

TAL International Group, Inc.  
Form 10-Q  
May 06, 2015  
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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 March 31, 2015

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.

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 April 17, 2015, there were 33,254,291 shares of the Registrant's common stock, \$0.001 par value outstanding.



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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 19, 2015, 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 March 31, 2015 and December 31, 2014 and for the three months ended March 31, 2015 and March 31, 2014 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 19, 2015 from which the accompanying December 31, 2014 Balance Sheet information was derived, and our other reports filed with the SEC through the current date pursuant to the Exchange Act.

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## TAL INTERNATIONAL GROUP, INC.

## Consolidated Balance Sheets

(Dollars in thousands, except share data)

(Unaudited)

	March 31, 2015	December 31, 2014
<b>ASSETS:</b>		
Leasing equipment, net of accumulated depreciation and allowances of \$1,095,975 and \$1,055,864	\$3,822,885	\$3,674,031
Net investment in finance leases, net of allowances of \$1,056 and \$1,056	210,200	219,872
Equipment held for sale	58,195	59,861
Revenue earning assets	4,091,280	3,953,764
Unrestricted cash and cash equivalents	71,709	79,132
Restricted cash	35,042	35,649
Accounts receivable, net of allowances of \$955 and \$978	84,368	85,681
Goodwill	74,523	74,523
Deferred financing costs	31,582	32,937
Other assets	13,482	11,400
Fair value of derivative instruments	224	1,898
Total assets	\$4,402,210	\$4,274,984
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
Equipment purchases payable	\$67,380	\$88,336
Fair value of derivative instruments	29,005	10,394
Accounts payable and other accrued expenses	52,173	57,877
Net deferred income tax liability	418,298	411,007
Debt	3,180,800	3,040,842
Total liabilities	3,747,656	3,608,456
Stockholders' equity:		
Preferred stock, \$0.001 par value, 500,000 shares authorized, none issued	—	—
Common stock, \$0.001 par value, 100,000,000 shares authorized, 37,165,033 and 37,006,283 shares issued respectively	37	37
Treasury stock, at cost, 3,911,843 and 3,829,928 shares	(75,310)	(71,917)
Additional paid-in capital	506,893	504,891
Accumulated earnings	248,581	246,766
Accumulated other comprehensive (loss)	(25,647)	(13,249)
Total stockholders' equity	654,554	666,528
Total liabilities and stockholders' equity	\$4,402,210	\$4,274,984

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

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## TAL INTERNATIONAL GROUP, INC.

## Consolidated Statements of Income

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

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Leasing revenues:		
Operating leases	\$ 144,568	\$ 139,330
Finance leases	4,024	4,953
Other revenues	383	484
Total leasing revenues	148,975	144,767
Equipment trading revenues	16,845	12,487
Equipment trading expenses	(15,431	) (10,839
Trading margin	1,414	1,648
Net (loss) gain on sale of leasing equipment	(1,449	) 3,096
Operating expenses:		
Depreciation and amortization	58,384	53,803
Direct operating expenses	8,822	8,682
Administrative expenses	11,982	11,832
(Reversal) provision for doubtful accounts	(23	) 31
Total operating expenses	79,165	74,348
Operating income	69,775	75,163
Other expenses:		
Interest and debt expense	29,243	27,619
Write-off of deferred financing costs	—	1,170
Net loss on interest rate swaps	716	373
Total other expenses	29,959	29,162
Income before income taxes	39,816	46,001
Income tax expense	14,059	15,990
Net income	\$25,757	\$30,011
Net income per common share—Basic	\$0.78	\$0.89
Net income per common share—Diluted	\$0.78	\$0.89
Cash dividends paid per common share	\$0.72	\$0.72
Weighted average number of common shares outstanding—Basic	32,861	33,608
Dilutive stock options and restricted stock	149	168
Weighted average number of common shares outstanding—Diluted	33,010	33,776

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

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## TAL INTERNATIONAL GROUP, INC.

## Consolidated Statements of Comprehensive Income

(Dollars in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Net income	\$25,757	\$30,011
Other comprehensive income (loss):		
Change in fair value of derivative instruments designated as cash flow hedges (net of income tax effect of \$(8,611) and \$(3,868))	(15,838 )	(7,088 )
Reclassification of realized loss on interest rate swap agreements designated as cash flow hedges (net of income tax effect of \$1,719 and \$1,010)	3,152	1,893
Amortization of loss on terminated derivative instruments designated as cash flow hedges (net of income tax effect of \$242 and \$254)	445	461
Foreign currency translation adjustment	(157 )	35
Other comprehensive (loss), net of tax	(12,398 )	(4,699 )
Comprehensive income	\$13,359	\$25,312

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

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TAL INTERNATIONAL GROUP, INC.  
Consolidated Statements of Cash Flows  
(Dollars in thousands)  
(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$25,757	\$30,011
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	58,384	53,803
Amortization of deferred financing costs	1,979	1,922
Amortization of net loss on terminated derivative instruments designated as cash flow hedges	687	715
Net loss (gain) on sale of leasing equipment	1,449	(3,096 )
Net loss on interest rate swaps	716	373
Write-off of deferred financing costs	—	1,170
Deferred income taxes	14,059	15,990
Stock compensation charge	2,002	1,808
Changes in operating assets and liabilities:		
Net equipment purchased for resale activity	(10,554 )	(8,677 )
Net realized gain (loss) on interest rate swaps terminated prior to their contractual maturities	—	(1,670 )
Other changes in operating assets and liabilities	(3,231 )	(17,918 )
Net cash provided by operating activities	91,248	74,431
Cash flows from investing activities:		
Purchases of leasing equipment and investments in finance leases	(258,552 )	(148,622 )
Proceeds from sale of equipment, net of selling costs	37,661	39,461
Cash collections on finance lease receivables, net of income earned	10,474	12,004
Other	(74 )	25
Net cash (used in) investing activities	(210,491 )	(97,132 )
Cash flows from financing activities:		
Purchases of treasury stock	(4,446 )	—
Stock options exercised and stock related activity	—	(51 )
Financing fees paid under debt facilities	(624 )	(3,276 )
Borrowings under debt facilities	230,000	356,017
Payments under debt facilities and capital lease obligations	(90,061 )	(302,231 )
Decrease (increase) in restricted cash	607	(2,109 )
Common stock dividends paid	(23,656 )	(24,201 )
Net cash provided by financing activities	111,820	24,149
Net (decrease) increase in unrestricted cash and cash equivalents	\$(7,423 )	\$1,448
Unrestricted cash and cash equivalents, beginning of period	79,132	68,875
Unrestricted cash and cash equivalents, end of period	\$71,709	\$70,323
Supplemental non-cash investing activities:		
Equipment purchases payable	\$67,380	\$95,068

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 and Recently Adopted Accounting Pronouncements

A. Description of the Business

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

B. Basis of Presentation

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

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

C. New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09 ("ASU No. 2014-09"), Revenue from Contracts with Customers (Topic 606). This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. Leasing revenue recognition is specifically excluded from this ASU, and therefore, the new standard will only apply to Equipment Trading revenues and sales of leasing equipment. In April 2015, the FASB issued an exposure draft proposing to defer the effective date of the new revenue standard for interim and annual periods beginning after December 15, 2017 (previously December 15, 2016). ASU 2014-09 allows for either full retrospective or modified retrospective adoption. The Company is evaluating the transition method that will be elected and the potential effects of adopting the provisions of ASU No. 2014-09.

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-15 ("ASU 2014-15"), Presentation of Financial Statements (Topic 205): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This standard requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that financial statements are issued and to disclose those conditions if management has concluded that substantial doubt exists. Subsequent to adoption, this guidance will need to be applied by management at the end of each annual period and interim period therein to determine what, if any, impact there will be on the Consolidated Financial Statements in a given reporting period. These changes become effective for the Company for the 2016 annual period. Management has determined that the adoption of these changes will not have an impact on the Consolidated Financial Statements as this standard is disclosure only.

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-03 ("ASU 2015-03"), Imputation of Interest (Topic 835): Simplifying the Presentation of Debt Issuance Costs. This standard changes the presentation of debt issuance costs in the financial statements but does not affect the recognition and measurement of debt issuance costs. The ASU specifies that debt issuance costs related to a note shall be reported in the balance sheet as a direct deduction from the face amount of that note and that amortization of debt issuance costs also shall be reported as interest expense. The ASU's basis for conclusions observes that in practice, debt issuance costs incurred before the associated funding is received (i.e., before the issuance of the debt liability) are

deferred on the balance sheet until that debt liability amount is recorded. These changes will become effective for the Company beginning after December 15, 2015.

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 2—Fair Value of Financial Instruments

The Company believes that the carrying amounts of its cash and cash equivalents, accounts receivable, equipment purchases payable, and accounts payable approximated their fair value as of March 31, 2015 and December 31, 2014. 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 net investment in finance leases or 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 net investment in finance leases and debt are listed in the table below as of the dates indicated (in thousands):

	March 31, 2015	December 31, 2014
Assets		
Net investment in finance leases - carrying value	\$211,256	\$220,928
Net investment in finance leases - estimated fair value	\$218,246	\$223,455
Liabilities		
Debt—carrying value	\$3,180,800	\$3,040,842
Debt—estimated fair value	\$3,222,201	\$3,060,790

The Company estimated the fair value of its net investment in finance leases and debt instruments based on the net present value of its future receipts or 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 and Treasury Stock

## Dividends

The Company paid the following quarterly dividends during the three months ended March 31, 2015 and 2014 on its issued and outstanding common stock:

Record Date	Payment Date	Aggregate Payment	Per Share Payment
March 3, 2015	March 24, 2015	\$23.7 Million	\$0.72
March 3, 2014	March 24, 2014	\$24.2 Million	\$0.72

## Treasury Stock

On March 13, 2006, our Board of Directors authorized a stock buyback program for the repurchase of our common stock. The stock repurchase program, as now amended, authorizes us to repurchase up to 4.0 million shares. During the first quarter of 2015, TAL repurchased 81,915 shares at an average price of \$41.40 under the TAL's 2006 stock repurchase program. On February 11, 2015, TAL's Board of Directors authorized a new share repurchase program of up to 3.0 million of its outstanding shares. These shares augment the remaining 88,157 shares authorized for purchase under TAL's 2006 stock repurchase program. Repurchases will be made from time to time at TAL's discretion, based on ongoing assessments of the capital needs of the business, the market price of TAL's common stock and general market and other conditions. No time limit was set for the completion of the repurchase program. As of March 31, 2015, 3,088,157 shares may yet be purchased under the 2006 and the 2015 stock buyback programs.



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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 4—Capital Stock and Stock Options

## Stock Based Compensation Plans

The Company records compensation cost relating to stock based payment transactions in accordance with ASC 718.

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) on a straight-line basis.

The Company recognized compensation costs in administrative expenses related to restricted shares granted in 2013, 2014 and 2015 under the Company's stock based compensation plans of \$2.0 million and \$1.8 million during the three months ended March 31, 2015 and 2014, respectively.

Total unrecognized compensation costs of approximately \$10.3 million as of March 31, 2015 related to restricted shares granted during 2013, 2014 and 2015 will be recognized over the remaining weighted average vesting period of approximately 2.2 years.

On March 14, 2014, the Company's Board of Directors adopted and on April 22, 2014, the Company's shareholders approved the 2014 Equity Incentive Plan. No further grants will be made under the 2005 Management Omnibus Incentive Plan but the terms of the 2005 Management Omnibus Incentive Plan will continue to apply to awards previously granted under the plan.

## Accumulated Other Comprehensive (Loss)

Accumulated other comprehensive (loss) consisted of the following as of the dates indicated (in thousands and net of tax effects):

	Cash Flow Hedges	Foreign Currency Translation	Accumulated Other Comprehensive Income (Loss)
Balance as of December 31, 2014	\$(12,145 )	\$(1,104 )	\$ (13,249 )
Change in fair value of derivative instruments designated as cash flow hedges	(15,838 )	—	(15,838 )
Reclassification of realized loss on interest rate swap agreements designated as cash flow hedges	3,152	—	3,152
Amortization of net loss on derivative instruments previously designated as cash flow hedges	445	—	445
Foreign currency translation adjustment	—	(157 )	(157 )
Other comprehensive income (loss)	(12,241 )	(157 )	(12,398 )
Balance as of March 31, 2015	\$(24,386 )	\$(1,261 )	\$ (25,647 )

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 4—Capital Stock and Stock Options (Continued)

	Cash Flow Hedges	Foreign Currency Translation	Accumulated Other Comprehensive (Loss) Income
Balance as of December 31, 2013	\$10,959	\$(889 )	\$ 10,070
Change in fair value of derivative instruments designated as cash flow hedges	(7,088 )	—	(7,088 )
Reclassification of realized loss on interest rate swap agreements designated as cash flow hedges	1,893	—	1,893
Amortization of net loss on derivative instruments previously designated as cash flow hedges	461	—	461
Foreign currency translation adjustment	—	35	35
Other comprehensive income (loss)	(4,734 )	35	(4,699 )
Balance as of March 31, 2014	\$6,225	\$(854 )	\$ 5,371

The following table presents reclassifications out of Accumulated other comprehensive (loss) for the period indicated (in thousands):

	Amounts Reclassified From Accumulated Other Comprehensive (Loss) Three Months Ended March 31,		Affected Line Item in the Consolidated Statements of Income
	2015	2014	
Realized loss on interest rate swap agreements, designated as cash flow hedges	\$4,871	\$2,903	Interest and debt expense
Amortization of net loss on derivative instruments previously designated as cash flow hedges	687	715	Interest and debt expense
Amounts reclassified from Accumulated other comprehensive income	5,558	3,618	Income before income taxes
Income tax (benefit)	(1,961 )	(1,264 )	Income tax expense
Amounts reclassified from Accumulated other comprehensive income	\$3,597	\$2,354	Net income

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 5—Net Investment in Finance Leases

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

	March 31, 2015	December 31, 2014
Gross finance lease receivables	\$254,265	\$267,720
Allowance on gross finance lease receivables	(1,056 )	(1,056 )
Gross finance lease receivables, net of allowance	253,209	266,664
Unearned income	(43,009 )	(46,792 )
Net investment in finance leases	\$210,200	\$219,872

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 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.

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 down turns 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 are as follows (in thousands):

	March 31, 2015	December 31, 2014
Tier 1	\$212,361	\$244,136
Tier 2	41,904	23,584
Tier 3	—	—
Gross finance lease receivables	\$254,265	\$267,720

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 March 31, 2015, approximately \$0.1 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 March 31, 2015, none of the Company's gross finance lease receivables were in non-accrual status. The Company categorizes



customers as non-accrual based on the credit ratings described above and recognizes income on gross finance lease receivables in non-accrual status as collections are made.

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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 periods presented (in thousands):

	Beginning Balance	Additions/ (Reversals)	Other(a)	Ending Balance
Finance Lease—Allowance for doubtful accounts: For the three months ended March 31, 2015	\$1,056	\$—	\$—	\$1,056

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

## Note 6—Debt

Debt consisted of the following (amounts in thousands):

	March 31, 2015	December 31, 2014
Asset backed securitization (ABS) term notes	\$1,438,585	\$1,504,183
Term loan facilities	941,695	858,973
Asset backed warehouse facility	545,000	420,000
Revolving credit facilities	165,000	160,000
Capital lease obligations	90,520	97,686
Total Debt	\$3,180,800	\$3,040,842

As of March 31, 2015, the Company had \$1,555.5 million of debt outstanding on facilities with fixed interest rates and \$1,625.3 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 March 31, 2015, the Company had interest rate swaps in place with a net notional amount of \$1,135.0 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 March 31, 2015, was in compliance with all such covenants.

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 7—Derivative Instruments

## Interest Rate Swaps

The Company has entered into interest rate swap agreements to manage interest rate risk exposure. The majority of 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. Such 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. In limited instances, the Company has also entered into interest rate swap agreements that involve the receipt of fixed rate amounts in exchange for floating rate interest payments. The counterparties to the Company's interest rate swap 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 direct wholly owned subsidiary of the Company, are pledged as collateral for various credit facilities and the amounts payable under certain interest rate swap agreements.

As of March 31, 2015, the Company had net interest rate swap agreements in place to fix the floating interest rates on a portion of the borrowings under its debt facilities as summarized below:

Net Notional Amount(1)	Weighted Average Fixed Leg (Pay) Interest Rate(2)	Weighted Average Remaining Term(2)
\$1,135 Million	2.00%	7.3 years

(1) As of March 31, 2015, the net notional amount outstanding on the Company's interest rate swap agreements is comprised of \$1,285.0 million of pay-fixed rate/receive-floating rate agreements and \$150.0 million of pay-floating rate/receive-fixed rate agreements. The Company entered into the pay-floating rate/receive-fixed rate agreements at the parent company level to offset the cash flows on certain pay-fixed rate/receive-floating rate agreements of certain wholly owned subsidiaries. The pay-floating rate/receive-fixed rate and pay-fixed rate/receive-floating rate agreements have terms that offset each other.

(2) The calculations of weighted average fixed (pay) leg interest rate and weighted average remaining term on the Company's interest rate swap agreements reflect the impact of the pay-floating rate/receive-fixed rate agreements and the pay-fixed rate/receive-floating rate agreements they offset.

The following table represents pre-tax amounts in accumulated other comprehensive (loss) related to interest rate swap agreements (in millions) expected to be recognized in income over the next 12 months:

	Three Months Ended March 31, 2015	
Loss on derivative instruments designated as cash flow hedges	(\$17.7	)
Amortization of loss on terminated derivative instruments designated as cash flow hedges	(\$2.5	)

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 7—Derivative Instruments (Continued)

Amounts recorded in accumulated other comprehensive (loss) attributable to these terminated interest rate swap agreements may be recognized in earnings immediately in conjunction with a termination of the related debt balances.

## 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).

## Location of Derivative Instruments in Financial Statements

Derivative Instrument	Balance Sheet Location	Fair Value of Derivative Instruments (In Millions)			
		Asset Derivatives		Liability Derivatives	
		March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
		Fair Value	Fair Value	Fair Value	Fair Value
Interest rate swap contracts, designated as cash flow hedges	Fair value of derivative instruments	\$—	\$ 1.7	\$27.2	\$ 9.4
Interest rate swap contracts, not designated	Fair value of derivative instruments	0.1	0.1	1.8	1.0
Foreign exchange contracts, not designated	Fair value of derivative instruments	0.1	0.1	—	—
Total derivatives		\$0.2	\$ 1.9	\$29.0	\$ 10.4

Effect of Derivative Instruments on Consolidated Statements of Income and Consolidated Statements of Comprehensive Income  
(In Millions)

Location of (Gain) Loss on Derivative Instruments	Three Months Ended March 31,		
	2015	2014	
Realized loss on interest rate swap agreements	Interest and debt expense	\$5.2	\$3.2
Amortization of realized net loss on terminated derivative instruments, designated as cash flow hedges	Interest and debt expense	0.7	0.7
Change in fair value of derivatives, designated as cash flow hedges	Other comprehensive income	24.4	(11.0 )
Net loss on interest rate swaps, not designated	Net loss on interest rate swaps	0.7	0.4
Foreign exchange agreements, not designated	Administrative expenses	—	0.1

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 8—Segment and Geographic Information

## Industry Segment Information

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

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

	Three Months Ended March 31,			2014		
	2015					
	Equipment Leasing	Equipment Trading	Totals	Equipment Leasing	Equipment Trading	Totals
Total leasing revenues	\$146,553	\$2,422	\$148,975	\$141,267	\$3,500	\$144,767
Trading margin	—	1,414	1,414	—	1,648	1,648
Net (loss) gain on sale of leasing equipment	(1,449	) —	(1,449	) 3,096	—	3,096
Depreciation and amortization expense	58,157	227	58,384	53,424	379	53,803
Interest and debt expense	28,690	553	29,243	26,966	653	27,619
Income before income taxes(1)	37,807	2,725	40,532	43,682	3,862	47,544
Equipment held for sale at March 31	30,316	27,879	58,195	32,626	22,745	55,371
Goodwill at March 31	73,523	1,000	74,523	73,523	1,000	74,523
Total assets at March 31	4,334,714	67,496	4,402,210	4,010,968	75,185	4,086,153
Purchases of leasing equipment and investments in finance leases(2)	250,968	7,584	258,552	145,247	3,375	148,622

Segment income before income taxes excludes net losses on interest rate swaps of \$0.7 million and \$0.4 million for the three months ended March 31, 2015 and 2014, respectively, and the write-off of deferred financing costs of (1) \$1.2 million for the three months ended March 31, 2014. There was no write-off of deferred financing costs for the three months ended March 31, 2015.

Represents cash disbursements for purchases of leasing equipment and investments in finance lease as reflected in (2) the consolidated statements of cash flows for the periods indicated, but excludes cash flows associated with the purchase of equipment held for resale.

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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 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 most of its leasing 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 equipment leasing revenues for the periods indicated based on customers' primary domicile (in thousands):

	Three Months Ended March 31,	
	2015	2014
Total leasing revenues:		
United States of America	\$10,455	\$8,039
Asia	68,848	64,072
Europe	65,866	65,994
Other International	3,806	6,662
Total	\$148,975	\$144,767

As most 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.

The following table represents the geographic allocation of equipment trading revenues for the periods indicated based on the location of sale (in thousands):

	Three Months Ended March 31,	
	2015	2014
Total equipment trading revenues:		
United States of America	\$2,514	\$822
Asia	6,555	5,783
Europe	6,803	3,878
Other International	973	2,004
Total	\$16,845	\$12,487

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 March 31, 2015, 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. 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 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 March 31, 2015.

Purchase Commitments

At March 31, 2015, commitments for capital expenditures totaled approximately \$20.3 million.

Note 10—Income Taxes

The consolidated income tax expense for the three months ended March 31, 2015 and 2014 was determined based upon estimates of the Company's consolidated effective income tax rates for the year ending December 31, 2015 and the year ended December 31, 2014. 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 April 28, 2015, the Company's Board of Directors approved and declared a \$0.72 per share quarterly cash dividend on its issued and outstanding common stock, payable on June 24, 2015 to shareholders of record at the close of business on June 3, 2015.

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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 19, 2015. 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 operations include the acquisition, leasing, re-leasing and subsequent sale of multiple types of intermodal containers and chassis. As of March 31, 2015, our total fleet consisted of 1,443,959 containers and chassis, including 15,928 containers under management for third parties, representing 2,371,763 twenty-foot equivalent units (TEU). We have an extensive global presence, offering leasing services through 17 offices in 11 countries and approximately 230 third party container depot facilities in approximately 40 countries as of March 31, 2015. Our customers are among the largest shipping lines in the world. For the three months ended March 31, 2015, our twenty largest customers accounted for 82% of our leasing revenues, our five largest customers accounted for 54% of our leasing revenues, and our largest customer, CMA CGM, accounted for 16% of our leasing revenues.



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The following tables provide the composition of our equipment fleet as of the dates indicated (in units, TEU and cost-equivalent units, or "CEU"):

Equipment Fleet in Units										
	March 31, 2015			December 31, 2014			March 31, 2014			
	Owned	Managed	Total	Owned	Managed	Total	Owned	Managed	Total	
Dry	1,244,482	15,151	1,259,633	1,174,154	15,553	1,189,707	1,094,422	17,500	1,111,922	
Refrigerated	66,048	30	66,078	64,977	33	65,010	66,462	57	66,519	
Special	56,797	747	57,544	55,388	792	56,180	55,273	1,353	56,626	
Tank	9,555	—	9,555	9,282	—	9,282	8,317	—	8,317	
Chassis	19,885	—	19,885	19,116	—	19,116	13,720	—	13,720	
Equipment leasing fleet	1,396,767	15,928	1,412,695	1,322,917	16,378	1,339,295	1,238,194	18,910	1,257,104	
Equipment trading fleet	31,264	—	31,264	32,448	—	32,448	37,438	—	37,438	
Total	1,428,031	15,928	1,443,959	1,355,365	16,378	1,371,743	1,275,632	18,910	1,294,542	
Percentage	98.9	% 1.1	% 100.0	% 98.8	% 1.2	% 100.0	% 98.5	% 1.5	% 100.0	%
Equipment Fleet in TEU										
	March 31, 2015			December 31, 2014			March 31, 2014			
	Owned	Managed	Total	Owned	Managed	Total	Owned	Managed	Total	
Dry	2,019,040	26,440	2,045,480	1,901,299	27,183	1,928,482	1,769,678	30,967	1,800,645	
Refrigerated	125,441	48	125,489	123,288	54	123,342	126,973	101	127,074	
Special	103,619	1,312	104,931	100,680	1,385	102,065	99,937	2,294	102,231	
Tank	9,555	—	9,555	9,282	—	9,282	8,317	—	8,317	
Chassis	35,443	—	35,443	33,877	—	33,877	24,496	—	24,496	
Equipment leasing fleet	2,293,098	27,800	2,320,898	2,168,426	28,622	2,197,048	2,029,401	33,362	2,062,763	
Equipment trading fleet	50,865	—	50,865	52,571	—	52,571	61,465	—	61,465	
Total	2,343,963	27,800	2,371,763	2,220,997	28,622	2,249,619	2,090,866	33,362	2,124,228	
Percentage	98.8	% 1.2	% 100.0	% 98.7	% 1.3	% 100.0	% 98.4	% 1.6	% 100.0	%
Equipment Fleet in CEU										
	March 31, 2015			December 31, 2014			March 31, 2014			
	Owned	Managed	Total	Owned	Managed	Total	Owned	Managed	Total	
Operating leases	2,574,642	23,767	2,598,409	2,451,007	24,511	2,475,518	2,298,739	29,163	2,327,902	
Finance leases	196,914	825	197,739	196,712	825	197,537	209,688	831	210,519	
Equipment trading fleet	114,614	—	114,614	105,229	—	105,229	138,419	—	138,419	
Total	2,886,170	24,592	2,910,762	2,752,948	25,336	2,778,284	2,646,846			