

TAL International Group, Inc.  
Form 10-Q  
July 30, 2010

Table of Contents

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

---

**FORM 10-Q**

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

**For The Quarterly Period Ended June 30, 2010**

or

**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)*

**0-1796526**  
*(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  No

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  No

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.

Edgar Filing: TAL International Group, Inc. - Form 10-Q

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

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

As of July 30, 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**

	<b>Page No.</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u>	<u>3</u>
<u>Financial Statements (unaudited)</u>	
<u>Consolidated Balance Sheets at June 30, 2010 and December 31, 2009</u>	<u>4</u>
<u>Consolidated Statements of Operations for the three months and six months ended June 30, 2010 and June 30, 2009</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and June 30, 2009</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2.</u>	<u>17</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Item 3.</u>	<u>39</u>
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	
<u>Item 4.</u>	<u>40</u>
<u>Controls and Procedures</u>	
<b><u>PART II OTHER INFORMATION</u></b>	
<u>Item 1.</u>	<u>41</u>
<u>Legal Proceedings</u>	
<u>Item 1A.</u>	<u>41</u>
<u>Risk Factors</u>	
<u>Item 2.</u>	<u>41</u>
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
<u>Item 6.</u>	<u>41</u>
<u>Exhibits</u>	
<u>Signature</u>	<u>43</u>

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 June 30, 2010 (unaudited) and December 31, 2009 and for the three and six months ended June 30, 2010 (unaudited) and June 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)**

	June 30, 2010	December 31, 2009
	(Unaudited)	
<b>ASSETS:</b>		
Leasing equipment, net of accumulated depreciation and allowances of \$463,708 and \$420,517	\$ 1,615,422	\$ 1,357,539
Net investment in finance leases, net of allowances of \$1,231 and \$1,618	182,266	199,989
Equipment held for sale	31,316	46,291
<b>Revenue earning assets</b>	<b>1,829,004</b>	<b>1,603,819</b>
Cash and cash equivalents (including restricted cash of \$21,655 and \$13,714)	88,135	73,604
Accounts receivable, net of allowances of \$535 and \$757	38,982	33,086
Leasehold improvements and other fixed assets, net of accumulated depreciation and amortization of \$5,282 and \$5,142	855	972
Goodwill	71,898	71,898
Deferred financing costs	16,374	8,882
Other assets	6,775	6,043
Fair value of derivative instruments	1,510	2,674
<b>Total assets</b>	<b>\$ 2,053,533</b>	<b>\$ 1,800,978</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
Equipment purchases payable	\$ 48,421	\$ 3,312
Fair value of derivative instruments	87,139	61,799
Accounts payable and other accrued expenses	38,183	42,845
Net deferred income tax liability	116,947	112,895
Debt	1,354,038	1,161,298
<b>Total liabilities</b>	<b>1,644,728</b>	<b>1,382,149</b>
<b>Stockholders' equity:</b>		
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	33	33
Treasury stock, at cost, 3,011,843 and 3,009,171 shares, respectively	(37,535)	(37,489)
Additional paid-in capital	398,816	398,016
Accumulated earnings	51,912	58,253
Accumulated other comprehensive (loss) income	(4,421)	16
<b>Total stockholders' equity</b>	<b>408,805</b>	<b>418,829</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,053,533</b>	<b>\$ 1,800,978</b>

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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(Unaudited)		(Unaudited)	
<b>Revenues:</b>				
Leasing revenues:				
Operating leases	\$ 70,851	\$ 73,977	\$ 138,844	\$ 152,024
Finance leases	4,644	5,373	9,514	10,428
<b>Total leasing revenues</b>	<b>75,495</b>	<b>79,350</b>	<b>148,358</b>	<b>162,452</b>
Equipment trading revenue	10,956	9,747	16,694	25,835
Management fee income	725	669	1,493	1,338
Other revenues	188	293	417	589
<b>Total revenues</b>	<b>87,364</b>	<b>90,059</b>	<b>166,962</b>	<b>190,214</b>
<b>Operating expenses (income):</b>				
Equipment trading expenses	9,675	9,582	14,853	24,357
Direct operating expenses	6,637	9,641	14,817	19,466
Administrative expenses	10,543	9,763	21,098	21,385
Depreciation and amortization	28,287	29,354	55,253	58,463
(Reversal) provision for doubtful accounts	(530)	77	(598)	398
Net (gain) on sale of leasing equipment	(7,235)	(2,448)	(11,703)	(6,044)
<b>Total operating expenses</b>	<b>47,377</b>	<b>55,969</b>	<b>93,720</b>	<b>118,025</b>
<b>Operating income</b>	<b>39,987</b>	<b>34,090</b>	<b>73,242</b>	<b>72,189</b>
<b>Other expenses (income):</b>				
Interest and debt expense	17,773	17,120	34,815	34,481
(Gain) on debt extinguishment		(14,130)		(14,130)
Unrealized loss (gain) on interest rate swaps	15,002	(24,455)	21,786	(29,518)
<b>Total other expenses (income)</b>	<b>32,775</b>	<b>(21,465)</b>	<b>56,601</b>	<b>(9,167)</b>
Income before income taxes	7,212	55,555	16,641	81,356
Income tax expense	2,560	19,778	6,090	28,963
<b>Net income</b>	<b>\$ 4,652</b>	<b>\$ 35,777</b>	<b>\$ 10,551</b>	<b>\$ 52,393</b>
Net income per common share				
Basic	\$ 0.15	\$ 1.15	\$ 0.35	\$ 1.66
	\$ 0.15	\$ 1.15	\$ 0.34	\$ 1.66

Edgar Filing: TAL International Group, Inc. - Form 10-Q

Net income per common  
share Diluted

Weighted average number of common shares outstanding				
Basic	30,434	31,102	30,432	31,534
Weighted average number of common shares outstanding				
Diluted	30,724	31,132	30,616	31,555
Cash dividends paid per common share	\$ 0.30	\$ 0.01	\$ 0.55	\$ 0.02

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)

	Six months ended June 30,	
	2010	2009
	(Unaudited)	
<b>Cash flows from operating activities:</b>		
Net income	\$ 10,551	\$ 52,393
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	55,253	58,463
Amortization of deferred financing costs	847	568
Net (gain) on sale of leasing equipment	(11,703)	(6,044)
Unrealized loss (gain) on interest rate swaps	21,786	(29,518)
(Gain) on debt extinguishment		(14,130)
Deferred income taxes	4,083	29,167
Stock compensation charge	800	840
Equipment purchased for resale	(4,940)	3,993
Changes in operating assets and liabilities	(13,581)	2,718
<b>Net cash provided by operating activities</b>	<b>63,096</b>	<b>98,450</b>
<b>Cash flows from investing activities:</b>		
Purchases of leasing equipment	(273,039)	(27,184)
Investments in finance leases	(433)	(26,713)
Proceeds from sale of equipment, net of selling costs	39,634	33,063
Cash collections on finance lease receivables, net of income earned	16,273	15,156
Other	(124)	(32)
<b>Net cash used in investing activities</b>	<b>(217,689)</b>	<b>(5,710)</b>
<b>Cash flows from financing activities:</b>		
Common stock dividends paid	(16,741)	(631)
Purchases of treasury stock		(11,291)
Financing fees paid under debt facilities	(8,339)	(1,490)
Borrowings under debt facilities	391,000	
Payments under debt facilities	(190,224)	(62,247)
Payment to extinguish debt		(20,650)
Proceeds received from capital leases		10,000
Payments under capital lease obligations	(6,572)	(6,483)
(Increase) decrease in restricted cash	(7,941)	1,505
<b>Net cash provided by (used in) financing activities</b>	<b>161,183</b>	<b>(91,287)</b>
<b>Net increase in cash and cash equivalents</b>	<b>6,590</b>	<b>1,453</b>
Unrestricted cash and cash equivalents, beginning of period	59,890	40,798
<b>Unrestricted cash and cash equivalents, end of period</b>	<b>\$ 66,480</b>	<b>\$ 42,251</b>
<b>Supplemental non-cash investing activities:</b>		

Edgar Filing: TAL International Group, Inc. - Form 10-Q

Accrued and unpaid purchases of equipment \$ 48,421 \$ 2,394

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.

**Note 2 Fair Value of Financial Instruments**

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

The interest rates charged on the majority of the Company's various credit facilities are based on variable interest rates. The Company estimates that at June 30, 2010 the carrying value of the Company's debt instruments was approximately \$88.9 million higher than its fair value. The Company

Table of Contents**TAL INTERNATIONAL GROUP, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 spreads at June 30, 2010.

**Note 3 Dividends**

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

<b>Record Date</b>	<b>Payment Date</b>	<b>Aggregate Payment</b>	<b>Per Share Payment</b>
June 3, 2010	June 24, 2010	\$ 9.1 million	\$ 0.30
March 11, 2010	March 25, 2010	\$ 7.6 million	\$ 0.25
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 options granted in 2006 and restricted shares granted during the years 2007, 2009 and 2010 (dollars in thousands):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Stock options	\$ 7	\$ 109	\$ 12	\$ 114
Restricted stock	393	444	788	726
<b>Total</b>	<b>\$ 400</b>	<b>\$ 553</b>	<b>\$ 800</b>	<b>\$ 840</b>

Total unrecognized compensation cost of approximately \$2.3 million as of June 30, 2010 related to restricted shares granted during 2007, 2009 and 2010 will be recognized over the remaining weighted average vesting period of approximately 1.75 years.

Table of Contents**TAL INTERNATIONAL GROUP, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 5 Debt**

Debt consisted of the following (amounts in thousands):

	June 30, 2010	December 31, 2009
Asset backed securitizations (ABS)		
Term notes Series 2006-1	\$ 329,583	\$ 357,833
Term notes Series 2005-1	318,750	342,361
Term notes Series 2010-1	197,000	
2008 Asset backed credit facility	225,000	209,500
2009 Asset backed credit facility	50,000	50,000
Revolving credit facility		
Finance lease facility	34,432	38,505
2007 Term loan facility	23,613	26,688
2009 Term loan facilities	30,787	32,175
2010 Term loan facilities	49,639	
Port equipment facility	8,117	10,547
Capital lease obligations	87,117	93,689
 Total	 \$ 1,354,038	 \$ 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, and further increased this facility by \$145 million in April 2010 and by \$75 million in June 2010 to bring the size of the facility to \$370 million as of June 30, 2010.

*2010 Asset Securitization*

In June 2010, TAL Advantage IV LLC, an indirect wholly owned subsidiary of TAL International Group, Inc., issued \$197,000,000 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%, have a scheduled maturity date of July 20, 2020 and a final legal maturity date of July 21, 2025.

**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

Table of Contents**TAL INTERNATIONAL GROUP, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

<b>Total Notional Amount at June 30, 2010</b>	<b>Weighted Average Fixed Leg Interest Rate at June 30, 2010</b>	<b>Weighted Average Remaining Term</b>
\$1,129 million	4.2%	3.1 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 losses / (gains) 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 June 30, 2010, the unamortized pre tax balance reflected in accumulated other comprehensive (loss) income of these previously designated swap contracts was approximately \$0.8 million, of which \$0.7 million 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 loss of \$5.5 million is reflected in accumulated other comprehensive (loss) income on the Company's balance sheet as of June 30, 2010. Any ineffective portion of the cash flow hedges is recorded as unrealized losses / (gains) on interest rate swaps in the statements of operations and such amounts were immaterial as of the three and six month periods ended June 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 and the related debt agreements. The swap is not included in the total notional amount of swaps shown in the above table, as the payment start date is effective August 2010.

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).

Table of Contents**TAL INTERNATIONAL GROUP, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****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 5.4 million Euros and receive approximately \$8.2 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).

**Location of Derivative Instruments in Financial Statements**

**Effect of Derivative Instruments on Balance Sheets**  
**\$ in Millions**

Derivative Instrument	Asset Derivatives				Liability Derivatives			
	June 30, 2010 Balance Sheet Location	Fair Value	December 31, 2009 Balance Sheet Location	Fair Value	June 30, 2010 Balance Sheet Location	Fair Value	December 31, 2009 Balance Sheet Location	Fair Value
Interest rate contracts designated	Fair Value of Derivative Instruments	\$	Fair Value of Derivative Instruments	\$	Fair Value of Derivative Instruments	\$ 5.5	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	81.6	Fair Value of Derivative Instruments	61.8
Foreign exchange contracts	Fair Value of Derivative Instruments	1.5	Fair Value of Derivative Instruments	0.5	Fair Value of Derivative Instruments		Fair Value of Derivative Instruments	
Total derivatives		\$ 1.5		\$ 2.7		\$ 87.1		\$ 61.8

Table of Contents

## TAL INTERNATIONAL GROUP, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Effect of Derivative Instruments on Statements of Operations  
\$ in Millions

Derivative Instrument	Location of (Gain) Loss Recognized in Income on Derivatives	Amount of (Gain) Loss Recognized in Income on Derivatives			
		Three months ended June 30,		Six months ended June 30,	
		2010	2009	2010	2009
Interest rate contracts not designated as hedging instruments	Unrealized loss (gain) on interest rate swaps	\$ 15.0	\$ (24.5)	\$ 21.8	\$ (29.5)
Foreign exchange contracts	Administrative Expenses	(0.7)	0.5	(1.1)	0.3
<b>Total</b>		<b>\$ 14.3</b>	<b>\$ (24.0)</b>	<b>\$ 20.7</b>	<b>\$ (29.2)</b>

**Note 7 Earnings Per Share**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Numerator:</b>				
Net income applicable to common stockholders for basic and diluted earnings per share	\$ 4,652	\$ 35,777	\$ 10,551	\$ 52,393
<b>Denominator:</b>				
Weighted average shares outstanding for basic earnings per share	30,434	31,102	30,432	31,534
Dilutive stock options	290	30	184	21
Weighted average shares for diluted earnings per share	30,724	31,132	30,616	31,555
<b>Earnings per share:</b>				
Basic	\$ 0.15	\$ 1.15	\$ 0.35	\$ 1.66
Diluted	\$ 0.15	\$ 1.15	\$ 0.34	\$ 1.66

For the three and six months ended June 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



Edgar Filing: TAL International Group, Inc. - Form 10-Q

and six months ended June 30, 2009, 598,691 options to purchase shares of common stock and 66,000 shares of restricted stock were not included in the calculation of weighted average shares for diluted earnings per share because their effects were antidilutive.

Table of Contents**TAL INTERNATIONAL GROUP, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****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.

**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 June 30, 2010			Three Months Ended June 30, 2009		
	Equipment Leasing	Equipment Trading	Totals	Equipment Leasing	Equipment Trading	Totals
Total revenues	\$ 75,430	\$ 11,934	\$ 87,364	\$ 80,115	\$ 9,944	\$ 90,059
Equipment trading expenses		9,675	9,675		9,582	9,582
Depreciation and amortization expense	28,110	177	28,287	29,310	44	29,354
Net (gain) on sale of leasing equipment	(7,191)	(44)	(7,235)	(2,448)		(2,448)
Interest and debt expense	17,281	492	17,773	16,918	202	17,120
Income before income taxes(1)	20,852	1,362	22,214	17,068	(98)	16,970

- (1) Segment income before income taxes excludes unrealized losses on interest rate swaps of \$15,002 for the three months ended June 30, 2010 and unrealized gains on interest rate swaps of \$24,455

Table of Contents**TAL INTERNATIONAL GROUP, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

for the three months ended June 30, 2009, and excludes gain on debt extinguishment of \$14,130 for the three months ended June 30, 2009.

	Six Months Ended June 30, 2010			Six Months Ended June 30, 2009		
	Equipment Leasing	Equipment Trading	Totals	Equipment Leasing	Equipment Trading	Totals
Total revenues	\$ 148,626	\$ 18,336	\$ 166,962	\$ 164,056	\$ 26,158	\$ 190,214
Equipment trading expenses		14,853	14,853		24,357	24,357
Depreciation and amortization expense	54,947	306	55,253	58,385	78	58,463
Net (gain) on sale of leasing equipment	(11,659)	(44)	(11,703)	(6,044)		(6,044)
Interest and debt expense	33,952	863	34,815	34,098	383	34,481
Income before income taxes(2)	36,514	1,913	38,427	37,179	529	37,708
Goodwill at June 30	70,898	1,000	71,898	70,898	1,000	71,898
Total assets at June 30	2,012,119	41,414	2,053,533	1,860,878	14,954	1,875,832
Purchases of leasing equipment(3)	257,261	15,778	273,039	27,184		27,184
Investments in finance leases(3)	433		433	26,713		26,713

(2) Segment income before income taxes excludes unrealized losses on interest rate swaps of \$21,786 for the six months ended June 30, 2010 and unrealized gains on interest rate swaps of \$29,518 for the six months ended June 30, 2009, and excludes gain on debt extinguishment of \$14,130 for the six months ended June 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)**

following table represents the allocation of domestic and international revenues for the periods indicated based on the customers' primary domicile (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Total revenues:				
United States of America	\$ 7,444	\$ 8,006	\$ 13,940	\$ 18,998
Asia	36,020	37,480	66,921	75,957
Europe	38,485	37,911	75,775	81,152
Other International	5,415	6,662	10,326	14,107
Total	\$ 87,364	\$ 90,059	\$ 166,962	\$ 190,214

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 June 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 June 30, 2010, commitments for capital expenditures totaled approximately \$314.4 million.

**Note 10 Income Taxes**

The consolidated income tax expense for the three and six month periods ended June 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 higher effective tax rate reported for the six months ended June 30, 2010 was mainly attributed to additional tax expense related to stock compensation on restricted stock that vested on January 1, 2010. 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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income	\$ 4,652	\$ 35,777	\$ 10,551	\$ 52,393
Other comprehensive income:				
Unrealized loss on derivative instrument designated as cash flow hedge (net of tax benefit of \$1,948)	(3,516)		(3,516)	
Foreign currency translation adjustments	(323)	659	(679)	560
Amortization of net unrealized gains on derivative instruments previously designated as cash flow hedges (net of tax expense of \$66, \$81, \$134 and \$161, respectively)	(119)	(145)	(242)	(289)
Total	\$ 694	\$ 36,291	\$ 6,114	\$ 52,664

The balance included in accumulated other comprehensive (loss) income for cumulative translation adjustments as of June 30, 2010 and December 31, 2009 was \$(1,425) and \$(746), respectively.

The Company recorded \$0.1 million of unrealized foreign currency exchange losses and \$0.5 million of unrealized foreign currency exchange gains which are reported in administrative expenses in the Company's statement of operations in the quarters ended June 30, 2010 and June 30, 2009, respectively. The Company recorded \$0.5 million of unrealized foreign currency exchange losses and \$0.2 million of unrealized foreign currency exchange gains which are reported in administrative expenses in the Company's statement of operations in the six months ended June 30, 2010 and June 30, 2009, respectively. 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 July 27, 2010 the Company's Board of Directors approved and declared a \$0.35 per share quarterly cash dividend on its issued and outstanding common stock, payable on September 23, 2010 to shareholders of record at the close of business on September 2, 2010.

**Amendment to 2009 Asset Backed Credit Facility**

On July 16, 2010, TAL Advantage III, LLC, an indirect wholly owned subsidiary of TAL International Group, Inc., reduced the size of its asset backed credit facility from \$370 million to \$325 million.

Table of Contents

**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 June 30, 2010, our total fleet consisted of 765,366 containers and chassis, including containers under management for third parties, representing 1,245,758 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 June 30, 2010. Our customers are among the largest shipping lines in the world. For the six months ended June 30, 2010, our twenty largest customers accounted for 76% of our leasing revenues, our five largest customers accounted for 50% 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.

## Edgar Filing: TAL International Group, Inc. - Form 10-Q

### Table of Contents

As of June 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	83%	57%
Refrigerated	5	24
Special	6	11
Chassis	1	3
Tank		1
Equipment leasing fleet	95	96
Equipment trading fleet	5	4
<b>Total</b>	<b>100%</b>	<b>100%</b>

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								
	June 30, 2010			December 31, 2009			June 30, 2009		
	Owned	Managed	Total	Owned	Managed	Total	Owned	Managed	Total
<b>Dry</b>	606,933	26,384	633,317	564,885	28,068	592,953	588,718	29,212	617,930
<b>Refrigerated</b>	39,524	351	39,875	35,611	450	36,061	37,526	525	38,051
<b>Special</b>	44,056	2,304	46,360	45,238	2,619	47,857	46,757	2,756	49,513
<b>Tank</b>	1,849		1,849	1,350		1,350	1,350		1,350
<b>Chassis</b>	8,764		8,764	8,778		8,778	8,787		8,787
<b>Equipment leasing fleet</b>	701,126	29,039	730,165	655,862	31,137	686,999	683,138	32,493	715,631
<b>Equipment trading fleet</b>	35,201		35,201	14,947		14,947	11,105		11,105
<b>Total</b>	736,327	29,039	765,366	670,809	31,137	701,946	694,243	32,493	726,736
<b>Percentage</b>	96.2%	3.8%	100.0%	95.6%	4.4%	100.0%	95.5%	4.5%	100.0%

	Equipment Fleet in TEUs								
	June 30, 2010			December 31, 2009			June 30, 2009		
	Owned	Managed	Total	Owned	Managed	Total	Owned	Managed	Total
<b>Dry</b>	971,668	47,665	1,019,333	899,599	50,426	950,025	936,082	52,298	988,380
<b>Refrigerated</b>	74,158	619	74,777	65,971	758	66,729	69,158	863	70,021
<b>Special</b>	75,744	3,839	79,583	77,617	4,255	81,872	80,113	4,485	84,598
<b>Tank</b>	1,899		1,899	1,400		1,400	1,400		1,400
<b>Chassis</b>	15,584		15,584	15,612		15,612	15,628		15,628
<b>Equipment leasing fleet</b>	1,139,053	52,123	1,191,176	1,060,199	55,439	1,115,638	1,102,381	57,646	1,160,027
<b>Equipment trading fleet</b>	54,582		54,582	23,885		23,885	18,799		18,799
<b>Total</b>	1,193,635	52,123	1,245,758	1,084,084	55,439	1,139,523	1,121,180	57,646	1,178,826
<b>Percentage</b>	95.8%	4.2%	100.0%	95.1%	4.9%	100.0%	95.1%	4.9%	100.0%

## Edgar Filing: TAL International Group, Inc. - Form 10-Q

We generally lease our equipment on a per diem basis to our customers under three types of leases: long-term leases, finance leases and service leases. Long-term leases, typically with initial contractual terms of three to eight years, provide us with stable cash flow and low transaction costs by



Table of Contents

requiring customers to maintain specific units on-hire for the duration of the lease. Finance leases, which are typically structured as full payout leases, provide for a predictable recurring revenue stream with the lowest daily cost to the customer because customers are generally required to retain the equipment for the duration of its useful life. Service leases command a premium per diem rate in exchange for providing customers with a greater level of operational flexibility by allowing the pick-up and drop-off of units during the lease term. We also have expired long-term leases whose fixed terms have ended but for which the related units remain on-hire and for which we continue to receive rental payments pursuant to the terms of the initial contract. Some leases have contractual terms that have features reflective of both long-term and service leases and we classify such leases as either long-term or service leases, depending upon which features we believe are more predominant.

The following table provides a summary of our equipment leasing fleet portfolio by lease type, based on total on-hire units as of the dates indicated below:

Lease Portfolio	June 30, 2010	December 31, 2009	June 30, 2009
Long-term leases	63.5%	68.7%	66.9%
Finance leases	10.1	11.7	11.7
Service leases	16.1	15.2	12.4
Expired long-term leases (units on hire)	10.3	4.4	9.0
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

During 2009, we reached agreements with several of our customers that limit the total number of containers that could be returned from expired leases. During the redelivery limitation periods we have included the maximum number of containers that can be returned as expired term leases, while the balance of the affected units are included in current term leases. During the first half of 2010 several of these agreements expired.

As of June 30, 2010, our long-term leases had an average remaining contract term of approximately 50 months, assuming no leases are renewed.

### Operating Performance

Our profitability is primarily determined by the extent to which our leasing revenue exceeds our ownership, operating and administrative expenses. Our profitability is also impacted by the gain or loss that we realize on the sale of our used equipment and the net sales margins on our equipment trading activities.

Our leasing revenue is primarily driven by our owned fleet size, utilization and average rental rates. Our leasing revenue also includes ancillary fees generally driven by the volume of containers returned off-hire.

As of June 30, 2010, our owned fleet included 1,193,635 TEUs, an increase of 10.1% from December 31, 2009, and an increase of approximately 6.5 % from June 30, 2009. The increase in fleet size during the first six months of 2010 was due to several factors, including an increase in new container purchases and the completion of several sale-leaseback transactions for trading containers.

TAL has increased new container purchases in 2010 due to a strong recovery in demand for leased containers. Trade volumes were exceptionally weak from the end of 2008 through the middle of 2009, leading to a decrease in demand for containers and a build-up of excess container inventories. In response to this, leasing companies and shipping lines effectively ceased purchasing containers in 2009, and we estimate that global container capacity decreased five percent or more from September 2008 through the end of 2009 as containers aged out of service and were not replaced. However, trade volumes began to recover in the second half of 2009, and they have improved steadily during the first six months of 2010. In 2010, this combination of decreased container capacity and recovering trade

Table of Contents

volumes has led to a global shortage of containers, strong leasing demand and rapidly increasing utilization for TAL.

Due to the strong leasing demand, TAL has placed large orders for new containers in 2010. As of the end of July 2010, TAL has ordered over \$675 million of new equipment, including 230,000 TEU of new dry containers and 21,000 TEU of new refrigerated containers. Slightly less than half of the ordered units were delivered by June 30, 2010, with the balance of existing orders generally scheduled for delivery during the third and early fourth quarters of 2010. TAL's purchases of new containers in 2010 have also been supported by a shift in the mix of shipping-line owned vs. leased containers. Historically, shipping lines have purchased and owned 55% to 60% of the containers they operate, and leased 40% to 45% of their operated containers from leasing companies like TAL. However, most shipping lines have been cautious about committing to large purchases of new containers this year despite the global container shortage. Many shipping lines continue to face financial constraints from reduced profitability and increased capital outlays associated with their aggressive ship building programs, and they are relying more heavily on the leasing market for access to additional container capacity.

In the first six months of 2010, we sold approximately 42,477 TEUs of our owned containers, or 4.0% of our equipment leasing fleet as of the beginning of 2010. This annualized disposal rate of approximately 8.0% is similar to the 6 to 8% annual disposal rate we have been experiencing for the last few years, and is generally consistent with our expected long-term average disposal rate given the 12 - 14 year expected useful life of our containers. For much of 2009, our disposal rate did not keep pace with the rate at which older containers were being returned to us and our inventory of disposal containers increased throughout the year. However, drop-off volumes have decreased sharply in 2010 due to the global shortage of containers, and our disposal rate in the first half of 2010 was much higher than the rate at which older containers were returned to us. As a result, our inventory of disposal containers has been decreasing this year. If container drop off volumes remain exceptionally low in the second half of 2010, our disposal rate may begin to decrease.

Our average utilization was 95.4% in the second quarter of 2010, an increase of 8.4% from the second quarter of 2009, and an increase of 3.6% from the first quarter of 2010. Ending utilization increased 3.7% from 93.4% as of March 31, 2010 to 97.1% as of June 30, 2010. The increase in our utilization in the second quarter of 2010 was mainly the result of strong leasing demand for our dry containers due to the combination of recovering containerized trade volumes and the 2009 decrease in global container capacity. We expect utilization for our dry containers to remain strong for the remainder of 2010.

Utilization and leasing demand for our refrigerated containers remained strong in the second quarter of 2010. The utilization of our refrigerated containers does not heavily influence our overall utilization since they represent only 5% of the units in our fleet. However, these container types are significantly more expensive than dry containers, generate higher per diem lease rates and currently represent approximately 24% of our leasing revenue. Leasing demand for special containers was moderate in the second quarter of 2010 while demand for our chassis product line remained weak due to an oversupply of chassis in the marketplace.

The following tables set forth our equipment fleet utilization (1) for the periods indicated below:

	Quarter Ended June 30, 2010	Quarter Ended March 31, 2010	Quarter Ended December 31, 2009	Quarter Ended September 30, 2009	Quarter Ended June 30, 2009	Quarter Ended March 31, 2009
<b>Average Utilization</b>	95.4%	91.8%	88.7%	86.2%	87.0%	90.1%

Table of Contents

	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
<b>Ending Utilization</b>	97.1%	93.4%	90.3%	87.6%	85.9%	88.5%

- (1) Utilization is computed by dividing our total units on lease by the total units in our fleet excluding new units not yet leased.

Average lease rates for our dry container product line in the second quarter of 2010 were 0.5% lower compared to the average level of the second quarter of 2009 and 5.0% higher than the first quarter of 2010. The increase in average lease rates from the first quarter to the second quarter of 2010 was primarily the result of the expiration of incentives that had been provided to certain customers to encourage them to pick-up or keep units on-hire. In addition, due to the high current cost of new dry containers, new units picked up during the second quarter were placed on leases with lease rates significantly higher than the average rates in our portfolio. We expect our average lease rates for dry containers to continue to increase throughout the remainder of 2010 as previously-issued incentives continue to expire and as containers are supplied to leases with above-average lease rates.

Average lease rates for refrigerated containers in the second quarter of 2010 were 2.7% lower compared to the second quarter of 2009, and 0.3% lower than the first quarter of 2010, while average rental rates for our special containers were 0.4% lower during the second quarter of 2010 compared to the second quarter of 2009 and flat compared to the first quarter of 2010. The decrease in average lease rates for our refrigerated containers from the second quarter of 2009 to the second quarter of 2010 was primarily due to lease rate concessions provided to certain customers in 2009 for lease extension transactions. In addition, market leasing rates for new refrigerated containers remain slightly below our portfolio average rates due to a decrease in the price of new refrigerated containers over the last several years. The decrease in average leasing rates for special containers from the second quarter of 2009 to the second quarter of 2010 was primarily due to discounts associated with lease extension transactions completed in 2009.

Fee and ancillary revenue decreased more than 50% in the second quarter of 2010 compared to the second quarter of 2009. Most of our fee and ancillary revenue, including repair charges, handling fees and logistical and early termination fees, are related to container drop-offs, and the volume of container drop-offs was exceptionally low in the second quarter of 2010 due to the global shortage of containers.

During the second quarter of 2010, we recognized a \$7.2 million gain on the sale of our used containers compared to a \$2.4 million gain in the second quarter of 2009 and \$4.5 million in the first quarter 2010. The increase compared to the second quarter of 2009 and first quarter of 2010 mainly resulted from higher selling prices. Looking forward, we expect used container selling prices to remain high for the rest of this year due to the global shortage of container capacity and decreasing inventories of disposal containers, though the size of our gains may start to be constrained by lower selling volumes if drop-off volumes remain exceptionally low.

During the second quarter of 2010, we recognized a net equipment trading margin of \$1.3 million on the sale of equipment purchased for resale, compared to a \$0.2 million margin in the second quarter of 2009 and a \$0.6 million margin in the first quarter 2010. In 2009, our trading margins decreased from the high levels achieved in previous years as we decreased our purchase volumes due to concerns about future selling prices, and as we experienced low per-unit margins from selling containers that had been purchased in prior years at relatively high prices. In 2010, our per unit trading margins have improved due to an increase in used container selling prices, though we expect overall trading margins to remain historically low due to low trading volumes. Beginning in the fourth quarter of 2009, we started to significantly increase our purchases of trading containers, and our equipment trading inventory increased to 54,582 TEU as of June 30, 2010 compared to 16,590 TEU as of September 30, 2009. However, most of these trading containers were purchased through sale-leaseback

Table of Contents

transactions with our shipping line customers, and are not expected to be returned to us in the near future due to the current worldwide shortage of containers.

Our ownership expenses, principally depreciation and interest expense, decreased by \$0.4 million, or 0.9% in the second quarter of 2010 as compared to the second quarter of 2009. While TAL has committed to large new container purchases this year, our equipment fleet decreased throughout 2009, and large scale deliveries of new containers just started to ramp-up in the second quarter of 2010. As a result, our average fleet size in the second quarter of 2010 was only slightly larger than the average size of our fleet in the second quarter of 2009. In addition, we typically pay for containers several months after they are delivered, so the financing cost of our 2010 container orders was not yet highly reflected in our interest expense in the second quarter. Our ownership expenses should start to increase during the second half of this year as the bulk of our equipment is delivered, paid for and placed on-hire.

For the second quarter of 2010, we reversed \$0.5 million of our allowance for doubtful accounts, as compared to a provision of \$0.1 million in the second quarter of 2009. In the second quarter of 2010, our provision for doubtful accounts reflected the reversal of provisions for certain customers recorded in 2009 that were no longer deemed necessary.

Our credit performance remained strong in the first six months of 2010, and the profitability in the shipping industry has improved significantly with most shipping lines projecting solid profitability for the full year 2010 compared to the large losses most of them recorded in 2009. However, shipping lines continue to face excess vessel capacity and recent improvements in freight rates and shipping line profitability may be pressured if trade volumes drop from their current level. In addition, several major shipping lines, including our largest customer, are currently involved in comprehensive financial restructuring negotiations with their major creditors; according we remain vigilant with our credit and collection processes.

If one of our major customers were to default on our leases and cease operations because of deterioration in its financial performance, we would face reduced revenues and we would likely incur significant write-offs due to lost units and recovery expenses. While the current shortage of container capacity and resulting strong current leasing demand would help our recovery and re-marketing efforts in a default situation, we still expect that the financial impact of a major customer default would be significant. We do not maintain an equipment reserve for units on lease to performing customers, so a major customer default would have a significant impact on our financial statements at the time the major customer defaults. To mitigate this impact from potential defaults, we entered into a credit insurance policy in the third quarter of 2009 that in certain circumstances covers losses and costs incurred in default situations. However, this policy has significant deductibles, exclusions and payment and other limitations, and therefore may not protect us from losses arising from customer defaults.

Our direct operating expenses were \$6.6 million in the second quarter of 2010, compared to \$9.6 million in the second quarter of 2009, and \$8.2 million in the first quarter of 2010. We incurred significantly less repair and storage costs in the second quarter of 2010 due to less redeliveries and fewer units off-hire during the period.

**Treasury Stock**

There were no material Treasury Stock repurchases during the six months ended June 30, 2010, compared to such purchases during the equivalent periods in 2009. The following amounts of Treasury Stock were purchased during the six months ended June 30, 2009:

<b>Quarter ended</b>	<b>Shares Purchased</b>	<b>Amount Paid</b>
March 31, 2009	1,021,918	\$ 8.2 million
June 30, 2009	355,915	\$ 3.1 million
<b>Total</b>	<b>1,377,833</b>	<b>\$ 11.3 million</b>

Table of Contents**Dividends**

We paid the following quarterly dividends during the six months ended June 30, 2010 and 2009 on our issued and outstanding common stock:

<b>Record Date</b>	<b>Payment Date</b>	<b>Aggregate Payment</b>	<b>Per Share Payment</b>
June 3, 2010	June 24, 2010	\$ 9.1 million	\$ 0.30
March 11, 2010	March 25, 2010	\$ 7.6 million	\$ 0.25
June 2, 2009	June 23, 2009	\$ 0.3 million	\$ 0.01
March 12, 2009	March 26, 2009	\$ 0.3 million	\$ 0.01

23

Edgar Filing: TAL International Group, Inc. - Form 10-Q

Table of Contents

**Results of Operations**

The following table summarizes our results of operations for the three and six months ended June 30, 2010 and 2009 in thousands of dollars and as a percentage of total revenues:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2010		2009		2010		2009	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Leasing revenues	\$ 75,495	86.4%	\$ 79,350	88.1%	\$ 148,358	88.9%	\$ 162,452	85.4%
Equipment trading revenue	10,956	12.6	9,747	10.8	16,694	10.0	25,835	13.6
Management fee income	725	0.8	669	0.8	1,493	0.9	1,338	0.7
Other revenues	188	0.2	293	0.3	417	0.2	589	0.3
<b>Total revenues</b>	<b>87,364</b>	<b>100.0</b>	<b>90,059</b>	<b>100.0</b>	<b>166,962</b>	<b>100.0</b>	<b>190,214</b>	<b>100.0</b>
Operating expenses (income):								
Equipment trading expenses	9,675	11.0	9,582	10.6	14,853	8.9	24,357	12.8
Direct operating expenses	6,637	7.6	9,641	10.7	14,817	8.9	19,466	10.2
Administrative expenses	10,543	12.1	9,763	10.8	21,098	12.6	21,385	11.2
Depreciation and amortization	28,287	32.4	29,354	32.6	55,253	33.1	58,463	30.8
(Reversal) provision for doubtful accounts	(530)	(0.6)	77	0.1	(598)	(0.4)	398	0.2
Net (gain) on sale of leasing equipment	(7,235)	(8.3)	(2,448)	(2.7)	(11,703)	(7.0)	(6,044)	(3.2)
<b>Total operating expenses</b>	<b>47,377</b>	<b>54.2</b>	<b>55,969</b>	<b>62.1</b>	<b>93,720</b>	<b>56.1</b>	<b>118,025</b>	<b>62.0</b>
<b>Operating income</b>	<b>39,987</b>	<b>45.8</b>	<b>34,090</b>	<b>37.9</b>	<b>73,242</b>	<b>43.9</b>	<b>72,189</b>	<b>38.0</b>
Other expenses (income):								
Interest and debt expense	17,773	20.3	17,120	19.0	34,815	20.9	34,481	18.1
(Gain) on debt extinguishment			(14,130)	(15.7)			(14,130)	(7.4)
Unrealized loss (gain) on interest rate swaps	15,002	17.2	(24,455)	(27.1)	21,786	13.0	(29,518)	(15.5)
<b>Total other expenses (income)</b>	<b>32,775</b>	<b>37.5</b>	<b>(21,465)</b>	<b>(23.8)</b>	<b>56,601</b>	<b>33.9</b>	<b>(9,167)</b>	<b>(4.8)</b>
Income before income taxes	7,212	8.3	55,555	61.7	16,641	10.0	81,356	42.8
Income tax expense	2,560	2.9	19,778	22.0	6,090	3.7	28,963	15.2
<b>Net income</b>	<b>\$ 4,652</b>	<b>5.4%</b>	<b>\$ 35,777</b>	<b>39.7%</b>	<b>\$ 10,551</b>	<b>6.3%</b>	<b>\$ 52,393</b>	<b>27.6%</b>



Table of Contents**Comparison of Three Months Ended June 30, 2010 to Three Months Ended June 30, 2009.**

**Leasing revenues.** The principal components of our leasing revenues are presented in the following table. Per diem revenue represents revenue earned under operating lease contracts; fee and ancillary lease revenue represent fees billed for the pick-up and drop-off of containers in certain geographic locations and billings of certain reimbursable operating costs such as repair and handling expenses; and finance lease revenue represents interest income earned under finance lease contracts.

	Three Months Ended June 30,	
	2010	2009
	(in thousands)	
Leasing revenues:		
Operating lease revenues:		
Per diem revenue	\$ 67,000	\$ 65,817
Fee and ancillary lease revenue	3,851	8,160
<b>Total operating lease revenue</b>	<b>70,851</b>	<b>73,977</b>
Finance lease revenue	4,644	5,373
<b>Total leasing revenues</b>	<b>\$ 75,495</b>	<b>\$ 79,350</b>

Total leasing revenues were \$75.5 million for the three months ended June 30, 2010, compared to \$79.4 million for the three months ended June 30, 2009, a decrease of \$3.9 million, or 4.9%.

Per diem revenue increased by \$1.2 million compared to 2009. The primary reasons for the increase are as follows:

\$4.9 million increase due to an increase in utilization primarily for our dry and refrigerated containers.

\$1.0 million increase due to several purchase leaseback transactions completed in 2010 in our equipment trading segment.

\$3.5 million decrease due to the recognition of fee revenue for the early termination of contracts in the second quarter of 2009, that did not reoccur in 2010; and

\$0.9 million decrease due to lower per diem rates resulting from a significant number of units picked up in late 2009 and early 2010 on incentive leases providing free rental periods.

Fee and ancillary lease revenue decreased by \$4.3 million as compared to the prior year primarily due to a decrease in repair and handling revenue resulting from a significant decrease in drop off volume.

Finance lease revenue decreased by \$0.7 million in 2010, primarily due to a decrease in the average size of our finance lease portfolio.

**Equipment Trading Activities.** Equipment trading revenue represents the proceeds on the sale of equipment purchased for resale. Equipment trading expenses represent the cost of equipment sold,



Table of Contents

including costs associated with the acquisition, maintenance and selling of trading inventory, such as positioning, repairs, handling and storage costs, and estimated direct selling and administrative costs.

	<b>Three Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(in thousands)</b>	
Equipment trading revenues	\$ 10,956	\$ 9,747
Equipment trading expenses	(9,675)	(9,582)
<b>Equipment trading margin</b>	<b>\$ 1,281</b>	<b>\$ 165</b>

The equipment trading margin increased \$1.1 million for the three months ended June 30, 2010 compared to the three months ended June 30, 2009. The trading margin increased primarily due to an increase in selling prices.

**Direct operating expenses.** Direct operating expenses primarily consist of our costs to repair equipment returned off lease, to store the equipment when it is not on lease, and to reposition equipment that has been returned to locations with weak leasing demand.

Direct operating expenses were \$6.6 million for the three months ended June 30, 2010, compared to \$9.6 million for the three months ended June 30, 2009, a decrease of \$3.0 million. The primary reasons for the decrease are as follows:

\$3.6 million decrease in storage and handling costs due to a decrease in units off-hire;

\$0.7 million decrease in repair costs due to a lower repair volume, primarily for our dry and refrigerated containers;

\$1.0 million increase in surveying costs and inspection costs due to an increase in new equipment purchases.

**Administrative expenses.** Administrative expenses were \$10.5 million for the three months ended June 30, 2010, compared to \$9.8 million for the three months ended June 30, 2009, an increase of \$0.7 million or 7.1%. The increase was primarily due to foreign currency losses incurred on our Euro and GBP denominated assets.

**Depreciation and amortization.** Depreciation and amortization was \$28.3 million for the three months ended June 30, 2010, compared to \$29.4 million for the three months ended June 30, 2009, a decrease of \$1.1 million or 3.7%. Depreciation decreased by \$1.5 million due to another vintage year of older equipment becoming fully depreciated in the fourth quarter of 2009 and increased by \$0.4 million due to a net increase in the size of the depreciable fleet.

**(Reversal) provision for doubtful accounts.** There was a net reversal for doubtful accounts of \$0.5 million for the three months ended June 30, 2010, compared to a provision for doubtful accounts of \$0.1 million for the three months ended June 30, 2009. The decrease in the provision for doubtful accounts in the second quarter of 2010 was due to the reversal of certain provisions recorded in 2009 due to better than expected container recoveries.

**Net (gain) on sale of leasing equipment.** Gain on sale of equipment was \$7.2 million for the three months ended June 30, 2010, compared to a gain of \$2.4 million for the three months ended June 30, 2009, an increase of \$4.8 million. Gain on sale increased by \$4.0 million due to higher selling prices and \$0.4 million due to a higher volume of units sold. In addition, gain on sale increased by \$0.3 million due to lower selling costs.

**Interest and debt expense.** Interest and debt expense was \$17.8 million for the three months ended June 30, 2010, compared to \$17.1 million for the three months ended June 30, 2009, an increase of \$0.7

Table of Contents

million. The increase was primarily due to an increase in our average effective interest rate, partially offset by lower debt outstanding during the quarter.

**(Gain) on debt extinguishment.** There were no gains on debt extinguishment for the three months ended June 30, 2010. Gain on debt extinguishment of \$14.1 million (net of the write-off of deferred financing costs of approximately \$0.2 million) for the three months ended June 30, 2009 was due to the repurchase of a portion of the Series 2006-1 Term Notes.

**Unrealized loss (gain) on interest rate swaps.** Unrealized loss on interest rate swaps was \$15.0 million for the three months ended June 30, 2010, compared to an unrealized gain of \$24.5 million for the three months ended June 30, 2009. The fair value of the interest rate swap contracts not designated was a liability of \$81.6 million at June 30, 2010, compared to a net liability of \$59.6 million at December 31, 2009. The increase in the liability resulted from a decrease in long-term interest rates in 2010.

**Income tax expense.** Income tax expense was \$2.6 million for the three months ended June 30, 2010, compared to \$19.8 million for the three months ended June 30, 2009. The effective tax rates were 35.5% for the three months ended June 30, 2010 and 35.6% for the three months ended June 30, 2009.

While we record income tax expense we do not pay any significant federal, state or foreign income taxes due to the availability of net operating loss carryovers and accelerated tax depreciation for our equipment. The majority of the expense recorded for income taxes is recorded as a deferred tax liability on the balance sheet. We anticipate that the deferred income tax liability will continue to grow for the foreseeable future.

**Comparison of Six Months Ended June 30, 2010 to Six Months Ended June 30, 2009.**

**Leasing revenues.** The principal components of our leasing revenues are presented in the following table. Per diem revenue represents revenue earned under operating lease contracts; fee and ancillary lease revenue represent fees billed for the pick-up and drop-off of containers in certain geographic locations and billings of certain reimbursable operating costs such as repair and handling expenses; and finance lease revenue represents interest income earned under finance lease contracts.

	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(in thousands)</b>	
<b>Leasing revenues:</b>		
<b>Operating lease revenues:</b>		
Per diem revenue	\$ 129,265	\$ 134,033
Fee and ancillary lease revenue	9,579	17,991
<b>Total operating lease revenue</b>	<b>138,844</b>	<b>152,024</b>
Finance lease revenue	9,514	10,428
<b>Total leasing revenues</b>	<b>\$ 148,358</b>	<b>\$ 162,452</b>

Total leasing revenues were \$148.4 million for the six months ended June 30, 2010, compared to \$162.5 million for the six months ended June 30, 2009, a decrease of \$14.1 million, or 8.7%.

Per diem revenue decreased by \$4.8 million compared to 2009. The primary reasons for the decrease are as follows:

\$5.7 million decrease due to lower per diem rates resulting from discount incentives mainly provided over the course of 2009 and a significant number of units picked up in late 2009 and early 2010 on incentive leases providing free rental periods.

Table of Contents

\$3.0 million decrease due to the recognition of fee revenue for the early termination of contracts during the first half of 2009, that did not reoccur in 2010;

\$2.4 million increase due to an increase in average units on hire. This reflects an increased number of average dry, refrigerated and special containers in our fleet; and

\$1.8 million increase due to several purchase leaseback transactions completed in 2010 in our equipment trading segment.

Fee and ancillary lease revenue decreased by \$8.4 million as compared to the prior year primarily due to a decrease in repair and handling revenue resulting from a significant decrease in drop off volume.

Finance lease revenue decreased by \$0.9 million in 2010, primarily due to a decrease in the average size of our finance lease portfolio.

**Equipment Trading Activities.** Equipment trading revenue represents the proceeds on the sale of equipment purchased for resale. Equipment trading expenses represent the cost of equipment sold, including costs associated with the acquisition, maintenance and selling of trading inventory, such as positioning, repairs, handling and storage costs, and estimated direct selling and administrative costs.

	Six Months Ended June 30,	
	2010	2009
	(in thousands)	
Equipment trading revenues	\$ 16,694	\$ 25,835
Equipment trading expenses	(14,853)	(24,357)
<b>Equipment trading margin</b>	<b>\$ 1,841</b>	<b>\$ 1,478</b>

The equipment trading margin increased \$0.4 million for the six months ended June 30, 2010 compared to the six months ended June 30, 2009. The trading margin increased by \$1.2 million due to an increase in selling prices, partially offset by a \$0.8 million reduction in sales volume.

**Direct operating expenses.** Direct operating expenses primarily consist of our costs to repair equipment returned off lease, to store the equipment when it is not on lease, and to reposition equipment that has been returned to locations with weak leasing demand.

Direct operating expenses were \$14.8 million for the six months ended June 30, 2010, compared to \$19.5 million for the six months ended June 30, 2009, a decrease of \$4.7 million. The primary reasons for the decrease are as follows:

\$4.3 million decrease in storage and handling costs due to a decrease in units off-hire;

\$2.1 million decrease in repair costs due to a lower repair volume, primarily for our dry and refrigerated containers; and

\$1.6 million increase in surveying costs due to an increase in new equipment purchases.

**Administrative expenses.** Administrative expenses were \$21.1 million for the six months ended June 30, 2010, compared to \$21.4 million for the six months ended June 30, 2009, a decrease of \$0.3 million or 1.4%. The decrease was primarily due to lower salary and benefits in 2010 as compared to 2009, which included one-time severance charges and employee terminations that occurred in 2009. Partially offsetting these decreases were higher foreign currency losses incurred on our Euro and GBP denominated assets and higher incentive charges in 2010.

**Depreciation and amortization.** Depreciation and amortization was \$55.3 million for the six months ended June 30, 2010, compared to \$58.5 million for the six months ended June 30, 2009, a decrease of



Table of Contents

\$3.2 million or 5.5%. Depreciation decreased by \$3.0 million due to another vintage year of older equipment becoming fully depreciated in the fourth quarter of 2009 and by \$0.2 million due to a net smaller depreciable fleet.

**(Reversal) provision for doubtful accounts.** There was a net reversal for doubtful accounts of \$0.6 million for the six months ended June 30, 2010, compared to a provision for doubtful accounts of \$0.4 million for the six months ended June 30, 2009. The decrease in the provision for doubtful accounts was due to the reversal of certain provisions recorded in 2009 due to better than expected container recoveries.

**Net (gain) on sale of leasing equipment.** Gain on sale of equipment was \$11.7 million for the six months ended June 30, 2010, compared to a gain of \$6.0 million for the six months ended June 30, 2009, an increase of \$5.7 million. Gain on sale increased by \$3.4 million due to higher selling prices and by \$1.4 million due to a higher volume of units sold. In addition, there was \$0.8 million in lower selling costs.

**Interest and debt expense.** Interest and debt expense was \$34.8 million for the six months ended June 30, 2010, compared to \$34.5 million for the six months ended June 30, 2009, an increase of \$0.3 million. The increase was primarily due to an increase in our average effective interest rate, partially offset by lower average debt outstanding during the six months.

**(Gain) on debt extinguishment.** There were no gains on debt extinguishment for the six months ended June 30, 2010. Gain on debt extinguishment of \$14.1 million (net of the write-off of deferred financing costs of approximately \$0.2 million) for the six months ended June 30, 2009 was due to the repurchase of a portion of the Series 2006-1 Term Notes.

**Unrealized loss (gain) on interest rate swaps.** Unrealized loss on interest rate swaps was \$21.8 million for the six months ended June 30, 2010, compared to an unrealized gain of \$29.5 million for the six months ended June 30, 2009. The fair value of the interest rate swap contracts not designated was a liability of \$81.6 million at June 30, 2010, compared to a net liability of \$59.6 million at December 31, 2009. The increase in the liability resulted from a decrease in long-term interest rates in 2010.

**Income tax expense.** Income tax expense was \$6.1 million for the six months ended June 30, 2010, compared to \$29.0 million for the six months ended June 30, 2009. The effective tax rates were 36.6% for the six months ended June 30, 2010 and 35.6% for the three months ended June 30, 2009. The higher effective tax rate reported for the six months ended June 30, 2010 was mainly attributed to additional tax expense related to stock compensation on restricted stock that vested on January 1, 2010. We anticipate that our annual effective tax rate will be approximately 35.5%.

While we record income tax expense we do not pay any significant federal, state or foreign income taxes due to the availability of net operating loss carryovers and accelerated tax depreciation for our equipment. The majority of the expense recorded for income taxes is recorded as a deferred tax liability on the balance sheet. We anticipate that the deferred income tax liability will continue to grow for the foreseeable future.

**Business Segments**

We operate our business in one industry, intermodal transportation equipment, and in two business segments, Equipment leasing and Equipment trading.

**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 leasing segment revenues

Table of Contents

represent leasing revenues from operating and finance leases, fees earned on managed container leasing activities, as well as other revenues. Expenses related to equipment leasing include direct operating expenses, administrative expenses, depreciation expense, and interest expense. The Equipment leasing segment also includes gains and losses on the sale of owned leasing equipment.

**Segment Comparison of Quarter Ended June 30, 2010 to Quarter Ended June 30, 2009**

The following table lists selected revenue and expense items for our Equipment leasing segment for the three months ended June 30, 2010 and 2009:

	<b>Three Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(in thousands)</b>	
Total revenues	\$ 75,430	\$ 80,115
Depreciation and amortization expense	28,110	29,310
Interest and debt expense	17,281	16,918
Net (gain) on sale of leasing equipment	(7,191)	(2,448)
<b>Income before income taxes(1)</b>	<b>20,852</b>	<b>17,068</b>

(1)

Income before income taxes excludes unrealized losses of \$15,002 and gains of \$24,455 on interest rate swaps for the three months ended June 30, 2010 and 2009, respectively. Income before income taxes also excludes gains on debt extinguishment of \$14,130 for the three months ended June 30, 2009.

*Equipment leasing revenue.* Total revenue for the Equipment leasing segment was \$75.4 million in the three months ended June 30, 2010 compared to \$80.1 million in the three months ended June 30, 2009, a decrease of \$4.7 million, or 5.9%. The primary reasons for the decrease are as follows:

\$4.3 million decrease in fee and ancillary lease revenue primarily due to a decrease in repair and handling revenue resulting from a significant decrease in drop off volume;

\$3.5 million decrease due to the recognition of fee revenue for the early termination of contracts in the second quarter of 2009 that did not reoccur in 2010.

\$0.7 million decrease in finance lease revenue primarily due to a decrease in the average size of our finance lease portfolio.

\$0.9 million decrease due to lower per diem rates resulting from a significant number of units picked up in late 2009 and early 2010 on incentive leases providing free rental periods.

\$4.9 million increase due to an increase in utilization primarily for our dry and refrigerated containers.

*Equipment leasing income before income taxes.* Income before income taxes for the Equipment leasing segment was \$20.9 million in the three months ended June 30, 2010 compared to \$17.1 million in the three months ended June 30, 2009, an increase of \$3.8 million, or 22.2%. The primary reasons for the increase in income before income taxes are as follows:

\$ 4.8 million increase in gain on the sale of leasing equipment, primarily due to higher selling prices.

Edgar Filing: TAL International Group, Inc. - Form 10-Q

\$3.0 million decrease in direct operating expenses, primarily related to decreased storage and handling costs

\$1.1 million decrease in depreciation expense, primarily due to another vintage year of containers becoming fully depreciated and very limited purchases of new equipment in 2009;

Table of Contents

\$4.7 million decrease in Equipment leasing revenue in 2010;

\$0.4 million increase in interest expense, primarily due to an increase in our average effective interest rate.

**Segment Comparison of Six Months Ended June 30, 2010 to Six Months Ended June 30, 2009**

The following table lists selected revenue and expense items for our Equipment leasing segment for the six months ended June 30, 2010 and 2009:

	Six Months Ended June 30,	
	2010	2009
	(in thousands)	
Total revenues	\$ 148,626	\$ 164,056
Depreciation and amortization expense	54,947	58,385
Interest and debt expense	33,952	34,098
Net (gain) on sale of leasing equipment	(11,659)	(6,044)
<b>Income before income taxes(1)</b>	<b>36,514</b>	<b>37,179</b>

(1) Income before income taxes excludes unrealized losses of \$21,786 and gains of \$29,518 on interest rate swaps of for the six months ended June 30, 2010 and 2009, respectively. Income before income taxes also excludes gains on debt extinguishment of \$14,130 for the six months ended June 30, 2009.

*Equipment leasing revenue.* Total revenue for the Equipment leasing segment was \$148.6 million in the six months ended June 30, 2010 compared to \$164.1 million in the six months ended June 30, 2009, a decrease of \$15.5 million, or 9.4%. The primary reasons for the decrease are as follows:

\$8.4 million decrease in fee and ancillary lease revenue due to a decrease in repair and handling revenue resulting from a significant decrease in drop-off volume.

\$5.7 million decrease due to lower per diem rates resulting from discount incentives mainly provided over the course of 2009 and a significant number of units picked up in late 2009 and early 2010 on incentive leases providing free rental periods.

\$3.0 million decrease due to the recognition of fee revenue for the early termination of contracts during the first half of 2009, that did not reoccur in 2010.

\$0.9 million decrease in finance lease revenue primarily due to a decrease in the average size of our finance lease portfolio.

\$2.4 million increase due to an increase in average units on hire. This reflects an increased number of average dry, refrigerated and special containers in our fleet.

*Equipment leasing income before income taxes.* Income before income taxes for the Equipment leasing segment was \$36.5 million in the six months ended June 30, 2010 compared to \$37.2 million in the six months ended June 30, 2009, a decrease of \$0.7 million, or 1.9%. The primary reasons for the decrease in income before income taxes are as follows:



## Edgar Filing: TAL International Group, Inc. - Form 10-Q

\$15.5 million decrease in Equipment leasing revenue in 2010;

\$3.5 million decrease in depreciation expense, primarily due to another vintage year of containers becoming fully depreciated and very limited purchases of new equipment in 2009;

\$4.7 million decrease in direct operating expenses, primarily resulting from decreased storage and repair costs associated with decreased drop-off volumes and improved utilization;

\$5.7 million increase in gain on the sale of leasing equipment, primarily due to higher selling prices in 2010 compared to 2009.

\$1.0 million decrease in provision for doubtful accounts related to reversals of certain provisions recorded in 2009 due to better than expected container recoveries.

Table of Contents**Equipment trading**

We purchase containers from shipping line customers and other sellers of containers, and resell these containers to container traders and users of containers for storage or one-way shipment. Equipment trading segment revenues primarily represent the proceeds on the sale of containers purchased for resale. Also included in Equipment trading segment revenues are leasing revenues from equipment purchased for resale that is currently on lease. Equipment trading expenses represent the cost of equipment sold, including costs associated with the acquisition, maintenance and selling of trading inventory, such as positioning, repairs, handling and storage costs, and estimated direct selling and administrative costs. Other expenses in this segment include administrative overhead expenses, depreciation expense, provision for doubtful accounts and interest expense.

**Segment Comparison of Quarter Ended June 30, 2010 to Quarter Ended June 30, 2009**

The following table lists selected revenue and expense items for our Equipment trading segment for the three months ended June 30, 2010 and 2009:

	Three Months Ended June 30,	
	2010	2009
	(in thousands)	
Total leasing revenues	\$ 978	\$ 197
Equipment trading revenues	10,956	9,747
Equipment trading expense	(9,675)	(9,582)
Equipment trading margin	1,281	165
Interest and debt expense	492	202
<b>Income (loss) before income taxes(1)</b>	<b>1,362</b>	<b>(98)</b>

(1)

Income (loss) before income taxes excludes unrealized losses of \$15,002 and gains of \$24,455 on interest rate swaps for the three months ended June 30, 2010 and 2009, respectively. Income (loss) before income taxes also excludes gains on debt extinguishment of \$14,130 for the three months ended June 30, 2009.

*Equipment trading margin.* The equipment trading margin, the difference between Equipment trading revenue and expenses, increased \$1.1 million in 2010 compared to 2009 primarily due to higher selling prices.

*Equipment trading income (loss) before income taxes.* Income before income taxes for the Equipment trading segment was \$1.4 million in the three months ended June 30, 2010, compared to a loss of \$0.1 million for the three months ended June 30, 2009. Income before income taxes increased due to an increase in the equipment trading margin, as well as an increase in leasing revenue resulting from several sale leaseback transactions completed in the first quarter of 2010.

Table of Contents**Segment Comparison of Six Months Ended June 30, 2010 to Six Months Ended June 30, 2009**

The following table lists selected revenue and expense items for our Equipment trading segment for the six months ended June 30, 2010 and 2009:

	Six Months Ended June 30,	
	2010	2009
	(in thousands)	
Total leasing revenues	\$ 1,642	\$ 323
Equipment trading revenues	16,694	25,835
Equipment trading expense	(14,853)	(24,357)
Equipment trading margin	1,841	1,478
Interest and debt expense	863	383
<b>Income before income taxes(1)</b>	<b>1,913</b>	<b>529</b>

(1)

Income before income taxes excludes unrealized losses of \$21,786 and gains of \$29,518 on interest rate swaps for the six months ended June 30, 2010 and 2009, respectively. Income before income taxes also excludes gains on debt extinguishment of \$14,130 for the six months ended June 30, 2009.

*Equipment trading margin.* The equipment trading margin, the difference between Equipment trading revenue and expenses, increased \$0.4 million in 2010 compared to 2009 primarily due to higher selling prices.

*Equipment trading income before income taxes.* Income before income taxes for the Equipment trading segment was \$1.9 million in the six months ended June 30, 2010, compared to \$0.5 million for the six months ended June 30, 2009. Income before income taxes increased due to an increase in the equipment trading margin, as well as an increase in leasing revenue resulting from several sale leaseback transactions completed in the first half of 2010 and a decrease in administrative expenses due to lower allocated corporate expenses. Corporate expenses are allocated to the equipment trading segment primarily based on the number of units sold in the equipment trading fleet relative to total units sold from both the equipment trading and equipment leasing fleets.

### Liquidity and Capital Resources

Our principal sources of liquidity are cash flows provided by operating activities, proceeds from the sale of our leasing equipment, principal payments on finance lease receivables and borrowings under our credit facilities. Our cash in-flows and borrowings are used to finance capital expenditures, meet debt service requirements and pay dividends.

We continue to have sizable cash in-flows. For the six months ended June 30, 2010, cash provided by operating activities, together with the proceeds from the sale of our leasing equipment and principal payments on our finance leases, was \$119.0 million. In addition, as of June 30, 2010 we had \$66.5 million of unrestricted cash and \$470.0 million of additional borrowing capacity under our current credit facilities.

As of June 30, 2010, major committed cash outflows in the next 12 months include \$362.8 million of committed but unpaid capital expenditures and \$199.2 million of scheduled principal payments on our existing debt facilities.

We believe that cash provided by operating activities and existing cash, proceeds from the sale of our leasing equipment, principal payments on our finance lease receivables and available additional borrowing capacity under our current credit facilities will be sufficient to meet our committed obligations over the next 12 months.

## Edgar Filing: TAL International Group, Inc. - Form 10-Q

### Table of Contents

At June 30, 2010, our outstanding indebtedness was comprised of the following (amounts in millions):

	Current Amount Outstanding	Current Maximum Borrowing Level
<b>Asset backed securitizations (ABS)</b>		
Term notes Series 2006-1	\$ 329.6	\$ 329.6
Term notes Series 2005-1	318.8	318.8
Term notes Series 2010-1	197.0	197.0
2008 Asset backed credit facility	225.0	225.0
2009 Asset backed credit facility	50.0	370.0
Revolving credit facility		100.0
Finance lease facility	34.4	34.4
2007 Term loan facility	23.6	23.6
2009 Term loan facilities	30.8	30.8
2010 Term loan facilities	49.6	99.6
Port equipment facility	8.1	8.1
Capital lease obligations	87.1	87.1
Total debt	\$ 1,354.0	\$ 1,824.0

The maximum commitment levels depicted in the chart above may not reflect the actual availability under all of the credit facilities. Certain of these facilities are governed by borrowing bases that limit borrowing capacity to an established percentage of relevant assets.

Interest rates on the majority of our debt obligations are based on floating rate indices (such as LIBOR). We economically hedge the risks associated with fluctuations in interest rates on our long-term borrowings by entering into interest rate swap contracts.

### ***Debt Covenants***

We are subject to certain financial covenants under our debt facilities. At June 30, 2010, we were in compliance with all such covenants. Below are the primary financial covenants to which we are subject:

Minimum Earnings Before Interest and Taxes ("EBIT") to Cash Interest Expense;

Minimum Tangible Net Worth ("TNW"); and

Maximum Indebtedness to TNW.

### ***Non-GAAP Measures***

We rely primarily on our results measured in accordance with generally accepted accounting principles ("GAAP") in evaluating our business. EBIT, Cash Interest, TNW, and Indebtedness are non-GAAP financial measures used to determine our compliance with certain covenants contained in our debt agreements and should not be used as a substitute for analysis of our results as reported under GAAP. However, we believe that the inclusion of this non-GAAP information provides additional information to investors regarding our debt covenant compliance.

#### ***Minimum EBIT to Cash Interest Expense***

For the purpose of this covenant, EBIT is calculated based on the cumulative sum of our earnings for the last four quarters (excluding income taxes, interest expense, amortization / write off of deferred financing charges, unrealized gain or loss on interest rate swaps and certain non-cash charges). Cash



Table of Contents

Interest Expense is calculated based on interest expense adjusted to exclude interest income, amortization of deferred financing costs, and the difference between current and prior period interest expense accruals.

Minimum EBIT to Cash Interest Expense is calculated at the consolidated level and for TAL Advantage I LLC, TAL Advantage II LLC and TAL Advantage III LLC, wholly owned special purpose entities whose primary activity is to issue asset backed notes. The Consolidated Minimum EBIT to Cash Interest Expense ratio is fixed at 1.10 to 1.00 for our Asset backed securitizations (ABS), 2008 and 2009 Asset backed facilities and Revolving credit facility and at 1.05 to 1.00 for the Finance lease facility. The TAL Advantage I LLC and the TAL Advantage II LLC Minimum EBIT to Cash Interest Expense ratio is fixed at 1.10 to 1.00 for the Asset backed securitization and the Asset backed credit facilities. The TAL Advantage III LLC Minimum EBIT to Cash Interest Expense ratio is fixed at 1.30 to 1.00 for the 2009 Asset Backed Credit Facility.

TAL Advantage IV LLC is a wholly owned special purpose entity whose primary activity is to issue asset backed notes. TAL Advantage IV LLC must maintain a Minimum EBIT to Cash Interest Expense ratio of 1.10 to 1.00. The first compliance date for this covenant is December 31, 2010.

Below is the calculation of EBIT to Cash Interest Expense (based on the last four quarters) as of June 30, 2010 (in thousands):

<b>EBIT to Cash Interest Expense:</b>	<b>Consolidated(1)</b>	<b>TAL Adv I</b>	<b>TAL Adv II</b>	<b>TAL Adv III(2)</b>
Net income (loss)	\$ 29,744	\$ 23,195	\$ (2,305)	\$ (776)
Plus: Income tax expense (benefit)	16,395	12,786	(1,270)	(427)
Interest expense including write-off of deferred financing costs	69,141	36,406	13,071	2,862
Unrealized losses (gains) on interest rate swaps	16,153	3,580	9,393	1,833
All other non-cash expenses	1,588	152	4	62
<b>EBIT</b>	<b>\$ 133,021</b>	<b>\$ 76,119</b>	<b>\$ 18,893</b>	<b>\$ 3,554</b>
Interest expense (excluding interest income of \$71, \$8, \$0 and \$0 respectively)	\$ 69,212	\$ 36,414	\$ 13,071	\$ 2,862
Amortization and write-off of deferred financing costs	(1,449)	(599)	(294)	(249)
Accrued interest (represents 2010 interest expense not paid)	(2,715)	(919)	(371)	(190)
Cash payments of prior period accrued interest	2,293	944	339	
<b>Cash Interest Expense</b>	<b>\$ 67,341</b>	<b>\$ 35,840</b>	<b>\$ 12,745</b>	<b>\$ 2,423</b>
<b>EBIT to Cash Interest Expense Ratio</b>	<b>1.98</b>	<b>2.12</b>	<b>1.48</b>	<b>1.47</b>
<b>Required Minimum EBIT to Cash Interest Expense Ratio</b>	<b>1.10 / 1.05</b>	<b>1.10</b>	<b>1.10</b>	<b>1.30</b>

(1) The consolidated amounts shown above include all consolidated subsidiaries of TAL International Group, Inc., including TAL Advantage I, LLC, TAL Advantage II, LLC and TAL Advantage III, LLC.

(2) TAL Advantage III, LLC commenced operations effective November 1, 2009, therefore the calculation of EBIT to Cash Interest Expense represents the period from November 1, 2009 to June 30, 2010.

Edgar Filing: TAL International Group, Inc. - Form 10-Q

Table of Contents

*Minimum TNW and Maximum Indebtedness to TNW Covenants*

We are required to meet consolidated Minimum TNW and Maximum Indebtedness to TNW covenants. For the purposes of calculating these covenants, all amounts are based on the consolidated balance sheet of TAL International Group, Inc.

For the ABS and Asset backed credit facilities, the required minimum TNW is calculated as \$321.4 million plus 50% of cumulative net income or loss since January 1, 2006. At June 30, 2010, the required minimum TNW for the ABS facilities was \$420.8 million. For the Finance lease facility the required minimum TNW is fixed at \$300 million.

The Maximum Indebtedness to TNW ratio is fixed at 4.75 to 1.00 for the ABS, 2008 and 2009 Asset backed credit facilities, 2007 Term loan and Revolving credit facility and 5.00 to 1.00 for the Finance lease and Port equipment facilities.

Below is the calculation of the covenant compliance for the consolidated Minimum TNW and consolidated Maximum Indebtedness to TNW as of June 30, 2010 for the ABS, Asset backed credit facilities and other facilities (in thousands):

	Other Facilities*	ABS	2008/2009 Asset Backed Credit Facilities
<b>Minimum TNW:</b>			
<b>Tangible Assets</b>			
Total Assets	\$ 2,053,533	\$ 2,053,533	\$ 2,053,533
Deferred Financing Costs	(16,374)	(16,374)	(16,374)
Goodwill	(71,898)	(71,898)	(71,898)
Intangibles	(1,270)	(1,270)	(1,270)
Fair value of derivative instruments (asset)	(1,510)	(1,510)	(1,510)
<b>Total Tangible Assets</b>	<b>\$ 1,962,481</b>	<b>\$ 1,962,481</b>	<b>\$ 1,962,481</b>
<b>All indebtedness:</b>			
Total debt	\$ 1,354,038	\$ 1,354,038	\$ 1,354,038
Accrued interest	2,715	2,715	2,715
Fair value of derivative instruments (liability)	87,139	N/A	N/A
Equipment purchases payable	48,421	48,421	48,421
<b>Total Indebtedness</b>	<b>\$ 1,492,313</b>	<b>\$ 1,405,174</b>	<b>\$ 1,405,174</b>
<b>TNW (Total Tangible Assets less Total Indebtedness)</b>	<b>\$ 470,168</b>	<b>\$ 557,307</b>	<b>\$ 557,307</b>
<b>Required Minimum TNW</b>	<b>\$ 300,000</b>	<b>\$ 420,780</b>	<b>\$ 420,780</b>
<b>Maximum Indebtedness to TNW:</b>			
Total Indebtedness	\$ 1,492,313	\$ 1,405,174	\$ 1,405,174
Fair value of derivative instruments (liability)	N/A	87,139	N/A
<b>Total Indebtedness for Maximum Indebtedness to TNW</b>	<b>\$ 1,492,313</b>	<b>\$ 1,492,313</b>	<b>\$ 1,405,174</b>
<b>TNW</b>	<b>\$ 470,168</b>	<b>\$ 557,307</b>	<b>\$ 557,307</b>
<b>Total Indebtedness / TNW</b>	<b>3.17</b>	<b>2.68</b>	<b>2.52</b>
<b>Maximum Allowable Indebtedness to TNW</b>	<b>4.75 / 5.00</b>	<b>4.75</b>	<b>4.75</b>

\*

## Edgar Filing: TAL International Group, Inc. - Form 10-Q

The Minimum TNW covenant only applies to the Finance lease facility. The Maximum Indebtedness to TNW covenant applies to the Finance lease facility, Revolving credit facility, 2007 Term loan facility and Port equipment facility.

N/A Not applicable for calculation purposes.



## Edgar Filing: TAL International Group, Inc. - Form 10-Q

### Table of Contents

Failure to comply with these covenants would result in a default under the related credit agreements and could result in the acceleration of our outstanding debt if we were unable to obtain a waiver from the creditors.

### **Treasury Stock**

There were no material Treasury Stock repurchases during the six months ended June 30, 2010, compared to such purchases during the equivalent periods in 2009. The following amounts of Treasury Stock were purchased during the six months ended June 30, 2009:

Quarter ended	Shares Purchased	Amount Paid
March 31, 2009	1,021,918	\$ 8.2 million
June 30, 2009	355,915	\$ 3.1 million
<b>Total</b>	<b>1,377,833</b>	<b>\$ 11.3 million</b>

### **Dividends**

We paid the following quarterly dividends during the six months ended June 30, 2010 and 2009 on our issued and outstanding common stock:

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

### **Cash Flow**

The following table sets forth certain cash flow information for the six months ended June 30, 2010 and 2009 (in thousands):

	Six Months Ended June 30,	
	2010	2009
Net cash provided by operating activities	\$ 63,096	\$ 98,450
Net cash used in investing activities:		
Purchases of leasing equipment	\$ (273,039)	\$ (27,184)
Investment in finance leases	(433)	(26,713)
Proceeds from sale of equipment, net of selling costs	39,634	33,063
Cash collections on finance lease receivables, net of income earned	16,273	15,156
Other	(124)	(32)
Net cash used in investing activities	\$ (217,689)	\$ (5,710)
Net cash provided by (used in) financing activities	\$ 161,183	\$ (91,287)

### **Operating Activities**

Net cash provided by operating activities decreased by \$35.4 million to \$63.1 million in the six months ended June 30, 2010, compared to \$98.5 million in the six months ended June 30, 2009 primarily due to decrease in the level of cash generated by operating income of \$8.2 million, the timing of cash collections on our accounts receivables, and an increase in net purchases of trading containers.

Table of Contents

In the first six months of 2009, we experienced collections in excess of our billings of \$10.5 million, versus the first six months of 2010, when billings exceeded collections by \$5.9 million. In addition, during the first six months of 2010, we had net purchases of trading equipment of \$4.9 million, while we had net disposals of trading equipment of \$4.0 million in the first six months of 2009.

***Investing Activities***

Net cash used in investing activities increased by \$212.0 million to \$217.7 million in the six months ended June 30, 2010 compared to \$5.7 million in 2009. Major reasons for the increase were as follows:

Capital expenditures were \$273.4 million, including investments in finance leases of \$0.4 million, in the six months ended June 30, 2010 compared to \$53.9 million, including investments in finance leases of \$26.7 million, for 2009. Capital expenditures increased in 2010 primarily due to an increase in the number of leasing units purchased, as well as the high cost of new equipment.

Sales proceeds from the disposal of equipment increased \$6.6 million to \$39.6 million in the six months ended June 30, 2010 compared to \$33.1 million in 2009. Proceeds from the disposal of used containers in 2010 increased primarily as a result of higher selling prices.

Cash collections on finance leases, net of income earned, increased by \$1.1 million to \$16.3 million in the six months ended June 30, 2010 compared to \$15.2 million in 2009 as a result of a larger portion of payments made on finance leases being principal versus interest.

***Financing Activities***

Net cash provided by financing activities was \$161.2 million in the six months ended June 30, 2010 compared to net cash used in financing activities of \$91.3 million for the same period in 2009.

During the six months ended June 30, 2010, we had net borrowings of \$194.2 million under our various credit facilities, primarily used to finance the purchase of new equipment, as compared to net payments of \$58.7 million under our various credit facilities and capital lease obligations during the six months ended June 30, 2009. During the six months ended June 30, 2010, we paid \$16.7 million in dividends as compared to \$0.6 million in dividends paid during the six months ended June 30, 2009. In 2009, we repurchased treasury stock for \$11.3 million and paid \$20.7 million for the repurchase of debt prior to maturity.

***Contractual Obligations***

We are party to various operating and capital leases and are obligated to make payments related to our long term borrowings. We are also obligated under various commercial commitments, including obligations to our equipment manufacturers. Our equipment manufacturer obligations are in the form of conventional accounts payable, and are satisfied by cash flows from operating and long term financing activities.

## Edgar Filing: TAL International Group, Inc. - Form 10-Q

### Table of Contents

The following table summarizes our contractual obligations and commercial commitments as of June 30, 2010:

Contractual Obligations:	Contractual Obligations by Period					
	Total	Remaining 2010	2011	2012	2013	2014 and thereafter
Total debt obligations(1)	\$ 1,545.8	\$ 146.5	\$ 237.4	\$ 227.3	\$ 211.5	\$ 723.1
Capital lease obligations(2)	105.0	2.8	13.0	13.2	11.2	64.8
Operating leases (mainly facilities)	4.3	1.3	2.1	0.9		
Purchase obligations:						
Equipment purchases payable	48.4	48.4				
Equipment purchase commitments	314.4	314.4				
<b>Total contractual obligations</b>	<b>\$ 2,017.9</b>	<b>\$ 513.4</b>	<b>\$ 252.5</b>	<b>\$ 241.4</b>	<b>\$ 222.7</b>	<b>\$ 787.9</b>

- 
- (1) Amounts include actual and estimated interest for floating-rate debt based on June 30, 2010 rates and the net effect of the interest rate swaps.
- (2) Amounts include interest.

### **Off-Balance Sheet Arrangements**

At June 30, 2010, we did not have any relationships with unconsolidated entities or financial partnerships, such entities which are often referred to as structured finance or special purpose entities, which were established for the purpose of facilitating off-balance sheet arrangements. We are, therefore, not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

### **Critical Accounting Policies**

Our consolidated financial statements have been prepared in conformity with United States generally accepted accounting principles, which require us to make estimates and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. Our estimates are based on historical experience and currently available information. Actual results could differ from such estimates. Our critical accounting policies are discussed in our 2009 Form 10-K filed with the SEC on March 1, 2010.

### **ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk represents the risk of changes in value of a financial instrument, derivative or non-derivative, caused by fluctuations in interest rates, foreign exchange rates and equity prices. Changes in these factors could cause fluctuations in results of our operations and cash flows. In the ordinary course of business, we are exposed to interest rate and foreign currency exchange rate risks.

#### ***Interest Rate Risk***

We enter into interest rate swap contracts to fix the interest rates on a portion of our debt. We assess and manage the external and internal risk associated with these derivative instruments in accordance with the overall operating goals. External risk is defined as those risks outside of our direct control, including counterparty credit risk, liquidity risk, systemic risk and legal risk. Internal risk relates to those operational risks within the management oversight structure and includes actions taken in contravention of our policy.

The primary external risk of our interest rate swap contracts is in derivative asset positions counterparty credit exposure, which is defined as the ability of a counterparty to perform its financial



Table of Contents

obligations under a derivative contract. All derivative agreements are with highly rated financial institutions. Credit exposures are measured based on the market value of outstanding derivative instruments. Both current exposures and potential exposures are calculated for each derivative contract to monitor counterparty credit exposure.

As of June 30, 2010, we had in place total interest rate swap contracts to fix the floating interest rates on a portion of the borrowings under our debt facilities (excluding \$200 million notional value on an interest rate swap contract effective August 2010) as summarized below:

Total Notional Amount at June 30, 2010	Weighted Average Fixed Leg Interest Rate at June 30, 2010	Weighted Average Remaining Term
\$1,129 million	4.2%	3.1 years

Most of the changes in the fair value on these interest rate swap contracts will be recognized in the consolidated statements of operations as unrealized gains or losses on interest rate swaps. We entered into a swap in June 2010 which has been designated as a cash flow hedging instrument, and the effective portion of the change in its fair value is reflected in accumulated other comprehensive (loss) income on the Company's balance sheet as of June 30, 2010.

Since approximately 83% of our debt is hedged using interest rate swaps, our interest expense is not significantly affected by changes in interest rates. However, our earnings are impacted by certain changes in interest rate swap valuations which cause gains or losses to be recorded. During the quarter and six months ended June 30, 2010, unrealized losses on interest rate swaps totaled \$15.0 million and \$21.8 million, respectively, compared to unrealized gains on interest rate swaps of \$24.5 million and \$29.5 million, respectively, for the quarter and six months ended June 30, 2009.

***Foreign Currency Exchange Rate Risk***

Although we have significant foreign-based operations, the U.S. dollar is the operating currency for the large majority of our leases and company obligations, and most of our revenues and expenses in 2010 and 2009 were denominated in U.S. dollars. However we pay our non-U.S. staff in local currencies, and certain of our direct operating expenses and disposal transactions for our older containers are structured in foreign currencies. We recorded \$0.1 million of unrealized foreign currency exchange losses and \$0.5 million of unrealized foreign currency exchange gains in the quarters ended June 30, 2010 and June 30, 2009, respectively. We recorded \$0.5 million of unrealized foreign currency exchange losses and \$0.2 million of unrealized foreign currency exchange gains in the six months ended June 30, 2010 and June 30, 2009, respectively. These gains / losses resulted primarily from fluctuations in exchange rates related to our Euro and Pound Sterling transactions and related assets.

In April 2008, we entered into a foreign currency rate swap agreement to exchange Euros for U.S. Dollars based on expected payments under our Euro denominated finance lease receivables. The foreign currency rate swap agreement expires in April 2015. The fair value of this derivative contract was approximately \$1.5 million at June 30, 2010, and is reported as an asset in Fair Value of Derivative Instruments on the consolidated balance sheet.

**ITEM 4. CONTROLS AND PROCEDURES.**

Based upon the required evaluation of our disclosure controls and procedures, our President and Chief Executive Officer and our Vice President and Chief Financial Officer concluded that as of June 30, 2010 our disclosure controls and procedures were adequate and effective to ensure that information was gathered, analyzed and disclosed on a timely basis.

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our fiscal quarter ended June 30, 2010, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS.**

From time to time, we are a party to litigation matters arising in connection with the normal course of our business. While we cannot predict the outcome of these matters, in the opinion of our management, based on information presently available to us, we believe that we have adequate legal defenses, reserves or insurance coverage and any liability arising from these matters will not have a material adverse effect on our business. Nevertheless, unexpected adverse future events, such as an unforeseen development in our existing proceedings, a significant increase in the number of new cases or changes in our current insurance arrangements could result in liabilities that have a material adverse impact on our business.

**ITEM 1A. RISK FACTORS.**

For a complete listing of our risk factors, refer to our 2009 Form 10-K filed with the Securities and Exchange Commission on March 1, 2010.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

On March 13, 2006, our Board of Directors authorized a stock repurchase program for the repurchase of our common stock. The stock repurchase program, as amended, authorizes us to repurchase up to 4.0 million shares of our common stock. Our share purchase activity during the quarter ended June 30, 2010 is summarized in the following table:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 30, 2010				989,038
May 1 31, 2010	881	\$ 25.99	881	988,157
June 1 30, 2010				988,157

**ITEM 6. EXHIBITS.**

Exhibit Number	Exhibit Description
4.44*	Amendment No. 4 dated June 21, 2010 to Series 2009-1 Supplement dated as of October 23, 2009 between TAL Advantage III LLC and Wells Fargo Bank, National Association.
4.45*	Amendment No. 5 dated June 21, 2010 to Series 2009-1 Note Purchase Agreement dated as of October 23, 2009 between TAL Advantage III LLC, Wells Fargo Securities LLC, Wells Fargo Bank, National Association, the other Noteholders from time to time party thereto and the other financial institutions from time to time party thereto.
4.46*	Amendment No. 2 dated June 21, 2010 to the Indenture dated as of October 23, 2009 by and between TAL Advantage III LLC and Wells Fargo Bank, National Association.
4.47*	Indenture, dated as of June 28, 2010, by and between TAL Advantage IV, LLC and Wells Fargo Bank, National Association, as Indenture Trustee.
4.48*	Series 2010-1 Supplement dated as of June 28, 2010, by and between TAL Advantage IV, LLC and Wells Fargo Bank, National Association, as Indenture Trustee.
4.49*	Management Agreement dated as of June 28, 2010 by and between TAL International Container Corporation and TAL Advantage IV LLC.

## Edgar Filing: TAL International Group, Inc. - Form 10-Q

### Table of Contents

<b>Exhibit Number</b>	<b>Exhibit Description</b>
4.50*	Contribution and Sale Agreement dated as of June 28, 2010 by and between TAL International Container Corporation and TAL Advantage IV LLC.
4.51*	Transition Agent Agreement dated as of June 28, 2010 by and between Wells Fargo Bank, National Association, TAL International Container Corporation and TAL Advantage IV LLC.
4.52*	Series 2010-1 Note Purchase Agreement dated as of June 28, 2010 by and between TAL Advantage IV LLC, TAL International Container Corporation and Wells Fargo Securities, LLC.
4.53*	Amendment No. 3 dated as of July 16, 2010 to the Indenture dated as of October 23, 2009 by and between TAL Advantage III LLC and Wells Fargo Bank, National Association.
4.54*	Amendment No. 1 dated as of July 16, 2010 to the Management Agreement dated as of October 23, 2009 by and between TAL Advantage III LLC and TAL International Container Corporation.
4.55*	Amendment No. 5 dated July 16 2010 to Series 2009-1 Supplement dated as of October 23, 2009 by and between TAL Advantage III LLC and Wells Fargo Bank, National Association.
4.56*	Amendment No. 6 dated July 16, 2010 to Series 2009-1 Note Purchase Agreement dated as of October 23, 2009 between TAL Advantage III LLC, Wells Fargo Securities LLC, Wells Fargo Bank, National Association, the other Noteholders from time to time party thereto and the other financial institutions from time to time party thereto.
10.16*	Agreement dated June 1, 2010 by and among TAL International Group, Inc. and certain of its stockholders
31.1*	Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2*	Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1*	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2*	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350

\*  
Filed herewith.

Table of Contents

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TAL International Group, Inc.

July 30, 2010

By: /s/ John Burns

---

John Burns  
*Senior Vice President and  
Chief Financial Officer  
(Principal Financial Officer)*

43

---