

Should we reach those credit limits and there's a request for additional capacity, we'll review the shipping line at that time. We may take an intermediate view on this shipping line based on news that comes to light subsequent to the previous time we reviewed the line but we don't monitor the average exposure in our fleet by average Dynamar or other rating.

Rick Shane: OK, terrific. Thank you.

Operator: Thank you, our next question comes from James Ellman from Seacliff your question, please.

James Ellman: Hi there, it's James Ellman. A couple of quick questions, one would be in Europe, obviously there are some state-owned – quasi state-owned container holders. With the difficulties and with the sovereigns there would you say there's increased chance that we might see some M&A on your side out of those entities during this year?

John Maccarone: State-owned shipping lines?

James Ellman: No, no the German holders of the – of the containers themselves.

John Maccarone: Oh, you mean the German KG funds?

James Ellman: Yes.

John Maccarone: Well, we manage containers for several of them. We are in very close communication with them and they know that we have desire to buy containers from the funds as we've done last year.

And at the moment, none of them are interested in selling containers that we manage. So I think they're seeing the improved performance of the containers that they own. We haven't talked a lot about new container prices, but they have going up quite dramatically.

An example, a brand new 20-foot container that we would order today is about $2,400, which helps the value of existing containers, so we really haven't see any of the people that we manage containers for express an interest in selling us containers.

James Ellman: All right, and I don't believe – I don't know if you have heard about this yet but there's this company called Algitech going public and raising capital and they grow algae for diesel and aviation fuel using containers that are sitting in ports,;

Have you leased any of your containers to the – to these guys and is there much room for growth there.

John Maccarone: I certainly hope not. I have not heard of that company I'm sorry to say.

James Ellman: OK, thank you, I think they're supposed to go public in the next week or two. Thanks a lot for the time.

John Maccarone: Thank you.

Operator: Thank you, our final question comes from Jordan Hymowitz from Philadelphia Financial your question please.

Jordan Hymowitz: Oh, hey guys, first of all, what's the managed fleet number?

Ernie Furtado: The managed fleet?

Philip Brewer: The percentage, Jordan, of the total fleet?

Ernie Furtado: Yes, it's 54 percent of the fleet is managed out of our 2.2 million TEU of fleet.

Jordan Hymowitz: Do you have actual dollar number?

Philip Brewer: We don't maintain the book values for the containers we mange. They're maintained by the owners of the containers.

Jordan Hymowitz: No the dollar unit number of managed.

Philip Brewer: Well, what do you mean by dollar unit number?

Jordan Hymowitz: I'm sorry it was 1.2 million last quarter as opposed to the owned as far a the total TEU in the fleet.

Ernie Furtado: Well, we have 2.2 million TEU so 56 percent of that would be about 1.2 million TEU would be managed.

Jordan Hymowitz: OK ...

Philip Brewer: I mean it's not a dollars figure. It's a unit measurement.

Jordan Hymowitz: Oh, no, no, no, that's exactly what I was looking for, I was hoping to get the exact number for some estimate.

Ernie Furtado: OK, yes, about 1 million 230 thousand more or less.

Jordan Hymowitz: OK, second question, you had a negative loss prevention this quarter that you went into a little bit. How should we be thinking about that line item going forward?

Ernie Furtado: The negative – you mean?

Yes, well I think as John just mentioned, is the shipping lines are able to increase freight rates and their outlook improves you know that will help the credit worthiness of all those customers.

The reason we had a bad debt benefit this quarter was because reserves that we had previously taken on some slow paying customers we were able to reverse because their payment pattern improved, so as more of those situations occur, hopefully, we'll have lower bad debt expense going forward.

Jordan Hymowitz: At least for the next two or three quarters, the bad debt expense could be very low at this point.

John Maccarone: Hopefully yes. There are still one or two customers of the small to medium size that we're quite concerned about, so that we have to see how things work out with those customers.

Jordan Hymowitz: And final question, can you say the number of units sold for the owned containers?

Philip Brewer: The number of containers sold year to date?

Jordan Hymowitz: No, we have a – yes well through March (it equates) it's a $5.1 million gain.

Ernie Furtado: Oh, just of the owned fleet, I think we don't – I don't have that at – right at – that detail right in front of us.

Phil Brewer: As of the end of March, we had sold about 28,000 in fleet containers.

Ernie Furtado: I think he wanted to know just the owned piece of that.

Jordan Hymowitz: Whatever …

Philip Brewer: I'm sorry – scratch that. Ernie pointed out that that was of our whole fleet, owned and managed. I don't have a breakdown between owned and managed. That's for both pieces.

John Maccarone: Yes, we can maybe get back to you …

Ernie Furtado: Yes, we can get back to you on that one.

John Maccarone: After the call, maybe we'll call you with that – we'll get that number and call you back.

Jordan Hymowitz: that's great, thank you.

John Maccarone: Thanks a lot.

Operator: Oh, thank you, we actually have a follow-up question from Bob from Piper Jaffray your question, please.

Bob Napoli: Thanks, hey just a couple of numbers questions. Your tax rate was two percent in the quarter I guess. What is the – can we still expect six – or you know somewhere in the mid single digits, six percent or so for the year.

Ernie Furtado: Yes, it was – it was lower than normal this quarter because we're getting close to the end of an IRS exam and as result we're able to re measure some of our uncertain tax positions and we had a $1-1/2 million reduction in income tax expense this quarter as a result.

So yes I think going forward it should be closer to the historical rate of you know somewhere between four and six percent.

Bob Napoli: OK, and I guess the gain on sales – gain on sales type leases this quarter that's an unusual – I haven't seen that number for you know $4 million what caused that and is that something that we should not expect going forward?

Ernie Furtado: Well, when you have a capital lease that is classified as a sales type lease, when you enter in the lease you record the difference between the fair market value of the containers and the book value at the time you enter into the lease.

We did have some of those last year but it was reported in the gain on sale number but because it was it was a larger number this year, we are reporting it as a separate line item.

They often result from the type of leases that we refer to as lifecycle leases where the lease is out until the end of its useful life it doesn't apply to all lifecycle leases but it does apply to some.

So going forward it will depend on the number of containers we put on these lifecycle leases and how they are accounted for.

Bob Napoli: OK, thank you.

Operator: Thank you I'd like to turn the program back to you for any further remarks.

John Maccarone: All right, well thank you all for your participation. I think that if there are no further questions we will end the call and (again) – move forward. Thank you.

Operator: Thank you ladies and gentlemen for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.

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