TAL International Group, Inc.
Form 10-Q
November 01, 2010

Use these links to rapidly review the document
TABLE OF CONTENTS

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For The Quarterly Period Ended September 30, 2010

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from to
Commission file number-001-32638

TAL International Group, Inc.

(Exact name of registrant as specified in the charter)

Delaware (State or other jurisdiction of incorporation or organization)	**20-1796526** (I.R.S. Employer Identification Number)
100 Manhattanville Road, Purchase, New York (Address of principal executive office)	**10577-2135** (Zip Code)

(914) 251-9000
(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer o	Accelerated Filer ý	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). YES o NO ý

As of November 1, 2010, there were 30,708,223 shares of the Registrant's common stock, $.001 par value outstanding.

Table of Contents

TAL International Group, Inc.

Index

		Page No.
	PART I FINANCIAL INFORMATION	
Item 1.	Financial Statements (unaudited)	3
	Consolidated Balance Sheets at September 30, 2010 and December 31, 2009	4
	Consolidated Statements of Operations for the three months and nine months ended September 30, 2010 and September 30, 2009	5
	Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and September 30, 2009	6
	Notes to Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	41
Item 4.	Controls and Procedures	42
	PART II OTHER INFORMATION	
Item 1.	Legal Proceedings	43
Item 1A.	Risk Factors	43
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	43
Item 6.	Exhibits	43
Signature		44

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, that involve substantial risks and uncertainties. In addition, we, or our executive officers on our behalf, may from time to time make forward-looking statements in reports and other documents we file with the Securities and Exchange Commission, or SEC, or in connection with oral statements made to the press, potential investors or others. All statements, other than statements of historical facts, including statements regarding our strategy, future operations, future financial position, future revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. The words "expect," "estimate," "anticipate," "predict," "believe," "think," "plan," "will," "should," "intend," "seek," "potential" and similar expressions and variations are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

Forward-looking statements in this report are subject to a number of known and unknown risks and uncertainties that could cause our actual results, performance or achievements to differ materially from those described in the forward-looking statements, including, but not limited to, the risks and uncertainties described in the section entitled "Risk Factors" in our Annual Report on Form 10-K filed with the SEC on March 1, 2010, in this report as well as in the other documents we file with the SEC from time to time, and such risks and uncertainties are specifically incorporated herein by reference.

Forward-looking statements speak only as of the date the statements are made. Except as required under the federal securities laws and rules and regulations of the SEC, we undertake no obligation to update or revise forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. We caution you not to unduly rely on the forward-looking statements when evaluating the information presented in this report.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The consolidated financial statements of TAL International Group, Inc. ("TAL" or the "Company") as of September 30, 2010 (unaudited) and December 31, 2009 and for the three and nine months ended September 30, 2010 (unaudited) and September 30, 2009 (unaudited) included herein have been prepared by the Company, without audit, pursuant to U.S. generally accepted accounting principles and the rules and regulations of the SEC. In addition, certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements reflect, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the results for the interim periods. The results of operations for such interim periods are not necessarily indicative of the results for the full year. These financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K filed with the SEC, on March 1, 2010, from which the accompanying December 31, 2009 Balance Sheet information was derived, and all of our other filings filed with the SEC from October 11, 2005 through the current date pursuant to the Exchange Act.

Table of Contents

TAL INTERNATIONAL GROUP, INC.

Consolidated Balance Sheets

(Dollars in thousands, except share data)

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS:		
Leasing equipment, net of accumulated depreciation and allowances of $488,077 and $420,517	$ 1,863,963	$ 1,357,539
Net investment in finance leases, net of allowances of $1,204 and $1,618	176,594	199,989
Equipment held for sale	22,372	46,291
Revenue earning assets	2,062,929	1,603,819
Cash and cash equivalents (including restricted cash of $21,065 and $13,714)	72,826	73,604
Accounts receivable, net of allowances of $489 and $757	41,943	33,086
Leasehold improvements and other fixed assets, net of accumulated depreciation and amortization of $5,312 and $5,142	874	972
Goodwill	71,898	71,898
Deferred financing costs	15,394	8,882
Other assets	9,064	6,043
Fair value of derivative instruments	849	2,674
Total assets	$ 2,275,777	$ 1,800,978
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Equipment purchases payable	$ 164,507	$ 3,312
Fair value of derivative instruments	103,809	61,799
Accounts payable and other accrued expenses	43,580	42,845
Net deferred income tax liability	121,057	112,895
Debt	1,436,558	1,161,298
Total liabilities	1,869,511	1,382,149
Stockholders' equity:		
Preferred stock, $.001 par value, 500,000 shares authorized, none issued		
Common stock, $.001 par value, 100,000,000 shares authorized, 33,720,066 and 33,592,066 shares issued respectively	34	33
Treasury stock, at cost, 3,011,843 and 3,009,171 shares, respectively	(37,535)	(37,489)
Additional paid-in capital	399,399	398,016
Accumulated earnings	52,941	58,253
Accumulated other comprehensive (loss) income	(8,573)	16
Total stockholders' equity	406,266	418,829
Total liabilities and stockholders' equity	$ 2,275,777	$ 1,800,978

The accompanying notes to the unaudited consolidated financial statements are an integral part of these statements.

Table of Contents

TAL INTERNATIONAL GROUP, INC.

Consolidated Statements of Operations

(Dollars and shares in thousands, except earnings per share)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Unaudited)		(Unaudited)	
Revenues:				
Leasing revenues:				
Operating leases	$ 81,250	$ 69,088	$ 220,094	$ 221,112
Finance leases	4,448	5,096	13,962	15,524
Total leasing revenues	85,698	74,184	234,056	236,636
Equipment trading revenue	9,273	7,869	25,967	33,704
Management fee income	786	675	2,279	2,013
Other revenues	45	188	462	777
Total revenues	95,802	82,916	262,764	273,130
Operating expenses (income):				
Equipment trading expenses	7,575	7,578	22,428	31,935
Direct operating expenses	5,032	9,134	19,849	28,600
Administrative expenses	9,979	9,192	31,077	30,577
Depreciation and amortization	31,489	29,380	86,742	87,843
(Reversal) provision for doubtful accounts	(162)	(15)	(760)	383
Net (gain) on sale of leasing equipment	(8,547)	(1,243)	(20,250)	(7,287)
Total operating expenses	45,366	54,026	139,086	172,051
Operating income	50,436	28,890	123,678	101,079
Other expenses (income):				
Interest and debt expense	21,793	17,024	56,608	51,505
Write-off of deferred financing costs	675		675	
(Gain) on debt extinguishment				(14,130)
Unrealized loss (gain) on interest rate swaps	9,709	6,935	31,495	(22,583)
Total other expenses (income)	32,177	23,959	88,778	14,792
Income before income taxes	18,259	4,931	34,900	86,287
Income tax expense	6,482	1,755	12,572	30,718
Net income	$ 11,777	$ 3,176	$ 22,328	$ 55,569
Net income per common share Basic	$ 0.39	$ 0.10	$ 0.73	$ 1.78

Net income per common share Diluted	$	0.38	$	0.10	$	0.73	$	1.78
Weighted average number of common shares outstanding Basic		30,443		30,621		30,436		31,226
Weighted average number of common shares outstanding Diluted		30,750		30,700		30,656		31,263
Cash dividends paid per common share	$	0.35	$	0.01	$	0.90	$	0.03

The accompanying notes to the unaudited consolidated financial statements are an integral part of these statements.

Table of Contents

TAL INTERNATIONAL GROUP, INC.

Consolidated Statements of Cash Flows

(Dollars in thousands)

	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 22,328	$ 55,569
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	86,742	87,843
Amortization of deferred financing costs	1,478	851
Net (gain) on sale of leasing equipment	(20,250)	(7,287)
Unrealized loss (gain) on interest rate swaps	31,495	(22,583)
Write-off of deferred financing costs	675	
(Gain) on debt extinguishment		(14,130)
Deferred income taxes	12,684	30,957
Stock compensation charge	1,384	1,162
Equipment purchased for resale	(2,556)	2,674
Changes in operating assets and liabilities	(16,762)	(505)
Net cash provided by operating activities	117,218	134,551
Cash flows from investing activities:		
Purchases of leasing equipment	(454,517)	(28,002)
Investments in finance leases	(433)	(27,098)
Proceeds from sale of equipment, net of selling costs	72,725	62,282
Cash collections on finance lease receivables, net of income earned	24,648	22,931
Other	(180)	(77)
Net cash (used in) provided by investing activities	(357,757)	30,036
Cash flows from financing activities:		
Common stock dividends paid	(27,394)	(953)
Purchases of treasury stock		(16,107)
Financing fees paid under debt facilities	(8,665)	
Borrowings under debt facilities	476,000	19,125
Payments under debt facilities	(232,639)	(142,627)
Payment to extinguish debt		(20,650)
Proceeds received from sale-leaseback transactions	40,013	10,000
Payments under capital lease obligations	(7,554)	(7,329)
Other		(1,761)
(Increase) decrease in restricted cash	(7,351)	1,989
Net cash provided by (used in) financing activities	232,410	(158,313)
Net (decrease) increase in cash and cash equivalents	(8,129)	6,274
Unrestricted cash and cash equivalents, beginning of period	59,890	40,798
Unrestricted cash and cash equivalents, end of period	$ 51,761	$ 47,072

Supplemental non-cash investing activities:		
Accrued and unpaid purchases of equipment	$ 164,507	$ 2,212

The accompanying notes to the unaudited consolidated financial statements are an integral part of these statements.

Table of Contents

TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Description of the Business, Basis of Presentation, Recently Issued Accounting Pronouncements

A. Description of the Business

TAL International Group, Inc. ("TAL" or the "Company") leases intermodal transportation equipment, primarily maritime containers, and provides maritime container management services, through a worldwide network of offices, third party depots and other facilities. The Company operates in both international and domestic markets. The majority of the Company's business is derived from leasing its containers to shipping line customers through a variety of long-term and short-term contractual lease arrangements. The Company also sells its own containers and containers purchased from third parties for resale. TAL also enters into management agreements with third party container owners under which the Company manages the leasing and selling of containers on behalf of the third party owners.

B. Basis of Presentation

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses during the reporting period and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. Certain reclassifications have been made to the accompanying prior period financial statements and notes to conform with the current year's presentation.

C. Recently Issued Accounting Pronouncements

The FASB has issued Accounting Standards Update No. 2010-06 ("ASU 2010-06"), *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*, which is effective for interim and annual reporting periods beginning after December 15, 2009. This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB's objective is to improve these disclosures and, thus, increase the transparency in financial reporting. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements.

The Company adopted the provisions of ASU 2010-06 effective January 1, 2010, and it did not impact the consolidated financial results as it is disclosure-only in nature. Refer to Note 6 for more information.

In July 2010, the FASB issued Accounting Standards Update No. 2010-20 ("ASU 2010-20"), *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. This topic requires the disclosures of financing receivables and allowances for credit losses on a disaggregated basis. The balance sheet related disclosures are required beginning December 31, 2010 and the statements of operations disclosures are required beginning for the three months ended March 31, 2011.

Table of Contents

TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1 Description of the Business, Basis of Presentation, Recently Issued Accounting Pronouncements (Continued)

The Company does not expect its adoption of ASU 2010-20 to impact the consolidated financial results as it is disclosure-only in nature.

Note 2 Fair Value of Financial Instruments

The Company believes the carrying amounts of cash and cash equivalents, accounts receivable, finance receivables and other financial assets approximated fair value at September 30, 2010.

The Company estimates that at September 30, 2010 the carrying value of the Company's debt instruments was approximately $28.7 million higher than its fair value. The Company estimated the fair value of its debt instruments based on the net present value of its future debt payments, using a discount rate which reflected the Company's estimate of market interest rates at September 30, 2010.

Note 3 Dividends

The Company paid the following quarterly dividends during the nine months ended September 30, 2010 and 2009 on its issued and outstanding common stock:

Record Date	Payment Date	Aggregate Payment	Per Share Payment
September 2, 2010	September 23, 2010	$ 10.7 million	$ 0.35
June 3, 2010	June 24, 2010	$ 9.1 million	$ 0.30
March 11, 2010	March 25, 2010	$ 7.6 million	$ 0.25
September 3, 2009	September 24, 2009	$ 0.3 million	$ 0.01
June 2, 2009	June 23, 2009	$ 0.3 million	$ 0.01
March 12, 2009	March 26, 2009	$ 0.3 million	$ 0.01

Note 4 Stock-Based Compensation Plans

The Company records compensation cost relating to share-based payment transactions in accordance with FASB Accounting Standards Codification No. 718 (ASC 718) *Compensation Stock Compensation*. The cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award).

The following compensation costs were reported in administrative expenses in the Company's statements of operations related to the Company's stock-based compensation plans as a result of stock

Table of Contents

TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4 Stock-Based Compensation Plans (Continued)

options granted in 2006 and restricted shares granted during the years 2007, 2009 and 2010 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Stock options	$ 128	$ 5	$ 140	$ 119
Restricted stock	456	317	1,244	1,043
Total	$ 584	$ 322	$ 1,384	$ 1,162

Total unrecognized compensation cost of approximately $1.8 million as of September 30, 2010 related to restricted shares granted during 2007, 2009 and 2010 will be recognized over the remaining weighted average vesting period of approximately 1.50 years.

Note 5 Debt

Debt consisted of the following (amounts in thousands):

	September 30, 2010	December 31, 2009
Asset backed securitizations (ABS)		
Term notes Series 2006-1	$ 315,459	$ 357,833
Term notes Series 2005-1	306,944	342,361
Term notes Series 2010-1	193,717	
2008 Asset backed credit facility	217,969	209,500
2009 Asset backed credit facility	50,000	50,000
Revolving credit facility	85,000	
Finance lease facility	32,436	38,505
2007 Term loan facility	21,803	26,688
2009 Term loan facilities	29,985	32,175
2010 Term loan facilities	48,554	
Port equipment facility	8,543	10,547
Capital lease obligations	126,148	93,689
Total	$ 1,436,558	$ 1,161,298

2009 Asset Backed Credit Facility

In February 2010, TAL Advantage III, LLC, an indirect wholly owned subsidiary of TAL International Group, Inc., increased the size of its asset backed credit facility from $100 million to $150 million. This facility was further increased by $145 million in April 2010 and by $75 million in June 2010, but was decreased by $45 million in July 2010 to bring the size of the facility to $325 million as of September 30, 2010.

Table of Contents

TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5 Debt (Continued)

2010 Asset Backed Securitization

In June 2010, TAL Advantage IV LLC, an indirect wholly owned subsidiary of TAL International Group, Inc., issued $197 million of Series 2010-1 Fixed Rate Secured Notes ("Series 2010-1 Notes"). The Series 2010-1 Notes, which were rated "A" by Standard & Poor's, were issued at par with an annual interest rate of 5.5% and have a scheduled maturity date of July 20, 2020.

Note 6 Derivative Instruments

Interest Rate Swaps

The Company has entered into interest rate swap agreements to manage interest rate risk exposure. The interest rate swap agreements utilized by the Company effectively modify the Company's exposure to interest rate risk by converting a portion of its floating rate debt to a fixed rate basis, thus reducing the impact of interest rate changes on future interest expense. These agreements involve the receipt of floating rate amounts in exchange for fixed rate interest payments over the lives of the agreements without an exchange of the underlying principal amounts. The counterparties to these agreements are highly rated financial institutions. In the unlikely event that the counterparties fail to meet the terms of the interest rate swap agreements, the Company's exposure is limited to the interest rate differential on the notional amount at each monthly settlement period over the life of the agreements. The Company does not anticipate any non-performance by the counterparties. Substantially all of the assets of TAL Advantage I LLC, TAL Advantage II LLC, and TAL Advantage III LLC are pledged as collateral for the underlying indebtedness and the amounts payable under the interest rate swap agreements for each of these entities. In addition, certain assets of TAL International Container Corporation, a wholly owned subsidiary of TAL International Group, Inc. are pledged as collateral for the Revolving Credit Facility and the amounts payable under certain interest rate swap agreements.

As of September 30, 2010, the Company had in place total interest rate swap contracts to fix the floating interest rates on a portion of the outstanding borrowings under its debt facilities as summarized below:

Total Notional Amount at September 30, 2010	Weighted Average Fixed Leg Interest Rate at September 30, 2010	Weighted Average Remaining Term
$1,204 million	4.1%	2.7 years

Most of the interest rate swap contracts entered into since April 12, 2006 are not accounted for as hedging instruments under FASB Accounting Standards Codification No. 815 (ASC 815) *Derivatives and Hedging*, and changes in the fair value of the interest rate swap contracts are reflected in the statements of operations as unrealized loss / gain on interest rate swaps. Prior to April 12, 2006, the Company had designated all existing swap contracts as cash flow hedges and then de-designated these contracts on April 12, 2006. As of September 30, 2010, the unamortized pre-tax balance reflected in accumulated other comprehensive loss/income of these previously designated swap contracts was approximately $0.6 million, substantially all of which will be amortized to income over the next 12 months.

The Company entered into a forward starting $200 million notional value interest rate swap contract in June 2010 that has been designated as a cash flow hedging instrument, and the effective portion of the change in fair value of a pre-tax loss of $12.2 million is reflected in accumulated other

Table of Contents

TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6 Derivative Instruments (Continued)

comprehensive loss/income on the Company's balance sheet as of September 30, 2010. Any ineffective portion of the cash flow hedges is recorded as unrealized loss / gains on interest rate swaps in the statements of operations and such amounts were immaterial for the three and nine month periods ended September 30, 2010. Amounts recorded in accumulated other comprehensive loss/income will be amortized into earnings as the hedged forecasted transactions impact earnings; the amounts would also be recognized into earnings upon termination of these interest rate swap contracts in conjunction with the termination of the related debt agreements.

Under the criteria established by FASB Accounting Standards Codification No. 820 (ASC 820) *Fair Value Measurements and Disclosures*, the fair value measurements of the interest rate swap contracts are based on significant other observable inputs other than quoted prices, either on a direct or indirect basis (Level 2), using valuation techniques the Company believes are appropriate.

The Company has elected to use the income approach to value the interest rate swap contracts, using observable Level 2 market expectations at the measurement date and standard valuation techniques to convert future amounts to a single present amount (discounted) assuming that participants are motivated, but not compelled to transact. Level 2 inputs for the swap valuations are limited to quoted prices for similar assets or liabilities in active markets (specifically futures contracts through three years) and inputs other than quoted prices that are observable for the asset or liability (specifically LIBOR cash rates in the very short term, LIBOR swap rates from four years and beyond, basis swap adjustments, and credit risk at commonly quoted intervals).

Foreign Currency Rate Swaps

In April 2008, the Company entered into foreign currency rate swap agreements to manage foreign currency rate risk exposure by exchanging Euros for U.S. Dollars based on expected payments under its Euro denominated finance lease receivables. The Company will pay a total of approximately 5.1 million Euros and receive approximately $7.8 million over the remaining term of foreign currency rate swap agreements which expire in April 2015. The Company does not account for the foreign currency rate swap agreements as hedging instruments under ASC 815, and therefore changes in the fair value of the foreign currency rate swap agreements are reflected in the statements of operations in administrative expenses.

Under the criteria established by ASC 820, the fair value measurement of the foreign currency rate swap contracts are based on significant other observable inputs other than quoted prices, either on a direct or indirect basis (Level 2), using valuation techniques the Company believes are appropriate.

The Company has elected to use the income approach to value the foreign currency rate swap contracts, using observable Level 2 market expectations at the measurement date and standard valuation techniques to convert future amounts to a single present amount (discounted) assuming that participants are motivated, but not compelled to transact. Level 2 inputs for the forward valuations are limited to quoted prices for similar assets or liabilities in active markets (specifically spot currency rates) and inputs other than quoted prices that are observable for the asset or liability (specifically forward currency points, LIBOR cash and swap rates, and credit risk at commonly quoted intervals).

Table of Contents

TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6 Derivative Instruments (Continued)

Location of Derivative Instruments in Financial Statements

Effect of Derivative Instruments on Balance Sheets
(Dollars in Millions)

	Asset Derivatives				Liability Derivatives			
	September 30, 2010		December 31, 2009		September 30, 2010		December 31, 2009	
Derivative Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate contracts designated	Fair Value of Derivative Instruments	$	Fair Value of Derivative Instruments	$	Fair Value of Derivative Instruments	$ 12.2	Fair Value of Derivative Instruments	$
Interest rate contracts not designated	Fair Value of Derivative Instruments		Fair Value of Derivative Instruments	2.2	Fair Value of Derivative Instruments	91.6	Fair Value of Derivative Instruments	61.8
Foreign exchange contracts	Fair Value of Derivative Instruments	0.8	Fair Value of Derivative Instruments	0.5	Fair Value of Derivative Instruments		Fair Value of Derivative Instruments	
Total derivatives		$ 0.8		$ 2.7		$ 103.8		$ 61.8

Effect of Derivative Instruments on Statements of Operations
(Dollars in Millions)

		Amount of (Gain) Loss Recognized in Income on Derivatives			
		Three months ended September 30,		Nine months ended September 30,	
Derivative Instrument	Location of (Gain) Loss Recognized in Income on Derivatives	2010	2009	2010	2009
Interest rate contracts not designated as hedging instruments	Unrealized loss (gain) on interest rate swaps	$ 9.7	$ 6.9	$ 31.5	$ (22.6)
Foreign exchange contracts	Administrative Expenses	0.7	0.3	(0.4)	0.6
Total		$ 10.4	$ 7.2	$ 31.1	$ (22.0)

Table of Contents

TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 Earnings Per Share

The following table sets forth the calculation of basic and diluted earnings per share for the three and nine months ended September 30, 2010 and 2009 (in thousands, except earnings per share):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Numerator:				
Net income applicable to common stockholders for basic and diluted earnings per share	$ 11,777	$ 3,176	$ 22,328	$ 55,569
Denominator:				
Weighted average shares outstanding for basic earnings per share	30,443	30,621	30,436	31,226
Dilutive stock options and restricted stock	307	79	220	37
Weighted average shares for diluted earnings per share	30,750	30,700	30,656	31,263
Earnings per share:				
Basic	$ 0.39	$ 0.10	$ 0.73	$ 1.78
Diluted	$ 0.38	$ 0.10	$ 0.73	$ 1.78

For the three and nine months ended September 30, 2010, 1,500 and 13,000 options to purchase shares of common stock, respectively, were not included in the calculation of weighted average shares for diluted earnings per share because their effects were antidilutive. For both the three and nine months ended September 30, 2009, 598,691 options to purchase shares of common stock and 61,500 shares of restricted stock for the nine months ended September 30, 2009 were not included in the calculation of weighted average shares for diluted earnings per share because their effects were antidilutive.

Note 8 Segment and Geographic Information

Industry Segment Information

The Company conducts its business activities in one industry, intermodal transportation equipment, and has two segments:

Equipment leasing the Company owns, leases and ultimately disposes of containers and chassis from its lease fleet, as well as manages leasing activities for containers owned by third parties.

Table of Contents

TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8 Segment and Geographic Information (Continued)

Equipment trading the Company purchases containers from shipping line customers, and other sellers of containers, and resells these containers to container traders and users of containers for storage or one-way shipment. Included in Equipment trading segment revenues are leasing revenues from equipment purchased for resale that is currently on lease until containers are dropped off.

The following tables present certain segment information and the consolidated totals reported (dollars in thousands):

	Three Months Ended September 30, 2010			Three Months Ended September 30, 2009		
	Equipment Leasing	Equipment Trading	Totals	Equipment Leasing	Equipment Trading	Totals
Total revenues	$ 85,566	$ 10,236	$ 95,802	$ 74,747	$ 8,169	$ 82,916
Equipment trading expenses		7,575	7,575		7,578	7,578
Depreciation and amortization expense	31,302	187	31,489	29,308	72	29,380
Net (gain) on sale of leasing equipment	(8,547)		(8,547)	(1,243)		(1,243)
Interest and debt expense	21,261	532	21,793	16,830	194	17,024
Income before income taxes(1)	26,891	1,752	28,643	11,725	141	11,866

(1) Segment income before income taxes excludes unrealized losses on interest rate swaps of $9,709 and $6,935 for the three months ended September 30, 2010 and 2009, respectively, and excludes the write-off of deferred financing fees of $675 for the three months ended September 30, 2010.

Table of Contents

TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8 Segment and Geographic Information (Continued)

	Nine Months Ended September 30, 2010			Nine Months Ended September 30, 2009		
	Equipment Leasing	Equipment Trading	Totals	Equipment Leasing	Equipment Trading	Totals
Total revenues	$ 234,192	$ 28,572	$ 262,764	$ 238,803	$ 34,327	$ 273,130
Equipment trading expenses		22,428	22,428		31,935	31,935
Depreciation and amortization expense	86,249	493	86,742	87,693	150	87,843
Net (gain) on sale of leasing equipment	(20,206)	(44)	(20,250)	(7,287)		(7,287)
Interest and debt expense	55,213	1,395	56,608	50,928	577	51,505
Income before income taxes(2)	63,405	3,665	67,070	48,904	670	49,574
Goodwill at September 30	70,898	1,000	71,898	70,898	1,000	71,898
Total assets at September 30	2,237,216	38,561	2,275,777	1,803,858	13,791	1,817,649
Purchases of leasing equipment(3)	438,749	15,768	454,517	28,002		28,002
Investments in finance leases(3)	433		433	27,098		27,098

(2) Segment income before income taxes excludes unrealized losses on interest rate swaps of $31,495 and write-off of deferred financing fees of $675 for the nine months ended September 30, 2010, and unrealized gains on interest rate swaps of $22,583 and gain on debt extinguishment of $14,130 for the nine months ended September 30, 2009.

(3) Represents cash disbursements for purchases of leasing equipment as reflected in the consolidated statements of cash flows for the period indicated.

There are no intercompany revenues or expenses between segments. Additionally, certain administrative expenses have been allocated between segments based on an estimate of services provided to each segment. Beginning in the fourth quarter of 2009, certain equipment purchased for resale was purchased through sale leaseback transactions with our shipping line customers, and the containers are being returned exceptionally slowly primarily due to the current worldwide shortage of containers. Due to the expected longer term nature of these transactions, these purchases are reflected as leasing equipment as opposed to assets held for sale and the cash flows associated with these transactions are and will be reflected as purchases of leasing equipment and proceeds from sale of equipment in investing activities.

Geographic Segment Information

The Company's customers use TAL's containers across their many worldwide trade routes. Substantially all of the Company's leasing related revenues are denominated in U.S. dollars. The

Table of Contents

TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8 Segment and Geographic Information (Continued)

following table allocates international leasing revenue based on the customers' primary domicile and allocates equipment trading revenue based on the location of sale (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Total revenues:				
United States of America	$ 8,156	$ 7,348	$ 22,096	$ 26,342
Asia	37,573	33,900	104,494	109,880
Europe	44,240	36,444	120,015	117,636
Other International	5,833	5,224	16,159	19,272
Total	$ 95,802	$ 82,916	$ 262,764	$ 273,130

As all of the Company's containers are used internationally, where no one container is domiciled in one particular place for a prolonged period of time, substantially all of the Company's long-lived assets are considered to be international.

Note 9 Commitments and Contingencies

Residual Value Guarantees

During 2008, the Company entered into commitments for equipment residual value guarantees in connection with certain finance leases that were sold or brokered to financial institutions. The guarantees represent the Company's commitment that these assets will be worth a specified amount at the end of lease terms (if the lessee does not default on the lease) which expire in 2016. At September 30, 2010, the maximum potential amount of the guarantees under which the Company could be required to perform was approximately $27.1 million. The carrying values of the guarantees of $1.1 million have been deferred and are included in accounts payable and other accrued expenses. The Company accounts for the residual value guarantees under FASB Accounting Standards Codification No. 450 *Contingencies*, and expects the market value of the equipment covered by the guarantees will equal or exceed the value of the guarantees. Under the criteria established by ASC 820, the Company performed fair value measurements of the guarantees at origination, using Level 2 inputs, which were based on significant other observable inputs other than quoted prices, either on a direct or indirect basis.

Purchase Commitments

At September 30, 2010, commitments for capital expenditures totaled approximately $140.4 million.

Note 10 Income Taxes

The consolidated income tax expense for the three and nine months ended September 30, 2010 and 2009 was determined based upon estimates of the Company's consolidated effective income tax rates for the years ending December 31, 2010 and 2009, respectively. The difference between the consolidated effective income tax rate and the U.S. federal statutory rate is primarily attributable to state income taxes, foreign income taxes and the effect of certain permanent differences.

Table of Contents

TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11 Comprehensive Income and Other

The following table provides a reconciliation of the Company's net income to comprehensive income (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income	$ 11,777	$ 3,176	$ 22,328	$ 55,569
Other comprehensive income:				
Unrealized loss on derivative instrument designated as a cash flow hedge (net of tax benefit of $2,394 and $4,342)	(4,322)		(7,838)	
Foreign currency translation adjustments	294	(12)	(385)	548
Amortization of net unrealized gains on derivative instruments previously designated as cash flow hedges (net of tax expense of $69, $87, $203 and $248, respectively)	(124)	(157)	(366)	(446)
Total	$ 7,625	$ 3,007	$ 13,739	$ 55,671

The balance included in accumulated other comprehensive loss/income for cumulative translation adjustments as of September 30, 2010 and December 31, 2009 was $(1,131) and $(746), respectively.

The Company recorded $0.2 million of unrealized foreign currency exchange gains in the third quarter of 2010, and $0.2 million of unrealized foreign currency exchange losses in the third quarter of 2009, which are reported in administrative expenses in the Company's statement of operations. For the nine months ended September 30, 2010 and 2009, the Company recorded $0.3 million and $0.1 million, respectively, of unrealized foreign currency exchange losses. These losses/gains resulted primarily from fluctuations in exchange rates related to its Euro and Pound Sterling transactions and related assets.

Note 12 Subsequent Events

Quarterly Dividend

On October 26, 2010 the Company's Board of Directors approved and declared a $0.40 per share quarterly cash dividend on its issued and outstanding common stock, payable on December 23, 2010 to shareholders of record at the close of business on December 2, 2010.

Asset Backed Securitization

On October 19, 2010, TAL Advantage IV LLC, an indirect wholly owned subsidiary of TAL International Group, Inc., issued $203 million of Series 2010-2 Fixed Rate Secured Notes ("Series 2010-2 Notes"). The Series 2010-2 Notes, which were rated "A" by Standard & Poor's, were issued at par with an annual interest rate of 4.3% and have a scheduled maturity date of October 20, 2020.

Table of Contents

TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12 Subsequent Events (Continued)

Termination of Interest Rate Swaps

In June 2010, the Company entered into a forward starting $200 million notional value interest rate swap contract to fix interest rates on future borrowings for containers committed to lease prior to delivery and payment. This swap was intended to be canceled upon the closing of a fixed rate debt transaction. Therefore, on October 19, 2010, in connection with the closing of the Series 2010-2 Notes, the Company terminated this swap contract and paid $14.9 million to its counterparty. Since this swap was designated as a cash flow hedge, the loss was recorded in accumulated other comprehensive income and will be amortized to interest expense over the original term of the swap contract.

The Company also terminated various non-designated interest rate swap contracts with a notional value of $250 million that were set to expire in 2011, and partially replaced them with a longer dated swap at current market rates. The Company paid $8.6 million to the swap counterparties to terminate these contracts. Since these swaps were non-designated, the loss was previously recognized in the Company's statements of operations as unrealized loss on interest rate swaps.

Shelf Registration

On October 27, 2010, the Company filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission registering various debt and equity securities to be offered from time to time up to an aggregate offering price of $300 million for all securities. The Company has no immediate plans to make any offer of any securities, but filed the registration statement in order to be able to access the capital markets more quickly and opportunistically when desired. The Company also registered 5,000,000 shares of common stock to be sold by certain stockholders of the Company from time to time. The registration statement has not yet become effective and no securities may be offered or sold pursuant to the registration statement until it becomes effective. Any offering of securities by the Company or any selling stockholder will be made solely by means of a prospectus.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the consolidated financial condition and results of operations of TAL International Group, Inc. and its subsidiaries should be read in conjunction with related consolidated financial data and our annual audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K filed with the SEC on March 1, 2010. The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described under "Risk Factors" and "Forward-Looking Statements" in our Form 10-K. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

Our Company

We are one of the world's largest and oldest lessors of intermodal containers and chassis. Intermodal containers are large, standardized steel boxes used to transport freight by ship, rail or truck. Because of the handling efficiencies they provide, intermodal containers are the primary means by which many goods and materials are shipped internationally. Chassis are used for the transportation of containers domestically.

We operate our business in one industry, intermodal transportation equipment, and have two business segments:

- Equipment leasing we own, lease and ultimately dispose of containers and chassis from our lease fleet, as well as manage leasing activities for containers owned by third parties.

- Equipment trading we purchase containers from our shipping line customers and other sellers of containers, and sell these containers to container traders and users of containers for storage, one- way shipment or other uses.

Operations

Our operations include the acquisition, leasing, re-leasing and subsequent sale of multiple types of intermodal containers and chassis. As of September 30, 2010, our total fleet consisted of 806,965 containers and chassis, including containers under management for third parties, representing 1,319,655 twenty-foot equivalent units (TEUs). We have an extensive global presence, offering leasing services through 18 offices in 11 countries and 193 third party container depot facilities in 37 countries as of September 30, 2010. Our customers are among the largest shipping lines in the world. For the nine months ended September 30, 2010, our twenty largest customers accounted for 76% of our leasing revenues, our five largest customers accounted for 49% of our leasing revenues, and our largest customer accounted for 17% of our leasing revenues.

We primarily lease three principal types of equipment: (1) dry freight containers, which are used for general cargo such as manufactured component parts, consumer staples, electronics and apparel, (2) refrigerated containers, which are used for perishable items such as fresh and frozen foods, and (3) special containers, which are used for heavy and oversized cargo such as marble slabs, building products and machinery. We also lease chassis, which are generally used for the transportation of containers domestically, and tank containers, which are used to transport bulk liquid products such as chemicals. We also finance port equipment, which includes container cranes, reach stackers and other related equipment. Our in-house equipment sales group manages the disposal process for our used containers and chassis from our equipment leasing fleet and buys and sells used and new containers and chassis acquired from third parties.

Table of Contents

As of September 30, 2010, the percentages of our equipment fleet and leasing revenues by equipment type are as follows:

Equipment Type	Percent of total fleet units	Percent of leasing revenue
Dry	84%	58%
Refrigerated	5	23
Special	6	11
Chassis	1	3
Tank		1
Equipment leasing fleet	96	96
Equipment trading fleet	4	4
Total	100%	100%

The following tables provide the composition of our equipment fleet as of the dates indicated below (in both units and TEUs):

Equipment Fleet in Units

	September 30, 2010			December 31, 2009			September 30, 2009		
	Owned	**Managed**	**Total**	**Owned**	**Managed**	**Total**	**Owned**	**Managed**	**Total**
Dry	648,665	25,893	674,558	564,885	28,068	592,953	570,320	28,624	598,944
Refrigerated	42,143	299	42,442	35,611	450	36,061	36,795	491	37,286
Special	43,109	2,216	45,325	45,238	2,619	47,857	45,940	2,659	48,599
Tank	2,349		2,349	1,350		1,350	1,350		1,350
Chassis	8,760		8,760	8,778		8,778	8,782		8,782
Equipment leasing fleet	745,026	28,408	773,434	655,862	31,137	686,999	663,187	31,774	694,961
Equipment trading fleet	33,531		33,531	14,947		14,947	9,878		9,878
Total	778,557	28,408	806,965	670,809	31,137	701,946	673,065	31,774	704,839
Percentage	96.5%	3.5%	100%	95.6%	4.4%	100.0%	95.5%	4.5%	100.0%

Equipment Fleet in TEUs

	September 30, 2010			December 31, 2009			September 30, 2009		
	Owned	**Managed**	**Total**	**Owned**	**Managed**	**Total**	**Owned**	**Managed**	**Total**
Dry	1,043,852	46,851	1,090,703	899,599	50,426	950,025	908,768	51,352	960,120
Refrigerated	79,565	531	80,096	65,971	758	66,729	67,856	812	68,668
Special	74,219	3,700	77,919	77,617	4,255	81,872	78,743	4,321	83,064
Tank	2,399		2,399	1,400		1,400	1,400		1,400
Chassis	15,577		15,577	15,612		15,612	15,619		15,619
Equipment leasing fleet	1,215,612	51,082	1,266,694	1,060,199	55,439	1,115,638	1,072,386	56,485	1,128,871
Equipment trading fleet	52,961		52,961	23,885		23,885	16,590		16,590