TOOTSIE ROLL INDUSTRIES INC
Form 10-Q
August 08, 2018
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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 June 30, 2018

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 1-1361

Tootsie Roll Industries, Inc.

(Exact Name of Registrant as Specified in its Charter)

VIRGINIA	22-1318955
(State of Incorporation)	(I.R.S. Employer Identification No.)

7401 South Cicero Avenue, Chicago, Illinois	60629
(Address of Principal Executive Offices)	(Zip Code)

773-838-3400

(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 requirements 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

`	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
Large accelerated filer				

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (June 30, 2018).

Class	Outstanding
Common Stock, $.69 4/9 par value	38,645,382
Class B Common Stock, $.69 4/9 par value	25,604,679

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TOOTSIE ROLL INDUSTRIES, INC.

June 30, 2018

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This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. See "Forward-Looking Statements" under Part I — Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Quarterly Report on Form 10-Q.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TOOTSIE ROLL INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands) (Unaudited)

	June 30,2018	December 31, 2017	June 30,2017
ASSETS			
CURRENT ASSETS:			
Cash & cash equivalents	$ 38,334	$ 96,314	$ 57,804
Restricted cash	396	406	415
Investments	65,211	41,606	71,940
Trade accounts receivable, less allowances of $1,819, $1,921 & $1,944	37,222	47,354	31,254
Other receivables	6,420	5,425	6,610
Inventories:			
Finished goods & work-in-process	63,548	31,922	64,980
Raw material & supplies	28,029	22,905	29,606
Income taxes receivable and prepaid	13,873	12,974	-
Prepaid expenses	7,132	12,014	5,207
Total current assets	260,165	270,920	267,816
PROPERTY, PLANT & EQUIPMENT, at cost:			
Land	21,945	21,962	22,202
Buildings	118,478	118,491	116,547
Machinery & equipment	380,778	381,665	369,667
Construction in progress	17,726	4,866	10,245
	538,927	526,984	518,661
Less-accumulated depreciation	356,152	348,012	339,871
Net property, plant and equipment	182,775	178,972	178,790
OTHER ASSETS:			

Goodwill	73,237	73,237	73,237
Trademarks	175,024	175,024	175,024
Investments	192,181	190,510	196,308
Split dollar officer life insurance	26,042	26,042	26,042
Prepaid expenses and other assets	13,870	15,817	40
Deferred income taxes	421	424	-
Total other assets	480,775	481,054	470,651
Total assets	$ 923,715	$ 930,946	$ 917,257

(The accompanying notes are an integral part of these statements.)

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(in thousands except per share data) (Unaudited)

	June 30,2018	December 31, 2017	June 30,2017
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable	$ 16,700	$ 11,928	$ 13,819
Bank loans	420	440	334
Dividends payable	5,783	5,660	5,692
Accrued liabilities	37,808	45,157	44,266
Postretirement health care	603	603	513
Total current liabilities	61,314	63,788	64,624
NONCURRENT LIABILITIES:			
Deferred income taxes	41,241	41,457	44,257
Postretirement health care	13,062	12,894	11,832
Industrial development bonds	7,500	7,500	7,500
Liability for uncertain tax positions	4,902	4,817	5,361
Deferred compensation and other liabilities	69,665	66,686	80,161
Total noncurrent liabilities	136,370	133,354	149,111
TOOTSIE ROLL INDUSTRIES, INC. SHAREHOLDERS' EQUITY:			
Common stock, $.69-4/9 par value- 120,000 shares authorized; 38,645, 37,960 & 38,319, respectively, issued	26,837	26,361	26,610
Class B common stock, $.69-4/9 par value- 40,000 shares authorized; 25,605, 24,891 & 24,918, respectively, issued	17,781	17,285	17,304
Capital in excess of par value	699,965	656,752	670,477
Retained earnings	7,020	57,225	9,615
Accumulated other comprehensive loss	(23,501)	(21,791)	(18,581)
Treasury stock (at cost)- 88, 85 & 85 shares, respectively	(1,992)	(1,992)	(1,992)
Total Tootsie Roll Industries, Inc. shareholders' equity	726,110	733,840	703,433
Noncontrolling interests	(79)	(36)	89
Total equity	726,031	733,804	703,522
Total liabilities and shareholders' equity	$ 923,715	$ 930,946	$ 917,257

(The accompanying notes are an integral part of these statements.)

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TOOTSIE ROLL INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF

EARNINGS AND RETAINED EARNINGS

(in thousands except per share amounts) (Unaudited)

	Quarter Ended		Year to Date Ended	
	June 30,2018	June 30,2017	June 30,2018	June 30,2017
Net product sales	$ 105,623	$ 104,897	$ 206,482	$ 208,322
Rental and royalty revenue	1,186	899	2,127	1,929
Total revenue	106,809	105,796	208,609	210,251
Product cost of goods sold	67,481	65,381	133,315	130,919
Rental and royalty cost	208	251	475	517
Total costs	67,689	65,632	133,790	131,436
Product gross margin	38,142	39,516	73,167	77,403
Rental and royalty gross margin	978	648	1,652	1,412
Total gross margin	39,120	40,164	74,819	78,815
Selling, marketing and administrative expenses	28,752	26,555	54,609	53,280
Earnings from operations	10,368	13,609	20,210	25,535
Other income (loss), net	3,363	2,713	3,884	4,941
Earnings before income taxes	13,731	16,322	24,094	30,476
Provision for income taxes	3,261	4,472	5,523	8,615
Net earnings	10,470	11,850	18,571	21,861
Less: Net earnings (loss) attributable to noncontrolling interests	(19)	(45)	(43)	(85)
Net earnings attributable to Tootsie Roll Industries, Inc.	$ 10,489	$ 11,895	$ 18,614	$ 21,946
Net earnings attributable to Tootsie Roll Industries, Inc. per share	$ 0.16	$ 0.18	$ 0.29	$ 0.34
Dividends per share *	$ 0.09	$ 0.09	$ 0.18	$ 0.18
Average number of shares outstanding	64,190	65,138	64,318	65,308
Retained earnings at beginning of period	$ 2,306	$ 3,405	$ 57,225	$ 43,833
Net earnings attributable to Tootsie Roll Industries, Inc.	10,489	11,895	18,614	21,946
Adopted ASU's (See Note 1)	-	-	2,726	-
Cash dividends	(5,775)	(5,685)	(11,396)	(11,240)

Stock dividends	-	-	(60,149)	(44,924)
Retained earnings at end of period	$ 7,020	$ 9,615	$ 7,020	$ 9,615

*Does not include 3% stock dividend to shareholders of record on 3/6/18 and 3/7/17.

(The accompanying notes are an integral part of these statements.)

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TOOTSIE ROLL INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE EARNINGS

(in thousands except per share amounts) (Unaudited)

	Quarter Ended		Year to Date Ended	
	June 30,2018	June 30,2017	June 30,2018	June 30,2017
Net earnings	$ 10,470	$ 11,850	$ 18,571	$ 21,861
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments	(1,674)	991	(62)	3,091
Pension and postretirement reclassification adjustments:				
Unrealized gains (losses) for the period on postretirement and pension benefits	-	(175)	-	91
Less: reclassification adjustment for (gains) losses to net earnings	(331)	(366)	(662)	(731)
Unrealized gains (losses) on postretirement and pension benefits	(331)	(541)	(662)	(640)
Investments:				
Unrealized gains (losses) for the period on investments	(30)	149	(1,280)	379
Less: reclassification adjustment for (gains) losses to net earnings	-	-	-	-
Unrealized gains (losses) on investments	(30)	149	(1,280)	379
Derivatives:				
Unrealized gains (losses) for the period on derivatives	(377)	(1,204)	(1,849)	(1,754)
Less: reclassification adjustment for (gains) losses to net earnings	548	985	835	(137)
Unrealized gains (losses) on derivatives	171	(219)	(1,014)	(1,891)
Total other comprehensive income (loss), before tax	(1,864)	380	(3,018)	939
Income tax benefit (expense) related to items of other comprehensive income	46	333	715	726
Total comprehensive earnings	8,652	12,563	16,268	23,526
Comprehensive earnings (loss) attributable to noncontrolling interests	(19)	(45)	(43)	(85)
Total comprehensive earnings attributable to Tootsie Roll Industries, Inc.	$ 8,671	$ 12,608	$ 16,311	$ 23,611

(The accompanying notes are an integral part of these statements.)

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TOOTSIE ROLL INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands) (Unaudited)

	Year to Date Ended	
	June 30,2018	June 30,2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 18,571	$ 21,861
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	9,154	9,338
Deferred income taxes	(472)	21
Amortization of marketable security premiums	888	1,216
Changes in operating assets and liabilities:		
Accounts receivable	10,038	12,535
Other receivables	(1,308)	(4,522)
Inventories	(36,818)	(36,460)
Prepaid expenses and other assets	6,786	2,138
Accounts payable and accrued liabilities	8	1,820
Income taxes payable	(814)	79
Postretirement health care benefits	(586)	(423)
Deferred compensation and other liabilities	948	776
Net cash from operating activities	6,395	8,379
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(11,662)	(7,427)
Purchases of trading securities	(3,562)	(3,007)
Sales of trading securities	817	435
Purchase of available for sale securities	(49,742)	(40,622)
Sale and maturity of available for sale securities	27,057	10,985
Net cash used in investing activities	(37,092)	(39,636)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Shares purchased and retired	(15,803)	(20,140)
Dividends paid in cash	(11,435)	(11,282)
Proceeds from bank loans	1,264	724
Repayment of bank loans	(1,255)	(965)
Net cash used in financing activities	(27,229)	(31,663)
Effect of exchange rate changes on cash	(64)	1,612
Decrease in cash and cash equivalents	(57,990)	(61,308)
Cash, cash equivalents and restricted cash at beginning of year	96,720	119,527
Cash, cash equivalents and restricted cash at end of quarter	$ 38,730	$ 58,219
Supplemental cash flow information:		

Income taxes paid/(received), net	$ 6,661	$ 8,798
Interest paid	$ 54	$ 31
Stock dividend issued	$ 60,538	$ 69,739

(The accompanying notes are an integral part of these statements.)

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TOOTSIE ROLL INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

(in thousands except per share amounts) (Unaudited)

Note 1 — Significant Accounting Policies

General Information

Foregoing data has been prepared from the unaudited financial records of Tootsie Roll Industries, Inc. (the Company) and in the opinion of management all adjustments, which are of a normal recurring nature, necessary for a fair statement of the results for the interim period have been reflected. Certain amounts previously reported have been reclassified to conform to the current year presentation. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in the Company's Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K").

Results of operations for the period ended June 30, 2018 are not necessarily indicative of results to be expected for the year to end December 31, 2018 because of the seasonal nature of the Company's operations. Historically, the third quarter has been the Company's largest sales quarter due to pre-Halloween sales.

Revenue Recognition

The Company's revenues, primarily net product sales, principally result from the sale of goods, reflect the consideration to which the Company expects to be entitled generally based on customer purchase orders. The Company records revenue based on a five-step model in accordance with Accounting Standards Codification ("ASC") Topic 606 which became effective January, 1, 2018. Adjustments for estimated customer cash discounts upon payment, discounts for price adjustments, product returns, allowances, and certain advertising and promotional costs, including consumer coupons, are variable consideration and are recorded as a reduction of product sales revenue in the same period the related product sales are recorded. Such estimates are calculated using historical averages adjusted for any expected changes due to current business conditions and experience. A net product sale is recorded when the

Company delivers the product to the customer, or in certain instances, the customer picks up the goods at the Company's distribution center, and thereby obtains control of such product. Amounts billed and due from our customers are classified as accounts receivables on the balance sheet and require payment on a short-term basis. Accounts receivable are unsecured. Shipping and handling costs are included in selling, marketing and administrative expenses. We also recognize a minor amount of royalty income (less than .2% of our consolidated net sales) from sales-based licensing arrangements, pursuant to which revenue is recognized as the third-party licensee sales occur. Rental income (less than 1% of our consolidated net sales) is not considered revenue from contracts from customers. See "Recently Adopted Accounting Pronouncements" for further discussion.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, (ASC Topic 606) which supersedes nearly all existing revenue recognition guidance. Subsequent to the issuance of ASC Topic 606, the FASB clarified and amended the guidance through several Accounting Standard Updates; hereinafter the collection of revenue guidance is referred to as "ASC 606". The core principle of ASC 606 is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted ASU 2014-09 and related amendments (ASC 606) as of January 1, 2018 using the modified retrospective method. As a result of adoption, the cumulative impact to retained earnings at January 1, 2018 was a net after-tax increase of $3,319 ($4,378 pre-tax). This adjustment principally changed the timing of recognition of certain trade promotions and related adjustments thereto which affect net product sales. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company expects the impact of the adoption of the new standard to be immaterial to its net income on an ongoing basis. Revenue continues to be recognized at a point in time for product sales when products are delivered to or picked up by the customer as discussed above.

In February 2018, the FASB issued ASU 2018-02 which provides financial statement preparers with an option to reclassify stranded tax effects within Accumulated Other Comprehensive Income (AOCI) to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. The guidance is effective for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in any interim period. The amendments should be applied either in the period adopted or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company early adopted ASU 2018-02 on January 1, 2018 with a $593 cumulative-effect adjustment from AOCI to decrease retained earnings related to certain tax effects of unrealized gains and losses on available-for-sale securities and other post-retirement benefits. No other income tax effects related to the application of the Tax Cuts and Jobs Act were reclassified from AOCI to retained earnings.

In March 2018, the FASB issued ASU 2018-05 which adds various Securities and Exchange Commission (“SEC”) paragraphs pursuant to the issuance of the December 2017 SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”), which was effective immediately. The SEC issued SAB 118 to address concerns about reporting entities’ ability to timely comply with the accounting requirements to recognize all of the effects of the Tax Cuts and Jobs Act in the period of enactment. SAB 118 allows disclosure that timely determination of some or all of the income tax effects from the Tax Cuts and Jobs Act are incomplete by the due date of the financial statements and if possible to provide a reasonable estimate. The Company has accounted for the tax effects of the Tax Cuts and Jobs Act under the guidance of SAB 118, on a provisional basis. The accounting for certain income tax effects is incomplete, but the Company has determined reasonable estimates for those effects and has recorded provisional amounts in the condensed consolidated financial statements as of June 30, 2018 and December 31, 2017.

In January 2016, the FASB issued ASU 2016-01, as amended by ASU 2018-03, issued in February 2018, which among other changes in accounting and disclosure requirements, replaces the cost method of accounting for non-marketable equity securities with a model for recognizing impairments and observable price changes, and also eliminates the available-for-sale classification for marketable equity securities. The Company adopted this guidance as of January 1, 2018. The Company does not have any non-marketable securities, and therefore, the adoption of this guidance did not have any impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, which clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. The standard will be effective for fiscal years beginning after December 15, 2017, including interim periods within those years. The Company retrospectively adopted this guidance effective January 1, 2018. The Company’s adoption of this guidance did not have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18 which requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those years using a retrospective transition method to each period presented. The Company retrospectively adopted this guidance as of January 1, 2018. The Company’s adoption of this guidance did not have a material impact on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07 which requires companies with other postretirement employee benefit plans to present the service cost component of net periodic benefit cost in the same income statement line item as other compensation costs. The other components of net periodic benefit cost will be presented separately and not included in operating income. The standard will be effective for fiscal years beginning after December 15, 2017, including interim periods within those years. The Company retrospectively adopted this guidance effective January 1, 2018. The Company’s adoption of this guidance did not have a material impact on its consolidated financial statements.

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Recently Issued Accounting Pronouncements - Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02 which amends existing guidance to require lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by long-term leases and to disclose additional quantitative and qualitative information about leasing arrangements. This ASU also provides clarifications surrounding the presentation of the effects of leases in the income statement and statement of cash flows. This guidance will be effective for the Company on January 1, 2019. The Company owns substantially all of its personal property and real estate, but is currently evaluating this new guidance to determine the impact it will have on its consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, guidance that amends hedge accounting. Under the new guidance, more hedging strategies will be eligible for hedge accounting and the application of hedge accounting is simplified. The new guidance amends presentation and disclosure requirements, and how effectiveness is assessed. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. The Company is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

Note 2 — Average Shares Outstanding

The average number of shares outstanding for six months 2018 reflects stock purchases of 472 shares for $15,803 and a 3% stock dividend of 1,869 shares distributed on April 6, 2018. The average number of shares outstanding for six months 2017 reflects stock purchases of 536 shares for $20,140 and a 3% stock dividend of 1,847 shares distributed on April 17, 2017.

Note 3 — Income Taxes

The Company is subject to taxation in the U.S. and various state and foreign jurisdictions. The Company remains subject to examination by U.S. federal and state and foreign tax authorities for the years 2014 through 2016. With few exceptions, the Company is no longer subject to examination by tax authorities for the year 2013 and prior. The consolidated effective tax rates were 23.7% and 27.4% in second quarter 2018 and 2017, respectively, and 22.9% and 28.3% in first half 2018 and 2017, respectively. The lower effective tax rate in second quarter and first half 2018 compared to second quarter and first half 2017 principally reflects the lower federal tax rate of 21% effective for 2018.

The Company believes it has obtained and analyzed all reasonably available information necessary to record the effects of the change in tax law and considers its accounting for the effects of the 2017 Tax Reform Act to be provisional as of June 30, 2018. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional regulatory guidance that may be issued by the Internal Revenue Service, and actions the Company may take as a result of the Tax Reform Act.

Note 4 — Fair Value Measurements

Current accounting guidance defines fair value as the price that would be received on the sale of an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Guidance requires disclosure of the extent to which fair value is used to measure financial assets and liabilities, the inputs utilized in calculating valuation measurements, and the effect of the measurement of significant unobservable inputs on earnings, or changes in net assets, as of the measurement date. Guidance establishes a three-level valuation hierarchy based upon the transparency of inputs utilized in the measurement and valuation of financial assets or liabilities as of the measurement date. Level 1 inputs include quoted prices for identical instruments and are the most observable. Level 2 inputs include quoted prices for similar assets and observable inputs such as interest rates, foreign currency exchange rates, commodity rates and yield curves. Level 3 inputs are not observable in the market and include management's own judgments about the assumptions market participants would use in pricing the asset or liability. The use of observable and unobservable inputs is reflected in the hierarchy assessment disclosed in the table below.

As of June 30, 2018, December 31, 2017 and June 30, 2017, the Company held certain financial assets that are required to be measured at fair value on a recurring basis. These included derivative hedging instruments related to the purchase

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of certain raw materials and foreign currencies, investments in trading securities and available for sale securities. The Company's available for sale securities principally consist of corporate and municipal bonds that are publicly traded and variable rate demand notes and obligations with interest rates that generally reset weekly and the security can be "put" back and sold weekly. Trading securities principally consist of equity mutual funds that are publicly traded.

The following table presents information about the Company's financial assets and liabilities measured at fair value as of June 30, 2018, December 31, 2017 and June 30, 2017 and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

	Estimated Fair Value June 30,2018			
	Total	Input Levels Used		
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 38,334	$ 38,334	$ -	$ -
Available for sale securities	192,392	-	192,392	-
Foreign currency forward contracts	-	-	-	-
Commodity futures contracts	(904)	(904)	-	-
Trading securities	65,000	65,000	-	-
Total assets measured at fair value	$ 294,822	$ 102,430	$ 192,392	$ -

	Estimated Fair Value December 31, 2017			
	Total	Input Levels Used		
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 96,314	$ 96,314	$ -	$ -
Available for sale securities	171,596	1,200	170,396	-
Foreign currency forward contracts	79	-	79	-
Commodity futures contracts, net	32	32	-	-
Trading securities	60,520	60,520	-	-
Total assets measured at fair value	$ 328,541	$ 158,066	$ 170,475	$ -

	Estimated Fair Value June 30,2017			
	Total	Input Levels Used		
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 57,804	$ 57,804	$ -	$ -
Available for sale securities	192,983	2,406	190,577	-
Foreign currency forward contracts	83	-	83	-
Commodity futures contracts	(348)	(348)	-	-
Trading securities	75,265	75,265	-	-
Total assets measured at fair value	$ 325,787	$ 135,127	$ 190,660	$ -

The fair value of the Company's industrial revenue development bonds at June 30, 2018, December 31, 2017 and June 30, 2017 were valued using Level 2 inputs which approximates the carrying value of $7,500 for the respective periods. Interest rates on these bonds are reset weekly based on current market conditions.

Note 5 — Derivative Instruments and Hedging Activities

The Company uses derivative instruments, including foreign currency forward contracts, commodity futures contracts and commodity option contracts, to manage its exposures to foreign exchange and commodity prices. Commodity futures contracts and most commodity option contracts are intended and effective as hedges of market price risks associated with the anticipated purchase of certain raw materials (primarily sugar). Foreign currency forward contracts are intended and effective as hedges of the Company's exposure to the variability of cash flows, primarily related to the foreign exchange rate changes of products manufactured in Canada and sold in the United States. The Company does not engage in trading or other speculative use of derivative instruments.

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The Company recognizes all derivative instruments as either assets or liabilities at fair value in the Condensed Consolidated Statement of Financial Position. Derivative assets are recorded in other receivables and derivative liabilities are recorded in accrued liabilities. The Company uses hedge accounting for its foreign currency and commodity derivative instruments as discussed above. Derivatives that qualify for hedge accounting are designated as cash flow hedges by formally documenting the hedge relationships, including identification of the hedging instruments, the hedged items and other critical terms, as well as the Company's risk management objectives and strategies for undertaking the hedge transaction.

Changes in the fair value of the Company's cash flow hedges are recorded in accumulated other comprehensive loss, net of tax, and are reclassified to earnings in the periods in which earnings are affected by the hedged item. Substantially all amounts reported in accumulated other comprehensive loss for commodity derivatives are expected to be reclassified to cost of goods sold. Approximately $464 of this accumulated comprehensive loss is expected to be reclassified to earnings in 2018 and a $440 accumulated comprehensive loss is expected to be reclassified as a charge to earnings in 2019.

The following table summarizes the Company's outstanding derivative contracts and their effects on its Condensed Consolidated Statements of Financial Position at June 30, 2018, December 31, 2017 and June 30, 2017:

	June 30,2018		
	Notional Amounts	Assets	Liabilities
Derivatives designated as hedging instruments:			
Foreign currency forward contracts	$ -	$ -	$ -
Commodity futures contracts	9,058	11	(915)
Total derivatives		$ 11	$ (915)

	December 31, 2017		
	Notional Amounts	Assets	Liabilities
Derivatives designated as hedging instruments:			
Foreign currency forward contracts	$ 919	$ 79	$ -
Commodity futures contracts	13,840	284	(252)
Total derivatives		$ 363	$ (252)

	June 30,2017		
	Notional Amounts	Assets	Liabilities
Derivatives designated as hedging instruments:			

Foreign currency forward contracts	$ 3,200	$ 83	$ -
Commodity futures contracts	12,543	74	(422)
Total derivatives		$ 157	$ (422)

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The effects of derivative instruments on the Company's Condensed Consolidated Statements of Earnings and Retained Earnings and the Condensed Consolidated Statements of Comprehensive Earnings for periods ended June 30, 2018 and June 30, 2017 are as follows:

	For Quarter Ended June 30,2018		
	Gain (Loss) Recognized in OCI	Gain (Loss) Reclassified from Accumulated OCI into Earnings	Gain (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings
Foreign currency forward contracts	$ -	$ 20	$ -
Commodity futures contracts	(377)	(568)	-
Total	$ (377)	$ (548)	$ -

	For Quarter Ended June 30,2017		
	Gain (Loss) Recognized in OCI	Gain (Loss) Reclassified from Accumulated OCI into Earnings	Gain (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings
Foreign currency forward contracts	$ 125	$ (29)	$ -
Commodity futures contracts	(1,329)	(956)	-
Total	$ (1,204)	$ (985)	$ -

	For Year to Date Ended June 30,2018		
	Gain (Loss) Recognized in OCI	Gain (Loss) Reclassified from Accumulated OCI into Earnings	Gain (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings
Foreign currency forward contracts	$ (11)	$ 67	$ -
Commodity futures contracts	(1,838)	(902)	-
Total	$ (1,849)	$ (835)	$ -

	For Year to Date Ended June 30,2017		
	Gain (Loss)	Gain (Loss) Reclassified from	Gain (Loss) on Amount Excluded from Effectiveness

	Recognized in OCI	Accumulated OCI into Earnings	2015	Testing Recognized in Earnings 2014
Net loss on interest rate swaps	$0.2	$0.8		

Since 58% 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 $7.3 million in interest expense over the next 12 months.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements and financial statement schedule listed under Item 15—Exhibits and Financial Statement Schedules are filed as a part of this Item 8. Supplementary financial information may be found in Note 13 to the Consolidated Financial Statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

MANAGEMENT'S REPORT REGARDING THE EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

We carried out an evaluation, under the supervision and with the participation of our management, including our President and Chief Executive Officer along with our Senior Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based upon their evaluation of these disclosure controls and procedures, our President and Chief Executive Officer along with the Senior Vice President and Chief Financial Officer concluded, as of the end of the period covered by this Annual Report on Form 10-K, that our disclosure controls and procedures were effective.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed with the participation of our principal executive officer and principal financial officer or persons performing similar functions to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes policies and procedures that: (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of assets; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and Board of Directors; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, our internal controls and procedures may not prevent or detect misstatements. A control system, no matter how well conceived and operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2015, our management, with the participation of our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO" 2013). Based on this evaluation, management has determined that TAL International Group, Inc.'s internal control over financial reporting is effective as of December 31, 2015.

Ernst & Young LLP, the independent registered public accounting firm that audited our 2015 consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on our internal control over financial reporting. The report appears elsewhere in this Annual Report on Form 10-K.

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Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders of
TAL International Group, Inc.

We have audited TAL International Group, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). TAL International Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on TAL International Group, Inc.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, TAL International Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of TAL International Group, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015 of TAL International Group, Inc. and our report dated February 29, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
February 29, 2016

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Changes in Internal Controls

There were no changes in our internal controls over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's last fiscal quarter ended December 31, 2015, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10, Directors and Executive Officers of the Registrant, is incorporated herein by reference to an amendment to this Form 10-K to be filed by the Company not later than 120 days after the end of the fiscal year covered by this report. Information concerning Section 16(a) beneficial ownership reporting compliance and the audit committee is incorporated herein by reference to an amendment to this Form 10-K to be filed not later than 120 days after the end of the fiscal year covered by this report.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11, Executive Compensation, is incorporated herein by reference to an amendment to this Form 10-K to be filed by the Company not later than 120 days after the end of the fiscal year covered by this report.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, is incorporated herein by reference to an amendment to this Form 10-K to be filed by the Company not later than 120 days after the end of the fiscal year covered by this report.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13, Certain Relationships and Related Transactions, and Director Independence, is incorporated herein by reference to an amendment to this Form 10-K to be filed by the Company not later than 120 days after the end of the fiscal year covered by this report.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14, Principal Accountant Fees and Services, is incorporated herein by reference to an amendment to this Form 10-K to be filed by the Company not later than 120 days after the end of the fiscal year covered by this report.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

The following financial statements are included in Item 8 of this report:

(a)(2) Financial Statement Schedule

The following financial statement schedule for the Company is filed as part of this report:

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the accompanying Consolidated Financial Statements or notes thereto.

(a)(3) List of Exhibits

The following exhibits are filed as part of and incorporated by reference into this Annual Report on Form 10-K:

Exhibit No.	Description
3.1	Second Amended and Restated Certificate of Incorporation of TAL International Group, Inc. (incorporated by reference from Exhibit 3.1 to TAL International Group, Inc.'s Form 10-K filed on March 20, 2006)
3.2	Amended and Restated Bylaws of TAL International Group, Inc. (incorporated by reference from Exhibit 3.1 to TAL International Group, Inc.'s Form 8-K filed on November 10, 2015)
4.1	Form of Common Stock Certificate (incorporated by reference from Exhibit 4.1 to Amendment No. 3 to TAL International Group, Inc.'s Form S-1 filed on October 5, 2005, file number 333-126317)
4.2	Amended and Restated Indenture dated as of April 12, 2006 by and between TAL Advantage I LLC and U. S. Bank National Association (incorporated by reference from Exhibit 10.35 to TAL International Group, Inc.'s Form 10-Q filed on May 12, 2006)
4.3	First Supplemental Indenture between TAL Advantage I LLC and U.S. Bank National Association dated June 26, 2007 to the Amended and Restated Indenture dated as of April 12, 2006 (incorporated by reference from Exhibit 10.58 to TAL International Group, Inc.'s Form 10-Q filed on August 8, 2008)
4.4	Second Supplemental Indenture between TAL Advantage I LLC and U.S. Bank National Association dated November 19, 2007 to the Amended and Restated Indenture dated as of April 12, 2006 (incorporated by reference from Exhibit 10.59 to TAL International Group, Inc.'s Form 10-Q filed on August 8, 2008)
4.5	Amended and Restated Series 2005-1 Supplement dated as of April 12, 2006 between Advantage I LLC and U. S. Bank National Association (incorporated by reference from Exhibit 10.40 to TAL International Group, Inc.'s Form 10-Q filed on May 12, 2006)

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Exhibit No.	Description
4.6	Amended and Restated Management Agreement dated as of April 12, 2006 by and between TAL International Container Corporation and TAL Advantage I LLC (incorporated by reference from Exhibit 10.36 to TAL International Group, Inc.'s Form 10-Q filed on May 12, 2006)
4.7	Amended and Restated Contribution and Sale Agreement dated as of April 12, 2006 by and between TAL International Container Corporation and TAL Advantage I LLC (incorporated by reference from Exhibit 10.37 to TAL International Group, Inc.'s Form 10-Q filed on May 12, 2006)
4.8	Amended and Restated Series 2005-1 Note Purchase Agreement dated as of April 7, 2006 by and between TAL Advantage I LLC, the Noteholders from time to time party thereto and the other financial institutions from time to time party thereto (incorporated by reference from Exhibit 10.41 to TAL International Group, Inc.'s Form 10-Q filed on May 12, 2006)
4.9	Series 2006-1 Supplement dated as of April 12, 2006 by and between TAL Advantage I LLC and U. S. Bank National Association (incorporated by reference from Exhibit 10.38 to TAL International Group, Inc.'s Form 10-Q filed on May 12, 2006)
4.10	Series 2006-1 Note Purchase Agreement dated as of April 7, 2006 by and between TAL Advantage I LLC, TAL International Container Corporation, and Fortis Securities LLC and Credit Suisse Securities (USA) LLC (incorporated by reference from Exhibit 10.39 to TAL International Group, Inc.'s Form 10-Q filed on May 12, 2006)
4.11	Intercreditor Agreement Dated April 12, 2006 by and among TAL International Container Corporation, TAL Advantage I LLC, U. S. Bank National Association and Fortis Capital Corp. (incorporated by reference from Exhibit 4.11 to TAL International Group, Inc.'s Form 10-K filed on March 3, 2009)
4.12	Credit Agreement, dated as of July 31, 2006, by and among TAL International Container Corporation, Fortis Capital Corp. and the Lenders party thereto (incorporated by reference from Exhibit 10.43 to TAL International Group, Inc.'s Form 8-K filed on August 4, 2006)
4.13	Amendment No. 1 dated July 13, 2007 to Credit Agreement, dated as of July 31, 2006, by and among TAL International Container Corporation, Fortis Capital Corp. and the Lenders party thereto (incorporated by reference from Exhibit 10.47 to TAL International Group, Inc.'s Form 8-K filed on July 17, 2007)
4.14	Security Agreement, dated as of July 31, 2006, by and among TAL International Container Corporation and Fortis Capital Corp. (incorporated by reference from Exhibit 10.44 to TAL International Group, Inc.'s Form 8-K filed on August 4, 2006)
4.15	Pledge Agreement, dated as of July 31, 2006, by and among TAL International Container Corporation and Fortis Capital Corp. (incorporated by reference from Exhibit 10.45 to TAL International Group, Inc.'s Form 8-K filed on August 4, 2006)
4.16	Guaranty, dated as of July 31, 2006, made by TAL International Group, Inc. (incorporated by reference from Exhibit 10.46 to TAL International Group, Inc.'s Form 8-K filed on August 4, 2006)
4.17	

	Third Supplemental Indenture between TAL Advantage I LLC and U.S. Bank National Association dated June 23, 2008 to the Amended and Restated Indenture dated as of April 12, 2006 (incorporated by reference from Exhibit 10.61 to TAL International Group, Inc.'s Form 10-Q filed on August 8, 2008)
4.18	Management Agreement dated as of October 23, 2009 between TAL International Container Corporation and TAL Advantage III LLC (incorporated by reference from Exhibit 4.33 to TAL International Group, Inc.'s Form 10-K filed on March 1, 2010)
4.19	Contribution and Sale Agreement dated as of October 23, 2009 between TAL International Container Corporation and TAL Advantage III LLC (incorporated by reference from Exhibit 4.34 to TAL International Group, Inc.'s Form 10-K filed on March 1, 2010)

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Exhibit No.	Description
4.20	Amendment No. 1 dated as of July 16, 2010 to the Management Agreement dated as of October 23, 2009 by and between TAL Advantage III LLC and TAL International Container Corporation (incorporated by reference from Exhibit 4.54 to TAL International Group, Inc.'s Form 10-Q filed on July 30, 2010)
4.21	Amended and Restated Indenture dated as of August 12, 2011 by and between TAL Advantage III LLC and Wells Fargo Bank, National Association (incorporated by reference from Exhibit 4.65 to TAL International Group Inc.'s Form 10-Q filed on October 28, 2011)
4.22	Amended and Restated Credit Agreement dated November 30, 2011, by and among TAL International Container Corporation, The Royal Bank of Scotland PLC as Administrative Agent and as Collateral Agent, RBS Securities, Inc. as Sole Arranger, and the Lenders from time to time party thereto (incorporated by reference from Exhibit 4.45 to TAL International Group Inc.'s Form 10-K filed on February 22, 2012)
4.23	Amended and Restated Security Agreement dated November 30, 2011, by and among TAL International Container Corporation and The Royal Bank of Scotland PLC as Collateral Agent (incorporated by reference from Exhibit 4.46 to TAL International Group Inc.'s Form 10-K filed on February 22, 2012)
4.24	Amended and Restated Pledge Agreement dated November 30, 2011, by and among TAL International Container Corporation, as Pledgor in favor of The Royal Bank of Scotland PLC in its capacity as Collateral Agent, as Pledgee (incorporated by reference from Exhibit 4.47 to TAL International Group Inc.'s Form 10-K filed on February 22, 2012)
4.25	Amended and Restated Guaranty dated November 30, 2011 made by TAL International Group, Inc. (incorporated by reference from Exhibit 4.48 to TAL International Group Inc.'s Form 10-K filed on February 22, 2012)
4.26	Amendment No. 2 dated December 22, 2011 to the Credit Agreement dated July 31, 2006, by and among TAL International Container Corporation, Fortis Bank NA/SV, assignee of Fortis Capital Corp. and the Lenders party thereto (incorporated by reference from Exhibit 4.49 to TAL International Group Inc.'s Form 10-K filed on February 22, 2012)
4.27	Indenture, dated as of February 27, 2013, by and between TAL Advantage V, LLC and Wells Fargo Bank, National Association, as Indenture Trustee (incorporated by reference from Exhibit 4.52 to TAL International Group Inc.'s Form 10-Q filed on April 30, 2013)
4.28	Series 2013-1 Supplement dated as of February 27, 2013, by and between TAL Advantage V, LLC and Wells Fargo Bank, National Association, as Indenture Trustee (incorporated by reference from Exhibit 4.53 to TAL International Group Inc.'s Form 10-Q filed on April 30, 2013)
4.29	Management Agreement dated as of February 27, 2013, by and between TAL International Container Corporation and TAL Advantage V LLC (incorporated by reference from Exhibit 4.54 to TAL International Group Inc.'s Form 10-Q filed on April 30, 2013)
4.30	Contribution and Sale Agreement dated as of February 27, 2013 by and between TAL International Container Corporation and TAL Advantage V LLC (incorporated by reference from Exhibit 4.55 to

	TAL International Group Inc.'s Form 10-Q filed on April 30, 2013)
4.31	Transition Agent Agreement dated as of February 27, 2013 by and between Wells Fargo Bank, National Association, TAL International Container Corporation and TAL Advantage V LLC (incorporated by reference from Exhibit 4.56 to TAL International Group Inc.'s Form 10-Q filed on April 30, 2013)
4.32	Series 2013-1 Note Purchase Agreement dated as of February 20, 2013 by and between TAL Advantage V LLC, TAL International Container Corporation, Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc. and RBC Capital Markets, LLC (incorporated by reference from Exhibit 4.57 to TAL International Group Inc.'s Form 10-Q filed on April 30, 2013)

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Exhibit No.	Description
4.33	Credit Agreement, dated as of March 12, 2013, by and among TAL International Container Corporation, the Lenders from time to time party thereto, Bank of America N.A. as Administrative Agent and Collateral Agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wells Fargo Securities, LLC and RBC Capital Markets, as Joint Lead Arrangers (incorporated by reference from Exhibit 4.58 to TAL International Group Inc.'s Form 10-Q filed on April 30, 2013)
4.34	Security Agreement dated March 12, 2013, by and among TAL International Container Corporation and Bank of America N.A. as Collateral Agent (incorporated by reference from Exhibit 4.59 to TAL International Group Inc.'s Form 10-Q filed on April 30, 2013)
4.35	Guaranty dated March 12, 2013 made by TAL International Group, Inc. (incorporated by reference from Exhibit 4.60 to TAL International Group Inc.'s Form 10-Q filed on April 30, 2013)
4.36	Omnibus Amendment No. 1 dated July 2, 2013 to the Amended and Restated Indenture, Series 2009-1 Supplement and Series 2009-1 Note Purchase Agreement by and between TAL Advantage III LLC and Wells Fargo Bank, National Association, Wells Fargo Securities, LLC, and the other Noteholders from time to time party thereto and the other financial institutions from time to time party thereto (incorporated by reference from Exhibit 4.63 to TAL International Group Inc.'s Form 10-Q filed on July 30, 2013)
4.37	Fourth Supplemental Indenture between TAL Advantage I LLC and U.S. Bank National Association dated July 5, 2013 to the Amended and Restated Indenture dated as of April 12, 2006 (incorporated by reference from Exhibit 4.64 to TAL International Group Inc.'s Form 10-Q filed on July 30, 2013)
4.38	Series 2013-2 Note Purchase Agreement dated as of October 31, 2013 by and between TAL Advantage V LLC, TAL International Container Corporation, and Nomura Securities International, Inc. (incorporated by reference from Exhibit 4.60 to TAL International Group Inc.'s Form 10-K filed on February 20, 2014)
4.39	Series 2013-2 Supplement dated as of November 7, 2013, by and between TAL Advantage V, LLC and Wells Fargo Bank, National Association, as Indenture Trustee (incorporated by reference from Exhibit 4.61 to TAL International Group, Inc.'s Form 10-K filed on February 20, 2014)
4.40	Amendment No. 1 dated November 8, 2013 to the 2013-1 Supplement dated February 27, 2013, by and among TAL Advantage V LLC and Wells Fargo Bank, National Association, as Indenture Trustee (incorporated by reference from Exhibit 4.62 to TAL International Group, Inc.'s Form 10-K filed on February 20, 2014)
4.41	Amendment No. 2 dated as of February 26, 2014, to the Indenture dated as of February 27, 2013 between TAL Advantage V LLC, as the Issuer and Wells Fargo Bank, National Association, as the Indenture Trustee (incorporated by reference from Exhibit 4.63 to TAL International Group, Inc.'s Form 10-Q filed on April 29, 2014)
4.42	Series 2014-1 Supplement dated as of February 27, 2014 by and between TAL Advantage V LLC as the Issuer and Wells Fargo Bank, National Association as the Indenture Trustee (incorporated by reference from Exhibit 4.64 to TAL International Group, Inc.'s Form 10-Q filed on April 29, 2014)
4.43	

	Series 2014-1 Note Purchase Agreement dated as of February 19, 2014 by and between TAL Advantage V LLC, as Issuer, TAL International Container Corporation, as Manager, Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBC Capital Markets, LLC, and Wells Fargo Securities, LLC, as Initial Purchasers (incorporated by reference from Exhibit 4.65 to TAL International Group, Inc.'s Form 10-Q filed on April 29, 2014)
4.44	Term Loan Agreement dated as of April 2, 2014 by and between TAL International Container Corporation, as Borrower, the Lenders from time to time party thereto, as Lenders, Suntrust Bank, as Administrative Agent and as Collateral Agent, Suntrust Robinson Humphrey, Inc., as Lead Arranger, and ING Belgium SA/NV, as Syndication Agent (incorporated by reference from Exhibit 4.66 to TAL International Group, Inc.'s Form 10-Q filed on April 29, 2014)

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Exhibit No.	Description
4.45	Security Agreement dated as of April 2, 2014, by and among TAL International Container Corporation and Suntrust Bank as Collateral Agent (incorporated by reference from Exhibit 4.67 to TAL International Group, Inc.'s Form 10-Q filed on April 29, 2014)
4.46	Guaranty dated as of April 2, 2014, made by TAL International Group, Inc. (incorporated by reference from Exhibit 4.68 to TAL International Group, Inc.'s Form 10-Q filed on April 29, 2014)
4.47	Series 2014-2 Supplement dated as of May 19, 2014 by and between TAL Advantage V LLC, as Issuer and Wells Fargo Bank, National Association, as the Indenture Trustee (incorporated by reference from Exhibit 4.69 to TAL International Group, Inc.'s Form 10-Q filed on July 30, 2014)
4.48	Series 2014-2 Note Purchase Agreement dated as of May 8, 2014 by and between TAL Advantage V LLC, as Issuer, TAL International Container Corporation, as Manager, BNP Paribas Securities Corp., Wells Fargo Securities, LLC, and RBC Capital Markets, LLC as Initial Purchasers (incorporated by reference from Exhibit 4.70 to TAL International Group, Inc.'s Form 10-Q filed on July 30, 2014)
4.49	Amendment No. 2 dated October 10, 2014 to the Amended and Restated Indenture, dated as of August 12, 2011, by and between TAL Advantage III LLC, as Issuer and Wells Fargo Bank, National. Association, as Indenture Trustee (incorporated by reference from Exhibit 4.71 to TAL International Group, Inc.'s Form 10-Q filed on October 29, 2014)
4.50	Second Amended and Restated 2009-1 Supplement dated as of October 10, 2014 by and between TAL Advantage III LLC, as Issuer and Wells Fargo Bank, National Association, as Indenture Trustee (incorporated by reference from Exhibit 4.72 to TAL International Group, Inc.'s Form 10-Q filed on October 29, 2014)
4.51	Second Amended and Restated Series 2009-1 Note Purchase Agreement dated as of October 10, 2014 by and between TAL Advantage III LLC, as Issuer and the Noteholders from time to time party thereto and the other financial institutions from time to time party hereto (incorporated by reference from Exhibit 4.73 to TAL International Group, Inc.'s Form 10-Q filed on October 29, 2014)
4.52	Amendment No. 2 dated October 10, 2014 to the Management Agreement dated October 23, 2009 by and between TAL Advantage III LLC, as Issuer and TAL International Container Corporation, as Manager (incorporated by reference from Exhibit 4.74 to TAL International Group, Inc.'s Form 10-Q filed on October 29, 2014)
4.53	Credit Agreement dated as of November 7, 2014 by and between TAL International Container Corporation, as Borrower, the Lenders from time to time party hereto, as Lenders, First Niagara Bank, N.A., as Administrative Agent, as Collateral Agent, and as Joint Lead Arranger and Joint Bookrunner, ING Belgium SA/NV, as Syndication Agent, Joint Lead Arranger and Joint Bookrunner, and Wells Fargo Equipment Finance, Inc. and PNC Bank, National Association, as Co-documentation Agents

4.54	Security Agreement dated as of November 7, 2014, by and among TAL International Container Corporation and First Niagara Bank, N.A. as Collateral Agent
4.55	Guaranty dated as of November 7, 2014, made by TAL International Group, Inc.
4.56	Series 2014-3 Supplement dated as of November 25, 2014 by and between TAL Advantage V LLC, as Issuer and Wells Fargo Bank, National Association, as the Indenture Trustee
4.57	Series 2014-3 Note Purchase Agreement dated as of November 18, 2014 by and between TAL Advantage V LLC, as Issuer, TAL International Container Corporation, as Manager, RBC Capital Markets, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wells Fargo Securities, LLC, ABN Amro Securities (USA) LLC, Nomura Securities International, Inc., and Mizuho Securities USA Inc. as Initial Purchasers

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Exhibit No.		Description
4.58	*	Modification of Term Loan Agreement dated as of February 5, 2016 by and between TAL International Container Corporation, as Borrower, the Lenders from time to time party thereto, as Lenders, Suntrust Bank, as Administrative Agent and as Collateral Agent, Suntrust Robinson Humphrey, Inc., as Lead Arranger, and ING Belgium SA/NV, as Syndication Agent
10.1		Amended and Restated Management Subscription Agreement, dated as of October 11, 2005, by and among TAL International Group, Inc., Brian M. Sondey, Chand Khan, Frederico Baptista, Adrian Dunner, John C. Burns, Bernd Schackier and John Pearson (incorporated by reference from Exhibit 10.9 to TAL International Group, Inc.'s Form 10-K filed on March 20, 2006)
10.2		Amended and Restated Tax Sharing Agreement, dated as of August 1, 2005, by and among TAL International Group, Inc. and its subsidiaries named therein (incorporated by reference from Exhibit 10.12 to Amendment No. 1 to TAL International Group, Inc.'s Form S-1 filed on August 26, 2005, file number 333-126317)
10.3	+	Employment Agreement, dated as of November 3, 2004, by and between TAL International Group, Inc. and Brian M. Sondey (incorporated by reference from Exhibit 10.13 to TAL International Group, Inc.'s Form S-1 filed on June 30, 2005, file number 333-126317)
10.4	+	Form of Indemnity Agreement between TAL International Group, Inc., certain of its subsidiaries, each of their respective current directors and certain of their respective current officers (incorporated by reference from Exhibit 10.22 to Amendment No. 2 to TAL International Group, Inc.'s Form S-1 filed on September 20, 2005, file number 333-126317)
10.5	+	2005 Management Omnibus Incentive Plan (incorporated by reference from Exhibit 10.33 to TAL International Group, Inc.'s Form 10-K filed on March 20, 2006)
10.6	+	2014 Equity Incentive Plan (incorporated by reference from Exhibit 4.4 to TAL International Group, Inc.'s Form S-8 filed on July 30, 2014)
14.1		Code of Ethics (incorporated by reference from Exhibit 14.1 to the TAL International Group, Inc.'s Form 8-K filed on April 3, 2006)
21.1	*	List of Subsidiaries
23.1	*	Consent of Independent Registered Public Accounting Firm
24.1	*	Powers of Attorney (included on the signature page to this Annual Report on Form 10-K)
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

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Exhibit No.	Description
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

+ Indicates a management contract or compensatory plan or arrangement.
* Filed herewith.
** Furnished herewith.
(b) Exhibits.
The Company hereby files as part of this Annual Report on Form 10-K the exhibits listed in Item 15(a)(3) set forth above.
(c) Financial Statement Schedules
The Company hereby files as part of this Annual Report on Form 10-K the financial statement schedule listed in Item 15(a)(2) set forth above.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: February 29, 2016	TAL International Group, Inc.
	By: /s/ BRIAN M. SONDEY Brian M. Sondey Chairman, President and Chief Executive Officer

POWER OF ATTORNEY AND SIGNATURES

We, the undersigned officers and directors of TAL International Group, Inc. hereby severally constitute and appoint Brian M. Sondey and John Burns and each of them singly, our true and lawful attorneys, with the power to them and each of them singly, to sign for us and in our names in the capacities indicated below, any amendments to this Annual Report on Form 10-K, and generally to do all things in our names and on our behalf in such capacities to enable TAL International Group, Inc. to comply with the provisions of the Securities Exchange Act of 1934, as amended, and all the requirements of the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant, in the capacities indicated, on the 29th day of February, 2016.

Signature	Title(s)
/s/ BRIAN M. SONDEY Brian M. Sondey	Chairman, President and Chief Executive Officer (Principal Executive Officer), Director
/s/ JOHN BURNS John Burns	Senior Vice President, Chief Financial Officer (Principal Financial Officer)
/s/ MICHELLE GALLAGHER Michelle Gallagher	Vice President and Controller (Principal Accounting Officer)
/s/ MALCOLM P. BAKER Malcolm P. Baker	Director
/s/ CLAUDE GERMAIN Claude Germain	Director
/s/ KENNETH HANAU Kenneth Hanau	Director
/s/ HELMUT KASPERS Helmut Kaspers	Director
/s/ FREDERIC H. LINDEBERG Frederic H. Lindeberg	Director

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
TAL International Group, Inc.

We have audited the accompanying consolidated balance sheets of TAL International Group, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the Index Item 15(a)(2). These financial statements and schedule are the responsibility of the TAL International Group Inc.'s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TAL International Group, Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), TAL International Group, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated February 29, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
February 29, 2016

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

	December 31, 2015	2014
ASSETS:		
Leasing equipment, net of accumulated depreciation and allowances of $1,218,826 and $1,055,864	$3,908,292	$3,674,031
Net investment in finance leases, net of allowances of $805 and $1,056	177,737	219,872
Equipment held for sale	74,899	59,861
Revenue earning assets	4,160,928	3,953,764
Unrestricted cash and cash equivalents	58,907	79,132
Restricted cash	30,302	35,649
Accounts receivable, net of allowances of $1,314 and $978	95,709	85,681
Goodwill	74,523	74,523
Other assets	13,620	11,400
Fair value of derivative instruments	87	1,898
Total assets	$4,434,076	$4,242,047
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Equipment purchases payable	$20,009	$88,336
Fair value of derivative instruments	20,348	10,394
Accounts payable and other accrued expenses	56,096	57,877
Net deferred income tax liability	456,123	411,007
Debt, net of unamortized deferred financing costs of $25,245 and $32,937	3,216,488	3,007,905
Total liabilities	3,769,064	3,575,519
Stockholders' equity:		
Preferred stock, $0.001 par value, 500,000 shares authorized, none issued	—	—
Common stock, $0.001 par value, 100,000,000 shares authorized, 37,167,134 and 37,006,283 shares issued respectively	37	37
Treasury stock, at cost, 3,911,843 and 3,829,928 shares	(75,310)	(71,917)
Additional paid-in capital	511,297	504,891
Accumulated earnings	248,183	246,766
Accumulated other comprehensive (loss)	(19,195)	(13,249)
Total stockholders' equity	665,012	666,528
Total liabilities and stockholders' equity	$4,434,076	$4,242,047

The accompanying Notes to the 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)

	Year Ended December 31,		
	2015	2014	2013
Leasing revenues:			
Operating leases	$591,665	$573,778	$552,640
Finance leases	15,192	18,355	14,728
Other revenues	1,147	1,873	2,485
Total leasing revenues	608,004	594,006	569,853
Equipment trading revenues	62,195	56,436	73,004
Equipment trading expenses	(58,001)	(49,246)	(62,726)
Trading margin	4,194	7,190	10,278
Net (loss) gain on sale of leasing equipment	(13,646)	6,987	26,751
Operating expenses:			
Depreciation and amortization	242,538	224,753	205,073
Direct operating expenses	48,902	33,076	27,142
Administrative expenses	51,154	45,399	44,197
Provision for doubtful accounts	133	212	2,827
Total operating expenses	342,727	303,440	279,239
Operating income	255,825	304,743	327,643
Other expenses:			
Interest and debt expense	118,280	109,265	111,725
Write-off of deferred financing costs	895	5,192	4,000
Net loss (gain) on interest rate swaps	205	780	(8,947)
Total other expenses	119,380	115,237	106,778
Income before income taxes	136,445	189,506	220,865
Income tax expense	48,233	65,461	77,699
Net income	$88,212	$124,045	$143,166
Net income per common share—Basic	$2.68	$3.70	$4.28
Net income per common share—Diluted	$2.67	$3.68	$4.25
Cash dividends paid per common share	$2.61	$2.88	$2.68
Weighted average number of common shares outstanding—Basic	32,861	33,482	33,483
Dilutive stock options and restricted stock	118	182	211
Weighted average number of common shares outstanding—Diluted	32,979	33,664	33,694

The accompanying Notes to the 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)

	Year Ended December 31,		
	2015	2014	2013
Net income	$88,212	$124,045	$143,166
Other comprehensive (loss) income:			
Change in fair value of derivative instruments designated as cash flow hedges (net of income tax effect of $(10,930), $(18,248) and $6,380, respectively)	(20,038)	(33,814)	11,643
Reclassification of realized loss on interest rate swap agreements designated as cash flow hedges (net of income tax effect of $6,884, $4,789 and $2,626, respectively)	12,588	9,106	4,844
Amortization of net loss on terminated derivative instruments designated as cash flow hedges (net of income tax effect of $921, $875 and $1,067, respectively)	1,697	1,604	1,953
Foreign currency translation adjustment	(193)	(215)	60
Other comprehensive (loss) income, net of tax	(5,946)	(23,319)	18,500
Comprehensive income	$82,266	$100,726	$161,666

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

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TAL INTERNATIONAL GROUP, INC.
Consolidated Statements of Stockholders' Equity
(Dollars in thousands, except share amounts)

	Common Stock		Treasury Stock				Accumulated Other Comprehensive (Loss) Income		
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Earnings	Cash Flow Hedges	Foreign Currency Translation	Total
Balance at December 31, 2012	36,697,366	$37	3,011,843	$(37,535)	$493,456	$168,447	$(7,481)	$(949)	$(8,430)
Stock compensation-restricted stock activity, net of retirements	142,944	—	—	—	5,216	(176)	—	—	—
Stock options exercised, net of retirements	18,468	—	—	—	182	(241)	—	—	—
Net income	—	—	—	—	—	143,166	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	60	60
Change in fair value-cash flow hedges, net of income tax effect of $6,380	—	—	—	—	—	—	11,643	—	11,643
Reclassification of realized loss on interest rate swap agreements designated as cash flow hedges, net of income tax effect of $2,626	—	—	—	—	—	—	4,844	—	4,844
Amortization of net loss on terminated derivative instruments designated as cash flow hedges, net of income tax effect of $1,067	—	—	—	—	—	—	1,953	—	1,953
Common stock dividends declared	—	—	—	—	—	(90,704)	—	—	—
Balance at December 31, 2013	36,858,778	$37	3,011,843	$(37,535)	$498,854	$220,492	$10,959	$(889)	$10,070
Stock compensation-restricted stock activity, net of retirements	144,555	—	—	—	5,984	(287)	—	—	—
Stock options exercised, net of retirements	2,950	—	—	—	53	—	—	—	—
Treasury stock acquired	—	—	818,085	(34,382)	—	—	—	—	—
Net income	—	—	—	—	—	124,045	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	(215)	(215)

Change in fair value-cash flow hedges, net of income tax effect of $(18,248)	—	—	—	—	—	—	(33,814)	—	(33,814)
Reclassification of realized loss on interest rate swap agreements designated as cash flow hedges, net of income tax effect of $4,789	—	—	—	—	—	—	9,106	—	9,106
Amortization of net loss on terminated derivative instruments designated as cash flow hedges, net of income tax effect of $875	—	—	—	—	—	—	1,604	—	1,604
Common stock dividends declared	—	—	—	—	—	(97,484)	—	—	—
Balance at December 31, 2014	37,006,283	$37	3,829,928	$(71,917)	$504,891	$246,766	$(12,145)	$(1,104)	$(13,249)
Stock compensation-restricted stock activity, net of retirements	158,750	—	—	—	6,452	—	—	—	—
Stock options exercised, net of retirements	2,101	—	—	—	38	—	—	—	—
Treasury stock acquired	—	—	81,915	(3,393)	—	—	—	—	—
(Reduction) to tax benefits from stock compensation	—	—	—	—	(84)	—	—	—	—
Net income	—	—	—	—	—	88,212	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	(193)	(193)
Change in fair value-cash flow hedges, net of income tax effect of $(10,930)	—	—	—	—	—	—	(20,038)	—	(20,038)
Reclassification of realized loss on interest rate swap agreements designated as cash flow hedges, net of income tax effect of $6,884	—	—	—	—	—	—	12,588	—	12,588
Amortization of net loss on terminated derivative instruments designated as cash flow hedges, net of income tax effect of $921	—	—	—	—	—	—	1,697	—	1,697
Common stock dividends declared	—	—	—	—	—	(86,795)	—	—	—

Balance at December 31, 2015	37,167,134	$37	3,911,843	$(75,310)	$511,297	$248,183	$(17,898)	$(1,297)	$(19,195)

The accompanying Notes to the 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)

	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income	$88,212	$124,045	$143,166
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	242,538	224,753	205,073
Amortization of deferred financing costs	7,602	7,729	7,260
Amortization of net loss on terminated derivative instruments designated as cash flow hedges	2,618	2,479	3,020
Amortization of lease intangibles	3,713	130	—
Net loss (gain) on sale of leasing equipment	13,646	(6,987)	(26,751)
Net loss (gain) on interest rate swaps	205	780	(8,947)
Write-off of deferred financing costs	895	5,192	4,000
Deferred income taxes	48,233	65,461	77,699
Stock compensation charge	6,452	5,984	5,216
Changes in operating assets and liabilities:			
Net equipment (purchased) sold for resale activity	(4,878)	(6,671)	(11,186)
Net realized loss on interest rate swaps terminated prior to their contractual maturities	—	(4,953)	(24,235)
Accounts receivable	(10,028)	(11,507)	(2,811)
Net (deferred revenue)	(7,098)	(5,696)	(1,572)
Accounts payable and other accrued expenses	8,123	(720)	(3,982)
Income taxes payable	—	67	(220)
Other assets	245	(1,279)	958
Net cash provided by operating activities	400,478	398,807	366,688
Cash flows from investing activities:			
Purchases of leasing equipment and investments in finance leases	(704,178)	(670,529)	(660,492)
Proceeds from sale of equipment, net of selling costs	125,525	165,990	140,724
Cash collections on finance lease receivables, net of income earned	42,860	47,607	39,470
Other	(101)	(253)	84
Net cash (used in) investing activities	(535,894)	(457,185)	(480,214)
Cash flows from financing activities:			
Purchases of treasury stock	(4,446)	(34,382)	—
Stock options exercised, related activity, and excess tax benefits from stock compensation	38	(234)	(235)
Financing fees paid under debt facilities	(805)	(16,702)	(13,897)
Borrowings under debt facilities and proceeds under capital lease obligations	665,000	1,828,545	1,206,735
Payments under debt facilities and capital lease obligations	(464,183)	(1,605,666)	(993,011)
Decrease (increase) in restricted cash	5,347	(6,523)	6,711
Common stock dividends paid	(85,760)	(96,403)	(89,745)
Net cash provided by financing activities	115,191	68,635	116,558
Net (decrease) increase in unrestricted cash and cash equivalents	$(20,225)	$10,257	$3,032
Unrestricted cash and cash equivalents, beginning of period	79,132	68,875	65,843
Unrestricted cash and cash equivalents, end of period	$58,907	$79,132	$68,875

Supplemental disclosures:			
Interest paid	$108,488	$99,895	$101,535
Income taxes (refunded) paid	$—	$(67)	$225
Supplemental non-cash investing activities:			
Accrued and unpaid purchases of equipment	$20,009	$88,336	$112,268

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

Note 1—Description of the Business, Basis of Presentation, Business Combination

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 (including finance leases) 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.

On November 9, 2015, TAL and Triton announced that they have entered into a definitive agreement under which the companies will combine in an all-stock merger. Under the terms of the Transaction Agreement, TAL and Triton will combine under a newly-formed holding company, Triton International Limited (“Triton International”), which will be domiciled in Bermuda and is expected to be listed on the New York Stock Exchange. TAL International shareholders will receive one common share of Triton International for each share of TAL International stock owned. TAL International shareholders will also receive a special dividend of $0.54 per share upon closing of the transaction. The transaction is subject to the approval of TAL's shareholders. A special meeting is anticipated to be held in the second quarter of 2016.

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. Certain reclassifications have been made to the accompanying prior period financial statements and notes to conform to the current year's presentation.

Note 2—Summary of Significant Accounting Policies

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents consist of all cash balances and highly liquid investments having original maturities of three months or less at the time of purchase.

Allowance for Doubtful Accounts

The Company's allowance for doubtful accounts is provided based upon a review of the collectability of its receivables. This review is based on the risk profile of the receivables, credit quality indicators such as the level of past-due amounts, and economic conditions. Generally, the Company does not require collateral on accounts receivable balances. An account is considered past due when a payment has not been received in accordance with the contractual terms. Accounts are generally charged off after an analysis is completed which indicates that collection of the full principal balance is in doubt. Changes in economic conditions or other events may necessitate additions or deductions to the allowance for doubtful accounts. The allowance for doubtful accounts is intended to provide for losses inherent in the receivables, and requires the application of estimates and judgments as to the outcome of collection efforts and the realization of collateral, among other things. The Company believes its allowance for doubtful accounts is adequate to provide for credit losses inherent in its existing receivables.

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TAL INTERNATIONAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2—Summary of Significant Accounting Policies (Continued)
Concentration of Credit Risk
The Company's equipment lease and trade receivables subject it to potential credit risk. The Company extends credit to its customers based upon an evaluation of each customer's financial condition and credit history. The Company's largest customer is CMA CGM, which accounted for 16%, 16%, and 17% of the Company's leasing revenues in 2015, 2014, and 2013, respectively. NYK Line accounted for 12% of our leasing revenues in 2015. No other customer exceeded 10% of the Company's leasing revenues in 2015, 2014, and 2013.
Net Investment in Finance Leases
The amounts reported as net investment in finance leases are recorded at the present value of the aggregate future minimum lease payments, including any purchase options granted to customers, less allowances for uncollectible amounts. Allowances are provided based upon a review of the collectability of gross finance lease receivables, including the underlying collateral, and considers the risk profile of the receivables, credit quality indicators such as the level of past due amounts, if any, and economic conditions. Finance lease receivables are generally charged off after an analysis is completed which indicates that collection of the full principal balance is in doubt. Interest from these leases is recognized over the term of the lease using the effective interest method as a component of leasing revenues.
Leasing Equipment
In general, the Company purchases new equipment from equipment manufacturers for the purpose of leasing such equipment to customers. The Company also purchases used equipment with the intention of selling such equipment in one or more years from the date of purchase. Used units are typically purchased with an existing lease in place or were previously owned by one of the Company's third party owner investors.
Leasing equipment is recorded at cost and depreciated to an estimated residual value on a straight-line basis over their estimated useful lives. The estimated useful lives and residual values of the Company's leasing equipment are based on historical disposal experience and the Company's expectations for future used container sale prices. The Company reviews its depreciation policies on a regular basis to determine whether changes have taken place that would suggest that a change in its depreciation policies, useful lives of its equipment or the assigned residual values is warranted.
The estimated useful lives and residual values for the majority of the Company's leasing equipment purchased new from the factory are as follows:

	Useful Lives (Years)	Residual Values ($) Effective October 1, 2012
Dry containers		
20 foot	13	$1,000
40 foot	13	$1,200
40 foot high cube	13	$1,400
Refrigerated containers		
20 foot	12	$2,500
40 foot high cube	12	$3,500
Special containers		
40 foot flat rack	14	$1,500
40 foot open top	14	$2,300
Tank containers	20	$3,000
Chassis	20	$1,200

Depreciation on leasing equipment starts on the date of initial on-hire.
For leasing equipment acquired through sale-leaseback transactions, we often adjust our estimates for remaining useful life and residual values based on current conditions in the sale market for older containers and our expectations

for how long the equipment will remain on-hire to the current lessee.

Costs incurred to place new equipment into service, including costs to transport the equipment to its initial on-hire location, are capitalized. The Company charges to expense inspection costs on new equipment and repair and maintenance costs that do not extend the lives of the assets at the time the costs are incurred, and includes these costs in direct operating expenses.

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TAL INTERNATIONAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2—Summary of Significant Accounting Policies (Continued)
If indicators of impairment are present, a determination is made as to whether the carrying value of the Company's fleet exceeds its estimated future undiscounted cash flows. Leasing equipment is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recovered. Key indicators of impairment on leasing equipment include, among other factors, a sustained low level of operating profitability, sustained low level of utilization, or indications of technological obsolescence.
When testing for impairment, leasing equipment is generally grouped by equipment type, and is tested separately from other groups of assets and liabilities. Some of the significant estimates and assumptions used to determine future undiscounted cash flows and the measurement for impairment are the remaining useful life, expected utilization, expected future lease rates and expected disposal prices of the equipment. The Company considers the assumptions on expected utilization and the remaining useful life to have the greatest impact on its estimate of future undiscounted cash flows. These estimates are principally based on the Company's historical experience and management's judgment of market conditions.
The net book value of the Company's leasing equipment by equipment type as of the dates indicated was (in thousands):

	December 31,	
	2015	2014
Dry container units	$2,738,123	$2,563,183
Refrigerated container units	673,526	637,115
Special container units	213,904	208,841
Tank container units	175,302	172,871
Chassis	107,437	92,021
Total	$3,908,292	$3,674,031

Included in the amounts above are units not on lease at December 31, 2015 and 2014 with a total net book value of $516.6 million and $261.8 million, respectively. Amortization on equipment purchased under capital lease obligations is included in depreciation and amortization expense in the consolidated statements of income.
The Company provides an allowance recorded in the provision for doubtful accounts for equipment on lease to customers considered to be non-performing. The allowance is based on a percentage of the net book value of equipment on-hire to those customers that, based on historical experience, the Company believes will ultimately not be recovered. In certain cases, the equipment allowance includes an accrual for costs expected to be incurred for the portion of units on-hire that the Company believes it will recover. As of December 31, 2015 and 2014, the Company's allowance for equipment on lease was $0.2 million and $0.6 million, respectively.
Equipment Held for Sale
When leasing equipment is returned off lease, the Company makes a determination of whether to repair and re-lease the equipment or sell the equipment. At the time the Company determines that equipment will be sold, it reclassifies the appropriate amounts previously recorded as leasing equipment to equipment held for sale. In accordance with FASB Accounting Standards Codification No. 360, Property, Plant and Equipment ("ASC 360"), equipment held for sale is carried at the lower of its estimated fair value, based on current transactions, less costs to sell, or carrying value; depreciation on such assets is halted and disposals generally occur within 90 days. Subsequent changes to the fair value of those assets, either increases or decreases, are recorded as adjustments to the carrying value of the equipment held for sale; however, any such adjustments may not exceed the respective equipment's carrying value at the time it was initially classified as held for sale. Initial write downs of assets held for sale are recorded as an impairment charge and are included in net gain on sale of leasing equipment. Realized gains and losses resulting from the sale of equipment held for sale are recorded as net gain on sale of leasing equipment, and cash flows associated with the disposal of equipment held for sale are classified as cash flows from investing activities.
Equipment purchased for resale and included in the Equipment Trading Segment is reported as equipment held for sale when the time frame between when equipment is purchased and when it is sold is expected to be short, less than

one year.

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Note 2—Summary of Significant Accounting Policies (Continued)

Goodwill

The Company accounts for goodwill in accordance with FASB Accounting Standards Codification No. 350, Intangibles—Goodwill and Other ("ASC 350"). ASC 350 requires goodwill and other intangible assets with indefinite lives to be reviewed for impairment annually, or more frequently if circumstances indicate a possible impairment. In connection with the acquisition that occurred in 2004, the Company recorded $71.9 million of goodwill. Effective July 1, 2013, the Company acquired the assets and business of Martec Leasing (a worldwide supplier of rolltrailers) where the Company recorded $2.6 million of goodwill. Management determined that the Company has two reporting units, Equipment leasing and Equipment trading, and allocated $73.5 million and $1.0 million, respectively, to each reporting unit. The Company has elected to bypass the qualitative approach permitted under ASC 350 for testing goodwill for impairment, but may elect to perform the qualitative approach to test goodwill for impairment in future periods.

The annual impairment test is conducted by comparing the Company's carrying amount to the fair value of the Company using a market capitalization approach. Given the recent decline in the Company's market capitalization, the Company also assessed the fair value of its reporting units based on a discounted cash flow valuation model. The key assumptions applied to the cash flow projections were discount rates, new container prices, near-term revenue growth rates, and perpetual growth rates. These assumptions contemplated business, market and overall economic conditions. Based on the results of this testing, the Company determined that the fair values of each of its reporting units exceeded their respective carrying amounts.

If the carrying value of the entity exceeds its market capitalization, then a second step would be performed that compares the implied fair value of goodwill with the carrying amount of goodwill. The determination of the implied fair value of goodwill would require management to compare the estimated fair value of the reporting units to the estimated fair value of the assets and liabilities of the reporting units. Any excess fair value represents the implied fair value of goodwill. To the extent that the carrying amount of goodwill exceeds its implied fair value, an impairment loss would be recorded. Based on the Company's annual review of goodwill, conducted in the fourth quarter of 2015, no impairment of goodwill existed.

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 December 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, net of unamortized deferred financing costs 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, net of unamortized deferred financing costs are listed in the table below as of December 31, 2015 and December 31, 2014 (in thousands).

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Note 2—Summary of Significant Accounting Policies (Continued)

	December 31, 2015	December 31, 2014
Assets		
Net investment in finance leases, net of allowances - carrying value	$177,737	$219,872
Net investment in finance leases, net of allowances - fair value	$180,565	$222,399
Liabilities		
Debt, net of unamortized deferred financing costs - carrying value	$3,216,488	$3,007,905
Debt(1) - estimated fair value	$3,210,722	$3,027,853

(1) Excludes unamortized deferred financing costs of $25.2 million and $32.9 million as of December 31, 2015 and December 31, 2014, respectively.

For the fair value of derivatives, please refer to Note 4 - "Derivative Instruments".

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.

Pursuant to the requirements of “Accounting Standards Update No. 2015-03 ("ASU No. 2015-03"), Imputation of Interest (Topic 835): Simplifying the Presentation of Debt Issuance Costs” of April 2015 and No. 2015-15 ("ASU No. 2015-15"), Imputation of Interest (Topic 835): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Agreements, of August 2015, we have evaluated the impact of the adoption of these standards on our Consolidated Financial Statements. Deferred financing costs in 2014 were reclassified from assets to liabilities to be in conformity with the 2015 presentation as required by ASU No. 2015-03 and ASU No. 2015-15.

Revenue Recognition

Operating Leases with Customers

The Company enters into long-term leases and service leases with ocean carriers, principally as lessor in operating leases, for marine cargo equipment. Long-term leases provide our customers with specified equipment for a specified term. The Company's leasing revenues are based upon the number of equipment units leased, the applicable per diem rate and the length of the lease. Long-term leases typically have initial contractual terms ranging from three to eight years. Revenues are recognized on a straight-line basis over the life of the respective lease. Advance billings are deferred and recognized in the period earned. Service leases do not specify the exact number of equipment units to be leased or the term that each unit will remain on-hire, but allow the lessee to pick-up and drop-off units at various locations specified in the lease agreement. Under a service lease, rental revenue is based on the number of equipment units on-hire for a given period. Revenue for customers considered to be non-performing is deferred and recognized when the amounts are received.

In accordance with FASB Accounting Standards Codification No. 605, Revenue Recognition ("ASC 605"), the Company recognizes billings to customers for damages and certain other operating costs as leasing revenue as it is earned based on the terms of the contractual agreements with the customer. As principal, the Company is responsible for fulfillment of the services, supplier selection and service specifications, and has ultimate responsibility to pay the supplier for the services whether or not it collects the amount billed to the lessee.

Finance Leases with Customers

The Company enters into finance leases as lessor for some of the equipment in its fleet. The net investment in finance leases represents the receivables due from lessees, net of unearned income. Unearned income is recognized on a level yield basis over the lease term and is recorded as leasing revenue. Finance leases are usually long-term in nature, typically ranging for a period of four to eight years and typically include an option to purchase the equipment at the end of the lease term for an amount determined to be a bargain.

Other Revenues

The Company manages equipment which is owned by third parties and it earns management fees based on the income earned by the leasing and sales of such equipment. Management fees are recognized as services are provided. The Company collects amounts billed and pays operating costs as agent on behalf of the third parties that own such equipment. These billings and operating costs are not included in revenue and expense; instead, the net amounts owed to these equipment owners are

Note 2—Summary of Significant Accounting Policies (Continued)

reflected as accrued expenses in the Company's financial statements until paid as required by our contracts. As of December 31, 2015 and 2014, approximately $1.0 million and $2.2 million, respectively, was reflected in accounts payable and other accrued expenses, which represent unpaid net earnings owed to third party owners of managed equipment.

Other revenues also includes fee income for third party positioning of equipment.

Equipment Trading Revenues and Expenses

Equipment trading revenues represent the proceeds from the sale of equipment purchased for resale and are recognized as units are sold and delivered to the customer. The related expenses represent the cost of equipment sold as well as other selling costs that are recognized as incurred and are reflected as equipment trading expenses in the consolidated statements of income.

Direct Operating Expenses

Direct operating expenses are directly related to the Company's equipment under and available for lease. These expenses primarily consist of the Company's costs to repair and maintain the equipment, to reposition the equipment, to store the equipment when it is not on lease and to inspect newly manufactured equipment. These costs are recognized when incurred. Certain positioning costs may be capitalized when incurred to place new equipment on an initial lease.

Derivative Instruments

The Company uses derivatives in the management of its interest rate exposure on its long-term borrowings and its foreign currency rate exposure on certain of its foreign currency based finance lease receivables. The Company accounts for derivative instruments in accordance with FASB Accounting Standards Codification No. 815, Derivatives and Hedging ("ASC 815"). ASC 815 requires that all derivative instruments be recorded on the balance sheet at their fair value and establishes criteria for both the designation and effectiveness of hedging activities.

Income Taxes

The Company accounts for income taxes in accordance with FASB Accounting Standards Codification No. 740, Income Taxes ("ASC 740") using the asset and liability method, which requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between the tax basis and financial reporting basis of the Company's assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. In assessing the ability to realize deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

If applicable, the Company accrues income tax liabilities for unrecognized tax benefits resulting from uncertain tax positions by evaluating whether the weight of available evidence indicates that it is more likely than not that the position will be sustained in an audit and measures the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. Potential interest and penalties associated with such uncertain tax positions are recorded as a component of income tax expense. As of December 31, 2015 and 2014, the Company had no liabilities related to uncertain tax positions.

Foreign Currency Translation and Remeasurement

The net assets and operations of foreign subsidiaries included in the Consolidated Financial Statements are attributable primarily to the Company's U.K. subsidiary. The accounts of this subsidiary have been converted at rates of exchange in effect at year end as to balance sheet accounts and at the weighted average of exchange rates for the year as to statements of income accounts. The effects of changes in exchange rates in translating foreign subsidiaries' financial statements are included in stockholders' equity as accumulated other comprehensive (loss) income.

The Company also has certain cash accounts, certain finance lease receivables and certain obligations that are denominated in currencies other than the Company's functional currency. These assets and liabilities are generally denominated in Euros or British Pounds, and are remeasured at each balance sheet date at the exchange rates in effect as of those dates. The impact of changes in exchange rates on the remeasurement of assets and liabilities are included in administrative expenses.

Stock-Based Compensation

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

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Note 2—Summary of Significant Accounting Policies (Continued)

Comprehensive Income

Comprehensive income includes net income, net gains and losses and related amortization, net of income taxes, on derivative instruments designated as cash flow hedges, and foreign currency translation adjustments.

Earnings Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock, utilizing the treasury stock method.

For the year ended December 31, 2015, the Company excluded 133,048 shares of restricted stock from the calculation of weighted average shares outstanding for diluted earnings per share because their effects were anti-dilutive. There were no anti-dilutive restricted stock or options to purchase shares of common stock excluded from the calculations of weighted average shares outstanding for diluted earnings per share for the years ended December 31, 2014 and 2013, respectively.

Use of Estimates

The preparation of the 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 and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09 ("ASU No. 2014-09"), Revenue from Contracts with Customers (Topic 606). This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. Leasing revenue recognition is specifically excluded from this ASU, and therefore, the new standard will only apply to Equipment Trading revenues and sales of leasing equipment. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers, which defers by one year the effective date of ASU 2014-09 until reporting periods beginning after December 15, 2017, including interim periods within that annual period. Earlier application is permitted as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. ASU No. 2014-09 allows for either full retrospective or modified retrospective adoption. The Company is evaluating the transition method that will be elected and the potential effects of adopting the provisions of ASU No. 2014-09.

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

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-03 ("ASU No. 2015-03"), Imputation of Interest (Topic 835): Simplifying the Presentation of Debt Issuance Costs. This standard changes the presentation of debt issuance costs in the financial statements but does not affect the recognition and measurement of debt issuance costs. The ASU specifies that debt issuance costs related to a note shall be reported in the balance sheet as a direct deduction from the face amount of that note and that amortization of debt issuance costs also shall be reported as interest expense. The ASU’s basis for conclusions observes that in practice, debt issuance costs incurred before the associated funding is received (i.e., before the issuance of the debt liability) are deferred on the balance sheet until that debt liability amount is recorded. These changes will become effective for the Company beginning after December 15, 2015. The Company has adopted ASU No. 2015-03 and has no impact on its income or cash flows and no material impact on its financial position.

In August 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-15 ("ASU No. 2015-15"), Imputation of Interest (Topic 835): Presentation and Subsequent Measurement of Debt Issuance Costs

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TAL INTERNATIONAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2—Summary of Significant Accounting Policies (Continued)
Associated with Line-of-Credit Agreements. This standard updates ASU No. 2015-03 which was issued in April 2015, as ASU No. 2015-03 does not address the presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance with ASU No. 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs over the term of the line-of-credit arrangement, regardless of whether
there are any outstanding borrowings on the line-of-credit arrangement. These changes will become effective for the Company beginning after December 15, 2015. The Company has adopted ASU No. 2015-15 in conjunction with ASU No. 2015-03, and has no impact on its income or cash flows and no material impact on its financial position.

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-17 ("ASU No. 2015-17"), Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. Current GAAP requires an entity to separate deferred income tax liabilities and assets into current and non-current amounts in a classified statement of financial position. Stakeholders informed the Board that the requirement results in little or no benefit to users of financial statements because the classification does not generally align with the time period in which the recognized deferred tax amounts are expected to be recovered or settled. In addition, there are costs incurred by an entity to separate deferred income tax liabilities and assets into a current and non-current amount. To simplify the presentation of deferred income taxes, the amendments in ASU No. 2015-17 require that deferred tax liabilities and assets be classified as non-current in a classified statement of financial position. These changes will become effective for the Company beginning after December 15, 2016. The Company believes that the adoption of ASU No. 2015-17 will have no impact on its financial position as the Company does not have any material current income tax liabilities and assets on its balance sheet.
Note 3—Debt
Debt consisted of the following (amounts in thousands):

	December 31, 2015	December 31, 2014
Asset backed securitization (ABS) term notes	$1,151,497	$1,504,183
Term loan facilities	973,130	858,973
Asset backed warehouse facility	610,000	420,000
Revolving credit facilities	445,000	160,000
Capital lease obligations	62,106	97,686
Total Debt	3,241,733	3,040,842
Deferred financing costs	(25,245)	(32,937)
Debt, net of unamortized deferred financing costs	$3,216,488	$3,007,905

As of December 31, 2015, the Company had $1,314.5 million of total debt outstanding on facilities with fixed interest rates. These fixed rate facilities had a weighted average effective interest rate of 3.99% in 2015, are scheduled to mature between 2016 and 2024, and had a weighted average remaining term of 4.1 years as of December 31, 2015.
As of December 31, 2015, the Company had $1,927.2 million of total debt outstanding on facilities with interest rates based on floating rate indices (primarily LIBOR). These floating rate facilities had a weighted average effective interest rate of 2.16% in 2015, are scheduled to mature between 2016 and 2021, and had a weighted average remaining term of 3.4 years as of December 31, 2015. Including the impact of our interest rate swaps, the weighted average effective interest rate on our floating rate facilities was 3.36% in 2015.
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 December 31, 2015, the Company had interest rate swaps in place with a net notional amount of $1,123.0 million and a weighted average

remaining term of 6.6 years to fix the floating interest rates on a portion of its floating rate debt obligations. These interest rate swaps had a weighted average fixed leg interest rate of 2.00% in 2015 (see Note 4 for additional information on the Company's interest rate swap agreements).

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TAL INTERNATIONAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3—Debt (Continued)
As of December 31, 2015, the Company had $2,437.5 million of total debt which is at fixed rates or is effectively fixed due to interest rate swap contracts. This accounts for 75.2% of total debt. These facilities had a weighted average remaining term of 5.2 years.

Asset Backed Securitization Term Notes

The Company's Asset Backed Securitization ("ABS") facilities have been used to finance its existing container fleet and new container purchases. Under the facilities, indirect wholly owned subsidiaries of the Company issue asset backed notes. The issuance of asset backed notes is the primary business objective of those subsidiaries.

The Company's borrowings under the ABS facilities amortize in monthly installments. The borrowing capacity under the ABS facilities is determined by applying an advance rate against the sum of the net book values of designated eligible containers and accounts receivable for sold equipment not outstanding more than 60 days plus 100% of restricted cash. The net book values for purposes of calculating the Company's borrowing capacity is the original equipment cost depreciated over 13, 12, and 20 years to between 15% to 40% of original equipment cost, depending on the type of equipment. Advance rates under the ABS facilities range from 82% to 87%. The Company is required to maintain restricted cash balances on deposit in designated bank accounts equal to five to nine months of interest expense depending on the type of facility.

Term Loan Facilities

The Company utilizes its term loan facilities as an important funding source for the purchase of containers and other equipment. The term loan facilities generally amortize in monthly installments. Two of the term loans have revolving periods, the first with an initial two year revolving period followed by a three year term period with a maturity date of November 7, 2019 and a second with an initial one year revolving period followed by a five year term period with a maturity date of December 19, 2020.

The borrowing capacity under the term loan facilities is determined by applying an advance rate in the range of 80% to 90% against the net book values of designated eligible containers, which is determined under the terms of each facility.

Asset Backed Warehouse Facility

The asset backed warehouse facility has a maximum borrowing capacity of $650.0 million. Under the facility, funds are available on a revolving basis until October 10, 2017, after which if the facility is not refinanced, the notes will convert to term notes with a maturity date of October 10, 2021. The term notes will amortize on a level basis over the four year term period to 60% of the outstanding balance. We primarily use the proceeds of this facility to finance the acquisition of equipment.

The borrowing capacity under the asset backed warehouse facility is determined by applying the advance rate of 81% against the sum of the net book values of designated eligible containers and accounts receivable for sold containers not outstanding more than 60 days plus 100% of restricted cash. The net book value for purposes of calculating the Company's borrowing capacity is the original equipment cost depreciated over 13, 12, and 20 years to 40%, 25%, and 15% of original equipment cost for dry containers, refrigerated containers, and tank containers, respectively. The Company is required to maintain restricted cash balances on deposit in a designated bank account equal to three months of interest expense.

Revolving Credit Facilities

The Company's revolving credit facilities have a maximum borrowing capacity of $550.0 million with maturity dates on November 30, 2016 and March 12, 2018. These facilities generally provide for an advance rate against eligible assets defined by the terms of their respective agreements.

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TAL INTERNATIONAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3—Debt (Continued)
Debt maturities excluding capital lease obligations (amounts in thousands):

Years ending December 31,	
2016	$318,992
2017	294,281
2018	751,564
2019	527,623
2020	278,933
2021 and thereafter	1,008,234
Total	$3,179,627

Capital Lease Obligations
The Company has entered into a series of lease transactions with various financial institutions to finance chassis and containers. Each lease is accounted for as a capital lease, with interest expense recognized on a level yield basis over the period preceding early purchase options, if any, which is generally five to ten years from the transaction date.
At December 31, 2015, future lease payments under these capital leases were as follows (in thousands):

Years ending December 31,		
2016	$29,923	
2017	18,771	
2018	17,818	
2019	—	
Total future payments	66,512	
Less: amount representing interest	(4,406	)
Capital lease obligations	$62,106	

Deferred Financing Costs
Deferred financing costs represent the fees incurred in connection with the Company's debt obligations, and are amortized using the effective interest method or on a straight-line basis over the term of the related obligation, depending on the type of debt obligation to which they relate. Unamortized deferred financing costs are written off when the related debt obligations are refinanced or extinguished prior to maturity, and are determined to be an extinguishment of debt.
Note 4—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 wholly owned subsidiary of the Company, are pledged as collateral for various credit facilities and the amounts payable under certain interest rate swap agreements.

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Note 4—Derivative Instruments (Continued)
As of December 31, 2015, the Company had net interest rate swap agreements in place to fix the floating interest rates on a portion of the borrowings under its debt facilities as summarized below:

Net Notional Amount(1)	Weighted Average Fixed Leg (Pay) Interest Rate(2)	Weighted Average Remaining Term(2)
$1,123 Million	2.00%	6.6 years

(1) As of December 31, 2015, the net notional amount outstanding on the Company's interest rate swap agreements is comprised of $1,223 million of pay-fixed rate/receive-floating rate agreements and $100.0 million of pay-floating rate/receive-fixed rate agreements. The Company entered into the pay-floating rate/receive-fixed rate agreements at the parent company level to offset the cash flows on certain pay-fixed rate/receive-floating rate agreements of certain wholly owned subsidiaries. The pay-floating rate/receive-fixed rate and pay-fixed rate/receive-floating rate agreements have terms that offset each other.

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

	Year Ended December 31, 2015
Unrealized loss on derivative instruments designated as cash flow hedges	$(16.1)
Amortization of loss on terminated derivative instruments designated as cash flow hedges	$(2.2)

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).

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TAL INTERNATIONAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4—Derivative Instruments (Continued)
Location of Derivative Instruments in Financial Statements

	Fair Value of Derivative Instruments (In Millions)							
	Asset Derivatives				Liability Derivatives			
	December 31, 2015		December 31, 2014		December 31, 2015		December 31, 2014	
Derivative Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swap contracts, designated as cash flow hedges	Fair value of derivative instruments	$0.1	Fair value of derivative instruments	$1.7	Fair value of derivative instruments	$19.2	Fair value of derivative instruments	$9.4
Interest rate swap contracts, not designated	Fair value of derivative instruments	—	Fair value of derivative instruments	0.1	Fair value of derivative instruments	1.1	Fair value of derivative instruments	1.0
Foreign exchange contracts, not designated	Fair value of derivative instruments	—	Fair value of derivative instruments	0.1	Fair value of derivative instruments	—	Fair value of derivative instruments	—
Total derivatives		$0.1		$1.9		$20.3		$10.4

	Effect of Derivative Instruments on Consolidated Statements of Income and Consolidated Statements of Comprehensive Income (In Millions)			
	Location of Loss (Gain) on Derivative Instruments	Year Ended December 31,		
		2015	2014	2013
Realized loss on interest rate swap agreements	Interest expense	$20.6	$15.1	$12.3
Amortization of realized net loss on terminated derivative instruments, designated as cash flow hedges	Interest expense	2.6	2.5	3.0
Change in fair value of derivatives, designated as cash flow hedges	Other comprehensive income	31.0	52.1	(18.0)
Net loss (gain) on interest rate swaps, not designated	Net loss (gain) on interest rate swaps	0.2	0.8	(8.9)
Foreign exchange agreements, not designated	Administrative expenses	—	0.1	0.3

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Note 5—Net Investment in Finance Leases
The following table represents the components of the net investment in finance leases (in thousands):

	December 31, 2015	December 31, 2014
Gross finance lease receivables (1)	$211,530	$267,720
Allowance on gross finance lease receivables	(805)	(1,056)
Gross finance lease receivables, net of allowance	210,725	266,664
Unearned income (2)	(32,988)	(46,792)
Net investment in finance leases (3)	$177,737	$219,872

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(1) At the inception of the lease, the Company records the total minimum lease payments, executory costs, if any, and unguaranteed residual value as gross finance lease receivables. The gross finance lease receivable is reduced as customer payments are received. The unguaranteed residual value is generally equal to the purchase option at the end of the lease. Approximately $2.6 million and $5.6 million of unguaranteed residual value at December 31, 2015 and 2014, respectively, were included in gross finance lease receivables. There were no executory costs included in gross finance lease receivables as of December 31, 2015 and 2014.

(2) The difference between the gross finance lease receivable and the fair value of the equipment at the lease inception is recorded as unearned income. Unearned income together with initial direct costs, are amortized to income over the lease term so as to produce a constant periodic rate of return. There were no unamortized initial direct costs as of December 31, 2015 and 2014.

(3) As of December 31, 2015 and 2014, approximately 52% and 48%, respectively, of the Company's net investment in finance leases were with Hapag Lloyd AG, and approximately 15% and 19%, respectively, of the Company’s net investment in finance leases were with Mediterranean Shipping Company.

Contractual maturities of the Company’s gross finance lease receivables subsequent to December 31, 2015 are as follows (in thousands):

Years ending December 31,	
2016	$50,716
2017	39,982
2018	34,130
2019	31,577
2020	26,717
2021 and thereafter	28,408
Total	$211,530

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.

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TAL INTERNATIONAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5—Net Investment in Finance Leases (Continued)
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 downturns and would likely have greater access to needed capital than lower rated customers. The Company views the risk of default for Tier 1 customers to range from minimal to modest.

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

	December 31, 2015	December 31, 2014
Tier 1	$179,909	$244,136
Tier 2	31,621	23,584
Tier 3	—	—
Gross finance lease receivables	$211,530	$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 December 31, 2015, approximately $0.1 million and $0.3 million of the Company's Tier 1 and Tier 2 gross finance lease receivables were past due, substantially all of which were aged approximately 31 days. As of December 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.

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

	Beginning Balance	Additions/ (Reversals)	Other (a)	Ending Balance
Finance Lease—Allowance for doubtful accounts:				
For the year ended December 31, 2015	$1,056	$(251)	$—	$805
For the year ended December 31, 2014	$1,057	$—	$(1)	$1,056
For the year ended December 31, 2013	$897	$159	$1	$1,057

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

TAL INTERNATIONAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6—Capital Stock and Stock Options

Dividends

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

Record Date	Payment Date	Aggregate Payment	Per Share Payment
December 2, 2015	December 23, 2015	$14.8 Million	$0.45
September 2, 2015	September 23, 2015	$23.7 Million	$0.72
June 3, 2015	June 24, 2015	$23.7 Million	$0.72
March 3, 2015	March 24, 2015	$23.7 Million	$0.72
December 2, 2014	December 23, 2014	$23.8 Million	$0.72
September 3, 2014	September 24, 2014	$24.2 Million	$0.72
June 3, 2014	June 24, 2014	$24.2 Million	$0.72
March 3, 2014	March 24, 2014	$24.2 Million	$0.72

Treasury Stock & Stock Repurchase Program

During 2015, TAL repurchased 81,915 shares at an average price of $41.40, and in 2014, TAL repurchased 818,085 shares at an average price of $42.01. As part of the joint announcement of the TAL and Triton transaction on November 9, 2015, a share repurchase program of up to $250 million was announced, which supplants all prior stock repurchase programs, and is expected to be initiated upon the close of the transaction.

Stock Based Compensation Plans

In October 2005, the Company adopted the TAL International Group, Inc. 2005 Management Omnibus Incentive Plan (the “2005 Plan”), which provides for the issuance of awards in the form of stock options, stock appreciation rights and restricted stock. A total of 2,500,000 shares of common stock were reserved for issuance under the 2005 Plan.

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 $6.5 million, $6.0 million, and $5.2 million of compensation costs that were reported in administrative expenses for the years ended 2015, 2014, and 2013, respectively, which relate to the Company’s stock based compensation plans as a result of restricted shares granted during the years 2011 through 2015.

Total unrecognized compensation cost of approximately $5.9 million as of December 31, 2015 related to restricted shares granted during 2015, 2014, and 2013 will be recognized over the remaining weighted average vesting period of approximately 1.7 years.

The options granted from the 2005 Management Omnibus Incentive Plan expired on October 17, 2015. 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.

The Company's stock based compensation plans consist of the 2014 Equity Incentive Plan and the 2005 Management Omnibus Incentive Plan. Following the approval by the Company's shareholders of the 2014 Equity Incentive Plan, no further options have been granted and 158,750 shares have been issued under the 2014 Equity Incentive Plan as of December 31, 2015.

Note 6—Capital Stock and Stock Options (Continued)

Stock option activity under the Plans for the year ended December 31, 2015 was as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Life (Yrs)	Aggregate Intrinsic Value ($ in 000's)
Outstanding: January 1, 2015	27,891	$18.00	0.8	$713
Granted	—	$—	—	$—
Exercised	(2,101)	$18.00	—	$44
Forfeited	(25,790)	$—	—	$—
Outstanding: December 31, 2015	—	$—	—	$—
Exercisable: December 31, 2015	—	$—	—	$—

Restricted stock activity for the year ended December 31, 2015 was as follows:

	Number of shares outstanding	Weighted Average Grant date fair value
Nonvested at January 1, 2015	372,500	$40.13
Granted	158,750	41.24
Vested(1)	(141,000)	34.98
Nonvested at December 31, 2015	390,250	$42.45

(1)The fair value of restricted stock awards that vested during 2015 was $5.7 million.

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TAL INTERNATIONAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6—Capital Stock and Stock Options (Continued)
Accumulated Other Comprehensive (Loss)
Accumulated other comprehensive (loss) consisted of the following as of the dates indicated (in thousands and net of tax effects):

	Cash Flow Hedges	Foreign Currency Translation	Accumulated Other Comprehensive (Loss) Income
Balance as of December 31, 2013	$10,959	$(889)	$10,070
Change in fair value of derivative instruments designated as cash flow hedges	(33,814)	—	(33,814)
Reclassification of realized loss on interest rate swap agreements designated as cash flow hedges	9,106	—	9,106
Amortization of net loss on derivative instruments previously designated as cash flow hedges	1,604	—	1,604
Foreign currency translation adjustment	—	(215)	(215)
Other comprehensive (loss)	(23,104)	(215)	(23,319)
Balance as of December 31, 2014	$(12,145)	$(1,104)	$(13,249)

	Cash Flow Hedges	Foreign Currency Translation	Accumulated Other Comprehensive (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	(20,038)	—	(20,038)
Reclassification of realized loss on interest rate swap agreements designated as cash flow hedges	12,588	—	12,588
Amortization of net loss on derivative instruments previously designated as cash flow hedges	1,697	—	1,697
Foreign currency translation adjustment	—	(193)	(193)
Other comprehensive (loss)	(5,753)	(193)	(5,946)
Balance as of December 31, 2015	$(17,898)	$(1,297)	$(19,195)

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

	Balance as of December 31, 2015	Balance as of December 31, 2014	Affected Line Item in the Consolidated Statements of Income
Realized loss on interest rate swap agreements, designated as cash flow hedges	$19,472	$13,895	Interest and debt expense
Amortization of net loss on derivative instruments previously designated as cash flow hedges	2,618	2,479	Interest and debt expense
Amounts reclassified from Accumulated other comprehensive loss before income tax	22,090	16,374	Income before income taxes
Income tax (benefit)	(7,805)	(5,664)	

			Income tax expense
Amounts reclassified from Accumulated other comprehensive loss	$14,285	$10,710	Net income

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TAL INTERNATIONAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7—Segment and Geographic Information
Industry Segment Information
The Company’s operations include the acquisition, leasing, re-leasing and subsequent sale of multiple types of intermodal containers and chassis. Intermodal containers are large, standardized steel boxes used to transport freight by ship, rail or truck. Chassis are used for the transportation of containers domestically. The Company leases five types of equipment: (1) dry freight containers, which are used for general cargo such as manufactured component parts, consumer staples, electronics and apparel, (2) refrigerated containers, which are used for perishable items such as fresh and frozen foods, (3) special containers, which are used for heavy and oversized cargo such as marble slabs, building products and machinery, (4) 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.
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):

Year Ended December 31, 2015	Equipment Leasing	Equipment Trading	Totals
Total leasing revenues	$598,020	$9,984	$608,004
Trading margin	—	4,194	4,194
Net (loss) on sale of leasing equipment	(13,646)	—	(13,646)
Depreciation and amortization expense	241,104	1,434	242,538
Interest and debt expense	116,244	2,036	118,280
Income before income taxes(1)	128,259	9,286	137,545
Equipment held for sale at December 31	55,727	19,172	74,899
Goodwill at December 31	73,523	1,000	74,523
Total assets at December 31	4,380,657	53,419	4,434,076
Purchases of leasing equipment and investments in finance leases(2)	684,283	19,895	704,178

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TAL INTERNATIONAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7—Segment and Geographic Information (Continued)

Year Ended December 31, 2014	Equipment Leasing	Equipment Trading	Totals
Total leasing revenues	$581,421	$12,585	$594,006
Trading margin	—	7,190	7,190
Net gain on sale of leasing equipment	6,987	—	6,987
Depreciation and amortization expense	223,487	1,266	224,753
Interest and debt expense	107,050	2,215	109,265
Income before income taxes(1)	180,356	15,122	195,478
Equipment held for sale at December 31	28,906	30,955	59,861
Goodwill at December 31	73,523	1,000	74,523
Total assets at December 31	4,175,212	66,835	4,242,047
Purchases of leasing equipment and investments in finance leases(2)	668,028	2,501	670,529

Year Ended December 31, 2013	Equipment Leasing	Equipment Trading	Totals
Total leasing revenues	$556,690	$13,163	$569,853
Trading margin	—	10,278	10,278
Net gain on sale of leasing equipment	26,751	—	26,751
Depreciation and amortization expense	203,157	1,916	205,073
Interest and debt expense	109,175	2,550	111,725
Income before income taxes(1)	198,210	17,708	215,918

(1) Segment income before income taxes excludes net losses on interest rate swaps of $0.2 million, net losses on interest rate swaps of $0.8 million, and net gains on interest swaps of $8.9 million for the years ended December 31, 2015, 2014, and 2013, respectively, and the write-off of deferred financing costs of $0.9 million, $5.2 million, and $4.0 million for the years ended December 31, 2015, 2014, and 2013, respectively.

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

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

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TAL INTERNATIONAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7—Segment and Geographic Information (Continued)
Geographic Segment Information
The Company earns its revenues from international containers which are deployed by its customers in a wide variety of global trade routes. Substantially all of the Company's leasing related revenue is denominated in U.S. dollars.
The following table represents the geographic allocation of equipment leasing revenues for the periods indicated based on customers' primary domicile (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Total revenues:			
United States of America	$42,602	$34,206	$32,506
Asia	286,209	274,467	247,353
Europe	264,147	263,723	265,845
Other International	15,046	21,610	24,149
Total	$608,004	$594,006	$569,853

As all of the Company's containers are used internationally, where no one container is domiciled in one particular place for a prolonged period of time, substantially all of the Company's long-lived assets are considered to be international.
The following table represents the geographic allocation of equipment trading revenues for the periods indicated based on the location of sale (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Total revenues:			
United States of America	$11,393	$8,724	$7,719
Asia	26,993	26,794	39,965
Europe	12,227	17,946	11,964
Other International	11,582	2,972	13,356
Total	$62,195	$56,436	$73,004

Note 8—Net (Loss) Gain on Sale of Leasing Equipment
The net (loss) gain on sale of leasing equipment consists of the following (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Impairment (loss) on equipment held for sale	$(14,020)	$(4,326)	$(1,838)
Gain on sale of equipment-net of selling costs	374	11,313	28,589
Net (loss) gain on sale of leasing equipment	$(13,646)	$6,987	$26,751

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TAL INTERNATIONAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9—Income Taxes

The following table sets forth the income tax expense for the periods indicated (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Deferred taxes:			
Federal	$47,954	$65,020	$76,761
State	412	587	1,105
Foreign	(133)	(146)	(167)
Total	$48,233	$65,461	$77,699

A reconciliation of the U.S. federal statutory income tax rate to the effective income tax rate is provided below:

	Year Ended December 31,		
	2015	2014	2013
Federal income taxes at the statutory rate	35.0 %	35.0 %	35.0 %
State income taxes (net of Federal income tax benefit)	0.2	0.2	0.3
Foreign income taxed at other than the Federal statutory rate	0.1	(0.1)	(0.1)
Change in enacted tax rates(1)	—	(0.6)	(0.1)
Effect of permanent differences and other, net	—	—	0.1
Effective income tax rate	35.3 %	34.5 %	35.2 %

(1) Several states have enacted changes to their apportionment factors. These changes resulted in a decrease in the Company's overall effective tax rate for 2014. The Company adjusts its deferred tax assets and liabilities through income tax expense on the date which rate changes are enacted. Accordingly, the Company recorded a reduction of $1.2 million in 2014 in income tax expense to reflect the impact of these changes in state apportionment factors.

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TAL INTERNATIONAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9—Income Taxes (Continued)
Deferred income tax assets and liabilities are comprised of the following (in thousands):

	December 31, 2015	2014
Deferred income tax assets:		
Net operating loss carryforwards	$192,139	$134,329
Allowance for losses	827	959
Derivative instruments	10,147	7,556
Deferred income	8,561	9,230
Accrued liabilities and other	873	99
	212,547	152,173
Deferred income tax liabilities:		
Accelerated depreciation	650,027	542,447
Goodwill amortization	18,574	16,720
Derivative instruments	69	673
Other	—	3,340
	668,670	563,180
Net deferred income tax liability	$456,123	$411,007

The Company has U.S. Federal net operating loss carryforwards of approximately $564 million at December 31, 2015. These losses will expire in 2026 through 2036. The Company has unrecognized excess tax benefits related to stock-based compensation costs of $6.5 million that it expects to credit to stockholders' equity in future periods. The Company expects to fully utilize these losses to offset future taxable income that will be generated by the reversal of temporary differences, mainly accelerated depreciation, prior to their expiration. The Company continues to monitor changes in its stock ownership which can potentially trigger annual limitations to the amount of net operating losses that may be utilized in future years under Internal Revenue Code Section 382. The Company does not believe any of its net operating loss carryforwards are currently subject to Section 382 limitations.

The Company does not provide for U.S. federal income taxes on undistributed earnings from its U.K. subsidiary because it is the Company's policy to permanently reinvest its foreign earnings outside of the U.S. These foreign earnings could become subject to additional tax if they are loaned to the Company, remitted as dividends, or if the Company sells the stock of its U.K. subsidiary. It is not practicable to estimate the amount or timing of the additional tax, if any, that eventually might be paid on these foreign earnings. As of December 31, 2015 the Company's cumulative undistributed earnings were $5.7 million.

In accordance with the requirement to determine if the Company has any unrecognized tax benefits, the Company has continued to evaluate all tax positions and has determined that the cumulative effect of any uncertain tax positions and resulting unrecognized tax benefits did not have a material effect on the Company's consolidated results of operations and financial position. As of January 1, 2015 and December 31, 2015, the Company did not have any material unrecognized tax benefits. There were no increases or decreases in unrecognized tax benefits during the year resulting from prior period tax positions, current period tax positions, settlements with tax authorities or the lapse of any statute of limitations, and no material changes in unrecognized tax benefits are expected over the next twelve months. Accordingly, there is no impact to the Company's effective tax rate. Estimated interest and penalties related to potential underpayment on any unrecognized tax benefits would be classified as a component of tax expense in the consolidated statements of income. The Company has not recorded any interest or penalties associated with unrecognized tax benefits. The 2013, 2014, and 2015 tax years remain subject to examination by major tax jurisdictions.

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TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10—Savings Plan

The Company’s employees participate in a defined contribution plan generally covering all of its U.S. salaried employees. Under the provisions of the Plan, an employee is fully vested with respect to Company contributions after four years of service. The Company matches employee contributions up to 3% of qualified compensation and may, at its discretion, make voluntary contributions. Contributions for each of the years ended December 31, 2015, 2014, and 2013 were approximately $0.3 million.

Note 11—Rental Income under Operating Leases

The following are the minimum future rentals at December 31, 2015 due to TAL under non-cancelable operating leases, assuming the minimum contractual lease term, of the Company’s equipment (in thousands):

Years ending December 31,	
2016	$352,666
2017	258,382
2018	200,269
2019	135,082
2020	89,343
2021 and thereafter	138,437
Total	$1,174,179

Note 12—Commitments and Contingencies

Lease Commitments

The Company has cancelable and non-cancelable operating lease agreements principally for facilities and for equipment used in the Company’s operations. Total rent expense was $2.1 million for the year ended December 31, 2015, 2014, and 2013, respectively.

Future minimum rental commitments under non-cancelable operating leases at December 31, 2015 were as follows (in thousands):

Years ending December 31,	
2016	$1,769
2017	1,294
2018	1,149
2019	1,996
2020 and thereafter	97
Total	$6,305

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TAL INTERNATIONAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12—Commitments and Contingencies (Continued)
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 December 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 December 31, 2015.
Purchase Commitments
At December 31, 2015, the Company had commitments to purchase equipment in the amount of $67.0 million payable in 2016.
Contingencies
The Company is party to various pending or threatened legal or regulatory proceedings arising in the ordinary course of its business. Based upon information presently available, management of the Company does not expect any liabilities arising from these matters to have a material effect on the consolidated financial position, results of operations or cash flows of the Company.
Indemnities
The revolving credit facility, ABS facilities, asset backed warehouse facility and term loan facilities contain standard provisions present in loans of these types which obligate the Company to reimburse the lenders thereunder for any increased costs associated with continuing to hold the loans thereunder on its books which arise as a result of broadly defined regulatory changes, including changes in reserve requirements and bank capital requirements. These indemnities would have the practical effect of increasing the interest rate on the Company’s debt if they were to be triggered. In all cases, the Company has the right to repay the applicable loan and avoid the increased costs. The term of these indemnities matches the length of the related term of the applicable loan.

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Note 13—Selected Quarterly Financial Data (Unaudited)

The following table sets forth certain key interim financial information for the years ended December 31, 2015 and 2014:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share amounts)			
2015				
Total leasing revenues	$148,975	$150,838	$154,426	$153,765
Trading margin	$1,414	$1,521	$1,191	$68
Net (loss) on sale of leasing equipment	$(1,449)	$(660)	$(2,854)	$(8,683)
Net income	$25,757	$26,670	$22,511	$13,274
Net income per basic common share	$0.78	$0.81	$0.69	$0.40
Net income per diluted common share	$0.78	$0.81	$0.68	$0.40
2014				
Total leasing revenues	$144,767	$144,723	$150,524	$153,992
Trading margin	$1,648	$2,215	$1,713	$1,614
Net gain on sale of leasing equipment	$3,096	$2,461	$870	$560
Net income	$30,011	$29,362	$32,617	$32,055
Net income per basic common share	$0.89	$0.87	$0.97	$0.97
Net income per diluted common share	$0.89	$0.87	$0.97	$0.96

Note 14—Foreign Currency Activities

The Company recorded net foreign currency exchange losses of $0.7 million, $0.9 million, and $0.4 million in the years ended December 31, 2015, 2014, and 2013, respectively. The net foreign currency exchange losses resulted primarily from fluctuations in exchange rates related to the Company’s Euro and Pound Sterling transactions and related assets and liabilities.

Note 15—Subsequent Events

Quarterly Dividend

On February 24, 2016, the Company's Board of Directors approved and declared a $0.45 per share quarterly cash dividend on its issued and outstanding common stock, payable on March 24, 2016 to shareholders of record at the close of business on March 10, 2016.

Debt Facilities

On January 20, 2016, TAL Advantage III LLC, an indirect wholly owned subsidiary of TAL International Group, Inc., increased the credit limit on its asset backed warehouse credit facility from $650 million to $750 million. All other terms and conditions of the facility remain the same.

On February 5, 2016, TAL International Container Corporation, a wholly owned subsidiary of TAL International Group, Inc., as Borrower, entered into a Modification of Term Loan Agreement with SunTrust Bank, as Administrative Agent and Collateral Agent, and the lenders thereto to modify the Term Loan Agreement dated April 2, 2014 (“Term Loan Agreement”) to make Incremental Loans in the aggregate amount of $100 million. The Incremental Loans have the same maturity date and interest rate as the outstanding Term Loans and all other terms and conditions of the Term Loan Agreement remain the same. The proceeds will be used to finance the acquisition of equipment and for other general corporate purposes. After giving effect to such Incremental Loans, the unpaid principal balance of all the Term Loans made under the Term Loan Agreement is $407,125,000 as of February 5, 2016.

Related to the above, TAL Advantage I LLC, an indirect wholly owned subsidiary of TAL International Group, Inc., has also given notice to noteholders that it will repay in full the TAL Advantage I LLC Series 2005-1 Notes on February 11, 2016 and the TAL Advantage I LLC Series 2006-1 Notes on February 22, 2016.

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SCHEDULE II
TAL International Group, Inc.
Valuation and Qualifying Accounts
Years ended December 31, 2015, 2014, and 2013
(In thousands)

	Beginning Balance	Additions/ (Reversals)	(Write-offs)/ Reversals	Other(a)	Ending Balance
Finance Lease-Allowance for doubtful accounts:					
For the year ended December 31, 2015	$1,056	$(251)	$—	$—	$805
For the year ended December 31, 2014	$1,057	$—	$—	$(1)	$1,056
For the year ended December 31, 2013	$897	$159	$—	$1	$1,057
Accounts Receivable-Allowance for doubtful accounts:					
For the year ended December 31, 2015	$978	$385	$(46)	$(3)	$1,314
For the year ended December 31, 2014	$948	$131	$(99)	$(2)	$978
For the year ended December 31, 2013	$692	$299	$(44)	$1	$948
Allowance for equipment loss:					
For the year ended December 31, 2015	$571	$—	$(364)	$—	$207
For the year ended December 31, 2014	$1,348	$89	$(866)	$—	$571
For the year ended December 31, 2013	$21	$2,369	$(1,046)	$4	$1,348

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