

Edgar Filing: TAL International Group, Inc. - Form 10-Q

TAL International Group, Inc.  
Form 10-Q  
May 06, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For The Quarterly Period Ended March 31, 2015

Or

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number- 001-32638

TAL International Group, Inc.

(Exact name of registrant as specified in the charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

20-1796526

(I.R.S. Employer  
Identification Number)

100 Manhattanville Road, Purchase, New York

(Address of principal executive office)

10577-2135

(Zip Code)

(914) 251-9000

(Registrant's telephone number including area code)

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

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

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

Large Accelerated

Filer ☒

Accelerated Filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller  
reporting company)

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

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



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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements in this report are subject to a number of known and unknown risks and uncertainties that could cause our actual results, performance or achievements to differ materially from those described in the forward-looking statements, including, but not limited to, the risks and uncertainties described in the section entitled "Risk Factors" in our Annual Report on Form 10-K filed with the SEC on February 19, 2015, in this report as well as in the other documents we file with the SEC from time to time, and such risks and uncertainties are specifically incorporated herein by reference.

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

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The consolidated financial statements of TAL International Group, Inc. ("TAL" or the "Company") as of March 31, 2015 and December 31, 2014 and for the three months ended March 31, 2015 and March 31, 2014 included herein have been prepared by the Company, without audit, pursuant to U.S. generally accepted accounting principles and the rules and regulations of the SEC. In addition, certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements reflect, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the results for the interim periods. The results of operations for such interim periods are not necessarily indicative of the results for the full year. These financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K filed with the SEC, on February 19, 2015 from which the accompanying December 31, 2014 Balance Sheet information was derived, and our other reports filed with the SEC through the current date pursuant to the Exchange Act.

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## TAL INTERNATIONAL GROUP, INC.

## Consolidated Balance Sheets

(Dollars in thousands, except share data)

(Unaudited)

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

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

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## TAL INTERNATIONAL GROUP, INC.

## Consolidated Statements of Income

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

(Unaudited)

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

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

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## TAL INTERNATIONAL GROUP, INC.

## Consolidated Statements of Comprehensive Income

(Dollars in thousands)

(Unaudited)

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

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

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## TAL INTERNATIONAL GROUP, INC.

## Consolidated Statements of Cash Flows

(Dollars in thousands)

(Unaudited)

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

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





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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

A. Description of the Business

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

B. Basis of Presentation

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

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

C. New Accounting Pronouncements

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

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

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

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

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 2—Fair Value of Financial Instruments

The Company believes that the carrying amounts of its cash and cash equivalents, accounts receivable, equipment purchases payable, and accounts payable approximated their fair value as of March 31, 2015 and December 31, 2014. Fair value represents the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company utilizes the following fair value hierarchy when selecting inputs for its valuation techniques, with the highest priority given to Level 1:

Level 1—Financial assets and liabilities whose values are based on observable inputs such as quoted prices for identical instruments in active markets (unadjusted).

Level 2—Financial assets and liabilities whose values are based on observable inputs such as (i) quoted prices for similar instruments in active markets; (ii) quoted prices for identical or similar instruments in markets that are not active; or (iii) model-derived valuations in which all significant inputs are observable in active markets.

Level 3—Financial assets and liabilities whose values are derived from valuation techniques based on one or more significant unobservable inputs.

The Company does not measure net investment in finance leases or debt at fair value in its consolidated balance sheets. The fair value, which was measured using Level 2 inputs, and the carrying value of the Company's net investment in finance leases and debt are listed in the table below as of the dates indicated (in thousands):

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

The Company estimated the fair value of its net investment in finance leases and debt instruments based on the net present value of its future receipts or payments, using a discount rate which reflects the Company's estimate of current market interest rates and spreads as of the balance sheet date.

## Note 3—Dividends and Treasury Stock

## Dividends

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

| Record Date   | Payment<br>Date | Aggregate<br>Payment | Per Share<br>Payment |
|---------------|-----------------|----------------------|----------------------|
| March 3, 2015 | March 24, 2015  | \$23.7 Million       | \$0.72               |
| March 3, 2014 | March 24, 2014  | \$24.2 Million       | \$0.72               |

## Treasury Stock

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



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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 4—Capital Stock and Stock Options

## Stock Based Compensation Plans

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

The cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award) on a straight-line basis.

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

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

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

## Accumulated Other Comprehensive (Loss)

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

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

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 5—Net Investment in Finance Leases

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

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

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

In order to estimate its allowance for losses contained in the gross finance lease receivables, the Company categorizes the credit worthiness of the receivables in the portfolio based on internal customer credit ratings, which are reviewed and updated, as appropriate, on an ongoing basis. The internal customer credit ratings are developed based on a review of the financial performance and condition, operating environment, geographical location and trade routes of our customers.

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

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

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

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

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

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

The Company considers an account past due when a payment has not been received in accordance with the terms of the related lease agreement. As of March 31, 2015, approximately \$0.1 million of the Company's Tier 2 gross finance lease receivables were past due, substantially all of which were aged approximately 31 days. As of March 31, 2015, none of the Company's gross finance lease receivables were in non-accrual status. The Company categorizes



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

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 5—Net Investment in Finance Leases (Continued)

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

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

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

## Note 6—Debt

Debt consisted of the following (amounts in thousands):

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

As of March 31, 2015, the Company had \$1,555.5 million of debt outstanding on facilities with fixed interest rates and \$1,625.3 million of debt outstanding on facilities with interest rates based on floating rate indices (primarily LIBOR). The Company economically hedges the risks associated with fluctuations in interest rates on a portion of its floating rate borrowings by entering into interest rate swap agreements that convert a portion of its floating rate debt to a fixed rate basis, thus reducing the impact of interest rate changes on future interest expense. As of March 31, 2015, the Company had interest rate swaps in place with a net notional amount of \$1,135.0 million to fix the floating interest rates on a portion of its floating rate debt obligations.

The Company is subject to certain financial covenants under its debt facilities, and as of March 31, 2015, was in compliance with all such covenants.

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 7—Derivative Instruments

## Interest Rate Swaps

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

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

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

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

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

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

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

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 7—Derivative Instruments (Continued)

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

## Fair Value of Derivative Instruments

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

## Location of Derivative Instruments in Financial Statements

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

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

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

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 8—Segment and Geographic Information

## Industry Segment Information

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

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

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

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

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

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

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

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 8—Segment and Geographic Information (Continued)

There are no intercompany revenues or expenses between segments. Additionally, certain administrative expenses have been allocated between segments based on an estimate of services provided to each segment. A portion of the Company's equipment purchased for resale was purchased through certain sale-leaseback transactions with our shipping line customers. Due to the expected longer term nature of these transactions, these purchases are reflected as leasing equipment as opposed to equipment held for sale and the cash flows associated with these transactions are reflected as purchases of leasing equipment and proceeds from the sale of equipment in investing activities in the Company's consolidated statements of cash flows.

## Geographic Segment Information

The Company earns most of its leasing revenues from international containers which are deployed by its customers in a wide variety of global trade routes. Substantially all of the Company's leasing related revenue is denominated in U.S. dollars. The following table represents the geographic allocation of equipment leasing revenues for the periods indicated based on customers' primary domicile (in thousands):

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

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

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

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

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9—Commitments and Contingencies

Residual Value Guarantees

During 2008, the Company entered into commitments for equipment residual value guarantees in connection with certain finance leases that were sold or brokered to financial institutions. The guarantees represent the Company's commitment that these assets will be worth a specified amount at the end of certain lease terms (if the lessee does not default on the lease) which expire in 2016. At March 31, 2015, the maximum potential amount of the guarantees under which the Company could be required to perform was approximately \$27.1 million. The carrying values of the guarantees of \$1.1 million have been deferred and are included in accounts payable and accrued expenses. Under the criteria established by ASC 820, the Company performed fair value measurements of the guarantees at origination using Level 2 inputs, which were based on significant other observable inputs other than quoted prices, either on a direct or indirect basis. The Company accounts for the residual value guarantees under Accounting Standards Codification 460, Guarantees. The Company expects that the market value of the equipment covered by the guarantees will equal or exceed the value of the guarantees and therefore, no contingent loss has been provided as of March 31, 2015.

Purchase Commitments

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

Note 10—Income Taxes

The consolidated income tax expense for the three months ended March 31, 2015 and 2014 was determined based upon estimates of the Company's consolidated effective income tax rates for the year ending December 31, 2015 and the year ended December 31, 2014. The difference between the consolidated effective income tax rate and the U.S. federal statutory rate is primarily attributable to state income taxes, foreign income taxes and the effect of certain permanent differences.

Note 11—Subsequent Events

Quarterly Dividend

On April 28, 2015, the Company's Board of Directors approved and declared a \$0.72 per share quarterly cash dividend on its issued and outstanding common stock, payable on June 24, 2015 to shareholders of record at the close of business on June 3, 2015.

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

The following discussion and analysis of the consolidated financial condition and results of operations of TAL International Group, Inc. and its subsidiaries should be read in conjunction with related consolidated financial data and our annual audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K filed with the SEC on February 19, 2015. The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described under "Risk Factors" and "Forward-Looking Statements" in our Form 10-K. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

**Our Company**

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

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

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

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

**Operations**

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



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

| Equipment Fleet in Units |                |         |           |                   |         |           |                |         |           |   |
|--------------------------|----------------|---------|-----------|-------------------|---------|-----------|----------------|---------|-----------|---|
|                          | March 31, 2015 |         |           | December 31, 2014 |         |           | March 31, 2014 |         |           |   |
|                          | Owned          | Managed | Total     | Owned             | Managed | Total     | Owned          | Managed | Total     |   |
| Dry                      | 1,244,482      | 15,151  | 1,259,633 | 1,174,154         | 15,553  | 1,189,707 | 1,094,422      | 17,500  | 1,111,922 |   |
| Refrigerated             | 66,048         | 30      | 66,078    | 64,977            | 33      | 65,010    | 66,462         | 57      | 66,519    |   |
| Special                  | 56,797         | 747     | 57,544    | 55,388            | 792     | 56,180    | 55,273         | 1,353   | 56,626    |   |
| Tank                     | 9,555          | —       | 9,555     | 9,282             | —       | 9,282     | 8,317          | —       | 8,317     |   |
| Chassis                  | 19,885         | —       | 19,885    | 19,116            | —       | 19,116    | 13,720         | —       | 13,720    |   |
| Equipment leasing fleet  | 1,396,767      | 15,928  | 1,412,695 | 1,322,917         | 16,378  | 1,339,295 | 1,238,194      | 18,910  | 1,257,104 |   |
| Equipment trading fleet  | 31,264         | —       | 31,264    | 32,448            | —       | 32,448    | 37,438         | —       | 37,438    |   |
| Total                    | 1,428,031      | 15,928  | 1,443,959 | 1,355,365         | 16,378  | 1,371,743 | 1,275,632      | 18,910  | 1,294,542 |   |
| Percentage               | 98.9           | % 1.1   | % 100.0   | % 98.8            | % 1.2   | % 100.0   | % 98.5         | % 1.5   | % 100.0   | % |
| Equipment Fleet in TEU   |                |         |           |                   |         |           |                |         |           |   |
|                          | March 31, 2015 |         |           | December 31, 2014 |         |           | March 31, 2014 |         |           |   |
|                          | Owned          | Managed | Total     | Owned             | Managed | Total     | Owned          | Managed | Total     |   |
| Dry                      | 2,019,040      | 26,440  | 2,045,480 | 1,901,299         | 27,183  | 1,928,482 | 1,769,678      | 30,967  | 1,800,645 |   |
| Refrigerated             | 125,441        | 48      | 125,489   | 123,288           | 54      | 123,342   | 126,973        | 101     | 127,074   |   |
| Special                  | 103,619        | 1,312   | 104,931   | 100,680           | 1,385   | 102,065   | 99,937         | 2,294   | 102,231   |   |
| Tank                     | 9,555          | —       | 9,555     | 9,282             | —       | 9,282     | 8,317          | —       | 8,317     |   |
| Chassis                  | 35,443         | —       | 35,443    | 33,877            | —       | 33,877    | 24,496         | —       | 24,496    |   |
| Equipment leasing fleet  | 2,293,098      | 27,800  | 2,320,898 | 2,168,426         | 28,622  | 2,197,048 | 2,029,401      | 33,362  | 2,062,763 |   |
| Equipment trading fleet  | 50,865         | —       | 50,865    | 52,571            | —       | 52,571    | 61,465         | —       | 61,465    |   |
| Total                    | 2,343,963      | 27,800  | 2,371,763 | 2,220,997         | 28,622  | 2,249,619 | 2,090,866      | 33,362  | 2,124,228 |   |
| Percentage               | 98.8           | % 1.2   | % 100.0   | % 98.7            | % 1.3   | % 100.0   | % 98.4         | % 1.6   | % 100.0   | % |
| Equipment Fleet in CEU   |                |         |           |                   |         |           |                |         |           |   |
|                          | March 31, 2015 |         |           | December 31, 2014 |         |           | March 31, 2014 |         |           |   |
|                          | Owned          | Managed | Total     | Owned             | Managed | Total     | Owned          | Managed | Total     |   |
| Operating leases         | 2,574,642      | 23,767  | 2,598,409 | 2,451,007         | 24,511  | 2,475,518 | 2,298,739      | 29,163  | 2,327,902 |   |
| Finance leases           | 196,914        | 825     | 197,739   | 196,712           | 825     | 197,537   | 209,688        | 831     | 210,519   |   |
| Equipment trading fleet  | 114,614        | —       | 114,614   | 105,229           | —       | 105,229   | 138,419        | —       | 138,419   |   |
| Total                    | 2,886,170      | 24,592  | 2,910,762 | 2,752,948         | 25,336  | 2,778,284 | 2,646,846      | 29,994  | 2,676,840 |   |
| Percentage               | 99.2           | % 0.8   | % 100.0   | % 99.1            | % 0.9   | % 100.0   | % 98.9         | % 1.1   | % 100.0   | % |

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,

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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.

The percentage of our equipment fleet by equipment type as of March 31, 2015 and the percentage of our leasing revenues by equipment type for the three months ended March 31, 2015 are as follows:

| Equipment Type          | Percent of<br>total fleet in<br>units |   | Percent of<br>total<br>fleet in CEU |   | Percent of<br>leasing<br>revenues |   |
|-------------------------|---------------------------------------|---|-------------------------------------|---|-----------------------------------|---|
| Dry                     | 87.2                                  | % | 61.3                                | % | 65.1                              | % |
| Refrigerated            | 4.5                                   |   | 22.0                                |   | 20.0                              |   |
| Special                 | 4.0                                   |   | 4.8                                 |   | 7.0                               |   |
| Tank                    | 0.7                                   |   | 5.3                                 |   | 3.4                               |   |
| Chassis                 | 1.4                                   |   | 2.7                                 |   | 2.9                               |   |
| Equipment leasing fleet | 97.8                                  |   | 96.1                                |   | 98.4                              |   |
| Equipment trading fleet | 2.2                                   |   | 3.9                                 |   | 1.6                               |   |
| 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                          | March 31,<br>2015 |   | December 31,<br>2014 |   | March 31,<br>2014 |   |
|------------------------------------------|-------------------|---|----------------------|---|-------------------|---|
| Long-term leases                         | 67.8              | % | 68.9                 | % | 67.6              | % |
| Finance leases                           | 7.8               |   | 8.0                  |   | 9.2               |   |
| Service leases                           | 18.0              |   | 17.7                 |   | 17.7              |   |
| Expired long-term leases (units on-hire) | 6.4               |   | 5.4                  |   | 5.5               |   |
| Total                                    | 100.0             | % | 100.0                | % | 100.0             | % |

As of March 31, 2015, December 31, 2014 and March 31, 2014, our long-term and finance leases combined had average remaining contract terms of approximately 42 months, 41 months, and 44 months, respectively, assuming no leases are renewed.



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

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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 1.0% lower in the first quarter of 2015, compared to the first quarter of 2014, excluding the impact of sale-leaseback transactions. This decrease is mainly the result of certain lease renegotiations.

Equipment disposals. During the first quarter of 2015, we recognized a \$1.4 million loss on the sale of our used containers, compared to a gain of \$3.1 million in the first quarter of 2014.

In the first quarter of 2015, our loss on sale was negatively impacted by lower average sale prices for used containers. Our average used container selling prices decreased approximately 24% from the first quarter of 2014 due to the impact of lower new container prices and as leasing companies and shipping lines have increased disposal volumes in response to the gradual normalization of the global container supply/demand balance.

Our loss / gain on equipment disposals also continues to be negatively impacted by the disposals 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 \$6.2 million or 7.6% in the first quarter of 2015 as compared to the first quarter of 2014. This increase in our ownership expenses was in line with the increase in the average net book value of our revenue earning assets, which increased by approximately 7.6% from the first quarter of 2014 to the first quarter of 2015.

Depreciation expense increased \$4.6 million or 8.6% in the first quarter 2015 as compared to the first quarter of 2014 mainly due to the net increase in the size of our depreciable fleet. Depreciation expense increased faster than our revenue earning assets mainly reflecting a decrease in the portion of our fleet that is fully depreciated. TAL purchased few new containers in the late 1990's and early 2000's, and as a result, we have relatively few original TAL containers reaching the end of their depreciable lives. We expect the portion of fully depreciated containers in our fleet will continue to trend down for the next several years.

Interest expense increased \$1.6 million or 5.8% in the first quarter of 2015 as compared to the first quarter of 2014. This increase was due to an increase in our average outstanding debt partially offset by a decrease in our average effective interest rate. Our average outstanding debt increased by 7.0% mainly due to the 7.6% increase in the average net book value of our revenue earning assets. Our average effective interest rate decreased to 3.81% in the first quarter of 2015 as compared to 3.85% in the first quarter of 2014 reflecting the refinancing of selected debt facilities with lower cost debt and the issuance of new debt at interest rates lower than those on our existing debt facilities.

Credit performance. We recorded a small reversal for doubtful accounts during the first quarter of 2015, compared to a small provision during the first quarter of 2014. While our credit performance was strong during the first quarter of 2015, our overall concern about credit risk remains heightened due to the difficult market conditions facing our customers. Many of the major shipping lines have reported modest or negative profitability over the last few years due to persistent excess vessel capacity and weak freight rates. Several shipping lines are also currently undertaking significant financial restructurings due to high current financial leverage and ongoing sizable losses. In addition, it is anticipated that the volume of new vessels entering service over the next several years will cause the global container vessel fleet to grow at a higher rate than global containerized trade. As a result, we expect freight rates and our customers' financial performance to remain under pressure.

Operating expenses. Direct operating expenses were \$8.8 million in the three months ended March 31, 2015, compared to \$8.7 million in the same period in 2014, an increase of \$0.1 million. This increase was mainly due to an increase in the volume of pick-up and drop-off activity.

Our administrative expenses increased \$0.2 million to \$12.0 million in the first quarter of 2015, compared to \$11.8 million in the first quarter of 2014. This increase was mainly due to an increase in foreign exchange losses on our Euro and GBP denominated assets and liabilities partially offset by a decrease in incentive compensation.



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## Dividends

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

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

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 February 11, 2015, TAL's Board of Directors authorized a new share repurchase program of up to 3.0 million of its outstanding shares. In addition, there are 88,157 shares remaining under TAL's 2006 stock repurchase program. No time limit was set for the completion of the repurchase program.

Stock repurchases under these programs may be made through open market and/or privately negotiated transactions at such times and in such amounts as our Board of Directors 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 programs do not have an expiration date and may be limited or terminated by the Board of Directors at any time without prior notice.



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## Results of Operations

The following table summarizes our results of operations for the three months ended March 31, 2015 and 2014 (in thousands of dollars):

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

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## Comparison of Three Months Ended March 31, 2015 to Three Months Ended March 31, 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<br>March 31,<br>2015                      2014<br>(in thousands) |            |
|---------------------------------|-------------------------------------------------------------------------------------|------------|
| Leasing revenues:               |                                                                                     |            |
| Operating lease revenues:       |                                                                                     |            |
| Per diem revenue                | \$ 137,208                                                                          | \$ 132,003 |
| Fee and ancillary lease revenue | 7,360                                                                               | 7,327      |
| Total operating lease revenue   | 144,568                                                                             | 139,330    |
| Finance lease revenue           | 4,024                                                                               | 4,953      |
| Other revenues                  | 383                                                                                 | 484        |
| Total leasing revenues          | \$ 148,975                                                                          | \$ 144,767 |

Total leasing revenues were \$149.0 million in the three months ended March 31, 2015, compared to \$144.8 million in the same period in 2014, an increase of \$4.2 million, or 2.9%.

Per diem revenue increased by \$5.2 million, or 3.9%, compared to the three months ended March 31, 2014. The primary reasons for this increase are as follows:

- \$11.4 million increase due to an increase of approximately 213,000 CEU in the average number of containers on-hire under operating leases; partially offset by a

- \$6.2 million decrease due to lower average per diem rates.

Fee and ancillary lease revenue remained flat in the three months ended March 31, 2015, compared to the same period in 2014.

Finance lease revenue decreased by \$0.9 million in the three months ended March 31, 2015, compared to the same period in 2014. This is mainly 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<br>March 31,<br>2015                      2014<br>(in thousands) |           |
|----------------------------|-------------------------------------------------------------------------------------|-----------|
| Equipment trading revenues | \$ 16,845                                                                           | \$ 12,487 |
| Equipment trading expenses | (15,431)                                                                            | (10,839)  |
| Equipment trading margin   | \$ 1,414                                                                            | \$ 1,648  |

The equipment trading margin was \$1.4 million in the three months ended March 31, 2015, compared to \$1.6 million in the same period in 2014, a decrease of \$0.2 million. The trading margin decreased by \$0.5 million due to lower per unit margins on equipment sold and increased by \$0.3 million due to higher sales volumes.

Net (loss) gain on sale of leasing equipment. Loss on sale of equipment was \$1.4 million in the three months ended March 31, 2015, compared to a gain on sale of equipment of \$3.1 million in the same period in 2014, a decrease of \$4.5 million. The primary reasons for this decrease are as follows:



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\$4.8 million decrease due to a decline of approximately 24% in used dry container selling prices; partially offset by a •\$0.3 million increase due to an increase in sales volume.

**Depreciation and amortization.** Depreciation and amortization was \$58.4 million in the three months ended March 31, 2015, compared to \$53.8 million in the same period in 2014, an increase of \$4.6 million or 8.6%.

Depreciation expense increased by \$5.8 million due to the net increase in the size of our depreciable fleet, partially offset by a decrease of \$1.2 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 \$8.8 million in the three months ended March 31, 2015, compared to \$8.7 million in the same period in 2014, an increase of \$0.1 million. This increase was primarily driven by an increase in redelivery and repair related costs of \$0.8 million due to a higher volume of redeliveries. This increase was partially offset by a decrease of \$0.7 million in storage costs due to a decrease in the number of idle units.

**Administrative expenses.** Administrative expenses were \$12.0 million in the three months ended March 31, 2015 compared to \$11.8 million in the same period in 2014, an increase of \$0.2 million or 1.7%. This increase was mainly due to an increase in foreign exchange losses on our Euro and GBP denominated assets and liabilities partially offset by a decrease in incentive compensation.

**(Reversal) provision for doubtful accounts.** Our reversal for doubtful accounts was minimal for the three months ended March 31, 2015, compared to a small provision in the three months ended March 31, 2014.

**Interest and debt expense.** Interest and debt expense was \$29.2 million in the three months ended March 31, 2015, compared to \$27.6 million in the three months ended March 31, 2014, an increase of \$1.6 million. Interest and debt expense increased \$1.9 million due to a higher average debt balance of \$3,070.4 million for the three months ended March 31, 2015, compared to \$2,868.5 million for the three months ended March 31, 2014, partially offset by a decrease of \$0.3 million due to a lower effective interest rate of 3.81% in the three months ended March 31, 2015, compared to 3.85% for the same period in 2014.

**Net loss on interest rate swaps** Net loss on interest rate swaps was \$0.7 million in the three months ended March 31, 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 incur accounting gains or losses, 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 three months ended March 31, 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 \$14.1 million in the three months ended March 31, 2015, compared to \$16.0 million in the same period in 2014. The effective tax rates for the three months ended March 31, 2015 and 2014 were 35.3% and 34.8%, respectively. Our effective tax rate increased due to changes in state apportionment factors for several states.

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**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<br>March 31, |          |          |    |
|-------------------------------|---------------------------------|----------|----------|----|
|                               | 2015                            | 2014     | % Change |    |
|                               | (in thousands)                  |          |          |    |
| Income before income taxes(1) |                                 |          |          |    |
| Equipment leasing segment     | \$37,807                        | \$43,682 | (13.4    | )% |
| Equipment trading segment     | \$2,725                         | \$3,862  | (29.4    | )% |

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

**Equipment leasing income before income taxes.** Income before income taxes for the Equipment leasing segment was \$37.8 million in the three months ended March 31, 2015, compared to \$43.7 million in the same period in 2014, a decrease of \$5.9 million, which was primarily due to a \$4.5 million decrease in used container disposal gains and 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 \$1.4 million.

**Equipment trading income before income taxes.** Income before income taxes for the Equipment trading segment was \$2.7 million in the three months ended March 31, 2015, compared to \$3.9 million in the same period in 2014, a decrease of \$1.2 million. This decrease was 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 \$0.9 million and a \$0.2 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 March 31, 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



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\$625.9 million. In addition, as of March 31, 2015 we had \$71.7 million of unrestricted cash and \$654.6 million of additional borrowing capacity under our current credit facilities.

As of March 31, 2015, major committed cash outflows in the next 12 months include \$378.4 million of scheduled principal payments on our existing debt facilities and \$87.7 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 March 31, 2015, our outstanding indebtedness was comprised of the following (amounts in millions):

|                                              | Current<br>Amount<br>Outstanding | Maximum<br>Borrowing<br>Commitment |
|----------------------------------------------|----------------------------------|------------------------------------|
| Asset backed securitization (ABS) term notes | \$1,438.6                        | \$1,438.6                          |
| Term loan facilities                         | 941.7                            | 1,106.3                            |
| Asset backed warehouse facility              | 545.0                            | 650.0                              |
| Revolving credit facilities                  | 165.0                            | 550.0                              |
| Capital lease obligations                    | 90.5                             | 90.5                               |
| Total Debt                                   | \$3,180.8                        | \$3,835.4                          |

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 March 31, 2015, we had \$1,555.5 million of debt outstanding on facilities with fixed interest rates and \$1,625.3 million of debt outstanding on facilities with interest rates based on floating rate indices (primarily LIBOR). 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 March 31, 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 March 31, 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 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





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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 March 31, 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<br>Covenant EBIT<br>to<br>Cash Interest<br>Expense Ratio | Actual<br>Covenant EBIT<br>to<br>Cash Interest<br>Expense Ratio |
|------------------------|------------------------------------------------------------------|-----------------------------------------------------------------|
| Consolidated           | 1.10                                                             | 2.96                                                            |
| TAL Advantage I, LLC   | 1.10                                                             | 6.99                                                            |
| TAL Advantage III, LLC | 1.30                                                             | 3.36                                                            |
| TAL Advantage IV, LLC  | 1.10                                                             | 2.56                                                            |
| TAL Advantage V, LLC   | 1.10                                                             | 2.47*                                                           |

\* 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 March 31, 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 March 31, 2015 was \$710.8 million. As of March 31, 2015, the actual TNW for each of our SPEs and for the \$450 million revolving credit facility was \$1,040.6 million. As of March 31, 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<br>Indebtedness<br>to TNW Ratio | Actual<br>Indebtedness<br>to TNW Ratio |
|------------------------|-----------------------------------------|----------------------------------------|
| Consolidated           | 4.75                                    | 3.25                                   |
| TAL Advantage I, LLC   | 4.75                                    | 3.16                                   |
| TAL Advantage III, LLC | 4.75                                    | 3.13                                   |
| TAL Advantage IV, LLC  | 4.75                                    | 3.13                                   |
| TAL Advantage V, LLC   | 4.75                                    | 3.13                                   |

As of March 31, 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 March 31, 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.

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## Cash Flow

The following table sets forth certain cash flow information for the three months ended March 31, 2015 and 2014 (in thousands):

|                                                                     | Three Months Ended<br>March 31, |              |
|---------------------------------------------------------------------|---------------------------------|--------------|
|                                                                     | 2015                            | 2014         |
| Net cash provided by operating activities                           | \$91,248                        | \$74,431     |
| Cash flows from investing activities:                               |                                 |              |
| Purchases of leasing equipment and investments in finance leases    | \$(258,552 )                    | \$(148,622 ) |
| Proceeds from sale of equipment, net of selling costs               | 37,661                          | 39,461       |
| Cash collections on finance lease receivables, net of income earned | 10,474                          | 12,004       |
| Other                                                               | (74 )                           | 25           |
| Net cash (used in) investing activities                             | \$(210,491 )                    | \$(97,132 )  |
| Net cash provided by financing activities                           | \$111,820                       | \$24,149     |

## Operating Activities

Net cash provided by operating activities increased by \$16.8 million to \$91.2 million in the three months ended March 31, 2015, compared to \$74.4 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 \$2.3 million.

Our net collections from customers in the first quarter of 2015 were higher than the first quarter of 2014 by \$14.6 million.

In the first quarter of 2014, we incurred net losses on interest rate swaps which were terminated prior to their contractual maturities. In the first quarter of 2015, we had no such terminations. This resulted in an increase in operating cash flows of \$1.7 million.

We had more net purchases of equipment purchased for resale in the first quarter of 2015 than in the first quarter of 2014, for a decrease in operating cash flows of \$1.9 million.

## Investing Activities

Net cash used in investing activities increased by \$113.4 million to \$210.5 million in the three months ended March 31, 2015, compared to \$97.1 million in the same period in 2014. This increase was primarily due to an increase in the purchase of leasing equipment of \$109.9 million. In addition, we had lower proceeds from the sale of equipment of \$1.8 million due to lower selling prices on equipment sold and a decrease in cash collections on finance lease receivables of \$1.5 million due to a smaller portfolio.

## Financing Activities

In the three months ended March 31, 2015, cash flows provided from financing activities increased by \$87.7 million to \$111.8 million, compared to \$24.1 million in the same period in 2014. This increase was primarily due to an increase of \$88.8 million in net borrowings under our various debt facilities. In addition, there was a decrease of \$2.7 million of restricted cash requirements and a decrease in dividends paid on common stock of \$0.5 million. Partially offsetting these increases were purchases of treasury stock of \$4.4 million in the current quarter.

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 March 31, 2015:

| Contractual Obligations:             | Contractual Obligations by Period |                   |         |         |         |                        |
|--------------------------------------|-----------------------------------|-------------------|---------|---------|---------|------------------------|
|                                      | Total                             | Remaining<br>2015 | 2016    | 2017    | 2018    | 2019 and<br>thereafter |
|                                      | (dollars in millions)             |                   |         |         |         |                        |
| Total debt obligations(1)            | \$3,636.0                         | \$333.6           | \$408.5 | \$374.5 | \$537.5 | \$1,981.9              |
| Capital lease obligations(2)         | 97.1                              | 30.6              | 29.9    | 18.8    | 17.8    | —                      |
| Operating leases (mainly facilities) | 7.1                               | 1.3               | 1.6     | 1.2     | 1.1     | 1.9                    |
| Purchase obligations:                |                                   |                   |         |         |         |                        |
| Equipment purchases payable          | 67.4                              | 67.4              | —       | —       | —       | —                      |
| Equipment purchase commitments       | 20.3                              | 20.3              | —       | —       | —       | —                      |
| Total contractual obligations        | \$3,827.9                         | \$453.2           | \$440.0 | \$394.5 | \$556.4 | \$1,983.8              |

(1) Amounts include actual and estimated interest for floating rate debt based on March 31, 2015 rates and the net effect of our interest rate swaps.

(2) Amounts include interest.

**Off-Balance Sheet Arrangements**

As of March 31, 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 March 31, 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<br>Amount | Weighted Average<br>Fixed (Pay) Leg Interest Rate | Weighted Average<br>Remaining Term |
|------------------------|---------------------------------------------------|------------------------------------|
| \$1,135 Million        | 2.00%                                             | 7.3 years                          |

For the three months ended March 31, 2015 and 2014, we recognized unrealized losses of \$24.4 million and \$11.0 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 months ended March 31, 2015 and 2014 as follows (amounts in millions):

|                                 | Three Months Ended<br>March 31, |       |
|---------------------------------|---------------------------------|-------|
|                                 | 2015                            | 2014  |
| Net loss on interest rate swaps | \$0.7                           | \$0.4 |

Since 70% 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 \$4.2 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 March 31, 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 March 31, 2015, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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## 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 February 11, 2015, TAL's Board of Directors authorized a new share repurchase program of up to 3.0 million of its outstanding shares. In addition, there are 88,157 shares remaining under TAL's 2006 stock repurchase program. No time limit was set for the completion of the repurchase program. Our share purchase activity during the quarter ended March 31, 2015 is summarized in the following table:

| Period                | Total Number of<br>Shares Purchased | Average Price Paid<br>per Share | Maximum Number<br>of Shares that May<br>Yet Be Purchased<br>Under the Programs |
|-----------------------|-------------------------------------|---------------------------------|--------------------------------------------------------------------------------|
| January 1 - 31, 2015  | 81,915                              | \$41.40                         | 88,157                                                                         |
| February 1 - 28, 2015 | —                                   | —                               | 3,088,157                                                                      |
| March 1 - 31, 2015    | —                                   | —                               | 3,088,157                                                                      |

Stock repurchases under these programs may be made through open market and/or privately negotiated transactions at such times and in such amounts as our Board of Directors 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 programs do not have an expiration date and may be limited or terminated by the Board of Directors at any time without prior notice.

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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                                                                                             |

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\* Filed herewith.

\*\* Furnished herewith.

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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.

May 6, 2015

By: /s/ JOHN BURNS

John Burns

Senior Vice President and Chief Financial Officer (Principal  
Financial Officer)