

TAL International Group, Inc.
Form 10-Q
May 08, 2009

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

FORM 10-Q

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

For The Quarterly Period Ended March 31, 2009

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 No

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

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

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

Accelerated Filer
Smaller reporting company

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

As of May 1, 2009, there were 31,348,990 shares of the Registrant's common stock, \$.001 par value outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements in this report are subject to a number of known and unknown risks and uncertainties that could cause our actual results, performance or achievements to differ materially from those described in the forward-looking statements, including, but not limited to, the risks and uncertainties described in the section entitled Risk Factors in our Annual Report on Form 10-K filed with the SEC on March 3, 2009, in this report as well as in the other documents we file with the SEC from time to time, and such risks and uncertainties are specifically incorporated herein by reference.

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

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The consolidated financial statements of TAL International Group, Inc. (TAL or the Company) as of March 31, 2009 (unaudited) and December 31, 2008 and for the three months ended March 31, 2009 (unaudited) and March 31, 2008 (unaudited) included herein have been prepared by the Company, without audit, pursuant to U.S. generally accepted accounting principles and the rules and regulations of the SEC. In addition, certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements reflect, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the results for the interim periods. The results of operations for such interim periods are not necessarily indicative of the results for the full year. These financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K filed with the SEC, on March 3, 2009, from which the accompanying December 31, 2008 Balance Sheet information was derived, and all of our other filings filed with the SEC from October 11, 2005 through the current date pursuant to the Exchange Act.

Table of Contents**TAL INTERNATIONAL GROUP, INC.****Consolidated Balance Sheets**
(Dollars in thousands, except share data)

	March 31, 2009	December 31, 2008
	(Unaudited)	
Assets:		
Leasing equipment, net of accumulated depreciation and allowances of \$367,289 and \$352,089	\$ 1,489,051	\$ 1,535,483
Net investment in finance leases, net of allowances of \$1,517 and \$1,420	208,445	196,490
Equipment held for sale	39,688	32,549
	1,737,184	1,764,522
Revenue earning assets		
Cash and cash equivalents (including restricted cash of \$15,180 and \$16,160)	48,792	56,958
Accounts receivable, net of allowances of \$816 and \$807	33,627	42,335
Leasehold improvements and other fixed assets, net of accumulated depreciation and amortization of \$4,441 and \$4,181	1,614	1,832
Goodwill	71,898	71,898
Deferred financing costs	8,174	8,462
Other assets	6,079	8,540
Fair value of derivative instruments	1,170	951
Total assets	\$ 1,908,538	\$ 1,955,498
Liabilities and stockholders equity:		
Equipment purchases payable	\$ 5,810	\$ 27,224
Fair value of derivative instruments	90,370	95,224
Accounts payable and other accrued expenses	43,752	43,978
Deferred income tax liability	82,640	73,565
Debt	1,313,335	1,351,036
Total liabilities	1,535,907	1,591,027
Stockholders equity:		
Preferred stock, \$.001 par value, 500,000 shares authorized, none issued		
Common stock, \$.001 par value, 100,000,000 shares authorized, 33,487,816 and 33,485,816 shares issued respectively	33	33
Treasury stock, at cost, 2,077,397 and 1,055,479 shares, respectively	(28,305)	(20,126)
Additional paid-in capital	396,765	396,478
Accumulated earnings (deficit)	4,205	(12,090)
Accumulated other comprehensive (loss) income	(67)	176
Total stockholders equity	372,631	364,471
Total liabilities and stockholders equity	\$ 1,908,538	\$ 1,955,498

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

Table of Contents**TAL INTERNATIONAL GROUP, INC.****Consolidated Statements of Operations**
(Dollars and shares in thousands, except earnings per share)

	Three Months Ended	
	March 31,	
	2009	2008
	(Unaudited)	
Revenues:		
Leasing revenues:		
Operating leases	\$ 78,047	\$ 72,432
Finance leases	5,055	4,956
Total leasing revenues	83,102	77,388
Equipment trading revenue	16,088	22,654
Management fee income	669	725
Other revenues	296	331
Total revenues	100,155	101,098
Expenses:		
Equipment trading expenses	14,775	21,063
Direct operating expenses	9,825	7,077
Administrative expenses	11,622	9,787
Depreciation and amortization	29,109	26,828
Provision for doubtful accounts	321	47
Net (gain) on sale of leasing equipment	(3,596)	(4,300)
Interest and debt expense	17,361	14,729
Unrealized (gain) loss on interest rate swaps	(5,063)	31,745
Total expenses	74,354	106,976
Income (loss) before income taxes	25,801	(5,878)
Income tax expense (benefit)	9,185	(2,085)
Net income (loss)	\$ 16,616	\$ (3,793)
Net income (loss) per common share Basic	\$ 0.52	\$ (0.12)
Net income (loss) per common share Diluted	\$ 0.52	\$ (0.12)
Weighted average number of common shares outstanding Basic	31,970	32,637
Weighted average number of common shares outstanding Diluted	31,981	32,637
Cash dividends paid per common share	\$ 0.01	\$

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)

	Three Months Ended	
	March 31,	
	2009	2008
	(Unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$ 16,616	\$ (3,793)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	29,109	26,828
Amortization of deferred financing costs	288	224
Net (gain) on sale of leasing equipment	(3,596)	(4,300)
Unrealized (gain) loss on interest rate swaps	(5,063)	31,745
Deferred income taxes	9,149	(2,278)
Stock compensation charge	287	280
Equipment purchased for resale	2,863	269
Changes in operating assets and liabilities	6,443	(15,058)
Net cash provided by operating activities	56,096	33,917
Cash flows from investing activities:		
Purchases of leasing equipment	(24,383)	(64,634)
Investments in finance leases	(17,902)	(5,847)
Proceeds from sale of equipment leasing fleet, net of selling costs	16,291	17,153
Cash collections on finance lease receivables, net of income earned	7,410	6,464
Other	(83)	54
Net cash used in investing activities	(18,667)	(46,810)
Cash flows from financing activities:		
Dividends paid	(320)	
Purchase of treasury stock	(8,179)	(7,955)
Financing fees paid under debt facilities		(937)
Borrowings under debt facilities		103,958
Payments under debt facilities	(31,289)	(56,936)
Payments under capital lease obligations	(5,807)	(2,449)
Decrease in restricted cash	980	115
Net cash (used in) provided by financing activities	(44,615)	35,796
Net (decrease) increase in cash and cash equivalents	(7,186)	22,903
Unrestricted cash and cash equivalents, beginning of period	40,798	52,636
Unrestricted cash and cash equivalents, end of period	\$ 33,612	\$ 75,539

Supplemental non-cash investing activities:

Accrued and unpaid purchases of equipment	\$ 5,810	\$ 91,159
Purchases of leasing equipment financed through capital lease obligations		\$ 9,375

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

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Description of the Business, Basis of Presentation, Recently Issued Accounting Pronouncements

A. Description of the Business

TAL International Group, Inc. (TAL or the Company) was formed on October 26, 2004 and commenced operations on November 4, 2004. TAL consists of the consolidated accounts of TAL International Container Corporation, formerly known as Transamerica Leasing Inc., Trans Ocean Ltd. and their respective subsidiaries.

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

B. Basis of Presentation

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

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

C. Recently Issued Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 161 (SFAS 161), *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*. SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective beginning in the first quarter of 2009. The Company adopted SFAS 161 on January 1, 2009. SFAS 161 did not impact the consolidated financial results as it is disclosure-only in nature.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007) (SFAS 141R), *Business Combinations* and Statement of Financial Accounting Standards No. 160 (SFAS 160), *Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51*. SFAS 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 141R and SFAS 160 are effective beginning in the first quarter of 2009. Implementation of SFAS 141R is prospective. The Company adopted SFAS 141R and SFAS 160 on January 1, 2009 and there was no impact on its

consolidated results of operations and financial position.

Table of Contents**Note 2 Treasury Stock and Dividends***Treasury Stock*

The Company repurchased 1,021,918 shares of its outstanding common stock in the open market during the quarter ended March 31, 2009 at a total cost of approximately \$8.2 million.

The Company repurchased 362,100 shares of its outstanding common stock in the open market during the quarter ended March 31, 2008 at a total cost of approximately \$8.0 million.

Dividends

On February 25, 2009, the Company declared a quarterly dividend of \$0.01 per share or an aggregate of approximately \$0.3 million on its issued and outstanding common stock which was paid on March 26, 2009 to shareholders of record at the close of business on March 12, 2009.

On March 3, 2008, the Company declared a quarterly dividend of \$0.375 per share or an aggregate of approximately \$12.2 million on its issued and outstanding common stock which was paid on April 10, 2008 to shareholders of record at the close of business on March 20, 2008.

Note 3 Stock-Based Compensation Plans

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R) requiring that compensation cost relating to share-based payment transactions be recognized in the financial statements. 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).

Stock Options

There was approximately \$5,000 and \$6,000 of compensation cost reflected in administrative expense in the Company's statements of operations for the three months ended March 31, 2009 and March 31, 2008, respectively, related to the Company's stock-based compensation plans as a result of 21,000 options granted during the year ended December 31, 2006 (of which 3,000 options were cancelled in 2007). Total unrecognized compensation cost of approximately \$27,000 as of March 31, 2009 will be recognized over the remaining vesting period of approximately 1.25 years.

Stock option activity under the plans from January 1, 2009 to March 31, 2009 was as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Life (Yrs)	Aggregate Intrinsic Value \$ in 000's
Outstanding January 1, 2009	612,692	\$ 18.16	6.8	
Granted				
Exercised				
Canceled				

Outstanding March 31, 2009	612,692	\$	18.16	6.6	\$	0
Exercisable March 31, 2009	603,692	\$	18.08	6.6	\$	0

Restricted Stock

Approximately \$264,000 and \$274,000 of compensation cost is reflected in administrative expense in the Company's statements of operations for the three months ended March 31, 2009 and March 31, 2008, respectively, as a result of 127,000 restricted shares granted during 2007, of which 61,000 shares will become fully vested on January 1, 2010 and 66,000 shares will become fully vested on January 1,

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2011. Total unrecognized compensation cost of approximately \$1.3 million as of March 31, 2009 related to restricted shares granted during 2007 will be recognized over the remaining vesting period of approximately 1.3 years.

In addition, there was approximately \$18,000 of compensation cost reflected in administrative expense in the Company's statement of operations for the three months ended March 31, 2009 as a result of 2,000 restricted shares granted to a member of the Company's Board of Directors on February 24, 2009. The closing price of the stock on that date was \$8.83. These shares were fully vested upon issuance.