

TAL International Group, Inc.
Form 10-Q
April 30, 2012

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

FORM 10-Q

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

For The Quarterly Period Ended March 31, 2012

or

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

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

TAL International Group, Inc.

(Exact name of registrant as specified in the charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

10577-2135
(Zip Code)

(914) 251-9000

(Registrant's telephone number including area code)

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

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

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

Large Accelerated Filer Accelerated Filer Non-accelerated filer Smaller reporting company

(Do not check if a
smaller reporting company)

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

As of April 20, 2012, there were 33,567,883 shares of the Registrant's common stock, \$.001 par value outstanding.

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TAL International Group, Inc.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements in this report are subject to a number of known and unknown risks and uncertainties that could cause our actual results, performance or achievements to differ materially from those described in the forward-looking statements, including, but not limited to, the risks and uncertainties described in the section entitled "Risk Factors" in our Annual Report on Form 10-K filed with the SEC on February 22, 2012, in this report as well as in the other documents we file with the SEC from time to time, and such risks and uncertainties are specifically incorporated herein by reference.

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

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The consolidated financial statements of TAL International Group, Inc. ("TAL" or the "Company") as of March 31, 2012 and December 31, 2011 and for the three months ended March 31, 2012 and March 31, 2011 included herein have been prepared by the Company, without audit, pursuant to U.S. generally accepted accounting principles and the rules and regulations of the SEC. In addition, certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements reflect, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the results for the interim periods. The results of operations for such interim periods are not necessarily indicative of the results for the full year. These financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K filed with the SEC, on February 22, 2012, from which the accompanying December 31, 2011 Balance Sheet information was derived, and all of our other filings filed with the SEC from October 11, 2005 through the current date pursuant to the Exchange Act.

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

| | March 31, 2012 | December 31, 2011 |
|---|---------------------|----------------------|
| ASSETS: | | |
| Leasing equipment, net of accumulated depreciation and allowances of \$660,954 and \$626,965 | \$ 2,705,930 | \$ 2,663,443 |
| Net investment in finance leases, net of allowances of \$1,047 and \$1,073 | 142,190 | 146,742 |
| Equipment held for sale | 44,044 | 47,048 |
| Revenue earning assets | 2,892,164 | 2,857,233 |
| Cash and cash equivalents (including restricted cash of \$32,530 and \$34,466) | 106,337 | 175,343 |
| Accounts receivable, net of allowances of \$713 and \$667 | 56,383 | 56,491 |
| Goodwill | 71,898 | 71,898 |
| Deferred financing costs | 23,383 | 24,028 |
| Other assets | 14,096 | 11,539 |
| Fair value of derivative instruments | 616 | 771 |
| Total assets | \$ 3,164,877 | \$ 3,197,303 |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | | |
| Equipment purchases payable | \$ 32,292 | \$ 55,320 |
| Fair value of derivative instruments | 69,659 | 78,122 |
| Accounts payable and other accrued expenses | 57,474 | 66,607 |
| Net deferred income tax liability | 217,244 | 198,867 |
| Debt | 2,208,969 | 2,235,585 |
| Total liabilities | 2,585,638 | 2,634,501 |
| Stockholders' equity: | | |
| Preferred stock, \$.001 par value, 500,000 shares authorized, none issued | | |
| Common stock, \$.001 par value, 100,000,000 shares authorized, 36,577,226 and 36,412,659 shares issued respectively | 37 | 36 |
| Treasury stock, at cost, 3,011,843 shares | (37,535) | (37,535) |
| Additional paid-in capital | 490,811 | 489,468 |
| Accumulated earnings | 134,916 | 120,449 |
| Accumulated other comprehensive (loss) | (8,990) | (9,616) |
| Total stockholders' equity | 579,239 | 562,802 |
| Total liabilities and stockholders' equity | \$ 3,164,877 | \$ 3,197,303 |

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

Table of Contents**TAL INTERNATIONAL GROUP, INC.****Consolidated Statements of Operations****(Dollars and shares in thousands, except earnings per share)****(Unaudited)****Three Months Ended
March 31,****2012 2011****Revenues:**

Leasing revenues:

| | | |
|------------------|------------|-----------|
| Operating leases | \$ 119,481 | \$ 95,324 |
| Finance leases | 3,698 | 4,246 |

| | | |
|---------------------------|---------|--------|
| Total leasing revenues | 123,179 | 99,570 |
| Equipment trading revenue | 14,461 | 24,216 |
| Management fee income | 660 | 703 |
| Other revenues | 32 | 39 |

| | | |
|-----------------------|----------------|----------------|
| Total revenues | 138,332 | 124,528 |
|-----------------------|----------------|----------------|

Operating expenses (income):

| | | |
|---|----------|---------|
| Equipment trading expenses | 12,563 | 19,289 |
| Direct operating expenses | 5,581 | 4,100 |
| Administrative expenses | 11,106 | 10,563 |
| Depreciation and amortization | 45,205 | 32,253 |
| Provision for doubtful accounts | 14 | 39 |
| Net (gain) on sale of leasing equipment | (10,760) | (7,885) |

| | | |
|--------------------------|--------|--------|
| Total operating expenses | 63,709 | 58,359 |
|--------------------------|--------|--------|

| | | |
|------------------|--------|--------|
| Operating income | 74,623 | 66,169 |
|------------------|--------|--------|

Other expenses (income):

| | | |
|-----------------------------------|---------|---------|
| Interest and debt expense | 26,625 | 23,731 |
| Net (gain) on interest rate swaps | (2,972) | (8,007) |

| | | |
|-----------------------------|---------------|---------------|
| Total other expenses | 23,653 | 15,724 |
|-----------------------------|---------------|---------------|

| | | |
|----------------------------|--------|--------|
| Income before income taxes | 50,970 | 50,445 |
| Income tax expense | 18,043 | 17,858 |

| | | |
|-------------------|------------------|------------------|
| Net income | \$ 32,927 | \$ 32,587 |
|-------------------|------------------|------------------|

| | | |
|-----------------------------------|---------|---------|
| Net income per common share Basic | \$ 0.99 | \$ 1.07 |
|-----------------------------------|---------|---------|

| | | |
|-------------------------------------|---------|---------|
| Net income per common share Diluted | \$ 0.98 | \$ 1.05 |
|-------------------------------------|---------|---------|

| | | |
|--------------------------------------|---------|---------|
| Cash dividends paid per common share | \$ 0.55 | \$ 0.45 |
|--------------------------------------|---------|---------|

| | | |
|--|--------|--------|
| Weighted average number of common shares outstanding Basic | 33,192 | 30,546 |
| Dilutive stock options | 386 | 422 |

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| | | | |
|--|---------|--------|--------|
| Weighted average number of common shares outstanding | Diluted | 33,578 | 30,968 |
|--|---------|--------|--------|

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 March 31, | |
|--|---|------------------|
| | 2012 | 2011 |
| Net income | \$ 32,927 | \$ 32,587 |
| Other comprehensive income (loss): | | |
| Change in fair value of derivative instruments designated as cash flow hedges (net of tax benefit of \$0 and \$272, respectively) | | (500) |
| Amortization of net loss on derivative instruments previously designated as cash flow hedges (net of tax expense of \$282 and \$209, respectively) | 518 | 387 |
| Foreign currency translation adjustment | 108 | 77 |
| Other comprehensive income, net of tax | 626 | (36) |
| Comprehensive income | \$ 33,553 | \$ 32,551 |

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

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TAL INTERNATIONAL GROUP, INC.

Consolidated Statements of Cash Flows

(Dollars in thousands)

(Unaudited)

| | Three months ended March 31, | |
|---|---------------------------------|-------------------|
| | 2012 | 2011 |
| Cash flows from operating activities: | | |
| Net income | \$ 32,927 | \$ 32,587 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 45,205 | 32,253 |
| Amortization of deferred financing costs | 1,283 | 773 |
| Net (gain) on sale of leasing equipment | (10,760) | (7,885) |
| Net (gain) on interest rate swaps | (2,972) | (8,007) |
| Realized loss on interest rate swaps terminated prior to their contractual maturities | (5,498) | |
| Deferred income taxes | 18,043 | 17,858 |
| Stock compensation charge | 1,212 | 650 |
| Net equipment purchased for resale activity | (6,798) | (2,511) |
| Changes in operating assets and liabilities | (10,917) | (11,105) |
| Net cash provided by operating activities | 61,725 | 54,613 |
| Cash flows from investing activities: | | |
| Purchases of leasing equipment | (123,100) | (122,845) |
| Investments in finance leases | | (745) |
| Proceeds from sale of equipment, net of selling costs | 29,371 | 21,893 |
| Cash collections on finance lease receivables, net of income earned | 8,526 | 8,144 |
| Other | 88 | (11) |
| Net cash (used in) investing activities | (85,115) | (93,564) |
| Cash flows from financing activities: | | |
| Common stock dividends paid | (18,264) | (13,751) |
| Financing fees paid under debt facilities | (638) | (2,799) |
| Borrowings under debt facilities | 121,500 | 206,500 |
| Payments under debt facilities | (138,501) | (140,708) |
| Payments under capital lease obligations | (9,845) | (9,524) |
| Stock options exercised | 132 | 726 |
| (Increase) in restricted cash | 1,936 | (6,782) |
| Net cash (used in) provided by financing activities | (43,680) | 33,662 |
| Net (decrease) in unrestricted cash and cash equivalents | \$ (67,070) | \$ (5,289) |
| Unrestricted cash and cash equivalents, beginning of period | 140,877 | 62,594 |
| Unrestricted cash and cash equivalents, end of period | \$ 73,807 | \$ 57,305 |
| Supplemental non-cash investing activities: | | |
| Accrued and unpaid purchases of equipment | \$ 32,292 | \$ 125,379 |

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

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

The Company believes the carrying amounts of cash and cash equivalents, accounts receivable, net investment in finance leases and other assets approximated fair value as of March 31, 2012.

The Company estimates that as of March 31, 2012, the carrying value of its debt instruments was approximately \$8.3 million higher than their fair value. The Company estimated the fair value of its debt instruments based on the net present value of its future debt payments, using discount rates which reflect the Company's estimate of current market interest rates and spreads (Level 2 inputs) as of March 31, 2012.

Note 3 Dividends

The Company paid the following quarterly dividends during the three months ended March 31, 2012 and 2011 on its issued and outstanding common stock:

| Record Date | Payment Date | Aggregate Payment | Per Share Payment |
|---------------|----------------|-------------------|-------------------|
| March 8, 2012 | March 29, 2012 | \$ 18.3 million | \$ 0.55 |
| March 3, 2011 | March 24, 2011 | \$ 13.8 million | \$ 0.45 |

Note 4 Stock-Based Compensation Plans

The Company records compensation cost relating to stock-based payment transactions in accordance with FASB Accounting Standards Codification No. 718 (ASC 718) *Compensation Stock Compensation*. The cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award).

The following compensation costs were reported in administrative expenses in the Company's consolidated statements of operations related to the Company's stock-based compensation plans as a result of restricted shares granted in 2009, 2010, 2011 and 2012 (dollars in thousands):

| | Three Months Ended March 31, | |
|------------------|------------------------------|---------------|
| | 2012 | 2011 |
| Stock options | \$ | \$ |
| Restricted stock | 1,212 | 650 |
| Total | \$ 1,212 | \$ 650 |

Total unrecognized compensation cost of approximately \$6.7 million as of March 31, 2012 related to 355,750 restricted shares granted during 2010, 2011 and 2012 will be recognized over the remaining weighted average vesting period of approximately 2.3 years.

During the three months ended March 31, 2012, the Company issued 21,817 net shares of common stock due to stock option exercises during the period.

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

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

| | March 31, 2012 | December 31, 2011 |
|---|-------------------|----------------------|
| Gross finance lease receivables | \$ 180,694 | \$ 187,509 |
| Allowance on gross finance lease receivables(1) | (1,047) | (1,073) |
| Gross finance lease receivables, net of allowance | 179,647 | 186,436 |
| Unearned income | (37,457) | (39,694) |
| Net investment in finance leases | \$ 142,190 | \$ 146,742 |

(1)

The Company evaluates potential losses in its finance lease portfolio by regularly reviewing the specific receivables in the portfolio and analyzing historical loss experience. For the period 2004 through 2011, the Company's loss experience on its gross finance lease receivables, after considering equipment recoveries, was less than 1%. Net investment in finance lease receivables is generally charged off after an analysis is completed which indicates that collection of the full balance is remote.

In order to estimate its allowance for losses on its 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 TAL's customers.

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

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

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

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

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

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

| | March 31, 2012 | December 31, 2011 |
|--------|-------------------|----------------------|
| Tier 1 | \$ 125,195 | \$ 131,513 |
| Tier 2 | 55,499 | 55,996 |
| Tier 3 | | |
| | \$ 180,694 | \$ 187,509 |

The Company considers an account past due when a payment has not been received in accordance with the terms of the related lease agreement. As of March 31, 2012, approximately \$0.1 million of the Company's Tier 1 gross finance lease receivables and \$0.4 million of the Company's Tier 2 gross finance lease receivables were past due, substantially all of which were aged approximately 31 days. Gross finance lease receivables that were in non-accrual status as of March 31, 2012 were immaterial. The Company recognizes income on gross finance lease receivables in non-accrual status as collections are made.

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

| | Beginning Balance | Additions/ (Reversals) | (Write-offs) Reversals | Other(a) | Ending Balance |
|--|----------------------|---------------------------|---------------------------|----------|-------------------|
| Finance Lease Allowance for doubtful accounts: | | | | | |
| For the three months ended March 31, 2012 | \$ 1,073 | \$ (27) | \$ | \$ 1 | \$ 1,047 |
| For the three months ended March 31, 2011 | \$ 1,169 | \$ 62 | \$ | \$ 3 | \$ 1,234 |

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

Note 6 Debt

Debt consisted of the following (amounts in thousands):

| | March 31, 2012 | December 31, 2011 |
|--|-------------------|----------------------|
| Asset backed securitization term notes (ABS) | \$ 1,174,345 | \$ 1,220,500 |
| Term loan facilities | 560,784 | 580,900 |
| Asset backed warehouse facility | 246,000 | 216,500 |
| Revolving credit facility | 90,000 | 70,000 |
| Capital lease obligations | 137,840 | 147,685 |
| Total debt | \$ 2,208,969 | \$ 2,235,585 |

As of March 31, 2012 the Company had \$892.7 million of debt outstanding on facilities with fixed interest rates and \$1,316.2 million of debt outstanding on facilities with interest rates based on floating rate indices (such as LIBOR). The Company economically hedge the risks associated with fluctuations in interest rates on a portion of its floating rate borrowings by entering into interest rate swap contracts

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

that convert a portion of its floating rate debt to a fixed rate basis, thus reducing the impact of interest rate changes on future interest expense. As of March 31, 2012, the Company had interest rate swaps in place with a total notional value of \$909.5 million to fix the floating interest rates on a portion of its floating rate debt obligations.

The Company is subject to certain financial covenants under its debt facilities, and as of March 31, 2012, was in compliance with all such covenants.

Asset Backed Warehouse Facility

In March 2012, the Company increased the size of its asset backed warehouse facility from \$400 million to \$455 million.

Note 7 Derivative Instruments***Interest Rate Swaps***

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

As of March 31, 2012, the Company had in place total interest rate swap agreements to fix the floating interest rates on a portion of the borrowings under its debt facilities as summarized below:

| Total Notional Amount | Weighted Average Fixed Leg Interest Rate | Weighted Average Remaining Term |
|--------------------------|---|------------------------------------|
| \$909.5 million | 3.14% | 4.1 years |

The Company's net interest expense on its interest rate swap agreements for the three months ended March 31, 2012 and 2011 was \$6.7 million and \$8.0 million, respectively. The Company records net interest on its interest rate swap agreements in interest and debt expense in its consolidated statements of operations.

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

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 Derivative Instruments (Continued)

During the three months ended March 31, 2012, the Company terminated interest rate swap agreements with a notional value of \$100 million, and partially replaced them with an interest rate swap with a notional value of \$75 million that expires in 2018. The Company paid \$5.5 million to its interest rate swap counterparties to terminate these agreements. As these interest rate swap agreements were non-designated, the entire amount has been previously recognized in the Company's statements of operations as net loss on interest rate swaps.

As of March 31, 2012, the unamortized pre-tax balance in accumulated other comprehensive loss attributable to terminated interest rate swap agreements that had been designated as cash flow hedges was approximately \$12.3 million, of which \$3.0 million is expected to be amortized to interest expense over the next 12 months. Amounts recorded in accumulated other comprehensive loss attributable to these terminated interest rate swap agreements would be recognized in earnings immediately in conjunction with a termination of the related debt agreements.

Foreign Currency Rate Swaps

In April 2008, the Company entered into foreign currency rate swap agreements to manage foreign currency rate risk exposure by exchanging Euros for U.S. Dollars based on expected payments under its Euro denominated finance lease receivables. The Company will pay a total of approximately 3.3 million Euros and receive approximately \$5.1 million over the remaining term of the foreign currency rate swap agreements, which expire in April 2015. The Company does not account for the foreign currency rate swap agreements as hedging instruments under ASC 815, and therefore changes in the fair value of the foreign currency rate swap agreements are reflected in the consolidated statements of operations in administrative expenses.

Fair Value of Derivative Instruments

Under the criteria established by ASC 820, the Company has elected to use the income approach to value its interest rate swap and foreign currency rate swap agreements, using observable Level 2 market expectations at the measurement date and standard valuation techniques to convert future amounts to a single present amount (discounted) assuming that participants are motivated, but not compelled to transact. The Level 2 inputs for the interest rate swap and forward valuations are limited to quoted prices for similar assets or liabilities in active markets (specifically futures contracts and spot currency rates) and inputs other than quoted prices that are observable for the asset or liability (specifically forward currency points, LIBOR cash and swap rates, basis swap adjustments and credit risk at commonly quoted intervals).

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 Derivative Instruments (Continued)

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

| Instrument | Asset Derivatives | | | | Liability Derivatives | | | |
|---|--------------------------------------|---------------|--------------------------------------|---------------|--------------------------------------|----------------|--------------------------------------|----------------|
| | March 31, 2012 | | December 31, 2011 | | March 31, 2012 | | December 31, 2011 | |
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Interest rate swap contracts not designated | Fair value of derivative instruments | \$ | Fair value of derivative instruments | \$ | Fair value of derivative instruments | \$ 69.7 | Fair value of derivative instruments | \$ 78.1 |
| Foreign exchange contracts not designated | Fair value of derivative instruments | 0.6 | Fair value of derivative instruments | 0.8 | Fair value of derivative instruments | \$ | Fair value of derivative instruments | \$ |
| Total derivatives | | \$ 0.6 | | \$ 0.8 | | \$ 69.7 | | \$ 78.1 |

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

| Derivative Instrument | Location of (Gain) Loss Recognized in Income on Derivatives | Amount of (Gain) Loss Recognized in Income on Derivatives Three Months Ended March 31, | |
|-------------------------------|---|--|-----------------|
| | | 2012 | 2011 |
| Interest rate swap agreements | Net (gain) on interest rate swaps | \$ (3.0) | \$ (8.0) |
| Foreign exchange agreements | Administrative expenses | 0.2 | 0.3 |
| Total | | \$ (2.8) | \$ (7.7) |

Note 8 Segment and Geographic Information

Industry Segment Information

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

Equipment leasing the Company owns, leases and ultimately disposes of containers and chassis from its lease fleet, as well as manages leasing activities for containers owned by third parties.

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Equipment trading the Company purchases containers from shipping line customers, and other sellers of containers, and resells these containers to container traders and users of containers for storage or one-way shipment. Included in the Equipment trading segment revenues are leasing revenues from equipment purchased for resale that is currently on lease until the containers are dropped off.

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8 Segment and Geographic Information (Continued)

The following table shows segment information for the three months ended March 31, 2012 and 2011 and the consolidated totals reported (dollars in thousands):

| | Three Months Ended March 31, 2012 | | | Three Months Ended March 31, 2011 | | |
|---|-----------------------------------|----------------------|------------|-----------------------------------|----------------------|------------|
| | Equipment Leasing | Equipment Trading | Totals | Equipment Leasing | Equipment Trading | Totals |
| Total revenues | \$ 121,805 | \$ 16,527 | \$ 138,332 | \$ 99,380 | \$ 25,148 | \$ 124,528 |
| Equipment trading expenses | | 12,563 | 12,563 | | 19,289 | 19,289 |
| Depreciation and amortization expense | 44,170 | 1,035 | 45,205 | 32,246 | 7 | 32,253 |
| Net (gain) on sale of leasing equipment | (10,760) | | (10,760) | (7,885) | | (7,885) |
| Interest and debt expense | 25,781 | 844 | 26,625 | 23,221 | 510 | 23,731 |
| Income before income taxes(1) | 46,169 | 1,829 | 47,998 | 37,476 | 4,962 | 42,438 |
| Equipment held for sale at March 31 | 16,812 | 27,232 | 44,044 | 5,951 | 18,350 | 24,301 |
| Goodwill at March 31 | 70,898 | 1,000 | 71,898 | 70,898 | 1,000 | 71,898 |
| Total assets at March 31 | 3,087,464 | 77,413 | 3,164,877 | 2,627,582 | 36,528 | 2,664,110 |
| Purchases of leasing equipment(2) | 123,100 | | 123,100 | 122,845 | | 122,845 |
| Investments in finance leases(2) | | | | 745 | | 745 |

(1) Segment income before income taxes excludes net gains on interest rate swaps of \$3.0 million and \$8.0 million for the three months ended March 31, 2012 and 2011.

(2) Represents cash disbursements for purchases of leasing equipment 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 assets held for sale and the cash flows associated with these transactions are and will be reflected as purchases of leasing equipment and proceeds from the sale of equipment in investing activities.

Geographic Segment Information

The Company earns its revenues from international containers which are deployed by its customers in a wide variety of global trade routes. Substantially all of the Company's leasing related revenue is denominated in U.S. dollars. The following table represents the geographic allocation of revenues for

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

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

| | Three Months Ended March 31, | |
|--------------------------|---|----------------|
| | 2012 | 2011 |
| Total revenues: | | |
| United States of America | \$ 9,809 | \$ 9,962 |
| Asia | 59,648 | 56,906 |
| Europe | 60,791 | 50,445 |
| Other International | 8,084 | 7,215 |
| Total | \$ 138,332 | \$ 124,528 |

As all of the Company's containers are used internationally, where no one container is domiciled in one particular place for a prolonged period of time, substantially all of the Company's long-lived assets are considered to be international.

Note 9 Commitments and Contingencies*Residual Value Guarantees*

During 2008, the Company entered into commitments for equipment residual value guarantees in connection with certain finance leases that were sold or brokered to financial institutions. The guarantees represent the Company's commitment that these assets will be worth a specified amount at the end of certain lease terms (if the lessee does not default on the lease) which expire in 2016. At March 31, 2012, the maximum potential amount of the guarantees under which the Company could be required to perform was approximately \$27.1 million. The carrying values of the guarantees of \$1.1 million have been deferred, are included in accounts payable and accrued expenses and approximate fair value as of March 31, 2012. The Company expects that the market value of the equipment covered by the guarantees will equal or exceed the value of the guarantees and therefore, no contingent loss has been provided as of March 31, 2012. Under the criteria established by ASC 820, the Company performed fair value measurements of the guarantees at origination using Level 2 inputs, which were based on significant other observable inputs other than quoted prices, either on a direct or indirect basis. The Company accounts for the residual value guarantees under Accounting Standards Codification 460, *Guarantees*.

Purchase Commitments

At March 31, 2012, commitments for capital expenditures totaled approximately \$228.4 million.

Note 10 Income Taxes

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

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11 Subsequent Events

Quarterly Dividend

On April 25, 2012 the Company's Board of Directors approved and declared a \$0.58 per share quarterly cash dividend on its issued and outstanding common stock, payable on June 22, 2012 to shareholders of record at the close of business on June 1, 2012.

Debt Facilities

In April 2012, the Company increased the size of its asset backed warehouse facility from \$455 million to \$585 million, and completed a private placement for \$153 million and used the proceeds to repay amounts outstanding under the asset backed warehouse facility.

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

The following discussion and analysis of the consolidated financial condition and results of operations of TAL International Group, Inc. and its subsidiaries should be read in conjunction with related consolidated financial data and our annual audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K filed with the SEC on February 22, 2012. The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described under "Risk Factors" and "Forward-Looking Statements" in our Form 10-K. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

Our Company

We are one of the world's largest and oldest lessors of intermodal containers and chassis. Intermodal containers are large, standardized steel boxes used to transport freight by ship, rail or truck. Because of the handling efficiencies they provide, intermodal containers are the primary means by which many goods and materials are shipped internationally. Chassis are used for the transportation of containers domestically.

We operate our business in one industry, intermodal transportation equipment, and have two business segments:

Equipment leasing we own, lease and ultimately dispose of containers and chassis from our lease fleet, as well as manage containers owned by third parties.

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

Operations

Our consolidated operations include the acquisition, leasing, re-leasing and subsequent sale of multiple types of intermodal containers and chassis. As of March 31, 2012, our total fleet consisted of 1,012,891 containers and chassis, including 25,991 containers under management for third parties, representing 1,648,707 twenty-foot equivalent units (TEU). We have an extensive global presence, offering leasing services through 17 offices in 11 countries and approximately 225 third-party container depot facilities in 39 countries as of March 31, 2012. Our customers are among the largest shipping lines in the world. For the three months ended March 31, 2012, our twenty largest customers accounted for 80% of our leasing revenues, our five largest customers accounted for 49% of our leasing revenues, and our largest customer, CMA CGM, accounted for 16% of our leasing revenues.

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

| | Equipment Fleet in Units | | | | | | | | |
|-----------------------------------|--------------------------|---------|-----------|-------------------|---------|-----------|----------------|---------|---------|
| | March 31, 2012 | | | December 31, 2011 | | | March 31, 2011 | | |
| | Owned | Managed | Total | Owned | Managed | Total | Owned | Managed | Total |
| Dry | 825,279 | 23,926 | 849,205 | 823,541 | 24,361 | 847,902 | 722,190 | 25,403 | 747,593 |
| Refrigerated | 54,111 | 151 | 54,262 | 50,580 | 171 | 50,751 | 45,919 | 236 | 46,155 |
| Special | 46,416 | 1,914 | 48,330 | 46,080 | 1,959 | 48,039 | 43,978 | 2,106 | 46,084 |
| Tank | 5,806 | | 5,806 | 5,396 | | 5,396 | 3,096 | | 3,096 |
| Chassis | 10,784 | | 10,784 | 10,789 | | 10,789 | 9,205 | | 9,205 |
| Equipment leasing fleet | 942,396 | 25,991 | 968,387 | 936,386 | 26,491 | 962,877 | 824,388 | 27,745 | 852,133 |
| Equipment trading fleet(1) | 44,504 | | 44,504 | 46,767 | | 46,767 | 28,432 | | 28,432 |
| Total | 986,900 | 25,991 | 1,012,891 | 983,153 | 26,491 | 1,009,644 | 852,820 | 27,745 | 880,565 |
| Percentage | 97.4% | 2.6% | 100.0% | 97.4% | 2.6% | 100.0% | 96.8% | 3.2% | 100.0% |

(1)

Includes 36,191 units, 37,117 units and 23,564 units on lease under sale-leaseback transactions as of March 31, 2012, December 31, 2011 and March 31, 2011, respectively.

| | Equipment Fleet in TEUs | | | | | | | | |
|-----------------------------------|-------------------------|---------|-----------|-------------------|---------|-----------|----------------|---------|-----------|
| | March 31, 2012 | | | December 31, 2011 | | | March 31, 2011 | | |
| | Owned | Managed | Total | Owned | Managed | Total | Owned | Managed | Total |
| Dry | 1,321,801 | 43,379 | 1,365,180 | 1,323,458 | 44,155 | 1,367,613 | 1,164,757 | 46,043 | 1,210,800 |
| Refrigerated | 102,920 | 268 | 103,188 | 95,671 | 298 | 95,969 | 86,737 | 407 | 87,144 |
| Special | 82,480 | 3,211 | 85,691 | 81,514 | 3,283 | 84,797 | 76,245 | 3,521 | 79,766 |
| Tank | 5,806 | | 5,806 | 5,396 | | 5,396 | 3,146 | | 3,146 |
| Chassis | 19,207 | | 19,207 | 19,217 | | 19,217 | 16,361 | | 16,361 |
| Equipment leasing fleet | 1,532,214 | 46,858 | 1,579,072 | 1,525,256 | 47,736 | 1,572,992 | 1,347,246 | 49,971 | 1,397,217 |
| Equipment trading fleet(2) | 69,635 | | 69,635 | 72,876 | | 72,876 | 44,755 | | 44,755 |
| Total | 1,601,849 | 46,858 | 1,648,707 | 1,598,132 | 47,736 | 1,645,868 | 1,392,001 | 49,971 | 1,441,972 |
| Percentage | 97.2% | 2.8% | 100.0% | 97.1% | 2.9% | 100.0% | 96.5% | 3.5% | 100.0% |

(2)

Includes 58,931 TEU, 60,540 TEU and 37,994 TEU on lease under sale-leaseback transactions as of March 31, 2012, December 31, 2011 and March 31, 2011, respectively.

| | Equipment Fleet in Cost Equivalent Units (CEU's) | | | | | | | | |
|-------------------|--|---------|-----------|-------------------|---------|-----------|----------------|---------|-----------|
| | March 31, 2012 | | | December 31, 2011 | | | March 31, 2011 | | |
| | Owned | Managed | Total | Owned | Managed | Total | Owned | Managed | Total |
| Total | 2,036,241 | 42,343 | 2,078,584 | 2,000,747 | 43,265 | 2,044,012 | 1,704,478 | 45,761 | 1,750,239 |
| Percentage | 98.0% | 2.0% | 100.0% | 97.9% | 2.1% | 100.0% | 97.4% | 2.6% | 100.0% |

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In the equipment fleet tables above, we have included total fleet count information based on cost equivalent units ("CEU's"). CEU is a ratio used to convert the actual number of containers in our fleet to a figure based on the relative purchase price 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 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 oversized cargo such as marble slabs, building products and machinery, (4) chassis, which are used for the transportation of containers domestically, and (5) tank containers, which are used to transport bulk liquid products such as chemicals. Our in-house equipment sales

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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.

As of March 31, 2012, the percentages of our equipment fleet and leasing revenues by equipment type are as follows:

| Equipment Type | Percent of total fleet units | Percent of leasing revenue |
|-------------------------|------------------------------------|----------------------------------|
| Dry | 83.8% | 64.7% |
| Refrigerated | 5.4 | 21.4 |
| Special | 4.8 | 7.5 |
| Chassis | 1.0 | 1.9 |
| Tank | 0.6 | 2.8 |
| Equipment leasing fleet | 95.6 | 98.3 |
| Equipment trading fleet | 4.4 | 1.7 |
| Total | 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 daily 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 more predominant.

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

| Lease Portfolio | March 31, 2012 | December 31, 2011 | March 31, 2011 |
|--|-------------------|----------------------|-------------------|
| Long-term leases | 67.5% | 67.7% | 65.2% |
| Finance leases | 7.3 | 7.6 | 8.8 |
| Service leases | 19.4 | 20.7 | 21.3 |
| Expired long-term leases (units on-hire) | 5.8 | 4.0 | 4.7 |
| Total | 100.0% | 100.0% | 100.0% |

As of March 31, 2012, December 31, 2011 and March 31, 2011, our long-term and finance leases had an average remaining contract term of approximately 47 months, 48 months, and 51 months, respectively, assuming no leases are renewed.

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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 first quarter of 2012 decreased 0.7% from the fourth quarter of 2011, and increased 23.7% from the first quarter of 2011.

Owned fleet size. As of March 31, 2012, our owned fleet included 1,601,849 TEUs, an increase of 0.2% from December 31, 2011 and 15.1% from March 31, 2011. TAL's fleet was fairly static in the first quarter of 2012 since the delivery of new containers was limited. TAL has already placed substantial orders for containers in 2012, but delivery of these containers mostly begins in the second quarter when dry container trade volumes typically start to build toward the summer peak. The increase in fleet size over the first quarter of 2011 was mainly due to large purchases of new containers and the completion of several large sale-leaseback transactions in 2011.

Many of our customers and market forecasters are projecting moderate containerized trade growth for 2012, with Clarkson Research Services currently forecasting growth of 7.1%. In addition, most of our shipping line customers continue to be reluctant to purchase large numbers of containers directly, and they are continuing to rely on leasing for an increased share of their new container requirements. Because of these factors, we have already concluded a large number of lease transactions to help our customers ensure they will have sufficient container capacity to handle their expected cargo volumes this year. We have placed substantial orders for new containers to support these lease commitments, and we have also entered into several sale-leaseback transactions with our customers where we purchase containers owned by the customer and lease the containers back to the customer for further use. As of April 26, 2012, we have purchased over \$450 million of containers through new orders and sale-leaseback transactions. We expect most of these new and sale-leaseback containers to enter our fleet in the second quarter, and we expect customer pick-ups of this equipment to accelerate in the second quarter, as well. The pace at which our existing lease commitments are converted into pick-ups will determine how much additional equipment we order later this year.

Utilization. Our average utilization was 98.2% during the first quarter of 2012, a decrease of 0.4% from the fourth quarter and first quarter of 2011. Ending utilization decreased 0.9% from 98.6% as of December 31, 2011 to 97.7% as of March 31, 2012. Our utilization remains quite high due to the general tight supply/demand balance for containers and our customers' reluctance to order large volumes of new containers directly, though utilization decreased slightly during the first quarter due to typical seasonal weakness in trade volumes.

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

| | Quarter Ended March 31, 2012 | Quarter Ended December 31, 2011 | Quarter Ended September 30, 2011 | Quarter Ended June 30, 2011 | Quarter Ended March 31, 2011 |
|----------------------------|---------------------------------------|--|---|--------------------------------------|---------------------------------------|
| Average Utilization | 98.2% | 98.6% | 98.6% | 98.8% | 98.6% |
| | March 31, 2012 | December 31, 2011 | September 30, 2011 | June 30, 2011 | March 31, 2011 |
| Ending Utilization | 97.7% | 98.6% | 98.7% | 98.9% | 98.6% |

(1)

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

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Effective for our 2011 10-K filing, we changed our utilization calculation to be based on CEU's and to exclude off-hire units designated for sale. This new method provides a better indicator of the performance of our leasable fleet because it gives greater weight to more expensive equipment types and it does not include those off-hire containers that have been designated for sale. In addition, we believe our utilization calculated under this new methodology more closely conforms to those used by our publicly traded competitors. Utilization for all of the periods shown above has been recalculated using this new methodology.

Average lease rates. Average lease rates for our dry container product line in the first quarter of 2012 remained flat compared to the fourth quarter of 2011, and increased 6.3% from the first quarter of 2011. New dry container prices reached peak levels during the first half of 2011, and our average dry container lease rates increased throughout the year as new containers and sale-leaseback containers were placed on lease and as certain existing leases were re-priced. New container prices fell back toward historically-normal levels toward the end of 2011, and market leasing rates for new containers during the first quarter of 2012 were fairly close to our portfolio average.

During the first quarter of 2012, average lease rates for refrigerated containers decreased 1.2% compared to the fourth quarter of 2011, and were 2.1% lower than the first quarter of 2011, while the average lease rates for special containers were 0.7% higher than the fourth quarter of 2011, and 3.0% higher compared to the first quarter of 2011.

Equipment disposals. During the first quarter of 2012, we recognized a \$10.8 million gain on the sale of our used containers compared to gains of \$12.3 million in the fourth quarter of 2011 and \$7.9 million in the first quarter of 2011. Gain on sale decreased in the first quarter of 2012 compared to the fourth quarter of 2011 primarily due to lower average sale prices. Used container sale prices reached record levels during the summer of 2011 due to the general tight supply/demand balance for containers and the high price for new containers at that time. Used container disposal prices have been decreasing for the last few quarters, though they remain quite high compared to historical averages. In addition, the decrease in sale prices slowed toward the end of the first quarter of 2012 as leasing demand for dry containers improved seasonally. We generally expect that used container sale prices will continue to trend toward historical levels, but this may take some time if leasing demand remains strong in 2012.

Equipment ownership expenses. Our ownership expenses, which consist principally of depreciation and interest expense, increased by \$1.0 million or 1.4% in the first quarter of 2012 compared to the fourth quarter of 2011, and increased by \$15.8 million or 28.2% compared to the first quarter of 2011.

TAL purchased a large volume of new containers in 2011 and our average revenue earning assets increased by approximately 22% from the first quarter of 2011 to the first quarter of 2012. Depreciation expense increased \$12.9 million or 39.9% compared to the first quarter 2011. Over the past year, depreciation expense increased faster than our revenue earning assets mainly due to our fleet demographics. Currently, a relatively small portion of our container fleet is approaching the end of its useful life for accounting purposes, and as a result, the portion of our fleet that is fully depreciated has been shrinking. This increases our depreciation expense relative to our revenue earning assets. In addition, we placed large orders for containers to be delivered in the first quarter of 2011 due to the extreme shortage of containers that developed in 2010. Under TAL's depreciation policy, depreciation starts at the time of on-hire or January 1st of the year following acceptance, whichever comes first. Many of the containers accepted in the first quarter of 2011 were not picked up until later in the year.

Interest expense increased \$2.9 million or 12.2% compared to the first quarter of 2011. The increase from the first quarter of 2011 was due to an increase in our average outstanding debt, partially offset by a decrease in our average effective interest rate. Our average debt balance increased mainly due to new equipment purchases in 2011. Our average effective interest rate decreased by 0.34% in the

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first quarter of 2012 compared to the first quarter of 2011 mainly due to the termination of several interest rate swap contracts that we had entered in prior years, and the replacement of those swaps with longer term swap contracts that have lower fixed rates.

Credit performance. Our credit performance remained strong during the first quarter of 2012, and we recorded a provision for doubtful accounts of less than \$0.1 million. However, our concern about credit risk remains heightened due to the difficult conditions and the sizable financial losses many of our shipping line customers experienced in 2011.

During 2011, excess vessel capacity placed severe pressure on freight rates on the major East/West trade lanes. Effective vessel capacity increased significantly in 2011 due to deliveries of new vessels and the re-introduction of ships that had been laid up in 2009 and 2010. Containerized trade growth was not large enough in 2011 to fully utilize this increased vessel capacity. Higher fuel prices combined with the drop in freight rates to squeeze the profitability of our customers, and many of them reported large losses last year. While our customers are reporting improved freight rates in 2012, we anticipate that they will continue to experience difficult operating conditions and that many will experience financial losses again this year. As a result, the potential for credit losses remains elevated.

Operating expenses. Our direct operating expenses were \$5.6 million during the first quarter of 2012, compared to \$4.6 million in the fourth quarter of 2011 and \$4.1 million during the first quarter of 2011. Our direct operating expenses increased during the first quarter of 2012 due to higher repair and storage costs resulting from a higher volume of redeliveries and slightly lower utilization.

Our administrative expenses remained relatively flat at \$11.1 million compared to the fourth and first quarters of 2011. The limited change in our administrative expenses over the last year highlights the leverage we have over our fixed costs. TAL has existing business relationships with essentially all of the world's major shipping lines, and our global operating infrastructure covers most of the world's major export and import locations. As a result, we have not needed to significantly grow our organization as we have rapidly grown our business. Over the last three years, the ratio of our administrative expenses to our leasing revenues decreased from 14.5% in 2008 to 9.5% in 2011, and 9.0% in the first quarter of 2012.

Dividends

We paid the following quarterly dividends during the three months ended March 31, 2012 and 2011 on our issued and outstanding common stock:

| Record Date | Payment Date | Aggregate Payment | Per Share Payment |
|--------------------|---------------------|--------------------------|--------------------------|
| March 8, 2012 | March 29, 2012 | \$18.3 million | \$ 0.55 |