

TAL International Group, Inc.
Form 10-Q
July 29, 2011

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**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, 2011

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)

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 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.

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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 25, 2011, there were 33,398,725 shares of the Registrant's common stock, \$.001 par value outstanding.

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TAL International Group, Inc.

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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 18, 2011, 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, 2011 and December 31, 2010 and for the three and six months ended June 30, 2011 and June 30, 2010 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 18, 2011, from which the accompanying December 31, 2010 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)**

	June 30, 2011	December 31, 2010
ASSETS:		
Leasing equipment, net of accumulated depreciation and allowances of \$561,917 and \$511,634	\$ 2,559,553	\$ 2,086,194
Net investment in finance leases, net of allowances of \$1,201 and \$1,169	163,755	171,417
Equipment held for sale	35,480	29,220
Revenue earning assets	2,758,788	2,286,831
Cash and cash equivalents (including restricted cash of \$35,760 and \$23,018)	96,206	85,612
Accounts receivable, net of allowances of \$583 and \$429	50,357	48,311
Goodwill	71,898	71,898
Deferred financing costs	22,956	17,802
Other assets	5,406	4,737
Fair value of derivative instruments	417	2,024
Total assets	\$ 3,006,028	\$ 2,517,215
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Equipment purchases payable	\$ 49,042	\$ 57,756
Fair value of derivative instruments	57,783	61,647
Accounts payable and other accrued expenses	52,379	59,329
Net deferred income tax liability	170,025	139,741
Debt	2,135,909	1,770,332
Total liabilities	2,465,138	2,088,805
Stockholders' equity:		
Preferred stock, \$.001 par value, 500,000 shares authorized, none issued		
Common stock, \$.001 par value, 100,000,000 shares authorized, 36,407,973 and 33,725,066 shares issued respectively	36	34
Treasury stock, at cost, 3,011,843 shares	(37,535)	(37,535)
Additional paid-in capital	487,732	399,816
Accumulated earnings	101,240	76,053
Accumulated other comprehensive loss	(10,583)	(9,958)
Total stockholders' equity	540,890	428,410
Total liabilities and stockholders' equity	\$ 3,006,028	\$ 2,517,215

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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues:				
Leasing revenues:				
Operating leases	\$ 102,294	\$ 70,851	\$ 197,618	\$ 138,844
Finance leases	4,224	4,644	8,470	9,514
Total leasing revenues	106,518	75,495	206,088	148,358
Equipment trading revenue	12,877	10,956	37,093	16,694
Management fee income	736	725	1,439	1,493
Other revenues	90	188	129	417
Total revenues	120,221	87,364	244,749	166,962
Operating expenses (income):				
Equipment trading expenses	10,094	9,675	29,383	14,853
Direct operating expenses	4,363	6,637	8,463	14,817
Administrative expenses	10,612	10,543	21,175	21,098
Depreciation and amortization	35,161	28,287	67,414	55,253
Provision (reversal) for doubtful accounts	102	(530)	141	(598)
Net (gain) on sale of leasing equipment	(16,899)	(7,235)	(24,784)	(11,703)
Total operating expenses	43,433	47,377	101,792	93,720
Operating income	76,788	39,987	142,957	73,242
Other expenses (income):				
Interest and debt expense	25,750	17,773	49,481	34,815
Net loss on interest rate swaps	15,139	15,002	7,132	21,786
Total other expenses	40,889	32,775	56,613	56,601
Income before income taxes	35,899	7,212	86,344	16,641
Income tax expense	12,708	2,560	30,566	6,090
Net income	\$ 23,191	\$ 4,652	\$ 55,778	\$ 10,551
Net income per common share Basic				
	\$ 0.70	\$ 0.15	\$ 1.76	\$ 0.35
Net income per common share Diluted				
	\$ 0.70	\$ 0.15	\$ 1.73	\$ 0.34

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Weighted average number of common shares outstanding Basic	32,905	30,434	31,732	30,432
Weighted average number of common shares outstanding Diluted	33,353	30,724	32,164	30,616
Cash dividends paid per common share	\$ 0.50	\$ 0.30	\$ 0.95	\$ 0.55

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)****Six months ended
June 30,****2011 2010**

Cash flows from operating activities:		
Net income	\$ 55,778	\$ 10,551
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	67,414	\$ 55,253
Amortization of deferred financing costs	1,674	847
Net (gain) on sale of leasing equipment	(24,784)	(11,703)
Net loss on interest rate swaps	7,132	21,786
Realized loss on interest rate swaps terminated prior to their contractual maturities	(12,524)	
Deferred income taxes	30,657	4,083
Stock compensation charge	1,194	800
Equipment purchased for resale	(3,267)	(4,940)
Changes in operating assets and liabilities	(13,347)	(13,581)
Net cash provided by operating activities	109,927	63,096
Cash flows from investing activities:		
Purchases of leasing equipment	(574,154)	(273,039)
Investments in finance leases	(2,614)	(433)
Proceeds from sale of equipment, net of selling costs	44,864	39,634
Cash collections on finance lease receivables, net of income earned	18,033	16,273
Other	13	(124)
Net cash used in investing activities	(513,858)	(217,689)
Cash flows from financing activities:		
Issuance of common stock	85,524	
Common stock dividends paid	(30,292)	(16,741)
Financing fees paid under debt facilities	(6,828)	(8,339)
Borrowings under debt facilities	709,000	391,000
Payments under debt facilities	(333,175)	(190,224)
Payments under capital lease obligations	(10,904)	(6,572)
Stock options exercised	1,200	
(Increase) in restricted cash	(12,742)	(7,941)
Net cash provided by financing activities	401,783	161,183
Net (decrease) increase in unrestricted cash and cash equivalents		
	\$ (2,148)	\$ 6,590
Unrestricted cash and cash equivalents, beginning of period	62,594	59,890

Unrestricted cash and cash equivalents, end of period	\$	60,446	\$	66,480
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Supplemental non-cash investing activities:

Accrued and unpaid purchases of equipment	\$	49,042	\$	48,421
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The accompanying notes to the unaudited consolidated financial statements are an integral part of these statements.

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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.

Effective October 1, 2010, the Company increased the residual value estimates used in its equipment depreciation policy. The impact of the change in residual value estimates resulted in a decrease of depreciation expense of approximately \$5.4 million (\$3.5 million after tax or \$0.11 per fully diluted share) in the second quarter of 2011 and approximately \$10.8 million (\$7.0 million after tax or \$0.22 per fully diluted share) in the six months ended June 30, 2011.

C. Recently Issued Accounting Pronouncements

In July 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2010-20 ("ASU 2010-20"), *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The Company adopted the provisions of ASU 2010-20 effective December 31, 2010, and ASU 2010-20 did not impact the Company's consolidated financial results but did increase disclosure. Refer to Note 5 for more information.

In May 2011, the FASB issued Accounting Standards Update 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*. This update provides guidance that is expected to result in common fair value measurement and disclosure requirements between U.S. GAAP and IFRS, and changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. This update is not intended to result in a change in the application of the requirements in Topic 820. The amendments in this update include those that clarify the FASB's intent about the application of existing fair value measurement requirements and those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this update are effective for interim and annual periods beginning after December 15, 2011, and are to be applied prospectively. The Company does not expect the adoption of ASU 2011-04 to have a material effect on its consolidated financial results.

Table of Contents**TAL INTERNATIONAL GROUP, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 1 Description of the Business, Basis of Presentation, Recently Issued Accounting Pronouncements (Continued)**

In June 2011, the FASB issued Accounting Standards Update No. 2011-05 ("ASU 2011-05"), *Comprehensive Income (Topic 220)*. This update requires 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. The presentation required by ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-05 to impact its consolidated financial results as it is presentation-only in nature.

Note 2 Fair Value of Financial Instruments

The Company believes the carrying amounts of cash and cash equivalents, accounts receivable, net investment in finance leases and other assets approximated fair value at June 30, 2011.

The Company estimates that at June 30, 2011, the carrying value of the Company's debt instruments was approximately \$8.6 million lower than its fair value. The Company estimated the fair value of its debt instruments based on the net present value of its future debt payments, using a discount rate which reflects the Company's estimate of current market interest rates as of June 30, 2011.

Note 3 Dividends

The Company paid the following quarterly dividends during the six months ended June 30, 2011 and 2010 on its issued and outstanding common stock:

Record Date	Payment Date	Aggregate Payment	Per Share Payment
June 2, 2011	June 23, 2011	\$ 16.5 million	\$ 0.50
March 3, 2011	March 24, 2011	\$ 13.8 million	\$ 0.45
June 3, 2010	June 24, 2010	\$ 9.1 million	\$ 0.30
March 11, 2010	March 25, 2010	\$ 7.6 million	\$ 0.25

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

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

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

options granted in 2006 and restricted shares granted during the years 2009, 2010 and 2011 (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Stock options	\$ 7	\$ 12	\$ 12	\$ 12
Restricted stock	544	393	1,194	788
Total	\$ 544	\$ 400	\$ 1,194	\$ 800

Total unrecognized compensation cost of approximately \$4.2 million as of June 30, 2011 related to 314,250 restricted shares granted during 2009, 2010 and 2011 will be recognized over the remaining weighted average vesting period of approximately 1.6 years.

During the three and six months ended June 30, 2011, the Company issued 23,555 and 63,907 shares of common stock due to stock option exercises, respectively.

Note 5 Net Investment in Finance Leases

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

	June 30, 2011	December 31, 2010
Gross finance lease receivables	\$ 211,926	\$ 223,611
Allowance on gross finance lease receivables(1)	(1,201)	(1,169)
Gross finance lease receivables, net of allowance	210,725	222,442
Unearned income	(46,970)	(51,025)
Net investment in finance leases	\$ 163,755	\$ 171,417

(1)

The Company evaluates potential losses in its finance lease portfolio by regularly reviewing the specific receivables in the portfolio and analyzing historical loss experience. For the period 2004 through the second quarter of 2011, the Company's loss experience on its gross finance lease receivables, after considering equipment recoveries, was less 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 contained in the gross finance lease receivables, the Company categorizes the credit worthiness of the receivables in the 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 our customers.

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

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 customer's 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 as of June 30, 2011, are as follows (in thousands):

Tier 1	\$ 124,658
Tier 2	87,268
Tier 3	
	\$ 211,926

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 June 30, 2011, approximately \$0.1 million of the Company's Tier 1 gross finance lease receivables and \$0.4 million of the Company's Tier 2 gross finance lease receivables were past due, substantially all of which were aged approximately 31 days. Gross finance lease receivables that were in non-accrual status as of June 30, 2011 were immaterial. The Company recognizes income on gross finance lease receivables in non-accrual status as collections are made.

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

The following table represents the activity of the Company's allowance on gross finance lease receivables for the six months ended June 30, 2011 (in thousands):

	Beginning Balance	Additions/ (Reversals)	(Write-offs) Reversals	Other(a)	Ending Balance
Finance Lease Allowance for doubtful accounts:					
For the six months ended June 30, 2011	\$ 1,169	\$ 28	\$	\$ 4	\$ 1,201

(a) Primarily relates to the effect of foreign currency translation.

Note 6 Debt

Debt consisted of the following (amounts in thousands):

	June 30, 2011	December 31, 2010
Asset backed securitization term notes (ABS)	\$ 1,312,811	\$ 984,880
Term loan facilities	452,183	441,133
Asset backed warehouse facility	160,000	122,500
Revolving credit facility	90,000	90,000
Capital lease obligations	120,915	131,819
Total Debt	\$ 2,135,909	\$ 1,770,332

As of June 30, 2011 we had \$940.4 million of debt outstanding on facilities with fixed interest rates and \$1,195.5 million of debt outstanding on facilities with interest rates based on floating rate indices (such as LIBOR). We economically hedge the risks associated with fluctuations in interest rates on our floating rate borrowings by entering into interest rate swap contracts that convert our floating rate debt to a fixed rate basis, thus reducing the impact of interest rate changes on future interest expense. As of June 30, 2011, we had interest rate swaps in place with a total notional value of \$967.0 million to fix the floating interest rates on a portion of our floating rate debt obligations.

The Company is subject to certain financial covenants under its debt facilities and as of June 30, 2011, was in compliance with all such covenants.

Asset Backed Securitization Term Notes

In January and May 2011, the Company issued \$174 million and \$235 million of fixed rate secured notes under the Asset Backed Securitization ("ABS") facilities, respectively. The notes, which were rated "A" by Standard & Poor's, were issued at par and have scheduled maturities of January 2021 and May 2021, respectively.

Asset Backed Warehouse Facility

In April 2011, the Company increased the size of its asset backed warehouse facility from \$350 million to \$400 million.

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

During the six months ended June 30, 2011, the Company entered into new delayed draw term loan agreements with financial institutions, increasing the aggregate borrowings available under its term loan facilities by \$150 million. These facilities mature in 2018. As of June 30, 2011, the Company has borrowed \$40 million under one of these facilities.

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 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 June 30, 2011, 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:

Total Notional Amount at June 30, 2011	Weighted Average Fixed Leg Interest Rate at June 30, 2011	Weighted Average Remaining Term
\$967.0 million	3.36%	4.1 years

Most of the Company's interest rate swap contracts have not been 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 net loss on interest rate swaps.

In February 2011, the Company entered into a 10-year forward starting interest rate swap contract with a notional value of \$75 million to fix interest rates on future borrowings before the end of May 2011. In connection with the closing of the fixed rate term notes issued in May 2011 under the ABS facilities, the Company terminated this swap contract and paid \$2.3 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 interest expense over the original term of the swap contract. There was no material ineffectiveness during the period the hedge was designated.

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 Derivative Instruments (Continued)

As of June 30, 2011, the unamortized pre-tax balance in accumulated other comprehensive loss attributable to interest rate swap contracts that have been terminated and de-designated was approximately \$14.6 million, of which \$3.1 million is expected to be amortized to interest expense over the next 12 months. Amounts recorded in accumulated other comprehensive loss attributable to the de-designated and terminated interest rate swap contracts would be recognized in earnings immediately in conjunction with a termination of the related debt agreements.

In April 2011, the Company terminated various non-designated interest rate swap contracts with a notional value of \$200 million that were set to expire in 2012 and 2013, and replaced them with a \$100 million notional value swap with a 2018 expiration date. The Company paid \$10.2 million to its swap counterparties to terminate these contracts. Since these swaps were non-designated, the loss has been previously recognized in the Company's statements of operations as net loss on interest rate swaps.

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 4.2 million Euros and receive approximately \$6.4 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 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 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. 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).

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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			
	June 30, 2011		December 31, 2010		June 30, 2011		December 31, 2010	
	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	\$ 1.1	Fair value of derivative instruments	\$ 57.8	Fair value of derivative instruments	\$ 61.6
Foreign exchange contracts	Fair value of derivative instruments	0.4	Fair value of derivative instruments	0.9	Fair value of derivative instruments		Fair value of derivative instruments	
Total Derivatives		\$ 0.4		\$ 2.0		\$ 57.8		\$ 61.6

Derivatives Not Designated as Hedging Instruments under ASC 815
Effect of Derivative Instruments on Statement 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	
		2011	2010	2011	2010
Interest rate contracts	Net loss on interest rate swaps	\$ 15.1	\$ 15.0	\$ 7.1	\$ 21.8
Foreign exchange contracts	Administrative expenses	0.2	(0.7)	0.5	(1.1)
Total		\$ 15.3	\$ 14.3	\$ 7.6	\$ 20.7

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8 Earnings Per Share

The following table sets forth the calculation of basic and diluted earnings per share for the three and six months ended June 30, 2011 and 2010 (in thousands, except earnings per share):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Numerator:				
Net income applicable to common stockholders for basic and diluted earnings per share	\$ 23,191	\$ 4,652	\$ 55,778	\$ 10,551
Denominator:				
Weighted average shares outstanding for basic earnings per share	32,905	30,434	31,732	30,432
Dilutive stock options	448	290	432	184
Weighted average shares for diluted earnings per share	33,353	30,724	32,164	30,616
Earnings per share:				
Basic	\$ 0.70	\$ 0.15	\$ 1.76	\$ 0.35
Diluted	\$ 0.70	\$ 0.15	\$ 1.73	\$ 0.34

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.

Note 9 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 the Equipment trading segment revenues are leasing revenues from equipment purchased for resale that is currently on lease until containers are dropped off.

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 Segment and Geographic Information (Continued)

The following tables show segment information for the three and six months ended June 30, 2011 and 2010 and the consolidated totals reported (dollars in thousands):

	Three Months Ended June 30, 2011			Three Months Ended June 30, 2010		
	Equipment Leasing	Equipment Trading	Totals	Equipment Leasing	Equipment Trading	Totals
Total revenues	\$ 106,416	\$ 13,805	\$ 120,221	\$ 75,430	\$ 11,934	\$ 87,364
Equipment trading expenses		10,094	10,094		9,675	9,675
Depreciation and amortization expense	35,019	142	35,161	28,110	177	28,287
Net (gain) on sale of leasing equipment	(16,899)		(16,899)	(7,191)	(44)	(7,235)
Interest and debt expense	25,237	513	25,750	17,281	492	17,773
Income before income taxes(1)	48,141	2,897	51,038	20,852	1,362	22,214

(1)

Segment income before income taxes excludes net loss on interest rate swaps of \$15,139 and \$15,002 for the three months ended June 30, 2011 and 2010, respectively.

	Six Months Ended June 30, 2011			Six Months Ended June 30, 2010		
	Equipment Leasing	Equipment Trading	Totals	Equipment Leasing	Equipment Trading	Totals
Total revenues	\$ 205,796	\$ 38,953	\$ 244,749	\$ 148,626	\$ 18,336	\$ 166,962
Equipment trading expenses		29,383	29,383		14,853	14,853
Depreciation and amortization expense	67,265	149	67,414	54,947	306	55,253
Net (gain) on sale of leasing equipment	(24,784)		(24,784)	(11,659)	(44)	(11,703)
Interest and debt expense	48,458	1,023	49,481	33,952	863	34,815
Income before income taxes(2)	85,617	7,859	93,476	36,514	1,913	38,427
Goodwill at June 30	70,898	1,000	71,898	70,898	1,000	71,898
Total assets at June 30	2,933,102	72,926	3,006,028	2,012,119	41,414	2,053,533
Purchases of leasing equipment(3)	558,510	15,644	574,154	257,261	15,778	273,039
Investments in finance leases(3)	2,614		2,614	433		433

(2)

Segment income before income taxes excludes net loss on interest rate swaps of \$7,132 and \$21,786 for the six months ended June 30, 2011 and 2010, respectively.

(3)

Represents cash disbursements for purchases of leasing equipment and certain trading equipment purchased for resale, but that will be on lease for a period typically in excess of one year, as reflected in the consolidated statements of cash flows for the period indicated.

Table of Contents**TAL INTERNATIONAL GROUP, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 9 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 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 the sale of equipment in investing activities.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Total revenues:				
United States of America	\$ 9,505	\$ 7,444	\$ 19,467	\$ 13,940
Asia	46,207	36,020	103,113	66,921
Europe	56,123	38,485	106,568	75,775
Other International	8,386	5,415	15,601	10,326
Total	\$ 120,221	\$ 87,364	\$ 244,749	\$ 166,962

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 10 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 expires in 2016. At June 30, 2011, 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 accrued expenses, and approximate fair value as of June 30, 2011. The Company accounts for the residual value guarantees under Accounting Standards Codification 450 (Contingencies) and expects that 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 has performed fair value measurements of the guarantees using

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10 Commitments and Contingencies (Continued)

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, 2011, commitments for capital expenditures totaled approximately \$160.7 million.

Note 11 Income Taxes

The consolidated income tax expense for the three and six months ended June 30, 2011 and 2010 was determined based upon estimates of the Company's consolidated effective income tax rates for the years ending December 31, 2011 and 2010, 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 12 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,	
	2011	2010	2011	2010
Net income	\$ 23,191	\$ 4,652	\$ 55,778	\$ 10,551
Other comprehensive income:				
Unrealized loss on derivative instrument designated as a cash flow hedge (net of tax benefit of \$554, \$1,948, \$827 and \$1,948, respectively)	(1,013)	(3,516)	(1,513)	(3,516)
Foreign currency translation adjustments	(17)	(323)	60	(679)
Amortization of net loss (gain) on derivative instruments previously designated as cash flow hedges (net of tax expense (benefit) of \$(244), \$66, \$(453) and \$134, respectively)	441	(119)	828	(242)
Total	\$ 22,602	\$ 694	\$ 55,153	\$ 6,114

The Company recorded approximately nine thousand dollars of unrealized foreign exchange gains and \$0.1 million of unrealized foreign currency exchange losses, which are reported in administrative expenses in the Company's statement of operations, for the three months ended June 30, 2011 and 2010, respectively. For the six months ended June 30, 2011 and 2010, the Company recorded \$0.1 million of unrealized foreign exchange gains and \$0.5 million of unrealized foreign currency exchange losses, respectively. These gains and losses resulted primarily from fluctuations in exchange rates related to the Company's Euro and Pound Sterling transactions and related assets.

Issuance of Common Stock

On April 6, 2011, the Company completed a public offering of 5,500,000 shares of common stock. Of the total shares offered, the Company issued and sold 2,500,000 shares of common stock and certain

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12 Comprehensive Income and Other (Continued)

of the Company's stockholders sold an aggregate of 3,000,000 shares of common stock. The Company's proceeds from the offering were \$85.5 million.

Note 13 Subsequent Events

Quarterly Dividend

On July 26, 2011 the Company's Board of Directors approved and declared a \$0.52 per share quarterly cash dividend on its issued and outstanding common stock, payable on September 22, 2011 to shareholders of record at the close of business on September 1, 2011.

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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 18, 2011. 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 traders 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 June 30, 2011, our total fleet consisted of 991,807 containers and chassis, including 27,299 containers under management for third parties, representing 1,621,465 twenty-foot equivalent units (TEU). We have an extensive global presence, offering leasing services through 18 offices in 11 countries and approximately 219 third party container depot facilities in 39 countries as of June 30, 2011. Our customers are among the largest shipping lines in the world. For the six months ended June 30, 2011, our twenty largest customers accounted for 79% of our leasing revenues, our five largest customers accounted for 48% of our leasing revenues, and our largest customer accounted for 15% of our leasing revenues.

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

	Equipment Fleet in Units								
	June 30, 2011			December 31, 2010			June 30, 2010		
	Owned	Managed	Total	Owned	Managed	Total	Owned	Managed	Total
Dry	814,278	25,057	839,335	694,351	25,657	720,008	606,933	26,384	633,317
Refrigerated	47,236	195	47,431	44,955	260	45,215	39,524	351	39,875
Special	46,533	2,047	48,580	43,062	2,172	45,234	44,056	2,304	46,360
Tank	3,964		3,964	2,648		2,648	1,849		1,849
Chassis	9,207		9,207	9,208		9,208	8,764		8,764
Equipment leasing fleet	921,218	27,299	948,517	794,224	28,089	822,313	701,126	29,039	730,165
Equipment trading fleet(1)	43,290		43,290	33,373		33,373	35,201		35,201
Total	964,508	27,299	991,807	827,597	28,089	855,686	736,327	29,039	765,366
Percentage	97.2%	2.8%	100.0%	96.7%	3.3%	100.0%	96.2%	3.8%	100.0%

(1)

Includes 37,711 units on lease under sale-leaseback transactions as of June 30, 2011.

	Equipment Fleet in TEUs								
	June 30, 2011			December 31, 2010			June 30, 2010		
	Owned	Managed	Total	Owned	Managed	Total	Owned	Managed	Total
Dry	1,312,427	45,429	1,357,856	1,116,392	46,462	1,162,854	971,668	47,665	1,019,333
Refrigerated	89,350	339	89,689	85,166	455	85,621	74,158	619	74,777
Special	81,524	3,428	84,952	74,273	3,622	77,895	75,744	3,839	79,583
Tank	3,964		3,964	2,698		2,698	1,899		1,899
Chassis	16,366		16,366	16,367		16,367	15,584		15,584
Equipment leasing fleet	1,503,631	49,196	1,552,827	1,294,896	50,539	1,345,435	1,139,053	52,123	1,191,176
Equipment trading fleet(2)	68,638		68,638	51,748		51,748	54,582		54,582
Total	1,572,269	49,196	1,621,465	1,346,644	50,539	1,397,183	1,193,635	52,123	1,245,758
Percentage	97.0%	3.0%	100.0%	96.4%	3.6%	100.0%	95.8%		