

TAL International Group, Inc.
Form 10-Q
October 31, 2012

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[TABLE OF CONTENTS](#)

[Table of Contents](#)

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

FORM 10-Q

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

For The Quarterly Period Ended September 30, 2012

or

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

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

TAL International Group, Inc.

(Exact name of registrant as specified in the charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-1796526
(I.R.S. Employer
Identification Number)

100 Manhattanville Road, Purchase, New York
(Address of principal executive office)

10577-2135
(Zip Code)

(914) 251-9000

(Registrant's telephone number including area code)

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

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

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

Large Accelerated Filer ☒

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 October 19, 2012, there were 33,597,916 shares of the Registrant's common stock, \$.001 par value outstanding.

Table of Contents

TAL International Group, Inc.

Index

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1.</u> <u>Financial Statements</u>	<u>3</u>
<u>Consolidated Balance Sheets (unaudited) as of September 30, 2012 and December 31, 2011</u>	<u>4</u>
<u>Consolidated Statements of Operations (unaudited) for the three and nine months ended September 30, 2012 and September 30, 2011</u>	<u>5</u>
<u>Consolidated Statements of Comprehensive Income (unaudited) for the three and nine months ended September 30, 2012 and September 30, 2011</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2012 and September 30, 2011</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>40</u>
<u>Item 4.</u> <u>Controls and Procedures</u>	<u>41</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u> <u>Legal Proceedings</u>	<u>41</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>41</u>
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>41</u>
<u>Item 6.</u> <u>Exhibits</u>	<u>42</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 February 22, 2012, in this report as well as in the other documents we file with the SEC from time to time, and such risks and uncertainties are specifically incorporated herein by reference.

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

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The consolidated financial statements of TAL International Group, Inc. ("TAL" or the "Company") as of September 30, 2012 and December 31, 2011 and for the three and nine months ended September 30, 2012 and September 30, 2011 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 February 22, 2012, from which the accompanying December 31, 2011 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)****(Unaudited)**

	September 30, 2012	December 31, 2011
ASSETS:		
Leasing equipment, net of accumulated depreciation and allowances of \$740,952 and \$626,965	\$ 3,206,311	\$ 2,663,443
Net investment in finance leases, net of allowances of \$921 and \$1,073	125,452	146,742
Equipment held for sale	29,462	47,048
Revenue earning assets	3,361,225	2,857,233
Unrestricted cash and cash equivalents	52,848	140,877
Restricted cash	38,715	34,466
Accounts receivable, net of allowances of \$707 and \$667	74,664	56,491
Goodwill	71,898	71,898
Deferred financing costs	27,240	24,028
Other assets	14,238	11,539
Fair value of derivative instruments	653	771
Total assets	\$ 3,641,481	\$ 3,197,303
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Equipment purchases payable	\$ 29,771	\$ 55,320
Fair value of derivative instruments	65,488	78,122
Accounts payable and other accrued expenses	62,788	66,607
Net deferred income tax liability	250,040	198,867
Debt	2,631,818	2,235,585
Total liabilities	3,039,905	2,634,501
Stockholders' equity:		
Preferred stock, \$.001 par value, 500,000 shares authorized, none issued		
Common stock, \$.001 par value, 100,000,000 shares authorized, 36,609,759 and 36,412,659 shares issued, respectively	37	36
Treasury stock, at cost, 3,011,843 shares	(37,535)	(37,535)
Additional paid-in capital	492,631	489,468
Accumulated earnings	155,426	120,449
Accumulated other comprehensive (loss)	(8,983)	(9,616)
Total stockholders' equity	601,576	562,802
Total liabilities and stockholders' equity	\$ 3,641,481	\$ 3,197,303

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)

(Unaudited)

	Three Months Ended September 30,		Nine months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Leasing revenues:				
Operating leases	\$ 131,839	\$ 116,850	\$ 375,623	\$ 314,468
Finance leases	3,339	4,061	10,589	12,531
Total leasing revenues	135,178	120,911	386,212	326,999
Equipment trading revenues	12,981	16,121	48,750	53,214
Management fee income	823	683	2,303	2,122
Other revenues	39	37	111	166
Total revenues	149,021	137,752	437,376	382,501
Operating expenses (income):				
Equipment trading expenses	11,273	13,900	42,867	43,283
Direct operating expenses	6,195	5,112	17,802	13,575
Administrative expenses	10,674	10,964	32,908	32,139
Depreciation and amortization	52,155	41,872	144,529	109,286
(Reversal) provision for doubtful accounts	(8)	17	(177)	158
Net (gain) on sale of leasing equipment	(11,317)	(14,875)	(35,229)	(39,659)
Total operating expenses	68,972	56,990	202,700	158,782
Operating income	80,049	80,762	234,676	223,719
Other expenses:				
Interest and debt expense	30,390	28,504	85,088	77,985
Write-off of deferred financing costs		1,043		1,043
Net loss on interest rate swaps	1,286	23,229	5,042	30,361
Total other expenses	31,676	52,776	90,130	109,389
Income before income taxes	48,373	27,986	144,546	114,330
Income tax expense	17,220	9,907	51,169	40,473
Net income	\$ 31,153	\$ 18,079	\$ 93,377	\$ 73,857
Net income per common share Basic	\$ 0.94	\$ 0.55	\$ 2.81	\$ 2.29
Net income per common share Diluted	\$ 0.93	\$ 0.54	\$ 2.78	\$ 2.27
Cash dividends paid per common share	\$ 0.60	\$ 0.52	\$ 1.73	\$ 1.47
Weighted average number of common shares outstanding Basic	33,230	33,085	33,213	32,188
Dilutive stock options and restricted stock	402	390	401	415

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Weighted average number of common shares outstanding	Diluted	33,632	33,475	33,614	32,603
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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 Comprehensive Income****(Dollars in thousands)****(Unaudited)**

	Three Months Ended September 30,		Nine months Ended September 30,	
	2012	2011	2012	2011
Net income	\$ 31,153	\$ 18,079	\$ 93,377	\$ 73,857
Other comprehensive income (loss):				
Change in fair value of derivative instruments designated as cash flow hedges (net of income tax effect of \$0, \$0, \$(625) and \$(827), respectively)			(1,145)	(1,513)
Amortization of loss on terminated derivative instruments designated as cash flow hedges (net of income tax effect of \$301, \$302, \$871 and \$859, respectively)	549	553	1,595	1,572
Amortization of gain on terminated derivative instruments designated as cash flow hedges (net of income tax effect of \$0, \$(44), \$0 and \$(148), respectively)		(80)		(271)
Foreign currency translation adjustment	118	(26)	183	34
Other comprehensive income, net of tax	667	447	633	(178)
Comprehensive income	\$ 31,820	\$ 18,526	\$ 94,010	\$ 73,679

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)

(Unaudited)

	Nine months ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 93,377	\$ 73,857
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	144,529	109,286
Amortization of deferred financing costs	4,234	3,539
Amortization of net loss on terminated derivative instruments designated as cash flow hedges	2,466	2,431
Net (gain) on sale of leasing equipment	(35,229)	(39,659)
Net loss on interest rate swaps	5,042	30,361
Write-off of deferred financing costs		1,043
Deferred income taxes	50,964	39,820
Stock compensation charge	2,882	1,739
Changes in operating assets and liabilities:		
Net equipment purchased for resale activity	8,295	(12,885)
Realized loss on interest rate swaps terminated prior to their contractual maturities	(19,444)	(12,524)
Other change in operating assets and liabilities	(23,483)	(17,809)
Net cash provided by operating activities	233,633	179,199
Cash flows from investing activities:		
Purchases of leasing equipment and other long-lived assets	(773,586)	(755,780)
Investment in finance leases		(3,766)
Proceeds from sale of equipment, net of selling costs	98,886	93,109
Cash collections on finance lease receivables, net of income earned	25,846	27,004
Other	116	40
Net cash (used in) investing activities	(648,738)	(639,393)
Cash flows from financing activities:		
Issuance of common stock		85,724
Common stock dividends paid	(57,479)	(47,496)
Financing fees paid under debt facilities	(7,446)	(9,980)
Borrowings under debt facilities	1,165,404	851,399
Payments under debt facilities and capital lease obligations	(769,127)	(407,348)
Stock options exercised and other stock related activity	(27)	1,247
(Increase) in restricted cash	(4,249)	(12,568)
Net cash provided by financing activities	327,076	460,978
Net (decrease) increase in unrestricted cash and cash equivalents	\$ (88,029)	\$ 784
Unrestricted cash and cash equivalents, beginning of period	140,877	62,594
Unrestricted cash and cash equivalents, end of period	\$ 52,848	\$ 63,378

Supplemental non-cash investing activities:

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Accrued and unpaid purchases of equipment	\$	29,771	\$	22,698
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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 and Recently Adopted Accounting Pronouncements

A. Description of the Business

TAL 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 to the current year's presentation.

C. Recently Adopted Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standard No. 2011-04 ("ASU 2011-04"), *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. ASU 2011-04 provides guidance to prospectively ensure common fair value measurement and disclosure requirements between U.S. GAAP and IFRS. The Company has adopted ASU 2011-04 effective January 1, 2012. The Company's adoption of ASU 2011-04 had no impact on the Company's consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05 ("ASU 2011-05"), *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. ASU 2011-05 requires the presentation of the components of net income, other comprehensive income and total comprehensive income in a single continuous statement or in two separate but consecutive statements. Effective January 1, 2012, the Company has adopted the two consecutive statements approach. The Company's adoption of ASU 2011-05 had no impact on the Company's consolidated financial statements as it is presentation-only in nature.

Note 2 Fair Value of Financial Instruments

The Company believes that the carrying amounts of cash and cash equivalents, accounts receivable, finance lease receivable and other assets approximate their fair value as of September 30, 2012.

Table of Contents**TAL INTERNATIONAL GROUP, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 2 Fair Value of Financial Instruments (Continued)**

Fair value represents the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company utilizes the following fair value hierarchy when selecting inputs for its valuation techniques, with the highest priority given to Level 1:

Level 1 Financial assets and liabilities whose values are based on observable inputs such as quoted prices for identical instruments in active markets (unadjusted).

Level 2 Financial assets and liabilities whose values are based on observable inputs such as (i) quoted prices for similar instruments in active markets; (ii) quoted prices for identical or similar instruments in markets that are not active; or (iii) model-derived valuations in which all significant inputs are observable in active markets.

Level 3 Financial assets and liabilities whose values are derived from valuation techniques based on one or more significant unobservable inputs.

The Company does not measure debt at fair value in its consolidated balance sheets. The fair value, which was measured using Level 2 inputs, and the carrying value of the Company's debt are listed in the table below as of the date indicated (in thousands).

	As of September 30, 2012
Liabilities	
Debt carrying value	\$ 2,631,818
Debt estimated fair value	\$ 2,739,562

The Company estimated the fair value of its debt instruments based on the net present value of its future debt payments, using a discount rate which reflects the Company's estimate of current market interest rates and spreads as of the balance sheet date.

Note 3 Dividends

The Company paid the following quarterly dividends during the nine months ended September 30, 2012 and 2011 on its issued and outstanding common stock:

Record Date	Payment Date	Aggregate Payment	Per Share Payment
September 4, 2012	September 25, 2012	\$ 20.0 million	\$ 0.60
June 1, 2012	June 22, 2012	\$ 19.2 million	\$ 0.58
March 8, 2012	March 29, 2012	\$ 18.3 million	\$ 0.55
September 1, 2011	September 22, 2011	\$ 17.2 million	\$ 0.52
June 2, 2011	June 23, 2011	\$ 16.5 million	\$ 0.50
March 3, 2011	March 24, 2011	\$ 13.8 million	\$ 0.45

Note 4 Stock-Based Compensation Plans

The Company records compensation cost relating to stock-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,

Table of Contents**TAL INTERNATIONAL GROUP, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 4 Stock-Based Compensation Plans (Continued)**

and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award).

The Company incurred compensation costs related to the vesting of restricted shares granted in 2009, 2010, 2011 and 2012 under the Company's stock-based compensation plans of \$0.8 million and \$0.5 million for the three months ended September 30, 2012 and 2011, respectively, and \$2.9 million and \$1.7 million for the nine months ended September 30, 2012 and 2011, respectively. The Company reports these compensation costs in administrative expenses in its consolidated statements of operations.

Total unrecognized compensation cost of approximately \$5.0 million as of September 30, 2012 related to 353,250 restricted shares granted during 2010, 2011 and 2012 will be recognized over the remaining weighted average vesting period of approximately 1.9 years.

The Company's stock option activity under the 2005 Management Omnibus Incentive Plan (the "Plan") for the nine months ended September 30, 2012 was as follows:

	Options
Outstanding as of January 1, 2012	515,288
Granted	
Exercised	(114,409)
Cancelled	
Outstanding as of September 30, 2012	400,879
Exercisable as of September 30, 2012	400,879

Plan participants tendered 59,309 shares, all of which were subsequently retired by the Company, to satisfy payment of the exercise price and, in certain instances withholding taxes, for a portion of the shares exercised.

Note 5 Net Investment in Finance Leases

The following table represents the components of the net investment in finance leases (in thousands):

	September 30, 2012	December 31, 2011
Gross finance lease receivables	\$ 157,130	\$ 187,509
Allowance on gross finance lease receivables	(921)	(1,073)
Gross finance lease receivables, net of allowance	156,209	186,436
Unearned income	(30,757)	(39,694)
Net investment in finance leases	\$ 125,452	\$ 146,742

The Company evaluates potential losses in its finance lease portfolio by regularly reviewing the specific receivables in the portfolio and analyzing historical loss experience. The Company's historical loss experience on its gross finance lease receivables, after considering equipment recoveries, was less

Table of Contents**TAL INTERNATIONAL GROUP, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 5 Net Investment in Finance Leases (Continued)**

than 1%. Net investment in finance lease receivables is generally charged off after an analysis is completed which indicates that collection of the full balance is remote.

In order to estimate its allowance for losses on its gross finance lease receivables, the Company categorizes the credit worthiness of the receivables in its portfolio based on internal customer credit ratings, which are reviewed and updated, as appropriate, on an ongoing basis. The internal customer credit ratings are developed based on a review of the financial performance and condition, operating environment, geographical location and trade routes of TAL's customers.

The categories of gross finance lease receivables based on the Company's internal customer credit ratings can be described as follows:

Tier 1 These customers are typically large international shipping lines who have been in business for many years and have world class operating capabilities and significant financial resources. In most cases, the Company has had a long commercial relationship with these customers and currently maintains regular communication with them at several levels of management which provides TAL with insight into the customers' current operating and financial performance. In the Company's view, these customers have the greatest ability to withstand cyclical downturns and would likely have greater access to needed capital than lower rated customers. The Company views the risk of default for Tier 1 customers to range from minimal to modest.

Tier 2 These customers are typically either smaller shipping lines with less operating scale or shipping lines with a high degree of financial leverage, and accordingly the Company views these customers as subject to higher volatility in financial performance over the business cycle. The Company generally expects these customers to have less access to capital markets or other sources of financing during cyclical down turns. The Company views the risk of default for Tier 2 customers as moderate.

Tier 3 Customers in this category exhibit volatility in payments on a regular basis, thus they are considered non-performing. The Company has initiated or implemented plans to recover equipment on lease to these customers and believes that default is likely, or has already occurred.

Based on the above categories, the Company's gross finance lease receivables were as follows as of the dates presented (in thousands):

	September 30, 2012	December 31, 2011
Tier 1	\$ 111,176	\$ 131,513
Tier 2	45,954	55,996
Tier 3		
	\$ 157,130	\$ 187,509

The Company considers an account past due when a payment has not been received in accordance with the terms of the related lease agreement. As of September 30, 2012, approximately \$0.1 million of the Company's Tier 1 gross finance lease receivables and \$0.3 million of the Company's Tier 2 gross finance lease receivables were past due, substantially all of which were aged approximately 31 days. As of September 30, 2012, none of the Company's gross finance lease receivables were in non-accrual

Table of Contents**TAL INTERNATIONAL GROUP, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 5 Net Investment in Finance Leases (Continued)**

status. The Company recognizes income on gross finance lease receivables in non-accrual status as collections are made.

The following table represents the activity of the Company's allowance on gross finance lease receivables for the periods presented (in thousands):

	Beginning Balance	Additions/ (Reversals)	(Write-offs) Reversals	Ending Balance
Finance Lease Allowance for doubtful accounts:				
For the nine months ended				
September 30, 2012	\$ 1,073	\$ (152)	\$	\$ 921
September 30, 2011	\$ 1,169	\$ (31)	\$	\$ 1,138

Note 6 Debt

Debt consisted of the following (amounts in thousands):

	September 30, 2012	December 31, 2011
Asset backed securitization (ABS) term notes	\$ 1,398,257	\$ 1,220,500
Term loan facilities	719,593	580,900
Asset backed warehouse facility	290,000	216,500
Revolving credit facility	90,000	70,000
Capital lease obligations	133,968	147,685
Total debt	\$ 2,631,818	\$ 2,235,585

As of September 30, 2012 the Company had \$1,315.0 million of debt outstanding on facilities with fixed interest rates and \$1,316.8 million of debt outstanding on facilities with interest rates based on floating rate indices (primarily LIBOR). The Company economically hedges the risks associated with fluctuations in interest rates on a portion of its floating rate borrowings by entering into interest rate swap agreements that convert a portion of its floating rate debt to a fixed rate basis, thus reducing the impact of interest rate changes on future interest expense. As of September 30, 2012, the Company had interest rate swaps in place with a total notional value of \$738.1 million to fix the floating interest rates on a portion of its floating rate debt obligations.

The Company is subject to certain financial covenants under its debt facilities, and as of September 30, 2012, was in compliance with all such covenants.

Asset Backed Securitization Term Notes

In May 2012, the Company issued \$250 million of fixed rate secured notes under the Asset Backed Securitization ("ABS") facilities.

Asset Backed Warehouse Facility

During 2012, the Company increased the size of its asset backed warehouse facility from \$400 million to \$600 million.

Table of Contents**TAL INTERNATIONAL GROUP, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 6 Debt (Continued)*****Term Loan Facilities***

In April 2012, the Company completed a private placement of notes for \$153 million and used the proceeds to repay amounts outstanding under the asset backed warehouse facility.

Note 7 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 TAL effectively modify the Company's exposure to interest rate risk by converting a portion of its floating rate debt to a fixed rate basis, thus reducing the impact of interest rate changes on future interest expense. These agreements involve the receipt of floating rate amounts in exchange for fixed rate interest payments over the lives of the agreements without an exchange of the underlying principal amounts. The counterparties to these agreements are highly rated financial institutions. In the unlikely event that the counterparties fail to meet the terms of the interest rate swap agreements, the Company's exposure is limited to the interest rate differential on the notional amount at each monthly settlement period over the life of the agreements. The Company does not anticipate any non-performance by the counterparties. Substantially all of the assets of certain indirect, wholly owned subsidiaries of the Company have been 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 the Company, are pledged as collateral for the revolving credit facility and the amounts payable under certain interest rate swap agreements.

As of September 30, 2012, the Company had in place total interest rate swap agreements to fix the floating interest rates on a portion of the borrowings under its debt facilities as summarized below:

Total Notional Amount	Weighted Average Fixed Leg Interest Rate	Weighted Average Remaining Term
\$738.1 million	3.00%	4.0 years

The Company's net interest expense on its interest rate swap agreements was \$5.4 million and \$7.8 million for the three months ended September 30, 2012 and 2011, respectively, and \$18.2 million and \$23.8 million for the nine months ended September 30, 2012 and 2011, respectively. The Company records net interest on its interest rate swap agreements in interest and debt expense in its consolidated statements of operations.

Most of the Company's interest rate swap agreements have not been accounted for as hedging instruments under FASB Accounting Standards Codification No. 815 (ASC 815) *Derivatives and Hedging*, and therefore changes in the fair value of the interest rate swap agreements are reflected in the consolidated statements of operations as net loss on interest rate swaps.

In April 2012, the Company entered into a 5-year forward starting interest rate swap agreement with a notional value of \$200 million to fix interest rates on future borrowings expected to be issued before the end of June 2012. In connection with the closing of the fixed rate secured notes issued in May 2012 under the ABS facilities, the Company terminated this swap agreement and paid \$1.8 million to its counterparty. Since this swap was designated as a cash flow hedge, the loss recorded in accumulated other comprehensive loss as of the date the contract was terminated will be amortized to

Table of Contents

TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 Derivative Instruments (Continued)

interest expense over the 10-year scheduled term of the fixed rate secured notes. There was no material ineffectiveness during the period the hedge was designated.

For the three and nine months ended September 30, 2012, the Company recognized \$0.9 million and \$2.5 million, respectively, in interest and debt expense related to the amortization of accumulated other comprehensive loss attributable to terminated interest rate swap agreements that had been designated as cash flow hedges. As of September 30, 2012, the unamortized pre-tax balance in accumulated other comprehensive loss attributable to terminated interest rate swap agreements that had been designated as cash flow hedges was approximately \$12.4 million, of which \$3.2 million is expected to be amortized to interest and debt expense over the next 12 months. Amounts recorded in accumulated other comprehensive loss attributable to these terminated interest rate swap agreements would be recognized in earnings immediately in conjunction with a termination of the related debt agreements.

During the nine months ended September 30, 2012, the Company terminated interest rate swap agreements with a notional value of \$250 million and an average remaining term of approximately 1.8 years as of the date they were terminated. The Company partially replaced them with a non-amortizing interest rate swap with a notional value of \$75 million that expires in 2018. The Company paid \$17.6 million to its interest rate swap counterparties to terminate these agreements. As these interest rate swap agreements were non-designated, the entire amount has been previously recognized in the Company's statements of operations as net loss on interest rate swaps.

Foreign Currency Exchange 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 2.8 million Euros and receive approximately \$4.2 million over the remaining term of the 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 consolidated statements of operations in administrative expenses.

Fair Value of Derivative Instruments

Under the criteria established by ASC 820, the Company has elected to use the income approach to value its interest rate swap and foreign currency rate swap agreements, 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. The Level 2 inputs for the interest rate swap and forward valuations are limited to quoted prices for similar assets or liabilities in active markets (specifically futures contracts and 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, basis swap adjustments and credit risk at commonly quoted intervals).

Table of Contents

TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 Derivative Instruments (Continued)

*Location of Derivative Instruments in Financial Statements*Fair Value of Derivative Instruments
(in millions)

Instrument	Asset Derivatives				Liability Derivatives			
	September 30, 2012		December 31, 2011		September 30, 2012		December 31, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swap contracts not designated	Fair value of derivative instruments	\$	Fair value of derivative instruments	\$	Fair value of derivative instruments	\$ 65.5	Fair value of derivative instruments	\$ 78.1
Foreign exchange contracts not designated	Fair value of derivative instruments	0.7	Fair value of derivative instruments	0.8	Fair value of derivative instruments	\$	Fair value of derivative instruments	\$
Total derivatives		\$ 0.7		\$ 0.8		\$ 65.5		\$ 78.1

Derivatives Not Designated as Hedging Instruments under ASC 815
Effect of Derivative Instruments on Consolidated Statements of Operations
(in millions)

Derivative Instrument	Location of (Gain) Loss on Derivatives Recognized in Net Income	Amount of (Gain) Loss on Derivatives Recognized in Net Income			
		Three Months Ended		Nine Months Ended	
		September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Interest rate swap agreements	Net loss on interest rate swaps	\$ 1.3	\$ 23.2	\$ 5.0	\$ 30.4
Foreign exchange agreements	Administrative expenses	0.1	(0.3)	0.1	0.2
Total		\$ 1.4	\$ 22.9	\$ 5.1	\$ 30.6

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 retailers and users of containers for storage or one-way shipment. Included in the Equipment trading segment revenues are leasing revenues from equipment purchased for resale that is currently on lease

until the containers are dropped off.

Table of Contents

TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8 Segment and Geographic Information (Continued)

The following tables show segment information for the periods indicated and the consolidated totals reported (dollars in thousands):

	Three Months Ended September 30, 2012			Three Months Ended September 30, 2011		
	Equipment Leasing	Equipment Trading	Totals	Equipment Leasing	Equipment Trading	Totals
Total revenues	\$ 134,038	\$ 14,983	\$ 149,021	\$ 119,578	\$ 18,174	\$ 137,752
Equipment trading expenses		11,273	11,273		13,900	13,900
Depreciation and amortization expense	51,222	933	52,155	40,874	998	41,872
Interest and debt expense	29,655	735	30,390	27,722	782	28,504
Net (gain) on sale of leasing equipment	(11,317)		(11,317)	(14,875)		(14,875)
Income before income taxes(1)	47,801	1,858	49,659	49,949	2,309	52,258

(1)

Segment income before income taxes excludes net losses on interest rate swaps of \$1.3 million and \$23.2 million for the three months ended September 30, 2012 and 2011, respectively, and the write-off of deferred financing costs of \$1.0 million for the three months ended September 30, 2011.

	Nine Months Ended September 30, 2012			Nine Months Ended September 30, 2011		
	Equipment Leasing	Equipment Trading	Totals	Equipment Leasing	Equipment Trading	Totals
Total revenues	\$ 382,614	\$ 54,762	\$ 437,376	\$ 325,374	\$ 57,127	\$ 382,501
Equipment trading expenses		42,867	42,867		43,283	43,283
Depreciation and amortization expense	141,594	2,935	144,529	108,139	1,147	109,286
Interest and debt expense	82,723	2,365	85,088	76,180	1,805	77,985
Net (gain) on sale of leasing equipment	(35,229)		(35,229)	(39,659)		(39,659)
Income before income taxes(1)	143,722	5,866	149,588	135,566	10,168	145,734
Equipment held for sale at September 30	13,870	15,592	29,462	13,551	24,762	38,313
Goodwill at September 30	70,898	1,000	71,898	70,898	1,000	71,898
Total assets at September 30	3,574,748	66,733	3,641,481	3,021,058	79,115	3,100,173
Purchases of leasing equipment(2)	767,960	5,626	773,586	722,567	33,213	755,780
Investments in finance leases(2)				3,766		3,766

(1)

Segment income before income taxes excludes net losses on interest rate swaps of \$5.0 million and \$30.4 million for the nine months ended September 30, 2012 and 2011, respectively, and the write-off of deferred financing costs of \$1.0 million for the nine months ended September 30, 2011.

(2)

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Represents cash disbursements for purchases of leasing equipment and investments in finance lease as reflected in the consolidated statements of cash flows for the periods indicated, but excludes cash flows associated with the purchase of equipment held for resale.

Table of Contents**TAL INTERNATIONAL GROUP, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 8 Segment and Geographic Information (Continued)**

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. A portion of the Company's equipment purchased for resale was purchased through certain sale-leaseback transactions with our shipping line customers. Due to the expected longer term nature of these transactions, these purchases are reflected as leasing equipment as opposed to equipment held for sale and the cash flows associated with these transactions are and will be reflected as purchases of leasing equipment and proceeds from the sale of equipment in investing activities in the Company's consolidated statements of cash flows.

Geographic Segment Information

The Company earns its revenues from international containers which are deployed by its customers in a wide variety of global trade routes. Substantially all of the Company's leasing related revenue is denominated in U.S. dollars. The following table represents the geographic allocation of revenues for the periods indicated based on customers' primary domicile and allocates equipment trading revenue based on the location of sale (in thousands):

	Three Months Ended September 30,		Nine months Ended September 30,	
	2012	2011	2012	2011
Total revenues:				
United States of America	\$ 10,282	\$ 10,650	\$ 33,672	\$ 30,117
Asia	62,018	58,869	187,287	161,982
Europe	68,576	59,917	191,607	166,485
Other International	8,145	8,316	24,810	23,917
Total	\$ 149,021	\$ 137,752	\$ 437,376	\$ 382,501

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 certain lease terms (if the lessee does not default on the lease) which expire in 2016. At September 30, 2012, 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, are included in accounts payable and accrued expenses and approximate fair value as of September 30, 2012. 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. The Company accounts for the residual value guarantees under Accounting Standards

Table of Contents

TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 Commitments and Contingencies (Continued)

Codification 460, *Guarantees*. The Company expects that the market value of the equipment covered by the guarantees will equal or exceed the value of the guarantees and therefore, no contingent loss has been provided as of September 30, 2012.

Purchase Commitments

At September 30, 2012, commitments for capital expenditures totaled approximately \$70.4 million.

Note 10 Income Taxes

The consolidated income tax expense for the three and nine months ended September 30, 2012 and 2011 was determined based upon estimates of the Company's consolidated effective income tax rates for the year ending December 31, 2012 and the year ended December 31, 2011, respectively. The difference between the consolidated effective income tax rate and the U.S. federal statutory rate is primarily attributable to state income taxes, foreign income taxes and the effect of certain permanent differences.

Note 11 Subsequent Events

Quarterly Dividend

On October 23, 2012, the Company's Board of Directors approved and declared a \$0.62 per share quarterly cash dividend on its issued and outstanding common stock, payable on December 27, 2012 to shareholders of record at the close of business on December 6, 2012.

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 February 22, 2012. 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 containers owned by third parties.

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

Operations

Our consolidated operations include the acquisition, leasing, re-leasing and subsequent sale of multiple types of intermodal containers and chassis. As of September 30, 2012, our total fleet consisted of 1,185,308 containers and chassis, including 23,921 containers under management for third parties, representing 1,932,901 twenty-foot equivalent units (TEU). We have an extensive global presence, offering leasing services through 17 offices in 11 countries and approximately 225 third party container depot facilities in 39 countries as of September 30, 2012. Our customers are among the largest shipping lines in the world. For the nine months ended September 30, 2012, our twenty largest customers accounted for 81% of our leasing revenues, our five largest customers accounted for 48% of our leasing revenues, and our largest customer, CMA CGM, accounted for 16% of our leasing revenues.

Table of Contents

	Equipment Fleet in Units								
	September 30, 2012			December 31, 2011			September 30, 2011		
	Owned	Managed	Total	Owned	Managed	Total	Owned	Managed	Total
Dry	997,966	22,022	1,019,988	823,541	24,361	847,902	829,700	24,765	854,465
Refrigerated	57,063	117	57,180	50,580	171	50,751	48,794	177	48,971
Special	47,051	1,782	48,833	46,080	1,959	48,039	45,655	2,005	47,660
Tank	6,608		6,608	5,396		5,396	4,679		4,679
Chassis	12,961		12,961	10,789		10,789	10,793		10,793
Equipment leasing fleet	1,121,649	23,921	1,145,570	936,386	26,491	962,877	939,621	26,947	966,568
Equipment trading fleet	39,738		39,738	46,767		46,767	42,460		42,460
Total	1,161,387	23,921	1,185,308	983,153	26,491	1,009,644	982,081	26,947	1,009,028
Percentage	98.0%	2.0%	100.0%	97.4%	2.6%	100.0%	97.3%	2.7%	100.0%

Equipment Fleet in CEUs								
September 30, 2012			December 31, 2011			September 30, 2011		
Owned	Managed	Total	Owned	Managed	Total	Owned	Managed	