TAL International Group, Inc.
Form 10-Q
November 03, 2015
Table of Contents

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

FORM 10-Q

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

For The Quarterly Period Ended September 30, 2015

Or

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

For the Transition Period from to

Commission file number- 001-32638

TAL International Group, Inc.
(Exact name of registrant as specified in the charter)

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

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

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

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

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 ý	Accelerated Filer o	Non-accelerated filer o	Smaller reporting company o
		(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 o NO ý

As of October 23, 2015, there were 33,255,291 shares of the Registrant's common stock, $0.001 par value outstanding.

Table of Contents

TAL International Group, Inc.
Index

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements in this report are subject to a number of known and unknown risks and uncertainties that could cause our actual results, performance or achievements to differ materially from those described in the forward-looking statements, including, but not limited to, the risks and uncertainties described in the section entitled "Risk Factors" in our Annual Report on Form 10-K filed with the SEC on February 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 September 30, 2015 and December 31, 2014 and for the three and nine months ended September 30, 2015 and September 30, 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.

Table of Contents

TAL INTERNATIONAL GROUP, INC.
Consolidated Balance Sheets
(Dollars in thousands, except share data)
(Unaudited)

	September 30, 2015	December 31, 2014
ASSETS:		
Leasing equipment, net of accumulated depreciation and allowances of $1,178,845 and $1,055,864	$3,856,833	$3,674,031
Net investment in finance leases, net of allowances of $844 and $1,056	202,078	219,872
Equipment held for sale	67,480	59,861
Revenue earning assets	4,126,391	3,953,764
Unrestricted cash and cash equivalents	66,817	79,132
Restricted cash	31,185	35,649
Accounts receivable, net of allowances of $1,250 and $978	84,883	85,681
Goodwill	74,523	74,523
Deferred financing costs	27,015	32,937
Other assets	12,967	11,400
Fair value of derivative instruments	86	1,898
Total assets	$4,423,867	$4,274,984
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Equipment purchases payable	$12,572	$88,336
Fair value of derivative instruments	34,019	10,394
Accounts payable and other accrued expenses	54,428	57,877
Net deferred income tax liability	443,962	411,007
Debt	3,222,149	3,040,842
Total liabilities	3,767,130	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, 37,167,134 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	509,960	504,891
Accumulated earnings	249,874	246,766
Accumulated other comprehensive (loss)	(27,824)	(13,249)
Total stockholders' equity	656,737	666,528
Total liabilities and stockholders' equity	$4,423,867	$4,274,984

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Leasing revenues:				
Operating leases	$150,471	$145,613	$441,608	$424,432
Finance leases	3,807	4,441	11,718	14,118
Other revenues	148	470	913	1,464
Total leasing revenues	154,426	150,524	454,239	440,014
Equipment trading revenues	15,360	13,745	48,683	45,026
Equipment trading expenses	(14,169)	(12,032)	(44,557)	(39,450)
Trading margin	1,191	1,713	4,126	5,576
Net (loss) gain on sale of leasing equipment	(2,854)	870	(4,963)	6,427
Operating expenses:				
Depreciation and amortization	61,711	57,198	180,116	165,238
Direct operating expenses	13,002	8,287	31,835	25,236
Administrative expenses	10,962	11,317	34,311	34,277
Provision for doubtful accounts	256	22	68	58
Total operating expenses	85,931	76,824	246,330	224,809
Operating income	66,832	76,283	207,072	227,208
Other expenses:				
Interest and debt expense	30,477	26,695	89,322	81,202
Write-off of deferred financing costs	895	173	895	5,072
Net loss (gain) on interest rate swaps	662	(545)	1,014	410
Total other expenses	32,034	26,323	91,231	86,684
Income before income taxes	34,798	49,960	115,841	140,524
Income tax expense	12,287	17,343	40,903	48,534
Net income	$22,511	$32,617	$74,938	$91,990
Net income per common share—Basic	$0.69	$0.97	$2.28	$2.74
Net income per common share—Diluted	$0.68	$0.97	$2.27	$2.72
Cash dividends paid per common share	$0.72	$0.72	$2.16	$2.16
Weighted average number of common shares outstanding—Basic	32,860	33,594	32,860	33,607
Dilutive stock options and restricted stock	94	201	129	168
Weighted average number of common shares outstanding—Diluted	32,954	33,795	32,989	33,775

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

Table of Contents

TAL INTERNATIONAL GROUP, INC.
Consolidated Statements of Comprehensive Income
(Dollars in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$22,511	$32,617	$74,938	$91,990
Other comprehensive income (loss):				
Change in fair value of derivative instruments designated as cash flow hedges (net of income tax effect of $(12,185), $(516), $(13,755) and $(8,766), respectively)	(22,421)	(1,051)	(25,276)	(16,303)
Reclassification of realized loss on interest rate swap agreements designated as cash flow hedges (net of income tax effect of $1,733, $1,326, $5,181 and $3,339, respectively)	3,174	2,546	9,490	6,386
Amortization of loss on terminated derivative instruments designated as cash flow hedges (net of income tax effect of $228, $102, $705 and $619, respectively)	418	186	1,296	1,132
Foreign currency translation adjustment	(170)	(234)	(85)	(54)
Other comprehensive (loss) income, net of tax	(18,999)	1,447	(14,575)	(8,839)
Comprehensive income	$3,512	$34,064	$60,363	$83,151

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

Table of Contents

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

	Nine Months Ended September 30, 2015	2014
Cash flows from operating activities:		
Net income	$74,938	$91,990
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	180,116	165,238
Amortization of deferred financing costs	5,788	5,799
Amortization of net loss on terminated derivative instruments designated as cash flow hedges	2,001	1,751
Amortization of lease premiums	2,250	—
Net loss (gain) on sale of leasing equipment	4,963	(6,427)
Net loss on interest rate swaps	1,014	410
Write-off of deferred financing costs	895	5,072
Deferred income taxes	40,903	48,533
Stock compensation charge	5,031	4,700
Changes in operating assets and liabilities:		
Net equipment purchased for resale activity	(7,000)	(6,335)
Net realized gain on interest rate swaps terminated prior to their contractual maturities	—	7,408
Other changes in operating assets and liabilities	1,327	(16,485)
Net cash provided by operating activities	312,226	301,654
Cash flows from investing activities:		
Purchases of leasing equipment and investments in finance leases	(561,687)	(547,555)
Proceeds from sale of equipment, net of selling costs	95,556	117,351
Cash collections on finance lease receivables, net of income earned	32,051	36,269
Other	(35)	(108)
Net cash (used in) investing activities	(434,115)	(394,043)
Cash flows from financing activities:		
Purchases of treasury stock	(4,446)	(7,690)
Stock options exercised and stock related activity	38	(234)
Financing fees paid under debt facilities	(761)	(9,074)
Borrowings under debt facilities	555,000	1,225,935
Payments under debt facilities and capital lease obligations	(373,750)	(1,039,021)
Decrease (increase) in restricted cash	4,464	(352)
Common stock dividends paid	(70,971)	(72,617)
Net cash provided by financing activities	109,574	96,947
Net (decrease) increase in unrestricted cash and cash equivalents	$(12,315)	$4,558
Unrestricted cash and cash equivalents, beginning of period	79,132	68,875
Unrestricted cash and cash equivalents, end of period	$66,817	$73,433
Supplemental non-cash investing activities:		
Equipment purchases payable	$12,572	$68,228

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

7

Table of Contents
TAL INTERNATIONAL GROUP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Description of the Business, Basis of Presentation and Recently Adopted Accounting Pronouncements

A. Description of the Business

TAL 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 August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers, which defers by one year the effective date of ASU 2014-09 until reporting periods beginning after December 15, 2017, including interim periods within that annual period. Earlier application is permitted as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. ASU No. 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 No. 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 No. 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. The Company believes that the adoption of ASU No. 2015-03 will have no impact on its income or cash flows and no material impact on its financial position.

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

Note 1—Description of the Business, Basis of Presentation and Recently Adopted Accounting Pronouncements (Continued)

In August 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-15 ("ASU No. 2015-15"), Imputation of Interest (Topic 835): Presentation and Subsequent Measurement of Debt Issuance Costs
Associated with Line-of-Credit Agreements. This standard updates ASU No. 2015-03 which was issued in April, 2015, as ASU No. 2015-03 does not address the presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance with ASU No. 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. These changes will become effective for the Company beginning after December 15, 2015. The Company is planning on presenting all debt issuance costs in conjunction with ASU No. 2015-03, which is effective beginning after December 15, 2015.

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 September 30, 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):

	September 30, 2015	December 31, 2014
Assets		
Net investment in finance leases - carrying value	$202,922	$220,928
Net investment in finance leases - estimated fair value	$209,112	$223,455
Liabilities		
Debt—carrying value	$3,222,149	$3,040,842
Debt—estimated fair value	$3,257,848	$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.

Table of Contents

TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3—Dividends and Treasury Stock

Dividends

The Company paid the following quarterly dividends during the nine months ended September 30, 2015 and 2014 on its issued and outstanding common stock:

Record Date	Payment Date	Aggregate Payment	Per Share Payment
September 2, 2015	September 23, 2015	$23.7 Million	$0.72
June 3, 2015	June 24, 2015	$23.7 Million	$0.72
March 3, 2015	March 24, 2015	$23.7 Million	$0.72
September 3, 2014	September 24, 2014	$24.2 Million	$0.72
June 3, 2014	June 24, 2014	$24.2 Million	$0.72
March 3, 2014	March 24, 2014	$24.2 Million	$0.72

Treasury Stock

In the first quarter of 2015, TAL repurchased 81,915 shares at an average price of $41.40 under TAL's 2006 stock repurchase program. On February 11, 2015, TAL's Board of Directors authorized a new share repurchase program of up to 3,000,000 of its outstanding shares. These shares augmented the remaining 88,157 shares authorized for purchase under TAL's 2006 stock repurchase program. TAL had no repurchases of shares under these programs during the second and third quarters of 2015. No time limit was set for the completion of the repurchase program. As of September 30, 2015, 3,088,157 shares may yet be purchased under the 2006 and the 2015 stock buyback programs. See Note 11, "Subsequent Events" for further information on the Company's stock repurchase program.

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 $1.6 million and $1.3 million during the three months ended September 30, 2015 and 2014, respectively and $5.0 million and $4.7 million during the nine months ended September 30, 2015 and 2014, respectively.

Total unrecognized compensation costs of approximately $7.3 million as of September 30, 2015 related to restricted shares granted during 2013, 2014 and 2015 will be recognized over the remaining weighted average vesting period of approximately 1.8 years.

The Company's stock-based compensation plans consist of the 2014 Equity Incentive Plan and the 2005 Management Omnibus Incentive Plan. Following the approval by the Company's shareholders of the 2014 Equity Incentive Plan in April 2014, no further grants will be made under the 2005 Management Omnibus Incentive Plan but the terms of the 2005 Management Omnibus Incentive Plan continue to apply to awards previously granted under the plan.

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

Note 4—Capital Stock and Stock Options (Continued)
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 (Loss) Income
Balance as of December 31, 2014	$(12,145)	$(1,104)	$ (13,249)
Change in fair value of derivative instruments designated as cash flow hedges	(25,276)	—	(25,276)
Reclassification of realized loss on interest rate swap agreements designated as cash flow hedges	9,490	—	9,490
Amortization of net loss on derivative instruments previously designated as cash flow hedges	1,296	—	1,296
Foreign currency translation adjustment	—	(85)	(85)
Other comprehensive (loss)	(14,490)	(85)	(14,575)
Balance as of September 30, 2015	$(26,635)	$(1,189)	$ (27,824)

	Cash Flow Hedges	Foreign Currency Translation	Accumulated Other Comprehensive Income (Loss)
Balance as of December 31, 2013	$10,959	$(889)	$ 10,070
Change in fair value of derivative instruments designated as cash flow hedges	(16,303)	—	(16,303)
Reclassification of realized loss on interest rate swap agreements designated as cash flow hedges	6,386	—	6,386
Amortization of net loss on derivative instruments previously designated as cash flow hedges	1,132	—	1,132
Foreign currency translation adjustment	—	(54)	(54)
Other comprehensive (loss)	(8,785)	(54)	(8,839)
Balance as of September 30, 2014	$2,174	$(943)	$ 1,231

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

	Amounts Reclassified From Accumulated Other Comprehensive (Loss)				Affected Line Item in the Consolidated Statements of Income
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2015	2014	2015	2014	
Realized loss on interest rate swap agreements, designated as cash flow hedges	$4,907	$3,872	$14,671	$9,725	Interest and debt expense
Amortization of net loss on derivative instruments previously designated as cash flow hedges	646	288	2,001	1,751	Interest and debt expense
Amounts reclassified from Accumulated other comprehensive (loss)	5,553	4,160	16,672	11,476	Income before income taxes

Income tax (benefit)	(1,961)	(1,428)	(5,886)	(3,958)	Income tax expense
Amounts reclassified from Accumulated other comprehensive (loss)	$3,592	$2,732	$10,786	$7,518	Net income

Table of Contents

Note 5—Net Investment in Finance Leases

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

	September 30, 2015	December 31, 2014
Gross finance lease receivables	$241,668	$267,720
Allowance on gross finance lease receivables	(844)	(1,056)
Gross finance lease receivables, net of allowance	240,824	266,664
Unearned income	(38,746)	(46,792)
Net investment in finance leases	$202,078	$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):

	September 30, 2015	December 31, 2014
Tier 1	$190,093	$244,136
Tier 2	51,575	23,584
Tier 3	—	—
Gross finance lease receivables	$241,668	$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 September 30, 2015, approximately $1.6 million of the Company's Tier 1 and $0.2 million of the Company's Tier 2 gross finance lease receivables were past due, substantially all of which were aged approximately 31 days. As of September 30, 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.

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)	Ending Balance
Finance Lease—Allowance for doubtful accounts:			
For the nine months ended			
September 30, 2015	$1,056	$(212)	$844

Note 6—Debt

Debt consisted of the following (amounts in thousands):

	September 30, 2015	December 31, 2014
Asset backed securitization (ABS) term notes	$1,212,171	$1,504,183
Term loan facilities	961,633	858,973
Asset backed warehouse facility	610,000	420,000
Revolving credit facilities	365,000	160,000
Capital lease obligations	73,345	97,686
Total Debt	$3,222,149	$3,040,842

As of September 30, 2015, the Company had $1,361.6 million of debt outstanding on facilities with fixed interest rates and $1,860.5 million of debt outstanding on facilities with interest rates based on floating rate indices (primarily LIBOR). The Company economically hedges the risks associated with fluctuations in interest rates on a portion of its floating rate borrowings by entering into interest rate swap agreements that convert a portion of its floating rate debt to a fixed rate basis, thus reducing the impact of interest rate changes on future interest expense. As of September 30, 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 September 30, 2015, was in compliance with all such covenants.

Asset Backed Securitization Term Notes

On July 20, 2015, TAL Advantage IV LLC, an indirect wholly owned subsidiary of TAL International Group, Inc., prepaid all of the $100.1 million outstanding principal balance of the TAL Advantage IV LLC Series 2010-1 Notes.

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 September 30, 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%	6.8 years

(1) As of September 30, 2015, the net notional amount outstanding on the Company's interest rate swap agreements is comprised of $1,235.0 million of pay-fixed rate/receive-floating rate agreements and $100.0 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:

	Nine Months Ended September 30, 2015
Loss on derivative instruments designated as cash flow hedges	($17.0)
Amortization of loss on terminated derivative instruments designated as cash flow hedges	($2.3)

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

		Fair Value of Derivative Instruments (In Millions)			
		Asset Derivatives		Liability Derivatives	
Derivative Instrument	Balance Sheet Location	September 30, 2015 Fair Value	December 31, 2014 Fair Value	September 30, 2015 Fair Value	December 31, 2014 Fair Value
Interest rate swap contracts, designated as cash flow hedges	Fair value of derivative instruments	$—	$ 1.7	$ 32.0	$ 9.4
Interest rate swap contracts, not designated	Fair value of derivative instruments	0.1	0.1	2.0	1.0
Foreign exchange contracts, not designated	Fair value of derivative instruments	—	0.1	—	—
Total derivatives		$ 0.1	$ 1.9	$ 34.0	$ 10.4

		Effect of Derivative Instruments on Consolidated Statements of Income and Consolidated Statements of Comprehensive Income (In Millions)			
	Location of Loss (Gain) on Derivative Instruments	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Realized loss on interest rate swap agreements	Interest and debt expense	$ 5.2	$ 4.2	$ 15.5	$ 10.6
Amortization of realized net loss on terminated derivative instruments, designated as cash flow hedges	Interest and debt expense	0.6	0.3	2.0	1.8
Change in fair value of derivatives, designated as cash flow hedges	Other comprehensive income	34.6	1.6	39.0	25.1
Net loss (gain) on interest rate swaps, not designated	Net loss (gain) on interest rate swaps	0.7	(0.5)	1.0	0.4
Foreign exchange agreements, not designated	Administrative expenses	—	—	—	0.1

15

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

Note 8—Segment and Geographic Information
Industry Segment Information
The Company conducts its business activities in one industry, intermodal transportation equipment, and has two 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 September 30,					
	2015			2014		
	Equipment Leasing	Equipment Trading	Totals	Equipment Leasing	Equipment Trading	Totals
Total leasing revenues	$151,698	$2,728	$154,426	$147,502	$3,022	$150,524
Trading margin	—	1,191	1,191	—	1,713	1,713
Net (loss) gain on sale of leasing equipment	(2,854)	—	(2,854)	870	—	870
Depreciation and amortization expense	61,226	485	61,711	56,914	284	57,198
Interest and debt expense	29,972	505	30,477	26,190	505	26,695
Income before income taxes(1)	33,768	2,587	36,355	45,928	3,660	49,588

(1) Segment income before income taxes excludes net losses on interest rate swaps of $0.7 million and net gains on interest rate swaps of $0.5 million for the three months ended September 30, 2015 and 2014, respectively, and the write-off of deferred financing costs of $0.9 million and $0.2 million for the three months ended September 30, 2015 and 2014, respectively.

	Nine Months Ended September 30,					
	2015			2014		
	Equipment Leasing	Equipment Trading	Totals	Equipment Leasing	Equipment Trading	Totals
Total leasing revenues	$446,473	$7,766	$454,239	$430,192	$9,822	$440,014
Trading margin	—	4,126	4,126	—	5,576	5,576
Net (loss) gain on sale of leasing equipment	(4,963)	—	(4,963)	6,427	—	6,427
Depreciation and amortization expense	179,095	1,021	180,116	164,227	1,011	165,238
Interest and debt expense	87,726	1,596	89,322	79,464	1,738	81,202
Income before income taxes(1)	109,458	8,292	117,750	134,253	11,753	146,006
Equipment held for sale at September 30	28,355	39,125	67,480	29,529	19,400	48,929
Goodwill at September 30	73,523	1,000	74,523	73,523	1,000	74,523
Total assets at September 30	4,349,159	74,708	4,423,867	4,169,668	61,169	4,230,837
Purchases of leasing equipment and investments in finance leases(2)	547,418	14,269	561,687	544,709	2,846	547,555

(1) Segment income before income taxes excludes net losses on interest rate swaps of $1.0 million and $0.4 million for the nine months ended September 30, 2015 and 2014, respectively, and the write-off of deferred financing costs of $0.9 million and $5.1 million for the nine months ended September 30, 2015 and 2014, respectively.

Note 8—Segment and Geographic Information (Continued)

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

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Total leasing revenues:				
United States of America	$10,876	$8,410	$32,012	$24,585
Asia	73,218	72,232	213,560	201,491
Europe	66,358	65,593	197,181	196,445
Other International	3,974	4,289	11,486	17,493
Total	$154,426	$150,524	$454,239	$440,014

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Total equipment trading revenues:				
United States of America	$2,992	$2,574	$9,152	$5,646
Asia	7,546	6,732	20,158	22,984
Europe	3,037	3,650	9,830	14,348
Other International	1,785	789	9,543	2,048
Total	$15,360	$13,745	$48,683	$45,026

Table of Contents

Note 9—Commitments and Contingencies

Residual Value Guarantees

During 2008, the Company entered into commitments for equipment residual value guarantees in connection with certain finance leases that were sold or brokered to financial institutions. The guarantees represent the Company's commitment that these assets will be worth a specified amount at the end of certain lease terms (if the lessee does not default on the lease) which expire in 2016. At September 30, 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 September 30, 2015.

Purchase Commitments

At September 30, 2015, commitments for capital expenditures totaled approximately $4.2 million.

Note 10—Income Taxes

The consolidated income tax expense for the three and nine months ended September 30, 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 October 28, 2015, the Company's Board of Directors approved and declared a $0.45 per share quarterly cash dividend on its issued and outstanding common stock, payable on December 23, 2015 to shareholders of record at the close of business on December 2, 2015.

Stock Repurchase Program

On October 28, 2015, TAL’s Board of Directors authorized the repurchase of shares of common stock with an aggregate value of up to $150 million. This repurchase program replaces the February 11, 2015 and March 13, 2006 share repurchase programs which were terminated. Repurchases may 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.

Table of Contents

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

The following discussion and analysis of the consolidated financial condition and results of operations of TAL International Group, Inc. and its subsidiaries should be read in conjunction with related consolidated financial data and our annual audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K filed with the SEC on February 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 herein and 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 September 30, 2015, our total fleet consisted of 1,493,023 containers and chassis, representing 2,449,765 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 September 30, 2015. Our customers are among the largest shipping lines in the world. For the nine months ended September 30, 2015, our twenty largest customers accounted for 82% of our leasing revenues, our five largest customers accounted for 55% of our leasing revenues, and our largest customer, CMA CGM, accounted for 16% of our leasing revenues.

Table of Contents

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(1)			Equipment Fleet in TEU(1)		
	September 30, 2015	December 31, 2014	September 30, 2014	September 30, 2015	December 31, 2014	September 30, 2014
Dry	1,313,912	1,189,707	1,191,425	2,131,165	1,928,482	1,931,344
Refrigerated	66,898	65,010	65,798	127,142	123,342	125,731
Special	56,179	56,180	56,932	102,677	102,065	103,395
Tank	11,249	9,282	9,542	11,249	9,282	9,542
Chassis	21,231	19,116	13,412	38,236	33,877	23,910
Equipment leasing fleet	1,469,469	1,339,295	1,337,109	2,410,469	2,197,048	2,193,922
Equipment trading fleet	23,554	32,448	30,645	39,296	52,571	50,915
Total	1,493,023	1,371,743	1,367,754	2,449,765	2,249,619	2,244,837

	Equipment Fleet in CEU(1)		
	September 30, 2015	December 31, 2014	September 30, 2014
Operating leases	2,702,373	2,475,518	2,456,287
Finance leases	208,038	197,537	211,081
Equipment trading fleet	105,284	105,229	109,757
Total	3,015,695	2,778,284	2,777,125

---

(1) As of September 30, 2015, the Company had 1.0%, 1.1%, and 0.8% of managed equipment in units, TEU, and CEU, respectively.

In the equipment fleet tables above, we have included total fleet count information based on CEU. CEU is a ratio used to convert the actual number of containers in our fleet to a figure based on the relative purchase prices of our various equipment types to that of a 20 foot dry container. For example, the CEU ratio for a 40 foot standard height dry container is 1.6, and a 40 foot high cube refrigerated container is 10.0. The CEU ratios used in this calculation are from our debt agreements and may differ slightly from current actual cost ratios and CEU ratios used by others in the industry.

We lease five types of equipment: (1) dry freight containers, which are used for general cargo such as manufactured component parts, consumer staples, electronics and apparel, (2) refrigerated containers, which are used for perishable items such as fresh and frozen foods, (3) special containers, which are used for heavy and over-sized cargo such as marble slabs, building products and machinery, (4) tank containers, which are used to transport bulk liquid products such as chemicals, and (5) chassis, which are used for the transportation of containers domestically. Our in-house equipment sales group manages the sale process for our used containers and chassis from our equipment leasing fleet and buys and sells used and new containers and chassis acquired from third parties.

Table of Contents

The percentage of our equipment fleet by equipment type as of September 30, 2015 and the percentage of our leasing revenues by equipment type for the nine months ended September 30, 2015 are as follows:

Equipment Type	Percent of total fleet in units	Percent of total fleet in CEU	Percent of leasing revenues
Dry	88.0 %	61.7 %	65.7 %
Refrigerated	4.5	21.5	19.5
Special	3.8	4.5	6.7
Tank	0.7	6.0	3.4
Chassis	1.4	2.8	3.0
Equipment leasing fleet	98.4	96.5	98.3
Equipment trading fleet	1.6	3.5	1.7
Total	100.0 %	100.0 %	100.0 %

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

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

Lease Portfolio	September 30, 2015	December 31, 2014	September 30, 2014
Long-term leases	65.5 %	68.9 %	66.9 %
Finance leases	8.2	8.0	8.5
Service leases	17.9	17.7	18.3
Expired long-term leases (units on-hire)	8.4	5.4	6.3
Total	100.0 %	100.0 %	100.0 %

As of September 30, 2015, December 31, 2014 and September 30, 2014, our long-term and finance leases combined had average remaining contract terms of approximately 42 months, 41 months, and 42 months, respectively, assuming no leases are renewed.

Table of Contents

Operating Performance

Our profitability is primarily determined by the extent to which our leasing and other revenues exceed our ownership, operating and administrative expenses. Our profitability is also impacted by the gains or losses that we realize on the sale of our used equipment and the net sales margins on our equipment trading activities.

Our leasing revenues are primarily driven by the size of our owned fleet, our equipment utilization and the average lease rates in our lease portfolio. Our leasing revenues also include ancillary fees driven by container pick-up and drop-off volumes. Leasing revenues for the third quarter of 2015 increased 2.6% from the third quarter of 2014.

Fleet size. As of September 30, 2015, our fleet included 2,992,263 CEU, an increase of 8.7% from December 31, 2014 and an increase of 8.8% from September 30, 2014. The increase in our fleet size from September 30, 2014 was primarily due to our purchases of new containers and the completion of several large sale-leaseback transactions in the second half of 2014 and during 2015. We also manage 23,432 CEU for third parties.

As of October 28, 2015, we have purchased approximately $510 million of containers for delivery in 2015 through new orders and sale-leaseback transactions. Most of TAL's new container purchases were made in the first few months of the year. In general, market forecasters had expected global containerized trade growth to be in the range of 5-6% in 2015, and the initial expectation for solid trade growth supported leasing demand early in the year. However, global containerized trade growth has been less than expected this year, and we did not benefit from a traditional summer peak season for dry containers. Container pick-ups on our early lease commitments have proceeded slowly, and our investments in new containers have been limited during the second half of the year.

Utilization. Our average utilization was 95.8% during the third quarter of 2015, a decrease from 97.1% in the second quarter and a decrease from 97.9% in the third quarter of 2014. Weaker than expected trade growth in 2015 has led to increased drop-off volumes, decreased pick-up volumes and lower utilization. Drop-off volumes in our sale-leaseback portfolio have been particularly high since these leases are generally structured to provide maximum redelivery flexibility. We expect our utilization will continue to trend down over the next few quarters as we head into the typical slow season. However, our utilization remains at a high level and continues to be supported by the high percentage of our units that are on-hire to customers on long-term or finance leases. We expect that our utilization will rebound in 2016 if trade growth meets expectations.

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

	Quarter Ended				
	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
Average Utilization	95.8 %	97.1 %	97.9 %	98.1 %	97.9 %

	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
Ending Utilization	94.7 %	96.6 %	97.7 %	98.1 %	98.1 %

---

(1) Utilization is computed by dividing our total units on lease (in CEU) by the total units in our fleet (in CEU) excluding new units not yet leased and off-hire units designated for sale.

Average lease rates. Average lease rates in the third quarter of 2015 for our dry container product line decreased by 0.7% from the second quarter of 2015 and decreased by 3.9% from the third quarter of 2014, excluding the impact of sale-leaseback transactions. New container prices have decreased significantly over the last several years, and this decrease has continued in 2015 due to a significant drop in steel prices in China. Very low long-term interest rates and aggressive competition for new leasing transactions have combined with falling container prices to push market lease rates to historically low levels, and market lease rates for dry containers are currently well below our portfolio average. Low market lease rates negatively impact our overall average lease rates as we add new containers to our fleet and as leases covering existing containers expire and are re-priced. We expect our dry container lease rates will continue to decrease in the fourth quarter of 2015, and if market lease rates remain near their current low level for an extended period of time, we expect the decrease in our average dry container lease rates will accelerate in 2016 and

2017 due to the large number of leases with high lease rates that are scheduled to expire in those years.

Table of Contents

Average lease rates in the third quarter of 2015 for our refrigerated container product line decreased by 2.9% from the third quarter of 2014. For several years, our average lease rates for refrigerated containers have been negatively impacted by historically low market leasing rates. The cost of refrigeration machines included in refrigerated containers has trended down over the last few years, which has led to lower refrigerated container prices and lease rates. Lease rates for new refrigerated containers are also being negatively impacted by the widespread availability of attractively priced financing and aggressive competition.

The average lease rates for special containers were approximately 2.1% lower in the third quarter of 2015 compared to the third quarter of 2014, excluding the impact of sale-leaseback transactions. This decrease is mainly the result of certain lease renegotiations.

Equipment disposals. During the third quarter of 2015, we recognized a $2.9 million loss on the sale of our used containers, compared to a gain of $0.9 million in the third quarter of 2014.

The decrease in our disposal results was primarily driven by lower average sale prices for used containers. Our average used container selling prices decreased approximately 17% from the third quarter of 2014 due to the impact of lower new container prices and increased disposal volumes by leasing companies and shipping lines in response to the weaker containerized trade volumes.

Our disposal results also continue to be negatively impacted by the disposal of containers purchased through sale-leaseback transactions. These containers have generally been purchased for prices higher than the net book value of original TAL containers of similar ages. The higher purchase prices are supported by leasing revenues received by TAL under the terms of the sale-leaseback agreements, and these sale-leaseback transactions remain profitable on an overall basis. However, TAL has started to recognize losses on the disposal of a large portion of our sale-leaseback containers due to the reduction in sale prices for used containers and the fact that lease revenue and fees are excluded from the gain or loss calculations upon disposal.

Equipment ownership expenses. Our ownership expenses, which consist of depreciation and interest expense, increased by $8.3 million or 9.9% in the third quarter of 2015 as compared to the third quarter of 2014. There was a one-time $1.3 million charge to interest expense in the third quarter of 2015 related to an early buyout of equipment financed under capital leases. Excluding this charge, ownership costs increased by 8.3% from the third quarter of 2014, which is generally in line with the 7.2% growth in average net book value of our revenue earning assets.

Credit performance. We recorded a $0.3 million provision for doubtful accounts during the third quarter of 2015, compared to a small provision during the third quarter of 2014. While our credit performance was strong during the third quarter of 2015, our overall concern about credit risk has increased this year. Many of the major shipping lines have reported modest or negative profitability over the last few years due to persistent excess vessel capacity. Our customers are facing additional financial pressures in 2015 due to weaker than expected trade volumes and a steep drop in freight rates on their major trade lanes. It seems likely that many of our customers will generate financial losses for the remainder of 2015. We also anticipate that the high volume of new vessels entering service over the next several years will complicate our customers' efforts to increase freight rates, and we expect our customers' financial performance will remain under pressure for some time.

Operating expenses. Direct operating expenses were $13.0 million in the three months ended September 30, 2015, compared to $8.3 million in the same period in 2014, an increase of $4.7 million. This increase was mainly due to higher volume of drop-off activity and lower utilization, which increased storage and repair expenses.

Our administrative expenses decreased $0.3 million to $11.0 million in the third quarter of 2015, compared to $11.3 million in the third quarter of 2014, mainly due to a decrease in foreign exchange losses on our Euro and GBP denominated assets and liabilities.

Table of Contents

Dividends

We paid the following quarterly dividends during the nine months ended September 30, 2015 and 2014 on our issued and outstanding common stock:

Record Date	Payment Date	Aggregate Payment	Per Share Payment
September 2, 2015	September 23, 2015	$23.7 Million	$0.72
June 3, 2015	June 24, 2015	$23.7 Million	$0.72
March 3, 2015	March 24, 2015	$23.7 Million	$0.72
September 3, 2014	September 24, 2014	$24.2 Million	$0.72
June 3, 2014	June 24, 2014	$24.2 Million	$0.72
March 3, 2014	March 24, 2014	$24.2 Million	$0.72

Historically, most of our dividends have been treated as a non-taxable return of capital, and based on our current estimates we believe that our dividends paid in 2015 will also be treated as a non-taxable return of capital to TAL shareholders. The taxability of the dividends to TAL shareholders does not impact TAL's corporate tax position. Investors should consult with a tax adviser to determine the proper tax treatment of these distributions.

Stock Buyback Program

On October 28, 2015 TAL’s Board of Directors authorized the repurchase of shares of common stock with an aggregate value of up to $150 million. This repurchase program replaces the February 11, 2015 and March 13, 2006 share repurchase programs which were terminated. Repurchases may 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. In the first quarter of 2015, TAL repurchased 81,915 shares at an average price of $41.40. TAL had no repurchases of shares during the second and third quarters of 2015.

Stock repurchases under the repurchase program may be made through open market and/or privately negotiated transactions at such times and in such amounts as our management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, restrictions regarding a repurchase program included in our credit facilities and other market conditions. The stock repurchase program does not have an expiration date and may be limited or terminated by the Board of Directors at any time without prior notice.

Table of Contents

Results of Operations

The following table summarizes our results of operations for the three and nine months ended September 30, 2015 and 2014 (in thousands of dollars):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Leasing revenues:				
Operating leases	$150,471	$145,613	$441,608	$424,432
Finance leases	3,807	4,441	11,718	14,118
Other revenues	148	470	913	1,464
Total leasing revenues	154,426	150,524	454,239	440,014
Equipment trading revenues	15,360	13,745	48,683	45,026
Equipment trading expenses	(14,169)	(12,032)	(44,557)	(39,450)
Trading margin	1,191	1,713	4,126	5,576
Net (loss) gain on sale of leasing equipment	(2,854)	870	(4,963)	6,427
Operating expenses:				
Depreciation and amortization	61,711	57,198	180,116	165,238
Direct operating expenses	13,002	8,287	31,835	25,236
Administrative expenses	10,962	11,317	34,311	34,277
Provision for doubtful accounts	256	22	68	58
Total operating expenses	85,931	76,824	246,330	224,809
Operating income	66,832	76,283	207,072	227,208
Other expenses:				
Interest and debt expense	30,477	26,695	89,322	81,202
Write-off of deferred financing costs	895	173	895	5,072
Net loss (gain) on interest rate swaps	662	(545)	1,014	410
Total other expenses	32,034	26,323	91,231	86,684
Income before income taxes	34,798	49,960	115,841	140,524
Income tax expense	12,287	17,343	40,903	48,534
Net income	$22,511	$32,617	$74,938	$91,990

Table of Contents

Comparison of Three Months Ended September 30, 2015 to Three Months Ended September 30, 2014

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

	Three Months Ended September 30,	
	2015	2014
	(in thousands)	
Leasing revenues:		
Operating lease revenues:		
Per diem revenue	$140,087	$138,672
Fee and ancillary lease revenue	10,384	6,941
Total operating lease revenue	150,471	145,613
Finance lease revenue	3,807	4,441
Other revenues	148	470
Total leasing revenues	$154,426	$150,524

Total leasing revenues were $154.4 million in the three months ended September 30, 2015, compared to $150.5 million in the same period in 2014, an increase of $3.9 million, or 2.6%.

Per diem revenue increased by $1.4 million, or 1.0%, compared to the three months ended September 30, 2014. The primary reasons for this increase are as follows:

- $6.9 million increase due to an increase of approximately 124,000 CEU in the average number of containers on-hire under operating leases; partially offset by a
- $5.4 million decrease due to lower average per diem rates.

Fee and ancillary lease revenue increased by $3.4 million in the three months ended September 30, 2015, compared to the same period in 2014 primarily due to higher drop-off volumes.

Finance lease revenue decreased by $0.6 million in the three months ended September 30, 2015, compared to the same period in 2014, primarily due to a decrease in the average size of our finance lease portfolio and a decrease in the portfolio average interest rate.

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

	Three Months Ended September 30,	
	2015	2014
	(in thousands)	
Equipment trading revenues	$15,360	$13,745
Equipment trading expenses	(14,169)	(12,032)
Equipment trading margin	$1,191	$1,713

The equipment trading margin was $1.2 million in the three months ended September 30, 2015, compared to $1.7 million in the same period in 2014, a decrease of $0.5 million. Equipment trading margin decreased $0.7 million from lower per unit margins on equipment sold and increased by $0.2 million due to an increase in sales volume.

Net (loss) gain on sale of leasing equipment. Loss on sale of equipment was $2.9 million for the three months ended September 30, 2015, compared to a gain on sale of equipment of $0.9 million in the same period in 2014, a decrease of $3.8 million. The decrease in sales results was mainly due to a 17% decrease in used dry container selling prices.

Table of Contents

Depreciation and amortization. Depreciation and amortization was $61.7 million in the third quarter of 2015, compared to $57.2 million in the third quarter of 2014, an increase of $4.5 million or 7.9%. Depreciation expense increased $6.1 million primarily due to the net increase in the size of our depreciable fleet, partially offset by a decrease of $1.6 million due to equipment becoming fully depreciated.

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

Direct operating expenses were $13.0 million in the three months ended September 30, 2015, compared to $8.3 million in the same period in 2014, an increase of $4.7 million. This increase was primarily driven by higher storage costs of $2.7 million resulting from an increase in the number of idle units. This increase was also due to an increase in redelivery and repair related costs of $2.4 million due to a higher volume of redeliveries. This increase was partially offset by a decrease in survey costs of $0.8 million due to a lower volume of new container acceptances.

Administrative expenses. Administrative expenses were $11.0 million in the third quarter of 2015 compared to $11.3 million in the same period in 2014, a decrease of $0.3 million or 2.7%. This decrease was mainly due to a decrease in foreign exchange losses on our Euro and GBP denominated assets and liabilities.

Provision for doubtful accounts. We had a provision for doubtful accounts of $0.3 million in the third quarter of 2015, compared to a small provision in the third quarter of 2014.

Interest and debt expense. Interest and debt expense was $30.5 million in the third quarter of 2015, compared to $26.7 million in the third quarter of 2014, an increase of $3.8 million. Interest and debt expense increased $2.9 million mainly due to a higher average debt balance of $3,197.1 million in the third quarter of 2015, compared to $2,884.7 million in the prior year quarter. Interest and debt expense also increased $1.3 million in the third quarter due to an early buyout on certain capital lease obligations. This increase was partially offset by a decrease of $0.4 million due to a lower effective interest rate of 3.58% in the third quarter of 2015 compared to 3.62% in the third quarter of 2014.

Net loss (gain) on interest rate swaps. Net loss on interest rate swaps was $0.7 million in the three months ended September 30, 2015, compared to a gain of $0.5 million in the same period in 2014. While the large majority of our interest rate swap agreements have been designated as hedges and generally do not impact the income statement because the change in fair value is included in other comprehensive income, a small portion of our interest rate swaps are not designated as hedges and thus are subject to revaluation. The fair value of these non-designated interest rate swap agreements decreased during the third quarter of 2015 due to a decrease in long term interest rates. Under the majority of our interest rate swap agreements, we make interest payments based on fixed interest rates and receive payments based on the applicable prevailing variable interest rate. As long term interest rates decreased during the third quarter of 2015, the current market rate on interest rate swap agreements with similar terms decreased relative to our existing interest rate swap agreements, which caused the fair value of our existing interest rate swap agreements to decrease during the quarter.

Income tax expense. Income tax expense was $12.3 million in the three months ended September 30, 2015, compared to $17.3 million in the same period in 2014. The effective tax rates for the three months ended September 30, 2015 and 2014 were 35.3% and 34.7%, respectively. Our effective tax rate increased in 2015 due to changes in state apportionment factors in 2014 for several states that required an adjustment to the deferred tax balance.

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

Table of Contents

Comparison of Nine Months Ended September 30, 2015 to Nine Months Ended September 30, 2014

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

	Nine Months Ended September 30,	
	2015	2014
	(in thousands)	
Leasing revenues:		
Operating lease revenues:		
Per diem revenue	$415,884	$403,402
Fee and ancillary lease revenue	25,724	21,030
Total operating lease revenue	441,608	424,432
Finance lease revenue	11,718	14,118
Other revenues	913	1,464
Total leasing revenues	$454,239	$440,014

Total leasing revenues were $454.2 million in the nine months ended September 30, 2015, compared to $440.0 million in the same period in 2014, an increase of $14.2 million, or 3.2%.

Per diem revenue increased by $12.5 million, or 3.1%, compared to the nine months ended September 30, 2014. The primary reasons for this increase are as follows:

- $30.5 million increase due to an increase of approximately 185,000 CEU in the average number of containers on-hire under operating leases; partially offset by a
- $18.0 million decrease due to lower average per diem rates.

Fee and ancillary lease revenue increased by $4.7 million compared to the nine months ended September 30, 2014 primarily due to an increase in drop-off volumes.

Finance lease revenue decreased by $2.4 million in the nine months ended September 30, 2015, compared to the same period in 2014, primarily due to a decrease in the average size of our finance lease portfolio and a decrease in the portfolio average interest rate.

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

	Nine Months Ended September 30,	
	2015	2014
	(in thousands)	
Equipment trading revenues	$48,683	$45,026
Equipment trading expenses	(44,557)	(39,450)
Equipment trading margin	$4,126	$5,576

The equipment trading margin was $4.1 million in the nine months ended September 30, 2015, compared to $5.6 million in the same period in 2014, a decrease of $1.5 million. The trading margin decreased by $1.8 million due to lower per unit margins on equipment sold partially offset by an increase of $0.3 million due to an increase in sales volumes.

Net (loss) gain on sale of leasing equipment. Loss on sale of equipment was $5.0 million in the nine months ended September 30, 2015, compared to a gain on sale of equipment of $6.4 million in the same period in 2014, a decrease of $11.4 million. The decrease in sales results was mainly due to a 20% decrease in used dry container selling prices.

Table of Contents

Depreciation and amortization. Depreciation and amortization was $180.1 million in the nine months ended September 30, 2015, compared to $165.2 million in the same period in 2014, an increase of $14.9 million or 9.0%. Depreciation expense increased by $19.2 million due to the net increase in the size of our depreciable fleet, partially offset by a decrease of $4.3 million due to equipment becoming fully depreciated.

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

Direct operating expenses were $31.8 million in the nine months ended September 30, 2015, compared to $25.2 million in the same period in 2014, an increase of $6.6 million. This increase was primarily driven by an increase in redelivery and repair related costs of $4.1 million due to a higher volume of redeliveries. This increase also included higher storage costs of $2.4 million resulting from an increase in the number of idle units.

Administrative expenses. Administrative expenses were $34.3 million in the nine months ended September 30, 2015 and 2014, respectively.

Provision for doubtful accounts. We recorded a $0.1 million provision for doubtful accounts in the nine months ended September 30, 2015 and 2014, respectively.

Interest and debt expense. Interest and debt expense was $89.3 million in the nine months ended September 30, 2015, compared to $81.2 million in the nine months ended September 30, 2014, an increase of $8.1 million. Interest and debt expense increased $7.6 million due to a higher average debt balance of $3,145.6 million for the nine months ended September 30, 2015, compared to $2,876.1 million for the nine months ended September 30, 2014. Interest and debt expense also increased $1.3 million in the nine months ended September 30, 2015 due to an early buyout on certain capital lease obligations. This increase was partially offset by a decrease of $0.8 million due to a lower effective interest rate of 3.69% in the nine months ended September 30, 2015, compared to 3.72% for the same period in 2014.

Net loss on interest rate swaps Net loss on interest rate swaps was $1.0 million in the nine months ended September 30, 2015, compared to a loss of $0.4 million in the same period in 2014. While the large majority of our interest rate swap agreements have been designated as hedges and generally do not impact the income statement because the change in fair value is included in other comprehensive income, a small portion of our interest rate swaps are not designated as hedges and thus are subject to revaluation. The fair value of these non-designated interest rate swap agreements decreased during the nine months ended September 30, 2015 due to a decrease in long term interest rates. Under the majority of our interest rate swap agreements, we make interest payments based on fixed interest rates and receive payments based on the applicable prevailing variable interest rate. As long term interest rates decreased during 2015, the current market rate on interest rate swap agreements with similar terms decreased relative to our existing interest rate swap agreements, which caused the fair value of our existing interest rate swap agreements to decrease.

Income tax expense. Income tax expense was $40.9 million in the nine months ended September 30, 2015, compared to $48.5 million in the same period in 2014. The effective tax rates for the nine months ended September 30, 2015 and 2014 were 35.3% and 34.5%, respectively. Our effective tax rate increased in 2015 due to changes in state apportionment factors in 2014 for several states that required an adjustment to the deferred tax balance.

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

Business Segments

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

Equipment leasing

We own, lease and ultimately dispose of containers and chassis from our leasing fleet, as well as manage containers owned by third parties. Equipment leasing segment revenues represent leasing revenues from operating and finance leases, fees earned on managed container leasing activities, as well as other revenues. Expenses related to equipment leasing include direct operating expenses, administrative expenses, depreciation expense and interest expense. The Equipment leasing segment also includes gains and losses on the sale of owned leasing equipment.

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. Equipment trading segment revenues represent the proceeds on the sale of containers purchased for resale. Expenses related to equipment trading include the cost of containers purchased for resale that were sold and related selling costs, as well as direct operating expenses, administrative expenses and interest expense.

Segment income before income taxes

The following table lists the income before income taxes for the Equipment leasing and Equipment trading segments for the periods indicated:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands)			(in thousands)		
Income before income taxes(1)						
Equipment leasing segment	$33,768	$45,928	(26.5)%	$109,458	$134,253	(18.5)%
Equipment trading segment	$2,587	$3,660	(29.3)%	$8,292	$11,753	(29.4)%

(1) In the three months ended September 30, 2015 and 2014, income before income taxes excludes net losses on interest rate swaps of $0.7 million and net gains on interest rate swaps of $0.5 million, respectively, and the write-off of deferred financing costs of $0.9 million and $0.2 million for the three months ended September 30, 2015 and 2014, respectively. For the nine months ended September 30, 2015 and 2014, income before income taxes excludes net losses on interest rate swaps of $1.0 million and $0.4 million, respectively, and the write-off of deferred financing costs of $0.9 million and $5.1 million for the nine months ended September 30, 2015 and 2014, respectively.

Equipment leasing income before income taxes. Income before income taxes for the Equipment leasing segment was $33.8 million in the three months ended September 30, 2015, compared to $45.9 million in the same period in 2014, a decrease of $12.1 million, which was primarily due to a decrease in the net leasing margin (leasing revenue net of depreciation and amortization, interest and debt expense, and direct operating and administrative expenses) of $8.4 million and a $3.8 million decrease in used container disposal gains.

Income before income taxes for the Equipment leasing segment was $109.5 million in the nine months ended September 30, 2015, compared to $134.3 million in the same period in 2014, a decrease of $24.8 million, which was primarily due to a decrease of $13.4 million in the net leasing margin (leasing revenue net of depreciation and amortization, interest and debt expense, and direct operating and administrative expenses) and a decrease of $11.4 million in used container disposal gains.

Equipment trading income before income taxes. Income before income taxes for the Equipment trading segment was $2.6 million in the three months ended September 30, 2015, compared to $3.7 million in the same period in 2014, a decrease of $1.1 million. This decrease was primarily due to a $0.6 million decrease in the leasing margin (leasing revenue net of depreciation and amortization, interest and debt expense, and direct operating and administrative expenses) and a $0.5 million decrease in the trading margin due to lower per unit margins partially offset by higher sales volumes.

Income before income taxes for the Equipment trading segment was $8.3 million in the nine months ended September 30, 2015, compared to $11.8 million in the same period in 2014, a decrease of $3.5 million. This decrease was

Table of Contents

primarily due to a decrease in the leasing margin (leasing revenue net of depreciation and amortization, interest and debt expense, and direct operating and administrative expenses) of $2.0 million and a $1.5 million decrease in the trading margin due to lower per unit margins on equipment sold partially offset by higher sales volumes.

Liquidity and Capital Resources

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

We continue to have sizable cash in-flows. For the twelve months ended September 30, 2015, cash provided by operating activities, together with the proceeds from the sale of our leasing equipment and principal payments on our finance leases, was $597.0 million. In addition, as of September 30, 2015 we had $66.8 million of unrestricted cash and $346.9 million of additional borrowing capacity under our current credit facilities.

As of September 30, 2015, major committed cash outflows in the next 12 months include $345.5 million of scheduled principal payments on our existing debt facilities and $16.8 million of committed but unpaid capital expenditures.

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

At September 30, 2015, our outstanding indebtedness was comprised of the following (amounts in millions):

	Current Amount Outstanding	Maximum Borrowing Commitment
Asset backed securitization (ABS) term notes	$1,212.2	$1,212.2
Term loan facilities	961.6	1,083.5
Asset backed warehouse facility	610.0	650.0
Revolving credit facilities	365.0	550.0
Capital lease obligations	73.3	73.3
Total Debt	$3,222.1	$3,569.0

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

As of September 30, 2015, we had $1,361.6 million of debt outstanding on facilities with fixed interest rates and $1,860.5 million of debt outstanding on facilities with interest rates based on floating rate indices (primarily LIBOR).

We economically hedge the risks associated with fluctuations in interest rates on our floating rate borrowings by entering into interest rate swap agreements that convert a portion of our floating rate debt to a fixed rate basis, thus reducing the impact of interest rate changes on future interest expense. As of September 30, 2015, we 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 our floating rate debt obligations.

Debt Covenants

We are subject to certain financial covenants under our debt agreements. As of September 30, 2015, we were in compliance with all such covenants. Below are the primary financial covenants to which we are subject:

- Minimum Earnings Before Interest and Taxes ("Covenant EBIT") to Cash Interest Expense;
- Minimum Tangible Net Worth ("TNW"); and
- Maximum Indebtedness to TNW.

Non-GAAP Measures

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

Table of Contents

the inclusion of this non-GAAP information provides additional information to investors regarding our debt covenant compliance.

Minimum Covenant EBIT to Cash Interest Expense

For the purpose of this covenant, Covenant EBIT is calculated based on the cumulative sum of our earnings for the last four quarters (excluding income taxes, interest expense, amortization, net gain or loss on interest rate swaps and certain non-cash charges). Cash Interest Expense is calculated based on interest expense adjusted to exclude interest income, amortization of deferred financing costs, and the difference between current and prior period interest expense accruals.

Minimum Covenant EBIT to Cash Interest Expense is calculated on a consolidated basis and for certain of our wholly-owned special purpose entities ("SPEs"), whose primary activity is to issue asset backed notes. Covenant EBIT for each of our SPEs is calculated based on the net earnings generated by the assets pledged as collateral for the underlying debt issued. The actual Covenant EBIT to Cash Interest Expense ratio for each SPE may differ depending on the specific net earnings associated with those pledged assets. As of September 30, 2015, the minimum and actual consolidated Covenant EBIT to Cash Interest Expense ratio and Covenant EBIT to Cash Interest Expense ratio for each of the issuers of our debt facilities whose initial borrowing capacity was approximately $200 million or greater were as follows:

Entity/Issuer	Minimum Covenant EBIT to Cash Interest Expense Ratio	Actual Covenant EBIT to Cash Interest Expense Ratio
Consolidated	1.10	2.66
TAL Advantage I, LLC	1.10	5.51
TAL Advantage III, LLC	1.30	2.93
TAL Advantage V, LLC	1.10	2.40*

* Reflects the weighted average for all series of notes issued by TAL Advantage V, LLC. Each series of notes must comply separately with this covenant, and as of September 30, 2015, each series is in compliance.

Minimum TNW and Maximum Indebtedness to TNW Covenants

We are required to meet consolidated Minimum TNW and Maximum Indebtedness to TNW covenants. For the purpose of calculating these covenants, all amounts are based on the consolidated balance sheet of TAL International Group, Inc. TNW is calculated as total tangible assets less total indebtedness, which includes equipment purchases payable and, in certain cases, the fair value of derivative instruments liability.

For the majority of our debt facilities, the Minimum TNW is calculated as $321.4 million plus 50% of cumulative net income or loss since January 1, 2006, which as of September 30, 2015 was $735.4 million. As of September 30, 2015, the actual TNW for each of our SPEs and for the $450 million revolving credit facility was $1,080.3 million. As of September 30, 2015, the maximum and actual Indebtedness to TNW ratios for each of our debt facilities whose initial borrowing capacity was approximately $200 million or greater was as follows:

Entity/Issuer	Maximum Indebtedness to TNW Ratio	Actual Indebtedness to TNW Ratio
Consolidated	4.75	3.13
TAL Advantage I, LLC	4.75	3.03
TAL Advantage III, LLC	4.75	3.00
TAL Advantage V, LLC	4.75	3.00

As of September 30, 2015, our outstanding debt on facilities whose initial borrowing capacity was approximately $200 million or greater was approximately $2.7 billion. Outstanding debt on the remaining facilities of $0.5 billion have various other debt covenants, all of which the Company is in compliance with as of September 30, 2015.

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

32

Table of Contents

Cash Flow

The following table sets forth certain cash flow information for the nine months ended September 30, 2015 and 2014 (in thousands):

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net cash provided by operating activities	$312,226	$301,654
Cash flows from investing activities:		
Purchases of leasing equipment and investments in finance leases	$(561,687)	$(547,555)
Proceeds from sale of equipment, net of selling costs	95,556	117,351
Cash collections on finance lease receivables, net of income earned	32,051	36,269
Other	(35)	(108)
Net cash (used in) investing activities	$(434,115)	$(394,043)
Net cash provided by financing activities	$109,574	$96,947

Operating Activities

Net cash provided by operating activities increased by $10.5 million to $312.2 million in the nine months ended September 30, 2015, compared to $301.7 million in the same period in 2014. The majority of this increase is comprised of the following:

- Earnings excluding non-cash expenses increased operating cash flows by $0.8 million.

- Our net collections from customers in 2015 were higher than 2014 by $15.1 million.

- In 2014, we received net payments of $7.4 million to terminate certain interest rate swaps and replaced them with new interest rate swap contracts that have a longer duration. In 2015, we had no such terminations. This resulted in a decrease in operating cash flows of $7.4 million.

Investing Activities

Net cash used in investing activities increased by $40.1 million to $434.1 million in the nine months ended September 30, 2015, compared to $394.0 million in the same period in 2014. This increase was primarily due to an increase in the purchase of leasing equipment of $14.1 million related to payments for equipment ordered at the end of 2014, but paid for in 2015. In addition, we had lower proceeds from the sale of equipment of $21.8 million due to lower selling prices on equipment sold and a decrease in cash collections on finance lease receivables of $4.2 million due to a smaller portfolio.

Financing Activities

In the nine months ended September 30, 2015, cash flows provided by financing activities increased by $12.7 million to $109.6 million, compared to $96.9 million in the same period in 2014. This increase was primarily due to an increase of $2.6 million in net borrowings under our various debt facilities, a decrease of $4.8 million of restricted cash requirements, a decrease in purchases of treasury stock of $3.2 million, and a decrease in dividends paid on common stock of $1.6 million.

Table of Contents

Contractual Obligations

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

The following table summarizes our contractual obligations and commercial commitments as of September 30, 2015:

	Contractual Obligations by Period					
Contractual Obligations:	Total	Remaining 2015	2016	2017	2018	2019 and thereafter
	(dollars in millions)					
Principal debt obligations	$3,148.8	$84.2	$309.4	$284.7	$662.0	$1,808.5
Interest on debt obligations(1)	504.2	25.7	97.6	90.4	79.2	211.3
Capital lease obligations(2)	78.7	12.2	29.9	18.8	17.8	—
Operating leases (mainly facilities)	6.3	0.4	1.7	1.2	1.1	1.9
Purchase obligations:						
Equipment purchases payable	12.6	12.6	—	—	—	—
Equipment purchase commitments	4.2	4.2	—	—	—	—
Total contractual obligations	$3,754.8	$139.3	$438.6	$395.1	$760.1	$2,021.7

(1) Amounts include actual for fixed interest debt and estimated interest for floating rate debt based on September 30, 2015 rates and the net effect of our interest rate swaps.

(2) Amounts include interest.

Off-Balance Sheet Arrangements

As of September 30, 2015, we did not have any relationships with unconsolidated entities or financial partnerships, such entities which are often referred to as structured finance or special purpose entities, which were established for the purpose of facilitating off-balance sheet arrangements. We are, therefore, not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Critical Accounting Policies

Our consolidated financial statements have been prepared in conformity with United States generally accepted accounting principles, which require us to make estimates and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. Our estimates are based on historical experience and currently available information. Actual results could differ from such estimates. Our critical accounting policies are discussed in our 2014 Form 10-K filed with the SEC on February 19, 2015.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

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

The primary external risk of our interest rate swap agreements is counterparty credit exposure, which is defined as the ability of a counterparty to perform its financial obligations under a derivative agreement. All of our derivative agreements are with highly rated financial institutions. Credit exposures are measured based on the market value of outstanding derivative instruments. Both current and potential exposures are calculated for each derivative agreement to monitor counterparty credit exposure.

As of September 30, 2015, we had net interest rate swap agreements in place to fix interest rates on a portion of our borrowings under debt facilities with floating interest rates as summarized below:

Net Notional Amount	Weighted Average Fixed (Pay) Leg Interest Rate	Weighted Average Remaining Term
$1,135 Million	2.00%	6.8 years

For the three months ended September 30, 2015 and 2014, we recognized unrealized losses of $34.6 million and unrealized losses of $1.6 million, and for the nine months ended September 30, 2015 and 2014, we recognized unrealized losses of $39.0 million and unrealized losses of $25.1 million, respectively, in accumulated other comprehensive loss related to changes in the fair value of the designated agreements. Changes in the fair value of non-designated interest rate swap agreements are recognized in the consolidated statements of income as net gains or losses on interest rate swaps. We recognized net activity on interest rate swaps in the three and nine months ended September 30, 2015 and 2014 as follows (amounts in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net loss (gain) on interest rate swaps	$0.7	$(0.5)	$1.0	$0.4

Since 61% of our floating rate debt is hedged using interest rate swaps, our interest expense is not significantly affected by changes in interest rates. However, a 100 basis point increase in the interest rates on our floating rate debt (primarily LIBOR) would result in an increase of approximately $6.6 million in interest expense over the next 12 months.

ITEM 4. CONTROLS AND PROCEDURES.

Based upon the required evaluation of our disclosure controls and procedures, our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer concluded that as of September 30, 2015 our disclosure controls and procedures were adequate and effective to ensure that information was gathered, analyzed and disclosed on a timely basis.

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our fiscal quarter ended September 30, 2015, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 1A. RISK FACTORS.

For a detailed discussion of our risk factors, refer to our 2014 Form 10-K filed with the Securities and Exchange Commission on February 19, 2015.

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

On October 28, 2015 TAL’s Board of Directors authorized the repurchase of shares of common stock with an aggregate value of up to $150 million. This repurchase program replaces the February 11, 2015 and March 13, 2006 share repurchase programs which were terminated. Repurchases may 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. In the first quarter of 2015, TAL repurchased 81,915 shares at an average price of $41.40. TAL had no repurchases of shares during the second and third quarters of 2015.

Stock repurchases under the program may be made through open market and/or privately negotiated transactions at such times and in such amounts as our management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, restrictions regarding a repurchase program included in our credit facilities and other market conditions. The stock repurchase program does not have an expiration date and may be limited or terminated by the Board of Directors at any time without prior notice.

Table of Contents

ITEM 6. EXHIBITS.

Exhibit Number	Exhibit Description
31.1*	Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2*	Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1**	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2**	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Instance Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

** Furnished herewith.

Table of Contents

SIGNATURE

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

	TAL International Group, Inc.
November 3, 2015	By: /s/ JOHN BURNS John Burns Senior Vice President and Chief Financial Officer (Principal Financial Officer)