

TAL International Group, Inc.
Form 10-Q
May 10, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For The Quarterly Period Ended March 31, 2007
or

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

For the Transition Period from _____ to _____

Commission file number- 001-32638

TAL International Group, Inc.

(Exact name of registrant as specified in the charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
100 Manhattanville Road,
Purchase, New York
(Address of principal executive office)

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

10577-2135
(Zip Code)

(914) 251-9000

(Registrant's telephone number including area code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of May 3, 2007, there were 33,257,723 shares of the Registrant's common stock, \$.001 par value outstanding.

TAL INTERNATIONAL GROUP, INC.
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CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report on Form 10-Q contains certain forward-looking statements, including, without limitation, statements concerning the conditions in our industry, our operations, our economic performance and financial condition, including, in particular, statements relating to our business and growth strategy and service development efforts. The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for certain forward-looking statements so long as such information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. When used in this Quarterly Report on Form 10-Q, the words "may", "might", "should", "estimate", "project", "anticipate", "expect", "intend", "outlook", "believe" and other similar expressions are intended to identify forward-looking statements and information. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. These forward-looking statements are based on estimates and assumptions by our

management that, although we believe to be reasonable, are inherently uncertain and subject to a number of risks and uncertainties. These risks and uncertainties include, without limitation, those identified under “Risk Factors” in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”), on March 13, 2007, and all of our other filings filed with the SEC from October 11, 2005 through the current date pursuant to the Securities Exchange Act of 1934.

We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law. Reference is also made to such risks and uncertainties detailed from time to time in our filings with the SEC.

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The consolidated financial statements of TAL International Group, Inc. (“TAL” or the “Company,”) as of March 31, 2007 (unaudited) and December 31, 2006 and for the three months ended March 31, 2007 (unaudited) and March 31, 2006 (unaudited) included herein have been prepared by the Company, without audit, pursuant to U.S. generally accepted accounting principles and the rules and regulations of the SEC. However, certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements reflect, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the results for the interim periods. The results of operations for such interim periods are not necessarily indicative of the results for the full year. These financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K filed with the SEC, on March 13, 2007, from which the accompanying December 31, 2006 Balance Sheet information was derived, and all of our other filings filed with the SEC from October 11, 2005 through the current date pursuant to the Securities Exchange Act of 1934.

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TAL INTERNATIONAL GROUP, INC.

Consolidated Balance Sheets

(Dollars in thousands, except share data)

| | March 31, 2007 (Unaudited) | December 31, 2006 |
|--|----------------------------------|----------------------|
| Assets: | | |
| Cash and cash equivalents (including restricted cash of \$14,516 and \$14,526) | \$ 49,082 | \$ 58,167 |
| Accounts receivable, net of allowances of \$385 and \$266 | 37,874 | 39,318 |
| Net investment in finance leases | 158,537 | 152,586 |
| | 1,116,454 | 1,080,523 |

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| | | |
|--|--------------|--------------|
| Leasing equipment, net of accumulated depreciation and allowances of \$227,488 and \$208,756 | | |
| Leasehold improvements and other fixed assets, net of accumulated depreciation and amortization of \$2,334 and \$2,132 | 2,794 | 2,855 |
| Equipment held for sale | 26,665 | 20,768 |
| Goodwill | 71,898 | 71,898 |
| Deferred financing costs | 6,767 | 6,957 |
| Other assets (including fair value of derivative instruments) | 19,581 | 22,591 |
| Total assets | \$ 1,489,652 | \$ 1,455,663 |
| Liabilities and stockholders' equity: | | |
| Accounts payable | \$ 62,565 | \$ 13,273 |
| Accrued expenses (including fair value of derivative instruments) | 39,712 | 50,453 |
| Income taxes payable | 280 | 219 |
| Deferred income tax liability | 40,537 | 34,651 |
| Debt | 936,987 | 958,317 |
| Total liabilities | 1,080,081 | 1,056,913 |
| Stockholders' equity: | | |
| Preferred stock, \$.001 par value, 500,000 shares authorized, none issued | — | — |
| Common stock, \$.001 par value, 100,000,000 shares authorized, 33,393,973 and 33,303,031 shares issued, respectively | 33 | 33 |
| Treasury stock, at cost, 136,250 shares | (2,862) | (2,862) |
| Additional paid-in capital | 394,544 | 394,440 |
| Retained earnings | 14,576 | 3,476 |
| Accumulated other comprehensive income | 3,280 | 3,663 |
| Total stockholders' equity | 409,571 | 398,750 |
| Total liabilities and stockholders' equity | \$ 1,489,652 | \$ 1,455,663 |

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

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TAL INTERNATIONAL GROUP, INC.

Consolidated Statements of Operations

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

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------|
| | 2007 | 2006 |
| | (Unaudited) | |
| Revenues: | | |
| Leasing revenues, including income recognized on finance leases of \$4,201 and \$2,286, respectively | \$ 68,181 | \$ 67,541 |
| Equipment trading revenue | 9,238 | 5,019 |

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| | | |
|--|-----------|----------|
| Management fee income | 1,589 | 1,576 |
| Other revenues | 564 | 477 |
| Total revenues | 79,572 | 74,613 |
| Expenses: | | |
| Equipment trading expenses | 7,399 | 4,225 |
| Direct operating expenses | 7,372 | 6,723 |
| Administrative expenses | 10,254 | 9,539 |
| Depreciation and amortization | 24,496 | 25,489 |
| Provision for doubtful accounts | 117 | 471 |
| Net (gain) loss on sale of leasing equipment | (2,420) | 108 |
| Interest and debt expense | 11,911 | 12,456 |
| Unrealized loss on interest rate swaps | 3,191 | 854 |
| Total expenses | 62,320 | 59,865 |
| Income before income taxes | 17,252 | 14,748 |
| Income tax expense | 6,166 | 5,243 |
| Net income | \$ 11,086 | \$ 9,505 |
| Net income per common share — Basic | \$ 0.33 | \$ 0.29 |
| Net income per common share — Diluted | \$ 0.33 | \$ 0.28 |
| Weighted average number of common shares outstanding — Basic | 33,184 | 32,882 |
| Weighted average number of common shares outstanding — Diluted | 33,378 | 33,459 |
| Cash dividends paid per common share | \$ 0.30 | — |

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

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TAL INTERNATIONAL GROUP, INC.

Consolidated Statements of Cash Flows
(Dollars in thousands)

| | Three months ended March 31, 2007 2006 (Unaudited) | |
|---|--|----------|
| Cash flows from operating activities: | | |
| Net income | \$ 11,086 | \$ 9,505 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 24,496 | 25,489 |
| Amortization of deferred financing costs | 230 | 110 |
| Net (gain) loss on sale of leasing equipment | (2,420) | 108 |
| Unrealized loss on interest rate swaps | 3,191 | 854 |
| Deferred income taxes | 5,886 | 7,953 |
| Stock compensation charge | 105 | — |

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| | | |
|--|-----------|-----------|
| Equipment purchased for resale | (4,823) | 2,923 |
| Changes in operating assets and liabilities | (1,868) | (3,668) |
| Net cash provided by operating activities | 35,883 | 43,274 |
| Cash flows from investing activities: | | |
| Payments for leasing equipment | (24,719) | (13,185) |
| Investment in finance leases | (8,663) | (1,839) |
| Proceeds from sale of equipment, net of selling costs | 14,433 | 12,269 |
| Cash collections on financing leases, net of unearned income | 5,131 | 2,986 |
| Other | 22 | 6 |
| Net cash (used in) provided by investing activities | (13,796) | 237 |
| Cash flows from financing activities: | | |
| Dividends paid | (9,959) | — |
| Borrowings under debt facilities | 29,788 | — |
| Payments under debt facilities | (51,001) | (40,000) |
| Decrease (increase) in restricted cash | 10 | — |
| Net cash used in financing activities | (31,162) | (40,000) |
| Net (decrease) increase in cash and cash equivalents | (9,075) | 3,511 |
| Unrestricted cash and cash equivalents, beginning of period | 43,641 | 27,259 |
| Unrestricted cash and cash equivalents, end of period | \$ 34,566 | \$ 30,770 |
| Supplemental non-cash investing activities: | | |
| Accrued and unpaid purchases of leasing equipment | \$ 53,212 | \$ 16,605 |

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

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TAL INTERNATIONAL GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

A. Description of the Business

TAL International Group, Inc. (“TAL,” or the “Company”) was formed on October 26, 2004 and commenced operations on November 4, 2004. TAL consists of the consolidated accounts of TAL International Container Corporation (“TALI”), formerly known as Transamerica Leasing Inc., Trans Ocean Ltd. (“TOL”) and their subsidiaries. Effective October 31, 2004, TAL acquired all of the outstanding capital stock of TALI and TOL for approximately \$1.2 billion in cash (“the Acquisition”).

The Company provides long-term leases, service leases and finance leases of maritime containers and related equipment, along with maritime container management services, through a worldwide network of offices, third party depots and other facilities. The Company operates in both international and domestic markets. The majority of the Company’s business is derived from leasing its containers to shipping line customers through a variety of long-term and short-term contractual lease arrangements. The Company also provides container sales and positioning services, 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, and leases chassis used for the transportation of containers domestically.

B. Basis of Presentation

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

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

C. Recently Issued Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS No. 159") which permits companies to choose to measure many financial instruments and certain other items at fair value. The Statement's objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Company is required to adopt the provisions of SFAS No. 159 during the first fiscal year beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 159 on its consolidated results of operations and financial position.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS No. 157") which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles (GAAP). Under SFAS No. 157, there is now a common definition of fair value to be used throughout GAAP. The new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. The Company is required to adopt the provisions of SFAS No. 157 during the first fiscal year beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 157 on its consolidated results of operations and financial position.

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In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109, ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. See Note 8 for additional discussion of the Company's adoption of FIN 48 on January 1, 2007.

Note 2 — Treasury Stock and Dividends Paid

Treasury Stock

On March 13, 2006, the Company's Board of Directors authorized a stock buyback program for the repurchase of up to 1.5 million shares of its common stock. The Company repurchased 136,250 shares of its outstanding common stock in the open market during the year ended December 31, 2006 at a total cost of approximately \$2.9 million.

Dividends Paid

On March 9, 2007, the Company paid a quarterly dividend of \$0.30 per share or an aggregate of approximately \$10.0 million on its issued and outstanding common stock. The dividend was paid to shareholders of record at the close of business on February 23, 2007.

Note 3 — Stock-Based Compensation Plans

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS No.123R) requiring that compensation cost relating to share-based payment transactions be recognized in the financial statements. The cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award).

There was approximately six thousand dollars of compensation cost reflected in administrative expense in the Company's statement of operations for the three months ended March 31, 2007 related to the Company's stock-based compensation plans as a result of 21,000 new options granted during the year ended December 31, 2006. Total unrecognized compensation cost of approximately seventy-eight thousand dollars as of March 31, 2007 related to the new options granted during the year ended December 31, 2006 will be recognized over the remaining vesting period of approximately 3.25 years.

In addition, approximately ninety-eight thousand dollars of compensation cost is reflected in administrative expense related to the Company's stock-based compensation plans as a result of the issuance of 60,000 shares of restricted stock on January 26, 2007. On that date, the Company's closing stock price was \$26.30, which resulted in a total fair value of the restricted shares of approximately \$1.6 million. The restricted stock will become fully vested on January 1, 2010. Total unrecognized compensation cost of approximately \$1.5 million as of March 31, 2007 related to the new restricted stock will be recognized over the remaining vesting period of approximately 2.75 years.

Cash received from employee exercises of stock options for the three months ended March 31, 2007 was approximately three hundred dollars. TAL did not recognize any tax benefits associated with these exercises.

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Stock option activity under the Plans from January 1, 2007 to March 31, 2007 was as follows:

| Options | Weighted Average Exercise | Weighted Average Remaining | Aggregate Intrinsic Value |
|---------|---------------------------------|----------------------------------|---------------------------------|
|---------|---------------------------------|----------------------------------|---------------------------------|

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| | | Price | Life (Yrs) | \$ in 000's |
|-----------------------------|----------|----------|---------------|-------------|
| Outstanding January 1, 2007 | 665,477 | \$ 17.24 | 8.8 | |
| Granted | — | | | |
| Exercised | (30,942) | \$ 0.01 | | \$ 787 |
| Canceled | — | | | |
| Outstanding March 31, 2007 | 634,535 | \$ 18.08 | 8.6 | \$ 3,756 |
| Exercisable: | | | | |
| March 31, 2007 | 613,535 | \$ 17.90 | 8.5 | \$ 3,743 |

Note 4 — Debt

Debt consisted of the following (amounts in thousands):

| | March 31, 2007 | December 31, 2006 |
|-----------------------------------|-------------------|-------------------------|
| Asset backed securitization (ABS) | | |
| Term notes | \$ 617,667 | \$ 634,667 |
| Warehouse facility | 158,500 | 132,500 |
| Revolving credit facilities | 92,500 | 126,500 |
| Finance lease facility | 12,500 | 12,500 |
| Port equipment facility | 15,229 | 12,868 |
| Other debt | 2,268 | 842 |
| Capital lease obligations | 38,323 | 38,440 |
| Total | \$ 936,987 | \$ 958,317 |

Interest Rate Swaps

During the quarter ended March 31, 2007, the Company entered into interest rate swap contracts which are included in the summary table below to fix the floating interest rates on a portion of the borrowings under its debt facilities:

| Swap Date | Notional Amount at March 31, 2007 | Fixed Leg Interest Rate | Term |
|------------------|---|----------------------------------|--------------------------|
| February 5, 2007 | \$ 2.6 million* | 4.16% | 8 years – amortizing |
| February 7, 2007 | \$ 75.0 million | 5.05% | 5 years – non-amortizing |
| March 2, 2007 | \$ 100.0 million | 4.88% | 6 years – non-amortizing |
| March 19, 2007 | \$ 50.0 million | 4.88% | 5 years – non-amortizing |

*Interest rate swap is Euro denominated and is based on one-month EURIBOR, and has been converted to U.S. Dollars using the exchange rate at March 31, 2007.

As of March 31, 2007, the Company had in place interest rate swap contracts to fix the floating interest rates on a portion of the borrowings under its debt facilities as summarized below:

| | | |
|--|---|--|
| Total Notional Amount at March 31, 2007 \$906.1 million | Weighted Average Fixed Leg Interest Rate 4.39% | Weighted Average Remaining Term 4.9 years |
|--|---|--|

As of April 12, 2006, in conjunction with the ABS program described above, the Company de-designated all of its existing interest rate swap contracts. Previously, the Company had designated all existing interest rate swap contracts as cash flow hedges, in accordance with Statement of Financial

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Accounting Standards No.133, "Accounting for Derivative Instruments and Hedging Activities". Therefore, during the designation period beginning November 1, 2005 through April 12, 2006, substantially all changes in the fair value of the interest rate swap contracts were reflected in accumulated other comprehensive income. Changes in the fair value of these interest rate swap contracts in periods before and after designation have been recognized in the consolidated statements of operations as unrealized losses or gains on interest rate swaps.

At the time of de-designation, the change in fair value reflected in accumulated other comprehensive income was \$7.5 million. This amount is being recognized in income as unrealized (gain) loss on interest rate swaps using the interest method over the remaining life of the contracts. As of March 31, 2007, the unamortized pre-tax balance of the change in fair value reflected in accumulated other comprehensive income was \$4.6 million. The amount of other comprehensive income which will be amortized to income over the next 12 months is approximately \$1.6 million. Amounts recorded in accumulated other comprehensive income would be reclassified into earnings upon termination of these interest rate swap contracts and related debt instruments prior to their contractual maturity.

The net fair value of the interest rate swap contracts was \$8.1 million at March 31, 2007, and \$11.9 million at December 31, 2006. Fair value of \$11.0 million as of March 31, 2007 and \$13.9 million at December 31, 2006 are included in other assets in the consolidated balance sheets. Fair value of \$2.9 million at March 31, 2007 and \$2.0 million at December 31, 2006 are included in accrued expenses in the consolidated balance sheets. In its consolidated statements of operations, the Company recognized a net unrealized loss of \$3.2 million for the three months ended March 31, 2007 and a net unrealized loss of \$0.9 million for the three months ended March 31, 2006, which predominantly represents the change in fair value of the interest rate swap contracts, as well as amortization of other comprehensive income amounts previously recorded during the designation period of the interest rate swaps.

Note 5 — Earnings Per Share

The following table sets forth the calculation of basic and diluted earnings per share for the three months ended March 31, 2007 and 2006 (in thousands, except earnings per share):

| | | |
|------------|---------------------------------|----------|
| | Three Months Ended March 31, | |
| | 2007 | 2006 |
| Numerator: | \$ 11,086 | \$ 9,505 |

Net income applicable to common stockholders for basic and diluted earnings per share

Denominator:

| | | |
|--|---------|---------|
| Weighted average shares outstanding for basic earnings per share | 33,184 | 32,882 |
| Dilutive stock options | 194 | 577 |
| Weighted average shares for diluted earnings per share | 33,378 | 33,459 |
| Earnings per share: | | |
| Basic | \$ 0.33 | \$ 0.29 |
| Diluted | \$ 0.33 | \$ 0.28 |

Note 6 — Segment and Geographic Information

Industry Segment Information

The Company operates in one industry segment, intermodal equipment leasing.

Geographic Segment Information

The Company's customers use the containers for their global trade utilizing many worldwide trade routes. The following table represents the allocation of domestic (U.S.) and international revenues for

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the periods indicated based on the customers' primary domicile (in thousands):

| | Three Months Ended March 31, | |
|---------------------|---------------------------------|-----------|
| | 2007 | 2006 |
| Total revenues: | | |
| Domestic | \$ 8,014 | \$ 7,294 |
| Asia | 37,691 | 34,072 |
| Europe | 27,767 | 28,545 |
| Other International | 6,100 | 4,702 |
| Total | \$ 79,572 | \$ 74,613 |

As substantially 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, all of the Company's containers are considered to be international.

Note 7 — Commitments and Contingencies

At March 31, 2007, commitments for capital expenditures totaled approximately \$133.8 million, principally through the remainder of 2007.

Note 8 — Income Taxes

The consolidated income tax expense for the three month periods ended March 31, 2007 and 2006 was determined based upon estimates of the Company's consolidated effective income tax rates for the years ending December 31, 2007 and 2006, respectively. The difference between the consolidated effective income tax rate and the U.S. federal statutory rate is primarily attributable to state income taxes, foreign income taxes and the effect of certain permanent differences.

The Company has adopted the provisions of FIN 48 effective January 1, 2007. In accordance with the requirements of FIN 48, the Company has evaluated all of its tax positions, and has determined the cumulative effect of all 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. The Company's current and deferred income tax liability after adoption of FIN 48 are the same as they were prior to adoption. We do not believe there will be any material changes in unrecognized tax positions over the next 12 months.

As a result of the Acquisition on October 31, 2004, as well as the IRC section 338(h)(10) election made in 2004, the Company has filed U.S. Federal and State income tax returns only for tax years since the Acquisition. The tax returns for these years are subject to examination by the tax authorities. Non-U.S. income tax filings are not considered material.

Our policy is to record interest and penalties associated with unrecognized tax benefits as part of income tax expense. At the date of adoption, as well as for the current quarter, we did not have any accrued interest or penalties for uncertain tax positions.

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Note 9 — Comprehensive Income

The following table provides a reconciliation of the Company's net income to comprehensive income (in thousands):

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------|
| | 2007 | 2006 |
| Net income | \$ 11,086 | \$ 9,505 |
| Other comprehensive income: | | |
| Foreign currency translation adjustments | 22 | 6 |
| Unrealized (loss) gain on derivative instruments designated as cash flow hedges (net of tax (benefit) expense of \$(225) and \$2,782, respectively) | (405) | 5,022 |
| Total | \$ 10,703 | \$ 14,533 |

The balance included in comprehensive income for cumulative translation adjustments as of March 31, 2007 and December 31, 2006 was \$325 and \$303, respectively.

Note 10 — Subsequent Events

Quarterly Dividend

The Company's Board of Directors approved and declared a \$0.375 per share quarterly cash dividend on its issued and outstanding common stock, payable on May 30, 2007 to shareholders of record at the close of business on May 17, 2007.

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

The following discussion and analysis of the consolidated financial condition and results of operations of TAL International Group, Inc. and its subsidiaries should be read in conjunction with related consolidated financial data and our annual audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 13, 2007. The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described under "Risk Factors" and "Forward-Looking Statements" in our Form 10-K. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

Our Company

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

Our operations include the acquisition, leasing, re-leasing and subsequent sale of multiple types of intermodal containers and chassis. As of March 31, 2007, our fleet consisted of 649,025 containers and chassis, including 69,156 containers under management for third parties, representing approximately 1,053,000 twenty-foot equivalent units (TEU). We have an extensive global presence, offering leasing services through 19 offices in 11 countries and approximately 181 third party container depot facilities in 37 countries as of March 31, 2007. Our customers are among the world's largest shipping lines.

We primarily lease four principal 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, and (4) chassis which are used for the transportation of containers domestically. We also manage our own container disposals, act as the disposal agent for a number of our shipping line customers, and buy and sell used containers through our Trader group. As of March 31, 2007, dry, refrigerated, special containers and Trader represented approximately 85%, 5%, 7% and 2% of our fleet on a unit basis, respectively. Our chassis equipment, which was first purchased in the fourth quarter of 2005, represented 1% of our fleet on a unit basis as of March 31, 2007. In addition, in December 2006 we entered into our first port equipment finance transaction in which we financed several container cranes, reach stackers, tractors, trailers and related equipment.

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

| | Equipment Fleet in Units | | | | | | | | |
|--------------|--------------------------|---------|---------|-------------------|---------|---------|----------------|---------|---------|
| | March 31, 2007 | | | December 31, 2006 | | | March 31, 2006 | | |
| | Owned | Managed | Total | Owned | Managed | Total | Owned | Managed | Total |
| Dry | 497,180 | 53,667 | 550,847 | 492,497 | 54,675 | 547,172 | 466,503 | 58,355 | 524,858 |
| Refrigerated | 34,648 | 1,024 | 35,672 | 33,990 | 1,048 | 35,038 | 33,371 | 1,534 | 34,905 |
| Special | 29,084 | 14,465 | 43,549 | 27,418 | 14,765 | 42,183 | 26,555 | 15,618 | 42,173 |
| Chassis | 7,078 | — | 7,078 | 6,579 | — | 6,579 | 2,790 | — | 2,790 |
| Subtotal | 567,990 | 69,156 | 637,146 | 560,484 | 70,488 | 630,972 | 529,219 | 75,507 | 604,726 |
| Trader | 11,879 | — | 11,879 | 8,815 | — | 8,815 | 7,459 | — | 7,459 |
| Total | 579,869 | 69,156 | 649,025 | 569,299 | 70,488 | 639,787 | 536,678 | 75,507 | 612,185 |

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| | Equipment Fleet in TEU's | | | | | | | | |
|--------------|--------------------------|---------|-----------|-------------------|---------|-----------|----------------|---------|---------|
| | March 31, 2007 | | | December 31, 2006 | | | March 31, 2006 | | |
| | Owned | Managed | Total | Owned | Managed | Total | Owned | Managed | Total |
| Dry | 796,049 | 91,968 | 888,017 | 787,687 | 93,525 | 881,212 | 742,377 | 99,455 | 841,832 |
| Refrigerated | 62,820 | 1,617 | 64,437 | 61,208 | 1,652 | 62,860 | 59,714 | 2,217 | 61,931 |
| Special | 46,927 | 24,099 | 71,026 | 43,449 | 24,495 | 67,944 | 41,050 | 25,644 | 66,694 |
| Chassis | 12,406 | — | 12,406 | 11,508 | — | 11,508 | 4,930 | — | 4,930 |
| Subtotal | 918,202 | 117,684 | 1,035,886 | 903,852 | 119,672 | 1,023,524 | 848,071 | 127,316 | 975,387 |
| Trader | 17,422 | — | 17,422 | 13,799 | — | 13,799 | 11,398 | — | 11,398 |
| Total | 935,624 | 117,684 | 1,053,308 | 917,651 | 119,672 | 1,037,323 | 859,469 | 127,316 | 986,785 |

We generally lease our equipment on a per diem basis to our customers under three types of leases: long-term leases, service leases and finance leases. Long-term leases, typically with terms of three to eight years, provide us with stable cash flow and low transaction costs by requiring customers to maintain specific units on-hire for the duration of the lease. Service leases command a premium per diem rate in exchange for providing customers with a greater level of operational flexibility by allowing the pick-up and drop-off of units during the lease term. Finance leases, which are typically structured as full payout leases, provide for a predictable recurring revenue stream with the lowest daily cost to the customer because customers are generally required to retain the equipment for the duration of its useful life. As of March 31, 2007, approximately 91% of our containers and chassis were on-hire to customers, with approximately 57% of our equipment on long-term leases, approximately 26% on service leases or long-term leases whose fixed terms have expired but for which the related units remain on-hire and for which we continue to receive rental payments, and approximately 8% on finance leases. In addition, approximately 6% of our fleet was available for lease and approximately 3% was available for sale.

The following table provides a summary of our lease portfolio, based on units in the fleet as of the dates indicated below:

| Lease Portfolio | December | | |
|-----------------|-------------------|-------------|-------------------|
| | March 31, 2007 | 31, 2006 | March 31, 2006 |
| Long-term lease | 57.0% | 58.1% | 57.7% |
| Service lease | 25.5 | 27.2 | 25.9 |

| | | | |
|--------------------------------|--------|--------|--------|
| Finance lease | 8.3 | 8.2 | 5.1 |
| Total leased | 90.8 | 93.5 | 88.7 |
| Used units available for lease | 3.8 | 3.1 | 5.2 |
| New units available for lease | 2.8 | 1.3 | 2.3 |
| Available for sale | 2.6 | 2.1 | 3.8 |
| Total portfolio | 100.0% | 100.0% | 100.0% |

Operating Performance

Our profitability is primarily determined by the extent to which our leasing and other revenues exceed our ownership, operating and administrative expenses. Our profitability is also impacted by the gain or loss that we realize on the sale of our used containers. Our profitability for the first quarter of 2007 was supported by high starting utilization in all of our major product lines and strong gains on the sale of used containers.

Our leasing revenue is primarily driven by our owned fleet size, utilization and average rental rates. Our leasing revenue is also impacted by the mix of leases in our portfolio. As of March 31, 2007, our owned fleet included 935,624 TEU, an increase of 2.0% from December 31, 2006 and up 8.9% from March 31, 2006. The increase in fleet size in 2007 relative to the first quarter of 2006 was mainly due to the delivery of a large number of containers during the second and third quarters of 2006. As of March 31, 2007, our revenue earning assets (leasing equipment, net investment in finance leases, and

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equipment held for sale) totaled approximately \$1.3 billion, an increase of approximately \$48 million, or 3.8% over December 31, 2006 and an increase of approximately \$175 million, or 15.6% over March 31, 2006. Our revenue earning asset growth was higher on a dollar basis, since our new chassis and port equipment investments are much more expensive than dry containers on a per TEU basis. In addition, the growth of our fleet has decreased the average age and increased the average net book value of the units in our owned fleet.

We expect that our owned fleet will continue to grow this year on both a TEU and dollar basis. Through April 30, 2007, we have placed orders for roughly 90,000 TEU of new equipment, and expect to take delivery of this equipment primarily in the second quarter. While we have secured lease commitments for a portion of these ordered units, further procurement will be contingent on the pace of our success with leasing out the remaining uncommitted units.

We sold approximately 12,300 TEU of our owned containers, or 1.4% of our beginning owned container fleet, in the first quarter of 2007. Our first quarter disposal rate was slightly lower than the 7-8% annual disposal rate that we have experienced over the last three years. Based on the age profile of our fleet and scheduled lease expirations, we expect our rate of disposals will increase for several years beginning in 2008 before decreasing significantly for several years thereafter. During years of above-average disposals, our TEU growth rate may be constrained if we are unable to generate a sufficient number of attractive lease transactions for an expanded level of container purchases.

Our average utilization was 92.1% in the first quarter of 2007, an increase of 3.4% from the first quarter of 2006, and a decrease of 0.9% from the fourth quarter of 2006. Ending utilization decreased 2.7% from 93.5% as of December 31, 2006 to 90.8% as of March 31, 2007. The improvement in our utilization in the first quarter of 2007 relative to the first quarter of 2006 was mainly the result of the significant increase in utilization we achieved in the

second half of 2006, and all of our product lines operated at a high level of utilization in the first quarter of 2007. However, our utilization decreased by 2.7% during the first quarter of 2007 primarily due to an increase in the number of idle factory units. We typically order the majority of our new containers in the first and second quarters in anticipation of the summer peak season for dry containers. We expect significant further container deliveries in the second quarter. The inventory of new containers in China is currently higher than it was at this time last year, and we are seeing aggressive pricing from a number of competitors. As a result, our utilization may face further pressure due to our anticipated second quarter container deliveries.

Idle new units typically have a limited impact on our profitability since they usually do not incur storage or depreciation charges. Utilization of our existing units was 93.4% at the end of the first quarter of 2007 compared to 90.8% as of March 31, 2006 and 94.6% as of December 31, 2006. We expect that our utilization of our existing fleet will be supported for the balance of 2007 by strong cargo growth, a continued low volume of drop-offs and peak season dry container requirements in the second and third quarters. The number of container drop-offs was 25% lower in the first quarter of 2007 compared to the first quarter of 2006, partially due to the lease extension transactions we completed last year. In addition, we typically see the number of existing units available for lease and the number of units available for sale decrease in the second and third quarters since the summer usually represents the peak season for dry container leasing and disposals.

Leasing demand for our refrigerated and special containers remained strong in the first quarter of 2007, and our volume of lease-outs in the quarter was generally limited by our lack of equipment availability. The utilization of our refrigerated and special containers does not heavily influence our overall utilization since they represent only approximately 12% of our fleet. However, these container types are significantly more expensive than dry containers, generate higher per diem lease rates and currently represent approximately 32% of our revenue. We have increased procurement levels for refrigerated containers and special containers in response to the ongoing high level of demand. Leasing demand for our chassis product line was relatively weak during the first quarter partially due to a decision by several large shipping lines to reduce the volume of containers they move to in-land locations.

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The following table sets forth our average fleet utilization for the periods indicated below:

| | March 31, 2007 3 months | December 31, 2006 3 months | March 31, 2006 3 months |
|---------------------|----------------------------------|-------------------------------------|----------------------------------|
| Average Utilization | 92.1% | 93.0% | 88.7% |

Average lease rates for our dry container product line in the first quarter of 2007 decreased by 3.8% from the average level of the first quarter of 2006 despite the high new container prices that prevailed during the later part of 2006. The decrease in average dry container leasing rates was primarily caused by several large lease extension transactions completed during the second and third quarters of 2006. Average lease rates for dry containers were essentially flat from the fourth quarter of 2006 to the first quarter of 2007. New container prices began to increase at the end of 2006, and they have been firm at close to \$2,000 for a 20' dry container during the first quarter. As a result, market leasing rates for new dry containers are generally above our portfolio average, though the difference has been limited so far

this year by the aggressive pricing we have seen for new container leases by a number of our competitors.

Average lease rates for refrigerated containers in the first quarter of 2007 decreased by 7.4% from the average level in the first quarter of 2006 mainly due to a large lease extension transaction completed at the beginning of the third quarter of 2006. Average leasing rates for refrigerated containers decreased by about one percent from the fourth quarter of 2006, primarily due to the large volume of new containers leased out in the fourth quarter of 2006 and first quarter of 2007. New refrigerated container prices are lower than they were three to eight years ago, and market leasing rates for new containers are slightly below our portfolio average.

Average rental rates for special containers remained constant during the first quarter of 2007 compared to the first and fourth quarters of 2006.

During the first quarter of 2007, the percentage of our units on finance leases increased to 8.3% compared to 5.1% as of March 31, 2006. Finance lease revenue increased from \$2.3 million to \$4.2 million for the three months ended March 31, 2007 as compared to the prior year period. While our finance lease revenue was \$1.9 million higher for the three months ended March 31, 2007 compared to the comparable period in 2006, the increase in the portion of our units covered by finance leases resulted in a reduction in leasing revenue compared to the amount we would have recognized if the units were placed on operating leases. For a finance lease, the lease payment from the customer is split into interest and principal components, and we only recognize the interest component as revenue while the principal component decreases the carrying value of the finance lease on the balance sheet. For an operating lease, the entire lease payment is recognized as revenue, while the carrying value of the container equipment is reduced through depreciation expense.

During the first quarter of 2007, we recognized a \$2.4 million gain on the sale of our used containers compared to a \$0.1 million loss in the first quarter of 2006. The improvement compared to the first quarter of 2006 mainly resulted from higher sales volumes and higher unit prices for containers sold in 2007. In the first quarter of 2007, selling prices for used containers were supported by high selling prices for new containers and high utilization of leasing company and shipping line containers.

Our direct operating expenses increased by \$0.7 million in the first quarter of 2007 from the first quarter of 2006 mainly due to higher positioning and repair costs. These increases were partially offset by lower storage and handling costs, resulting from higher utilization and lower volume of units picked up and dropped off.

Our ownership expenses, principally depreciation and interest expense decreased by \$1.5 million in the first quarter of 2007 from the first quarter of 2006. The decrease in depreciation expense in 2007 resulted from the termination of depreciation charges for containers that reached the end of their depreciable life at the end of 2006 but remain in our fleet. The significant reduction in interest expense in 2007 compared to the amount we incurred in 2006 was due to lower average interest rates related to our asset securitization program which was completed in April 2006.

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On March 9, 2007, the Company paid a quarterly dividend of \$0.30 per share or an aggregate of approximately \$10.0 million on its issued and outstanding common stock. The dividend was paid to shareholders of record at the close of business on February 23, 2007.

Results of Operations

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The following table summarizes our results of operations for the three months ended March 31, 2007 and 2006 in thousands of dollars and as a percentage of total revenues:

| | Three Months Ended March 31, | | | |
|--|------------------------------|---------|-----------|---------|
| | 2007 | | 2006 | |
| | Dollars | Percent | Dollars | Percent |
| Leasing revenues | \$ 68,181 | 85.7% | \$ 67,541 | 90.5% |
| Equipment trading revenue | 9,238 | 11.6 | 5,019 | 6.7 |
| Management fee income | 1,589 | 2.0 | 1,576 | 2.1 |
| Other revenues | 564 | 0.7 | 477 | 0.7 |
| Total revenues | 79,572 | 100.0 | 74,613 | 100.0 |
| Equipment trading expenses | 7,399 | 9.3 | 4,225 | 5.7 |
| Direct operating expenses | 7,372 | 9.2 | 6,723 | 9.0 |
| Administrative expenses | 10,254 | 12.9 | 9,539 | 12.8 |
| Depreciation and amortization | 24,496 | 30.8 | 25,489 | 34.2 |
| Provision for doubtful accounts | 117 | 0.1 | 471 | 0.6 |
| Net (gain) loss on sale of leasing equipment | (2,420) | (3.0) | 108 | 0.1 |
| Interest and debt expense | 11,911 | 15.0 | 12,456 | 16.7 |
| Unrealized loss on interest rate swaps | 3,191 | 4.0 | 854 | 1.1 |
| Total expenses | 62,320 | 78.3 | 59,865 | 80.2 |
| Income before income taxes | 17,252 | 21.7 | 14,748 | 19.8 |
| Income tax expense | 6,166 | 7.8 | 5,243 | 7.0 |
| Net income | \$ 11,086 | 13.9% | \$ 9,505 | 12.8% |

Comparison of Three Months Ended March 31, 2007 to Three Months Ended March 31, 2006.

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

| | Three Months Ended March 31, | |
|---------------------------------|------------------------------|-----------|
| | 2007 | 2006 |
| | (in thousands) | |
| Leasing revenues: | | |
| Per diem revenue | \$ 56,786 | \$ 56,364 |
| Finance lease revenue | 4,201 | 2,286 |
| Fee and ancillary lease revenue | 7,194 | 8,891 |
| Total leasing revenues | \$ 68,181 | \$ 67,541 |

Total leasing revenues were \$68.2 million for the three months ended March 31, 2007, compared to \$67.5 million for the three months ended March 31, 2006, an increase of \$0.7 million, or 1.0%. The increase in leasing revenues primarily resulted from an increase in our owned container fleet size and utilization, partially offset by a decrease in average leasing rates and lower fee revenue due to a reduced level of container drop-offs. While our finance lease revenue was \$1.9 million higher for the three months ended March 31, 2007 compared to the comparable period in

2006, the increase in the

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portion of our units covered by finance leases resulted in a reduction in leasing revenue compared to the amount we would have recognized if the units were placed on operating leases. For a finance lease, the lease payment from the customer is split into interest and principal components, and we only recognize the interest component as revenue while the principal component decreases the carrying value of the finance lease on the balance sheet. For an operating lease, the entire lease payment is recognized as revenue, while the carrying value of the container equipment is reduced through depreciation expense.

Equipment Trading Activities. Equipment trading revenue represents the proceeds on the sale of equipment purchased for resale. Equipment trading expenses represent the cost of equipment sold as well as related selling costs.

| | Three Months Ended March 31, | |
|------------------------------|---------------------------------|----------|
| | 2007 | 2006 |
| | (in thousands) | |
| Equipment trading revenues | \$ 9,238 | \$ 5,019 |
| Equipment trading expenses | (7,399) | (4,225) |
| Net equipment trading margin | \$ 1,839 | \$ 794 |

The net equipment trading margin increased \$1.0 million for the three months ended March 31, 2007 compared to the three months ended March 31, 2006 due to higher prices as well as higher volume of units sold.

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

During the three months ended March 31, 2007, direct operating expenses were \$7.4 million, compared to \$6.7 million for the three months ended March 31, 2006, an increase of \$0.7 million or 10.4%. Positioning costs increased by \$0.5 million due to more units moved, and repairs increased by \$0.7 million due to a higher number of units repaired. Additionally, surveying costs on new equipment increased by \$0.3 million due to additional units acquired. These increases were partially offset by lower storage costs of \$0.9 million, resulting from higher utilization and lower volume of units picked up and dropped off.

Administrative expenses. Administrative expenses were \$10.3 million for the three months ended March 31, 2007, compared to \$9.5 million for the three months ended March 31, 2006, an increase of \$0.8 million or 8.4%. The increase was primarily due to higher employee compensation costs, consulting costs and travel costs.

Depreciation and amortization. Depreciation and amortization was \$24.5 million for the three months ended March 31, 2007, compared to \$25.5 million for the three months ended March 31, 2006, a decrease of \$1.0 million or 3.9%. The decrease was primarily due to certain equipment becoming fully depreciated in the fourth quarter of 2006. In addition, a larger portion of our fleet was placed on finance leases in 2006, which are not subject to depreciation.

Net (gain) loss on sale of leasing equipment. (Gain) on sale of equipment was \$(2.4) million for the three months ended March 31, 2007, compared to a loss of \$0.1 million for the three months ended March 31, 2006, an increase of \$2.5 million. Results in 2007 benefited from higher average selling prices and a lower number of units identified for sale. When units are identified for sale, we record expected losses, whereas expected gains are deferred until units are sold. In addition, the results in 2007 included gains related to the placement of certain existing equipment on finance leases.

Interest and debt expense. Interest and debt expense was \$11.9 million for the three months ended March 31, 2007, compared to \$12.5 million for the three months ended March 31, 2006, a decrease of \$0.6 million. The decrease was primarily due to lower interest rates in 2007, partially offset by an increase in the average debt balance.

Unrealized loss on interest rate swaps. Unrealized loss on interest rate swaps was \$3.2 million for the three months ended March 31, 2007, compared to an unrealized loss of \$0.9 million for the three

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months ended March 31, 2006. The net fair market value of the interest rate swap contracts decreased to \$8.1 million at March 31, 2007, compared to \$11.9 million at December 31, 2006, primarily due to a decrease in interest rates.

Income tax expense. Income tax expense was \$6.2 million for the three months ended March 31, 2007, compared to an income tax expense of \$5.2 million for the three months ended March 31, 2006, and the effective tax rates were 35.7% for the three months ended March 31, 2007 and 35.6% for the three months ended March 31, 2006.

We do not expect to pay any significant Federal, state or foreign income taxes for a number of years due to the availability of accelerated U.S. tax depreciation for our existing container fleet and our planned future equipment purchases. Any material changes in market conditions or company strategy could either accelerate or further defer the timing of our tax payments.

Liquidity and Capital Resources

Our principal sources of liquidity are cash flows generated from operations and borrowings under our Asset Backed Securitization (“ABS”) program and our revolving credit facilities. Our cash flows will be used to finance capital expenditures, provide working capital, meet debt service requirements, and pay dividends. We believe that cash from operations and existing cash, together with available borrowings under our ABS program and our revolving credit facilities will be sufficient to meet our liquidity requirements for at least the next twelve months. However, our future operating performance and ability to extend or refinance our indebtedness may be dependent on future economic conditions and financial, business and other factors that are beyond our control.

At March 31, 2007, our outstanding indebtedness was comprised of the following (amounts in millions):

| Current Amount Outstanding | Current Maximum Commitment Level |
|----------------------------------|---|
|----------------------------------|---|

| | | |
|--|----------|------------|
| ABS Term Notes | \$ 617.7 | \$ 617.7 |
| ABS Warehouse Facility | 158.5 | 300.0 |
| Revolving Credit Facilities | 92.5 | 175.0 |
| Finance Lease Facility | 12.5 | 50.0 |
| Port Equipment Facility and Other Debt | 17.5 | 17.5 |
| Capital Lease Obligations | 38.3 | 38.3 |
| Total Debt | \$ 937.0 | \$ 1,198.5 |

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

The Company is subject to various covenant requirements under its debt facilities. At March 31, 2007, the Company was in compliance with all covenants.

Treasury Stock

On March 13, 2006, the Company's Board of Directors authorized a stock buyback program for the repurchase of up to 1.5 million shares of its common stock. The Company repurchased 136,250 shares of its outstanding common stock in the open market during the year ended December 31, 2006 at a total cost of approximately \$2.9 million.

Dividends Paid

On March 9, 2007, the Company paid a quarterly dividend of \$0.30 per share or an aggregate of approximately \$10.0 million on its issued and outstanding common stock. The dividend was paid to shareholders of record at the close of business on February 23, 2007.

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Cash Flow

The following table sets forth certain cash flow information for the three months ended March 31, 2007 and 2006 (in thousands):

| | Three Months Ended March 31, | |
|--|---------------------------------|-------------|
| | 2007 | 2006 |
| Net cash provided by operating activities | \$ 35,883 | \$ 43,274 |
| Net cash (used in) provided by investing activities: | | |
| Payments for leasing equipment | \$ (24,719) | \$ (13,185) |
| Investment in finance leases | (8,663) | (1,839) |
| Proceeds from sale of equipment, net of selling costs | 14,433 | 12,269 |
| Cash collections on financing leases, net of unearned income | 5,131 | 2,986 |
| Other | 22 | 6 |

| | | |
|---|-------------|-------------|
| Net cash (used in) provided by investing activities | \$ (13,796) | \$ 237 |
| Net cash (used in) financing activities | \$ (31,162) | \$ (40,000) |

Operating Activities

Net cash provided by operating activities decreased by \$7.4 million to \$35.9 million in the three months ended March 31, 2007, compared to \$43.3 million in the three months ended March 31, 2006. In the first three months of 2007, we purchased more equipment for resale than we sold by \$4.8 million as compared to the first three months of 2006, where we sold more equipment for resale than we purchased by \$2.9 million.

Investing Activities

Net cash used in investing activities was \$13.8 million in the three months ended March 31, 2007, as compared to net cash provided by investing activities of \$0.2 million in the three months ended March 31, 2006. Capital expenditures were \$33.4 million, including investments in finance leases of \$8.7 million, in the three months ended March 31, 2007, compared to \$15.0 million, including investments in finance leases of \$1.8 million, in the three months ended March 31, 2006. Capital expenditures increased by \$18.4 million primarily due to an increase in the number of units purchased, as well as higher per unit costs. In addition, we had received but not yet paid for leasing equipment of \$53.2 million in the three months ended March 31, 2007 as compared to \$16.6 million in the three months ended March 31, 2006. Sales proceeds from the disposal of equipment increased \$2.1 million to \$14.4 million in the three months ended March 31, 2007, compared to \$12.3 million in the three months ended March 31, 2006. The increase in sales proceeds is primarily due to higher selling prices and an increase in volume of equipment sold. Cash collections on financing leases, net of unearned income increased by \$2.1 million to \$5.1 million for the three months ended March 31, 2007, compared to \$3.0 million for the three months ended March 31, 2006 as a result of an increase in our finance lease portfolio.

Financing Activities

Net cash used in financing activities was \$31.2 million for the three months ended March 31, 2007, compared to \$40.0 million for the three months ended March 31, 2006. During the three months ended March 31, 2007, we increased borrowings under our ABS Warehouse Facility and other debt facilities, the proceeds of which were primarily used to finance the purchase of new equipment. This was offset by net cash used to pay down borrowings on our ABS term notes and revolving credit facilities. In addition, cash was used during the first quarter 2007 to pay dividends on our common stock outstanding. In the three months ended March 31, 2006, net cash used in financing activities was used to pay down borrowings under our senior secured credit facility and our asset securitization facility.

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Contractual Obligations

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

The following table summarizes our contractual obligations and commercial commitments as of March 31, 2007:

| Contractual Obligations: | Contractual Obligations by Twelve Month Period Ending March 31, (dollars in millions) | | | | | |
|---|---|----------|----------|----------|----------|---------------------|
| | Total | 2008 | 2009 | 2010 | 2011 | 2012 and thereafter |
| Total debt obligations ⁽¹⁾ : | \$ 1,112.1 | \$ 118.5 | \$ 219.1 | \$ 120.5 | \$ 116.6 | \$ 537.4 |
| Capital lease obligations | 50.2 | 7.2 | 3.9 | 4.2 | 4.2 | 30.7 |
| Operating leases (mainly facilities) | 5.2 | 1.7 | 1.6 | 1.7 | 0.2 | — |
| Equipment purchase obligations | 133.8 | 133.8 | — | — | — | — |
| Total contractual obligations | \$ 1,301.3 | \$ 261.2 | \$ 224.6 | \$ 126.4 | \$ 121.0 | \$ 568.1 |

(1) Amounts include actual and estimated interest for floating-rate debt based on March 31, 2007 rates and the net effect of the interest rate swaps.

Off-Balance Sheet Arrangements

At March 31, 2007, we did not have any relationships with unconsolidated entities or financial partnerships, such entities which are often referred to as structured finance or special purpose entities, which were established for the purpose of facilitating off-balance sheet arrangements. We are, therefore, not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Critical Accounting Policies

Our consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which require us to make estimates and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. Our estimates are based on historical experience and currently available information. Actual results could differ from such estimates. The following paragraphs summarize our critical accounting policies. Additional accounting policies are discussed in the notes to our 2006 Form 10-K and elsewhere in this Form 10-Q.

Revenue Recognition

Operating Leases with Customers

We enter 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. Our 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 range for a period of three to eight years. Revenues are recognized on a straight-line basis over the life of the respective lease. Advanced 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 where collection is not assured is deferred and

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recognized when the amounts are received. Also, in accordance with EITF No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent, we recognize billings to customers for damages incurred and certain other pass through costs as leasing revenue as it is earned based on the terms of the contractual agreements with the customer.

Finance Leases with Customers

We enter into finance leases as lessor for some of the equipment in our 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 five to ten years and typically include a bargain purchase option to purchase the equipment at the end of the lease term.

Leasing Equipment

Leasing equipment is recorded at cost and depreciated to an estimated residual value on a straight-line basis over the estimated useful life. We will continue to review our depreciation policies on a regular basis to determine whether changes have taken place that would suggest that a change in our depreciation policies, useful lives of our equipment or the assigned residual values is warranted. In addition, periodically a determination is made, if indicators of impairment are present, as to whether the carrying value of our fleet exceeds its estimated future undiscounted cash flows. The estimated useful lives for our leasing equipment ranges from 10 to 20 years from the date of manufacture. Estimated useful lives have been based on independent appraisals and will be adjusted if necessary based on actual experience. Costs incurred to place new equipment into service, including costs to transport the equipment to its initial on-hire location, are capitalized. We charge repair and maintenance costs that do not extend the lives of the assets as incurred and include these costs in direct operating expenses.

An allowance is provided through direct operating expenses based on the net book value of a percentage of the units on lease to certain customers that are considered to be non-performing which we believe we will not ultimately recover. The percentage is developed based on historical experience.

Equipment Held for Sale

In accordance with the Financial Accounting Standards Board (“FASB”) Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (“SFAS No. 144”), equipment held for sale is carried at the lower of its fair value, based on current transactions, less costs to sell or carrying value; depreciation on such assets is halted and disposals generally occur within ninety days. Subsequent changes to the asset’s fair value, either increases or decreases, are recorded as adjustments to the carrying value of the equipment held for sale; however, any such adjustments would not exceed the 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) loss on sale of leasing equipment. Realized gains and losses resulting from the sale of equipment held for sale are recorded as a net (gain) loss on sale of leasing equipment.

Allowance for Doubtful Accounts

Our allowance for doubtful accounts is updated on a regular basis and is based upon a review of the collectibility of our receivables. This review considers the risk profile of the customer, credit quality indicators such as the level of past-due amounts and economic conditions. 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 our receivables, and requires the application of estimates and judgments as to the outcome of collection efforts and the realization of collateral, among other things. We believe our allowance for doubtful accounts is adequate to provide for credit losses inherent in our existing receivables. However, actual losses could exceed the amounts provided for in certain periods.

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Recently Issued Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (“SFAS No. 159”) which permits companies to choose to measure many financial instruments and certain other items at fair value. The Statement’s objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Company is required to adopt the provisions of SFAS No. 159 during the first fiscal year beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 159 on its consolidated results of operations and financial position.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (“SFAS No. 157”) which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles (GAAP). Under SFAS No. 157, there is now a common definition of fair value to be used throughout GAAP. The new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. The Company is required to adopt the provisions of SFAS No. 157 during the first fiscal year beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 157 on its consolidated results of operations and financial position.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109, (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company has adopted the provisions of FIN 48 effective January 1, 2007. In accordance with the requirements of FIN 48, the Company has evaluated all of its tax positions, and has determined the cumulative effect of all 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. The Company’s current and deferred income tax liability after adoption of FIN 48 are the same as they were prior to adoption. We do not believe there will be any material changes in unrecognized tax positions over the next 12 months.

As a result of the Acquisition on October 31, 2004, as well as the IRC section 338(h)(10) election made in 2004, the Company has filed U.S. Federal and State income tax returns only for tax years since the Acquisition. The tax returns for these years are subject to examination by the tax authorities. Non-U.S. income tax filings are not considered material.

Our policy is to record interest and penalties associated with unrecognized tax benefits as part of income tax expense. At the date of adoption, as well as for the current quarter, we did not have any accrued interest or penalties for uncertain tax positions.

ITEM 3: Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Currency Exchange Rate Risk

Although we have significant foreign-based operations, the U.S. dollar is the operating currency for the large majority of our leases (both customers obligations and company obligations), and most of our revenues and expenses in 2007 and 2006 were denominated in U.S. dollars. As a result, foreign currency fluctuations did not materially impact our financial results in those periods.

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Interest Rate Risk

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

The primary external risk of our interest rate swap contracts is counterparty credit exposure, which is defined as the ability of a counterparty to perform its financial obligations under a derivative contract. All derivative agreements are with major money center financial institutions rated investment grade by nationally recognized rating agencies, with our counterparties rated ‘‘A’’ or better. Credit exposures are measured based on the market value of outstanding derivative instruments. Both current exposures and potential exposures are calculated for each derivative contract to monitor counterparty credit exposure.

During the quarter ended March 31, 2007, the Company entered into interest rate swap contracts which are included in the summary table below to fix the floating interest rates on a portion of the borrowings under its debt facilities:

| Swap Date | Notional Amount at March 31, 2007 | Fixed Leg Interest Rate | Term |
|------------------|---|----------------------------------|--------------------------|
| February 5, 2007 | \$ 2.6 million * | 4.16% | 8 years – amortizing |
| February 7, 2007 | \$ 75.0 million | 5.05% | 5 years – non-amortizing |

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| | | | |
|----------------|-----------------|-------|--------------------------|
| March 2, 2007 | \$100.0 million | 4.88% | 6 years – non-amortizing |
| March 19, 2007 | \$ 50.0 million | 4.88% | 5 years – non-amortizing |

*Interest rate swap is Euro denominated and is based on one-month EURIBOR, and has been converted to U.S. Dollars using the exchange rate at March 31, 2007.

As of March 31, 2007, the Company had in place interest rate swap contracts to fix the floating interest rates on a portion of the borrowings under its debt facilities as summarized below:

| Total Notional Amount at March 31, 2007 | Weighted Average Fixed Leg Interest Rate | Weighted Average Remaining Term |
|---|--|---------------------------------|
| \$906.1 million | 4.39% | 4.9 years |

Changes in the fair value on these interest rate swap contracts will be recognized in the consolidated statements of operations as unrealized gains or losses on interest rate swaps.

While we utilize interest rate swap contracts to manage the market risk associated with fluctuations in interest rates on a large portion of our variable rate indebtedness, our earnings are affected by changes in interest rates. If market interest rates for our variable rate indebtedness averaged 50 basis points more than the weighted average interest rate actually paid during the three months ended March 31, 2007, our interest expense, after considering the effects of our interest rate swap agreements, would have increased, and income before incomes taxes would have decreased, by \$0.2 million for the three months ended March 31, 2007. These amounts are determined by considering the impact of the hypothetical interest rates on our borrowings and interest rate swap agreements. This analysis does not consider the effects of the reduced level of overall economic activity that could exist in such an environment.

Credit Risk

We maintain detailed credit records regarding our customers and set maximum exposure limits for our significant customers based on our review of these records. Credit criteria include, but are not limited to, customer payment history, customer financial position and performance (e.g., net worth, leverage, profitability, trade routes, country of domicile, social and political climate, and the type of, and

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location of, containers that are to be supplied.) We diligently monitor our customers' performance and our lease exposures on an ongoing basis, and our credit management processes are aided by the long payment experience we have with most of our customers and our broad network of long-standing relationships in the shipping industry that provide current information about our customers.

For the three months ended March 31, 2007, our five largest customers accounted for approximately 46.8% of our leasing revenues, with our largest customer accounting for approximately 17.6% of our leasing revenues. As of March 31, 2007, approximately 75.6% of our containers were on-hire to our 20 largest customers.

The allowance for doubtful accounts is an estimate of allowances necessary on our lease receivables.

ITEM 4. CONTROLS AND PROCEDURES.

Based upon the required evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act")), our President and Chief Executive Officer and our Vice President and Chief Financial Officer concluded that as of March 31, 2007 our disclosure controls and procedures were adequate and effective to ensure that information was gathered, analyzed and disclosed on a timely basis.

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our fiscal quarter ended March 31, 2007, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 1A. RISK FACTORS.

For a complete listing of our risk factors, refer to our 2006 Form 10-K filed with the Securities and Exchange Commission on March 13, 2007.

ITEM 6. EXHIBITS.

| Exhibit Number | Exhibit Description |
|----------------|---|
| 31.1* | Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended |
| 31.2* | Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended |
| 32.1* | Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350 |
| 32.2* | Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350 |

* Filed herewith.

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SIGNATURE

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

May 9, 2007

TAL International Group, Inc.

/s/ Chand Khan
Chand Khan
Vice President and
Chief Financial Officer
(Principal Accounting Officer)

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