TAL International Group, Inc.
Form 10-K
February 20, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For The Fiscal Year Ended December 31, 2012

or

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

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

TAL International Group, Inc.

(Exact name of registrant as specified in the charter)

Delaware (State or other jurisdiction of incorporation or organization)	**20-1796526** (I.R.S. Employer Identification Number)
100 Manhattanville Road, Purchase, New York (Address of principal executive office)	**10577-2135** (Zip Code)

(914) 251-9000
(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common stock, $0.001 par value per share	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

The aggregate market value of voting common shares held by non-affiliates of the registrant as of June 30, 2012 was approximately $971.5 million.

As of February 11, 2013, there were 33,839,523 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part of Form 10-K	Document Incorporated by Reference
Part II, Item 5, Part III, Items 10, 11, 12, 13, and 14	Portion of the Registrant's proxy statement to be filed in connection with the Annual Meeting of the Stockholders of the Registrant to be held on April 23, 2013.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

WEBSITE ACCESS TO COMPANY'S REPORTS AND CODE OF ETHICS

Our Internet website address is http://www.talinternational.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC.

We have adopted a code of ethics that applies to all of our employees, officers, and directors, including our principal executive officer and principal financial officer. The text of our code of ethics is posted within the Corporate Governance portion of the Investors section of our website.

Also, copies of our annual report and Code of Ethics will be made available, free of charge, upon written request to:

TAL International Group, Inc.
100 Manhattanville Road
Purchase, New York 10577
Attn: Marc Pearlin, Vice President, General Counsel and Secretary
Telephone: (914) 251-9000

SERVICE MARKS MATTERS

The following items referred to in this annual report are registered or unregistered service marks in the United States and/or foreign jurisdictions pursuant to applicable intellectual property laws and are the property of TAL International Group, Inc. and our subsidiaries: TAL® and Trader®.

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PART I

ITEM 1. BUSINESS

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.

Business Segments

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

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

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

Equipment Leasing Segment

Our equipment leasing operations include the acquisition, leasing, re-leasing and ultimate sale of multiple types of intermodal transportation equipment, primarily intermodal containers. We have an extensive global presence, offering leasing services through approximately 230 third-party container depot facilities in 40 countries as of December 31, 2012. Our customers are among the world's largest shipping lines and include, among others, APL-NOL, CMA CGM, Hapag-LLoyd, Mediterranean Shipping Company and NYK Line.

We lease five types of equipment: (1) dry freight containers, which are used for general cargo such as manufactured component parts, consumer staples, electronics and apparel, (2) refrigerated containers, which are used for perishable items such as fresh and frozen foods, (3) special containers, which are used for heavy and oversized cargo such as marble slabs, building products and machinery, (4) 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.

We generally lease our equipment on a per diem basis to our customers under three types of leases: long-term leases, finance leases and service leases. Long-term leases typically have initial contractual terms ranging from three to eight years and provide us with stable cash flow and low transaction costs by requiring customers to maintain specific units on-hire for the duration of the lease. Finance leases are typically structured as full payout leases, and provide for a predictable recurring revenue stream with the lowest cost to the customer because customers are generally required to retain the equipment for the duration of its useful life. Service leases command a premium per diem rate in exchange for providing customers with a greater level of operational flexibility by allowing the pick-up and drop-off of units during the lease term. We also have expired long-term leases whose fixed terms have ended but for which the related units remain on-hire and for which we continue to receive rental payments pursuant to the terms of the initial contract. Some leases have contractual terms that have features reflective of both long-term and service leases, and we classify such leases as either long-term or service leases, depending upon which features we believe are more predominant.

Our leases require lessees to maintain the equipment in good operating condition, defend and indemnify us from liabilities relating to the equipments' contents and handling, and return the

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equipment to specified drop-off locations. The following table provides a summary of our equipment leasing fleet portfolio by lease type, based on cost equivalent units (CEUs), as of December 31, 2012:

Lease Portfolio	December 31, 2012
Long-term leases	67.5%
Finance leases	6.6
Service leases	21.0
Expired long-term leases (units on-hire)	4.9
Total	100.0%

As of December 31, 2012, our long-term and finance leases had an average remaining lease term of 43 months.

The most important driver of our profitability is the extent to which leasing revenues, which are driven primarily by our owned equipment fleet size, utilization and average rental rates, exceed our ownership and operating costs. Our profitability is also driven by the gains or losses we realize on the sale of used containers because, in the ordinary course of our business, we sell certain containers when they are returned to us.

Equipment Trading Segment

Through our extensive operating network, we purchase containers from shipping line customers and other sellers of containers and resell these containers to container retailers and users of containers for storage and one-way shipments. Over the last five years, we have sold an average of approximately 39,000 twenty-foot equivalent units (TEUs) per year of containers purchased for resale.

Total revenues for the equipment trading segment are primarily made up of equipment trading revenues, which represents the proceeds from sales of trading equipment. The profitability of this segment is largely driven by the volume of units purchased and sold, our per-unit selling margin, and our direct operating and administrative expenses.

Industry Overview

Intermodal containers provide a secure and cost-effective method of transporting raw materials, component parts and finished goods because they can be used in multiple modes of transport. By making it possible to move cargo from a point of origin to a final destination without repeated unpacking and repacking, containers reduce freight and labor costs. In addition, automated handling of containers permits faster loading and unloading of vessels, more efficient utilization of transportation equipment and reduced transit time. The protection provided by sealed containers also reduces cargo damage and the loss and theft of goods during shipment.

Over the last twenty-five years, containerized trade has grown at a rate greater than that of general worldwide economic growth. According to Clarkson Research Studies ("Clarkson"), worldwide containerized cargo volume increased at a compound annual growth rate ("CAGR") of 8.8% from 1988 to 2012. We believe that this high historical growth was due to several factors, including the shift in global manufacturing capacity to lower labor cost areas such as China and India, the continued integration of developing high growth economies into global trade patterns and the continued conversion of cargo from bulk shipping into containers.

Container leasing firms maintain inventories of new and used containers in a wide range of worldwide locations and supply these containers primarily to shipping line customers under a variety of short and long-term lease structures. Based on container fleet information reported by Drewry

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Maritime Research, we estimate that container lessors owned approximately 15.3 million TEUs, or approximately 46% of the total worldwide container fleet of 33.5 million TEUs, as of the end of 2012.

Leasing containers helps shipping lines improve their overall container fleet efficiency and provides the shipping lines with an alternative source of equipment financing. Given the uncertainty and variability of export volumes, and the fact that shipping lines have difficulty in accurately forecasting their container requirements on a day-by-day, port-by-port basis, the availability of containers for lease on short notice reduces a shipping line's need to purchase and maintain larger container inventory buffers. In addition, the drop-off flexibility provided by operating leases also allows the shipping lines to adjust their container fleet sizes and the mix of container types in their fleets both seasonally and over time and helps to balance trade flows. Leasing containers also provides shipping lines with an additional source of funding to help them manage a high-growth, asset intensive business.

Spot leasing rates are typically a function of, among other things, new equipment prices (which are heavily influenced by steel prices), interest rates and the equipment supply and demand balance at a particular time and location. Average leasing rates on an entire portfolio of leases respond more gradually to changes in new equipment prices or changes in the balance of container supply and demand because lease agreements are generally only re-priced upon the expiration of the lease. In addition, the value that lessors receive upon resale of equipment is closely related to the cost of new equipment.

Operations

We operate our business through 17 offices worldwide located in 11 different countries as of December 31, 2012. Our field operations include a global sales force, a global container operations group, an equipment resale group, and a logistics services group. Our headquarters are located in Purchase, New York, USA.

Our Equipment

Intermodal containers are designed to meet a number of criteria outlined by the International Standards Organization (ISO). The standard criteria include the size of the container and the gross weight rating of the container. This standardization ensures that containers can be used by the widest possible number of transporters and it facilitates container and vessel sharing by the shipping lines. The standardization of the container is also an important element of the container leasing business since we can operate one fleet of containers that can be used by all of our major customers.

Our fleet consists of five types of equipment:

Dry Containers. A dry container is essentially a steel constructed box with a set of doors on one end. Dry containers come in lengths of 20, 40 or 45 feet. They are 8 feet wide, and either $8^1/_2$ or $9^1/_2$ feet tall. Dry containers are the least expensive and most widely used type of intermodal container and are used to carry general cargo such as manufactured component parts, consumer staples, electronics and apparel.

Refrigerated Containers. Refrigerated containers include an integrated cooling machine and an insulated container, come in lengths of 20 or 40 feet, are 8 feet wide, and are either $8^1/_2$ or $9^1/_2$ feet tall. These containers are typically used to carry perishable cargo such as fresh and frozen produce.

Special Containers. Most of our special containers are open top and flat rack containers. Open top containers come in similar sizes as dry containers, but do not have a fixed roof. Flat rack containers come in varying sizes and are steel platforms with folding ends and no fixed sides. Open top and flat rack containers are generally used to move heavy or bulky cargos, such as marble slabs, steel coils or factory components, that cannot be easily loaded on a fork lift through the doors of a standard container.

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Tank Containers. Tank containers are stainless steel cylindrical tanks enclosed in rectangular steel frames with the same outside dimensions as 20 foot dry containers. They carry bulk liquids such as chemicals.

Chassis. An intermodal chassis is a rectangular, wheeled steel frame, generally 23$^1/_2$, 40 or 45 feet in length, built specifically for the purpose of transporting intermodal containers domestically. Longer sized chassis, designed solely to accommodate domestic containers, can be up to 53 feet in length. Once mounted, the chassis and container are the functional equivalent of a trailer. When mounted on a chassis, the container may be trucked either to its destination or to a railroad terminal for loading onto a rail car. Our chassis are primarily used in the United States.

Our Leases

Most of our revenues are derived from leasing our equipment fleet to our core shipping line customers. The majority of our leases are structured as operating leases, though we also provide customers with finance leases. Regardless of lease type, we seek to exceed our targeted return on our investments over the life cycle of the equipment by managing utilization, lease rates, and the used equipment sale process.

Our lease products provide numerous operational and financial benefits to our shipping line customers. These benefits include:

Operating Flexibility. The timing, location and daily volume of cargo movements for a shipping line are often unpredictable. Leasing containers and chassis helps the shipping lines manage this uncertainty and minimize the requirement for large inventory buffers by allowing them to pick-up leased equipment on short notice.

Fleet Size and Mix Flexibility. The drop-off flexibility included in container and chassis operating leases allows shipping lines to more quickly adjust the size of their fleets and the mix of container types in their fleets as their trade volumes and patterns change due to seasonality, market changes or changes in company strategies.

Alternative Source of Financing. Container and chassis leases provide an additional source of equipment financing to help shipping lines manage the high level of investment required to maintain pace with the rapid growth of the asset intensive container shipping industry.

Operating Leases. Operating leases are structured to allow customers flexibility to pick-up equipment on short notice and to drop-off equipment prior to the end of its useful life. Because of this flexibility, most of our containers and chassis will go through several pick-up and drop-off cycles. Our operating lease contracts specify a per diem rate for equipment on-hire, where and when such equipment can be returned, how the customer will be charged for damage and the charge for lost or destroyed equipment, among other things.

We categorize our operating leases as either long-term leases or service leases. Some leases have contractual terms that have features reflective of both long-term and service leases. We classify such leases as either long-term or service leases, depending upon which features we believe are predominant. Long-term leases typically have initial contractual terms ranging from three to eight years with an average term of approximately five years at lease inception. Our long-term leases require our customers to maintain specific units on-hire for the duration of the lease term, and they provide us with predictable recurring cash flow. As of December 31, 2012, 67.5% of our on-hire containers and chassis were under long-term operating leases.

We also have expired long-term leases whose fixed terms have ended but for which the related units remain on-hire and for which we continue to receive rental payments pursuant to the terms of the

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initial contract. As of December 31, 2012, 4.9% of our on-hire containers and chassis were on 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.

Some of our long-term leases give our customers Early Termination Options ("ETOs"). If exercised, ETOs allow customers to return equipment prior to the expiration of the long-term lease. However, if an ETO is exercised, the customer is required to pay a penalty per diem rate that is applied retroactively to the beginning of the lease. As a result of this retroactive penalty, ETOs have historically been exercised infrequently.

Service leases allow our customers to pick-up and drop-off equipment during the term of the lease, subject to contractual limitations. Service leases provide the customer with a higher level of flexibility than term leases and, as a result, typically carry a higher per diem rate. The terms of our service leases can range from twelve months to five years, though, because equipment can be returned during the term of a service lease and since service leases are generally renewed or modified and extended upon expiration, lease term does not dictate expected on-hire time for our equipment on service leases. As of December 31, 2012, 21.0% of our on-hire containers and chassis were under service leases and this equipment has been on-hire for an average of 31 months. The increase in our service lease portfolio over the last year reflects the completion of several large sale-leaseback transactions which are usually structured to provide customers with significant flexibility to redeliver units. Due to the age of this equipment, we expect to sell these units when they are redelivered.

Finance Leases. Finance leases provide our customers with an alternative method to finance their equipment acquisitions. Finance leases typically have lease terms ranging from five to ten years. Finance leases are generally structured for specific quantities of equipment, generally require the customer to keep the equipment on-hire for its remaining useful life, and typically provide the customer with a purchase option at the end of the lease term. As of December 31, 2012, approximately 6.6% of our on-hire containers and chassis were under finance leases.

As of December 31, 2012, our long-term and finance leases had an average remaining duration of 43 months, assuming no leases are renewed. However, we believe that many of our customers will renew operating leases for equipment that is less than sale age at the expiration of the lease. In addition, our equipment on operating leases typically remains on-hire at the contractual per diem rate for an additional six to twelve months beyond the end of the contractual lease term due to the logistical requirements of our customers having to return the containers and chassis to specific drop-off locations.

Lease Documentation. In general, our lease agreements consist of two basic elements, a master lease agreement and a lease addendum. Lease addenda typically contain the business terms (including daily rate, term duration and drop-off schedule, among other things) for specific leasing transactions, while master lease agreements typically outline the general rights and obligations of the lessor and lessee under all of the lease addenda covered by the master lease agreement (lease addenda will specify the master lease agreement that governs the addenda). For most customers, we have a small number of master lease agreements (often one) and a large number of lease addenda.

Our master lease agreements generally require the lessees to pay rentals, depot charges, taxes and other charges when due, to maintain the equipment in good condition, to return the equipment in accordance with the return condition set forth in the master lease agreement, to use the equipment in compliance with all federal, state, local and foreign laws, and to pay us for the value of the equipment as determined by us if the equipment is lost or destroyed. The default clause gives us certain legal remedies in the event that the lessee is in breach of the lease.

The master lease agreements usually contain an exclusion of warranties clause and require lessees to defend and indemnify us in most instances from third- party claims arising out of the lessee's use, operation, possession or lease of the equipment. Lessees are generally required to maintain all risks physical damage insurance, comprehensive general liability insurance and to indemnify us against loss. We also maintain our own off-hire physical damage insurance to cover our equipment when it is not on-hire to lessees and third-party liability insurance for both on-hire and off-hire equipment. Nevertheless, such insurance or indemnities may not fully protect us against damages arising from the use of our containers.

Logistics Management, Re-leasing, Depot Management and Equipment Disposals

We believe that managing the period after our equipments' first lease is the most important aspect of our business. Successful management of this period requires disciplined logistics management, extensive re-lease capability, careful cost control and effective sales of used equipment.

Logistics Management. Since the late 1990's, the shipping industry has been characterized by large regional trade imbalances, with loaded containers generally flowing from export oriented economies in Asia to North America and Western Europe. Because of these trade imbalances, shipping lines have an incentive to return leased containers in North America and Europe to reduce the cost of empty container backhaul. TAL attempts to mitigate the risk of these unbalanced trade flows by maintaining a large portion of our fleet on long-term and finance leases and by contractually restricting the ability of our customers to return containers outside of Asian demand locations.

In addition, TAL attempts to minimize the costs of any container imbalances by finding local users in surplus locations and by moving empty containers as cheaply as possible. While we believe we manage our logistics risks and costs effectively, logistical risk remains an important element of our business due to competitive pressures, changing trade patterns and other market factors and uncertainties.

Re-Leasing. Since our operating leases allow customers to return containers and chassis, we typically are required to place containers and chassis on several leases during their useful lives. Initial lease transactions for new containers and chassis can usually be generated with a limited sales and customer service infrastructure because initial leases for new containers and chassis typically cover large volumes of units and are fairly standardized transactions. Used equipment, on the other hand, is typically leased out in small transactions that are structured to accommodate pick-ups and returns in a variety of locations. As a result, leasing companies benefit from having a large number of customers and maintaining a high level of operating contact with these customers.

Depot Management. As of December 31, 2012, we managed our equipment fleet through approximately 230 third-party owned and operated depot facilities located in 40 countries. Depot facilities are generally responsible for repairing our containers and chassis when they are returned by lessees and for storing the equipment while it is off-hire. We have a worldwide operations group that is responsible for managing our depot contracts and they also regularly visit the depot facilities to conduct inventory and repair audits. We also supplement our internal operations group with the use of independent inspection agents.

We are in constant communication with our depot partners through the use of electronic data interchange, or EDI. Our depots gather and prepare all information related to the activity of our equipment at their facilities and transmit the information via EDI and the Internet to us. The information we receive from our depots updates our fully integrated container fleet management and tracking system.

Most of the depot agency agreements follow a standard form and generally provide that the depot will be liable for loss or damage of equipment and, in the event of loss or damage, will pay us the previously agreed loss value of the applicable equipment. The agreements require the depots to

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maintain insurance against equipment loss or damage and we carry insurance to cover the risk that the depot's insurance proves insufficient.

Our container repair standards and processes are generally managed in accordance with standards and procedures specified by the Institute of International Container Lessors (IICL). The IICL establishes and documents the acceptable interchange condition for containers and the repair procedures required to return damaged containers to the acceptable interchange condition. At the time that containers are returned by lessees, the depot arranges an inspection of the containers to assess the repairs required to return the containers to acceptable IICL condition. This inspection process also splits the damage into two components, customer damage and normal wear and tear. Items typically designated as customer damage include dents in the container and debris left in the container, while items such as rust are typically designated as normal wear and tear.

Our leases are generally structured so that the lessee is responsible for the customer damage portion of the repair costs, and customers are billed for damages at the time the equipment is returned. We sometimes offer our customers a repair service program whereby we, for an additional payment by the lessee (in the form of a higher per-diem rate or a flat fee at off-hire), assume financial responsibility for all or a portion of the cost of repairs upon return of the equipment (but not of total loss of the equipment), up to a pre-negotiated amount.

Equipment Disposals. Our in-house equipment sales group has a worldwide team of specialists that manage the sale process for our used containers and chassis from our lease fleet. We generally sell to portable storage companies, freight forwarders (who often use the containers for one-way trips) and other purchasers of used containers. We believe we are one of the world's largest sellers of used containers.

We have sold approximately 77,000 TEUs per year of our owned and managed used containers on average over the last five years. The sale prices we receive for our used containers from our lease fleet are influenced by many factors, including the level of demand for used containers compared to the number of used containers available for disposal in a particular location, the cost of new containers, and the level of damage on the containers. While our total revenue is primarily made up of leasing revenues, gains or losses on the sale of used containers can have a significant positive or negative impact on our profitability.

Equipment Trading. We also buy and sell new and used containers and chassis acquired from third parties. We typically purchase our equipment trading fleet from our shipping line customers or other sellers of used or new equipment. Trading margins are dependent on the volume of units purchased and resold, selling prices, cost paid for equipment sold and selling and administrative costs. We have sold approximately 39,000 TEUs per year of containers purchased from third parties for resale on average over the last five years.

Management Services

Approximately 1.9% of our fleet is managed for third-party owners. We receive a specified percentage of the net revenue generated by our managed containers in return for our management services. If operating expenses were to exceed revenues, the owners are obligated to pay the excess or we may deduct the excess, including our management fee, from future net revenues. We typically receive a commission for selling managed containers, though in some cases, we are compensated for sales through a percentage sharing of sale proceeds over an agreed upon floor amount. Typically, the terms of the management agreements are 10 to 12 years from the acceptance dates of containers under the agreement.

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Environmental

We face a number of environmental concerns, including potential liability due to accidental discharge from our containers, potential equipment obsolescence, retrofitting expenses due to changes in environmental regulations and increased risk of container performance problems due to container design changes driven by environmental factors. While we maintain environmental liability insurance coverage, and the terms of our leases and other arrangements for use of our containers place the responsibility for environmental liability on the end user, we still may be subject to environmental liability in connection with our current or historical operations. In certain countries like the United States, the owner of a leased container may be liable for the costs of environmental damage from the discharge of the contents of the container even though the owner is not at fault. Our lessees are required to indemnify us from environmental claims and our standard master tank container lease agreement insurance clause requires our tank container lessees to provide pollution liability insurance.

We also face risks from changing environmental regulations, particularly with our refrigerated container product line. Many countries, including the United States, restrict, prohibit or otherwise regulate the use of chemical refrigerants due to their ozone depleting and global warming effects. Over 99% of our refrigerated containers currently use R134A or 404A refrigerant. While R134A and 404A do not contain chlorofluorocarbon compounds ("CFC's"), which have been restricted since 1995, the European Union has instituted regulations to phase out the use of R134A in automobile air conditioning systems beginning in 2011 due to concern that the release of R134A into the atmosphere may contribute to global warming. While the European Union regulations do not currently restrict the use of R134A in refrigerated containers or trailers, it is possible that the phase out of R134A in automobile air conditioning systems will be extended to intermodal containers in the future. Further, certain manufacturers of refrigerated containers, including the largest manufacturer of cooling machines for refrigerated containers, have begun testing units that utilize alternative refrigerants, such as carbon dioxide, that may have less global warming potential than R134A and 404A. If future regulations prohibit the use or servicing of containers using R134A or 404A refrigerants, we could be forced to incur large retrofitting expenses. In addition, refrigerated containers that are not retrofitted may become difficult to lease and command lower rental rates and disposal prices.

Also, the insulation foam in the walls of refrigerated containers requires the use of a blowing agent that contains CFC's. Manufacturers are in various stages of phasing out the use of this blowing agent in the manufacturing process, however, if future regulations prohibit the use or servicing of containers with insulation manufactured with this blowing agent, we could be forced to incur large retrofitting expenses and those that are not retrofitted may become more difficult to lease and command lower rental rates and disposal prices.

An additional environmental concern affecting our operations relates to the construction materials used in our dry containers. The floors of dry containers are plywood usually made from tropical hardwoods. Due to concerns regarding de-forestation of tropical rain forests and climate change, many countries which have been the source of these hardwoods have implemented severe restrictions on the cutting and export of these woods. Accordingly, container manufacturers have switched a significant portion of production to more readily available alternatives such as birch, bamboo, and other farm grown wood species. Container users are also evaluating alternative designs that would limit the amount of plywood required and are also considering possible synthetic materials to replace the plywood. These new woods or other alternatives have not proven their durability over the typical 13-15 year life of a dry container, and if they cannot perform as well as the hardwoods have historically, the future repair and operating costs for these containers could be significantly higher and the useful life of the containers may be decreased.

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Credit Controls

We monitor our customers' performance and our lease exposures on an ongoing basis. Our credit management processes are aided by the long payment experience we have with most of our customers and our broad network of relationships in the shipping industry that provides current information about our customers' market reputations. Credit criteria may include, but are not limited to, customer payment history, customer financial position and performance (e.g., net worth, leverage and profitability), trade routes, country of domicile and the type of, and location of, equipment that is to be supplied. To mitigate the impact from potential defaults, we currently maintain credit insurance that in certain circumstances covers losses and costs incurred in default situations. However, this insurance has significant deductibles, exclusions, payment and other limitations, and therefore may not protect us from losses arising from customer defaults.

Marketing and Customer Service

Our global sales force and our customer service representatives are responsible for developing and maintaining relationships with senior operations staff at our shipping line customers, negotiating lease contracts and maintaining day-to-day coordination with junior level staff at our customers. This close customer communication helps us to negotiate lease contracts that satisfy both our financial return requirements and our customers' operating needs, and ensures that we are aware of our customers' potential equipment shortages and that they are aware of our available equipment inventories.

Customers

We believe that we have strong, long standing relationships with our largest customers, most of whom we have done business with for over 20 years. We currently have equipment on-hire to more than 300 customers, although approximately 80% of our units are on-hire to our 20 largest customers. Our customers are mainly international shipping lines, but we also lease containers to freight forwarding companies and manufacturers. The shipping industry has been consolidating for a number of years, and further consolidation could increase the portion of our revenues that come from our largest customers. Our five largest customers accounted for approximately 48% of our leasing revenues in 2012. Our largest customer is CMA CGM, which accounted for 16% of our leasing revenues in 2012, 2011 and 2010. Mediterranean Shipping Company accounted for 10% of our leasing revenues in 2012 and 12% in 2011 and 2010. APL-NOL accounted for 7% of our leasing revenues in 2012, 9% in 2011, and 11% in 2010. No other customer exceeded 10% of our leasing revenues in 2012, 2011 or 2010. A default by any of these major customers could have a material adverse impact on our business, financial condition and future prospects.

Currency

Although we have significant foreign based operations, the U.S. dollar is the operating currency for the large majority of our leases and obligations, and most of our revenues and expenses are denominated in U.S. dollars. However we pay our non-U.S. staff in local currencies; and our direct operating expenses and disposal transactions for our older containers are often structured in foreign currencies. We record realized and unrealized foreign currency exchange gains and losses primarily due to fluctuations in exchange rates related to our Euro and Pound Sterling transactions and related assets and liabilities.

Systems and Information Technology

We have a proprietary, fully integrated fleet management system. The system tracks all of our equipment individually by unit number, provides design specifications for the equipment, tracks on-hire and off-hire transactions, matches each on-hire unit to a lease contract and each off-hire unit to a

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depot contract, maintains the major terms for each lease contract, calculates the monthly bill for each customer and tracks and bills for equipment repairs. Our system is EDI capable, which means it can receive and process equipment activity and transactions electronically.

In addition, our system allows our business partners to conduct business with us through the Internet. It allows customers to check our equipment inventories, review design specifications, request clearances for returning equipment (the system will issue the clearance electronically if the return to the specified location is currently allowed by the contract covering the equipment), request bookings for equipment pick-ups and review and approve repair bills.

Suppliers

We have long relationships with all of our major suppliers. We purchase most of our containers and chassis in China. There are five large manufacturers of dry containers and three large manufacturers of refrigerated containers, though for both dry containers and refrigerated containers, the largest manufacturer accounts for nearly 50% of global production volume. Our operations staff reviews the designs for our containers and periodically audits the production facilities of our suppliers. In addition, we use our Asian operations group and third party inspectors to visit factories when our containers are being produced to provide an extra layer of quality control. Nevertheless, defects in our containers do sometimes occur. We work with the manufacturers to correct these defects, and our manufacturers have generally honored their warranty obligations in such cases.

Competition

We compete with over ten other major intermodal equipment leasing companies, many smaller lessors, manufacturers of intermodal equipment and companies offering finance leases as distinct from operating leases. It is common for our customers to utilize several leasing companies to meet their equipment needs.

Our competitors compete with us in many ways, including lease pricing, lease flexibility, supply reliability and customer service. In times of weak demand or excess supply, leasing companies often respond by lowering leasing rates and increasing the logistical flexibility offered in their lease agreements. In addition, new entrants into the leasing business have been attracted by the high rate of containerized trade growth in recent years, and they are often aggressive on pricing and lease flexibility.

While we are forced to compete aggressively on price, we attempt to emphasize our supply reliability and high level of customer service to our customers. We invest heavily to ensure adequate equipment availability in high demand locations, dedicate large portions of our organization to building customer relationships and maintaining close day-to-day coordination with customers' operating staffs, and we have developed powerful and user-friendly systems that allow our customers to transact with us through the Internet.

Employees

As of December 31, 2012, we employed 173 people in 17 offices, in 11 countries. We believe that our relations with our employees are good and we are not a party to any collective bargaining agreements.

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ITEM 1A. RISK FACTORS

Container leasing demand can be negatively affected by numerous market factors as well as external political and economic events that are beyond our control. Decreasing leasing demand could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Demand for containers depends largely on the rate of world trade and economic growth. Demand for leased containers is also driven by our customers' "lease vs. buy" decisions. Cyclical recessions can negatively affect lessors' operating results because during economic downturns or periods of reduced trade, shipping lines tend to lease fewer containers, or lease containers only at reduced rates, and tend to rely more on their own fleets to satisfy a greater percentage of their requirements. As a result, during periods of weak global economic activity, we typically experience decreasing leasing demand, decreasing equipment utilization, lower average rental rates, decreased leasing revenue, decreased used container resale prices and significantly decreased profitability. These effects can be severe.

For example, our profitability decreased significantly from the third quarter of 2008 to the third quarter of 2009 due to the effects of the global financial crisis, and our profitability would have decreased further if trade activity did not start to recover at the end of 2009. TAL's performance and profitability will likely be similarly impacted if current economic uncertainties or other events lead to slower global economic growth and reduced containerized trade growth in the future.

Other general factors affecting demand for leased containers, container utilization and per diem rental rates include:

- the available supply and prices of new and used containers;
- changes in the operating efficiency of our customers, economic conditions and competitive pressures in the shipping industry;
- the availability and terms of equipment financing for our customers;
- fluctuations in interest rates and foreign currency values;
- import/export tariffs and restrictions;
- customs procedures;
- foreign exchange controls and
- other governmental regulations and political or economic factors that are inherently unpredictable and may be beyond our control.

Any of the aforementioned factors may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Lease rates may decrease due to weak leasing demand, a decrease in new container prices or other factors, resulting in reduced revenues, lower margins, and reduced profitability and cash flows.

Market leasing rates are typically a function of, among other things, new equipment prices (which are heavily influenced by steel prices), interest rates, the type and length of the lease, the equipment supply and demand balance at a particular time and location, and other factors more fully described below. A decrease in leasing rates can have a materially adverse affect on our leasing revenues, profitability and cash flow.

A decrease in market leasing rates negatively impacts the leasing rates on both our new container investments and the existing containers in our fleet. Most of our existing containers are on operating leases, which means that the lease term is shorter than the expected life of the container, so the lease rate we receive for the container is subject to change at the expiration of the current lease. As a result,

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during periods of low market lease rates, the average lease rate we receive for our containers is negatively impacted by both the addition of new containers at low lease rates as well as the turnover of existing containers from leases with higher lease rates to leases with lower lease rates. This occurred during the second half of 2008 and continued in 2009 due to extremely weak leasing demand, and we also faced an extended period of decreasing average leasing rates from 1998-2003 due to a decrease in steel and new container prices. In both the 2009 and 1998-2003 periods, the reductions in our leasing rates contributed to significant decreases in our profitability.

During 2010 to 2012, the size of our owned fleet increased significantly due to large purchases of new equipment and investments in sale-leaseback transactions. Many of those containers, particularly the new containers purchased in 2010 and 2011, were purchased at relatively high prices and leased out at lease rates well above our portfolio average. The high level of procurement in those years has created a concentration of leases with historically high leasing rates that will generally expire from 2015 through 2020. If container prices and market leasing rates revert back toward historical average levels or decline below those levels at the time those leases expire, we could be forced to re-lease those containers at significantly reduced lease rates and our average lease rates, operating margins, profitability and financial position would be adversely affected, even if trade growth and demand for leased containers remains strong.

Lessee defaults may adversely affect our business, financial condition, results of operations and cash flow by decreasing revenues and increasing storage, positioning, collection, recovery and lost equipment expenses.

Our containers and chassis are leased to numerous customers. Lease rentals and other charges, as well as indemnification for damage to or loss of our equipment, are payable under the leases and other arrangements by the lessees. Inherent in the nature of the leases and other arrangements for use of the equipment is the risk that once the lease is consummated, we may not receive, or may experience delay in realizing, all of the amounts to be paid in respect of the equipment. A delay or diminution in amounts received under the leases and other arrangements could adversely affect our business and financial prospects and our ability to make payments on our debt.

The cash flow from our equipment, principally lease rentals, management fees and proceeds from the sale of owned equipment, is affected significantly by our ability to collect payments under leases and other arrangements for the use of the equipment and our ability to replace cash flows from terminating leases by re-leasing or selling equipment on favorable terms. All of these factors are subject to external economic conditions and performance by lessees and service providers that are beyond our control.

In addition, when lessees or sub-lessees of our containers and chassis default, we may fail to recover all of our equipment, and the containers and chassis we do recover may be returned in damaged condition or to locations where we will not be able to efficiently re-lease or sell them. As a result, we may have to repair and reposition these containers and chassis to other places where we can re-lease or sell them, and we may lose lease revenues and incur additional operating expenses in repossessing, repositioning and storing the equipment.

We believe that the risk of large lessee defaults remains elevated. For the last several years the container shipping industry has suffered from excess vessel capacity as a result of aggressive vessel orders generally placed prior to the financial crisis. Because of this excess vessel capacity, the freight rates our customers receive for moving cargo have been pressured, and many of our customers have generated large financial losses over the last several years, particularly in 2009 and 2011. Several of our customers, including our largest customer, underwent significant financial restructurings as a result of the large losses they incurred. The financial performance of our customers improved in 2012 compared to 2011, but new vessel deliveries will likely cause vessel capacity to increase faster than trade volumes

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in 2013. As a result, we expect excess vessel capacity to persist for several more years and expect the financial performance of our customers to remain under pressure.

Our balance sheet includes an allowance for doubtful accounts as well as an equipment reserve related to the expected costs of recovering and remarketing containers currently in the possession of customers that have either defaulted or that we believe currently present a significant risk of loss. However, we do not maintain a general equipment reserve for equipment on-hire under operating leases to performing customers. As a result, any major customer default would have a significant impact on our profitability at the time the customer defaulted. Such a default could also have a material adverse effect on our business condition and financial prospects.

Our customer base is highly concentrated. A default from any large customer, and especially our largest customer, could have a material adverse effect on our business, financial condition and future prospects. In addition, a significant reduction in leasing business from any of our large customers could have a material adverse impact on demand for our containers and our financial performance.

Our largest customers account for a significant portion of our revenues. Our five largest customers represented approximately 48% of our leasing revenues in 2012, with our single largest customer representing 16% of our leasing revenues during this period. Furthermore, the shipping industry has been consolidating for a number of years, and further consolidation is expected and could increase the portion of our revenues that come from our largest customers.

Several of our major customers, including our largest customer, underwent significant financial restructurings as a result of the large financial losses they incurred in recent years. The financial performance of our customers has generally been volatile with periods of solid financial performance followed by periods of steep financial losses. While our customers experienced improved financial performance in 2012 from 2011, they continue to face significant economic headwinds and their financial performance is generally expected to be constrained in 2013. Given the high concentration of our customer base, a default by any of our largest customers would result in a major reduction in our leasing revenue, large repossession expenses, potentially large lost equipment charges and a material adverse impact on our performance and financial condition. In addition, the loss or significant reduction in orders from any of our major customers could materially reduce the demand for our containers and result in lower leasing revenue, higher operating expenses and diminished growth prospects.

The introduction of very large container ships (10,000 TEU+) on the major East/West trade lanes may lead to further industry consolidation and an even greater reliance by us on our largest customers. Several of the largest shipping lines have invested heavily in these very large ships and reportedly have achieved meaningful unit cost advantages and increased market shares on the major trade lanes. In response, some smaller shipping lines have started to exit the major trade lanes, while others are seeking to form closer operating partnerships.

Used container selling prices may decrease leading to lower gains or potentially large losses on the disposal of our equipment.

Although our revenues primarily depend upon equipment leasing, our profitability is also affected by the gains or losses we realize on the sale of used containers because, in the ordinary course of our business, we sell certain containers when they are returned to us. The volatility of the selling prices and gains or losses from the disposal of such equipment may be significant. Used container selling prices, which can vary substantially, depend upon, among other factors, the cost of new containers, the global supply and demand balance for containers, the location of the containers, the supply and demand balance for used containers at a particular location, the repair condition of the container, refurbishment needs, materials and labor costs and equipment obsolescence. Most of these factors are outside of our control. Operating leases, which represent the predominant form of leases in our portfolio, are subject to greater selling price risk than finance leases.

Containers are typically sold if it is in our best interest to do so after taking into consideration local and global leasing and sale market conditions and the age, location, repair condition and net book value of the container. As these considerations vary, gains or losses on sale of equipment will also fluctuate and may be significant if we sell large quantities of containers.

Used container selling prices and the gains or losses that we have recognized from selling used containers have varied widely over the last fifteen years. From 1999 through 2003, our average sale prices for used containers were historically low due to low prices for new containers and an extreme over-supply of used containers in North America and Europe following the Asia crisis. We recorded large losses on the disposal of our equipment during those years.

Selling prices for used containers and our disposal gains have been exceptionally high for the last several years due to a tight global supply and demand balance for containers and generally high new container prices. In 2012, used container prices and our disposal gains began to moderate from peak 2011 levels, though they remain very high compared to historical levels. We generally expect used container sale prices and our disposal gains to continue to moderate toward historically normal levels, which would have a negative impact on our financial performance and cash flow. These effects could be significant if used container sale prices decreased rapidly.

Equipment trading is dependent upon a steady supply of used equipment.

We purchase used containers for resale from our shipping line customers and other sellers. If the supply of equipment becomes limited because these sellers develop other means for disposing of their equipment or develop their own sales network, we may not be able to purchase the inventory necessary to meet our goals, and our equipment trading revenues and our profitability could be negatively impacted.

Abrupt changes in selling prices on equipment purchased for resale could negatively affect our equipment trading margins.

We purchase and sell containers opportunistically as part of our equipment trading segment. We purchase equipment for resale on the premise that we will turnover this inventory in a relatively short time frame. If selling prices rapidly deteriorate and we are holding a large inventory that was purchased when prices for equipment were higher, then our gross margins could decline or become negative.

If we are unable to finance capital expenditures, our business and growth plans will be adversely affected.

We make capital investments to, among other things, maintain and expand the size of our container fleet. We have relied heavily on debt financing to help us fund our new container investments. During the financial crisis of 2008 and 2009, bank financing became much more difficult to obtain and the asset securitization market was not available to us. If similar or other disruptions in the capital markets and in the asset securitization market in particular occur, it would be more difficult and more expensive for us to fund additional container investments. If we are unsuccessful in obtaining sufficient additional financing on acceptable terms, we will not be able to invest in our fleet and our profitability will decrease.

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We have a substantial amount of debt outstanding on a consolidated basis and have significant debt service requirements. This increases the risk that adverse changes in our operating performance, our industry or the financial markets could severely diminish our financial performance and future business and growth prospects, and increases the chance that we might face insolvency due to a default on our debt obligations.

We have a significant amount of debt outstanding on a consolidated basis. As of December 31, 2012, we had outstanding indebtedness of $2.6 billion under our asset backed securities, capital lease obligations and other debt facilities. Our interest and debt expense for the year ended December 31, 2012 was $114.6 million. As of December 31, 2012, our total net debt (total debt plus equipment purchases payable less cash) to total revenue earning assets was 76%.

Our substantial amount of debt could have important consequences for investors, including the following:

- make it more difficult for us to satisfy our obligations with respect to our debt facilities. Any failure to comply with such obligations, including a failure to make timely interest or principal payments, or a breach of financial or other restrictive covenants, could result in an event of default under the agreements governing such indebtedness, which could lead to, among other things, an acceleration of our indebtedness or foreclosure on the assets securing our indebtedness and which could have a material adverse effect on our business, financial condition, future prospects and solvency;

- require us to dedicate a substantial portion of our cash flow from operations to make payments on our debt, thereby reducing funds available for operations, capital expenditures, future business opportunities and other purposes;

- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

- limit our ability to borrow additional funds, or to sell assets to raise funds, if needed, for working capital, capital expenditures, acquisitions or other purposes;

- make it difficult for us to pay dividends on our common stock;

- increase our vulnerability to general adverse economic and industry conditions, including changes in interest rates; and

- place us at a competitive disadvantage compared to our competitors having less debt.

Despite our substantial leverage, we and our subsidiaries may be able to incur additional indebtedness. This could further exacerbate the risks described above.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. Although our asset backed securities and other credit facilities contain restrictions on the incurrence of additional indebtedness, such restrictions are subject to a number of qualifications and exceptions, and, under certain circumstances, indebtedness incurred in compliance with such restrictions could be substantial. To the extent that new indebtedness is added to our and our subsidiaries' current debt levels, the risks described above would increase.

We will require a significant amount of cash to service and repay our outstanding indebtedness. This may limit our ability to fund future capital expenditures, pursue future business opportunities or make acquisitions.

Our high level of indebtedness requires us to make large interest and principal payments. These debt service payments currently represent a significant portion of our cash flow, and if our operating cash flow decreases in the future, or if it becomes more difficult for us to arrange financing to refinance existing debt facilities or fund our new equipment purchases, we may need to reduce or delay

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future capital expenditures or other business investments, which could have a material adverse impact on our growth rate, profitability and cash flow.

Our asset backed securities and other credit facilities impose significant operating and financial restrictions, which may prevent us from pursuing certain business opportunities and taking certain actions.

Our asset backed securities and other credit facilities impose, and the terms of any future indebtedness may impose, significant operating, financial and other restrictions on us and our subsidiaries. These restrictions will limit or prohibit, among other things, our ability to:

- incur additional indebtedness;
- pay dividends on or redeem or repurchase our stock;
- issue capital stock of TAL and our subsidiaries;
- make loans and investments;
- create liens;
- sell certain assets or merge with or into other companies;
- enter into certain transactions with stockholders and affiliates;
- cause our subsidiaries to make dividends, distributions and other payments to TAL; and
- otherwise conduct necessary corporate activities.

These restrictions could adversely affect our ability to finance our future operations or capital needs and pursue available business opportunities. A breach of any of these restrictions could result in a default in respect of the related indebtedness. If a default occurs, the relevant lenders could elect to declare the indebtedness, together with accrued interest and fees, to be immediately due and payable and proceed against any collateral securing that indebtedness, which will constitute substantially all of our material container assets.

Our customers may decide to lease fewer containers. Should shipping lines decide to buy a larger percentage of the containers they operate, our utilization rate and level of investment would decrease, resulting in decreased leasing revenues, increased storage costs, increased positioning costs and lower growth.

We, like other suppliers of leased containers, are dependent upon decisions by shipping lines to lease rather than buy their container equipment. Should shipping lines decide to buy a larger percentage of the containers they operate, our utilization rate would decrease, resulting in decreased leasing revenues, increased storage costs and increased positioning costs. A decrease in the portion of leased containers would also reduce our investment opportunities and significantly constrain our growth. Most of the factors affecting the decisions of our customers are outside of our control.

While the percentage of leased containers has been fairly consistent historically, this percentage decreased steadily from 2004 to 2008. We believe that the increasing share of containers owned directly by the shipping lines during this time was the result of the improved financial performance, increased operating scale and improved information systems of our customers, which made it easier for our customers to finance and deploy new container purchases efficiently.

We face extensive competition in the container leasing industry.

We may be unable to compete favorably in the highly competitive container leasing and sales business. We compete with more than ten other major leasing companies, many smaller lessors, manufacturers of container equipment, companies offering finance leases as distinct from operating leases, promoters of container ownership and leasing as a tax shelter investment, shipping lines, which

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sometimes lease their excess container stocks, and suppliers of alternative types of equipment for freight transport. Some of these competitors may have greater financial resources and access to capital than we do. Additionally, some of these competitors may, at times, accumulate a high volume of underutilized inventories of containers, which could lead to significant downward pressure on lease rates and margins.

Competition among container leasing companies depends upon many factors, including, among others, lease rates, lease terms (including lease duration, drop-off restrictions and repair provisions), customer service, and the location, availability, quality and individual characteristics of equipment. New entrants into the leasing business have been attracted by the high rate of containerized trade growth in recent years, and new entrants have generally been less disciplined than we are in pricing and structuring leases. As a result, the entry of new market participants together with the already highly competitive nature of our industry may reduce lease rates and undermine our ability to maintain our current level of container utilization or achieve our growth plans.

Environmental regulations may result in equipment obsolescence or require substantial investments to retrofit existing equipment, especially for our refrigerated containers. Additionally, environmental concerns are leading to significant design changes for new containers that have not been extensively tested, which increases the risks we face from potential technical problems.

Many countries, including the United States, restrict, prohibit or otherwise regulate the use of chemical refrigerants due to their ozone depleting and global warming effects. Over 99% of our refrigerated containers currently use R134A or 404A refrigerant. While R134A and 404A do not contain CFC's (which have been restricted since 1995), the European Union has instituted regulations to phase out the use of R134A in automobile air conditioning systems beginning in 2011 due to concern that the release of R134A into the atmosphere may contribute to global warming. While the European Union regulations do not currently restrict the use of R134A in refrigerated containers or trailers, it is possible that the phase out of R134A in automobile air conditioning systems will be extended to intermodal containers in the future. Further, certain manufacturers of refrigerated containers, including the largest manufacturer of cooling machines for refrigerated containers, have begun testing units that utilize alternative refrigerants, such as carbon dioxide, that may have less global warming potential than R134A and 404A. If future regulations prohibit the use or servicing of containers using R134A or 404A refrigerants, we could be forced to incur large retrofitting expenses. In addition, refrigerated containers that are not retrofitted may become difficult to lease and command lower rental rates and disposal prices.

Also, the insulation foam in the walls of refrigerated containers requires the use of a blowing agent that contains CFC's. Manufacturers are in various stages of phasing out the use of this blowing agent in the manufacturing process, however, if future regulations prohibit the use or servicing of containers with insulation manufactured with this blowing agent we could be forced to incur large retrofitting expenses and those that are not retrofitted may become more difficult to lease and command lower rental rates and disposal prices.

An additional environmental concern affecting our operations relates to the construction materials used in our dry containers. The floors of dry containers are plywood usually made from tropical hardwoods. Due to concerns regarding the de-forestation of tropical rain forests and climate change, many countries which have been the source of these hardwoods have implemented severe restrictions on the cutting and export of these woods. Accordingly, container manufacturers have switched a significant portion of production to more readily available alternatives such as birch, bamboo, and other farm grown wood species. Container users are also evaluating alternative designs that would limit the amount of plywood required and are also considering possible synthetic materials to replace the plywood. These new woods or other alternatives have not proven their durability over the typical 13-15 year life of a dry container, and if they cannot perform as well as the hardwoods have historically, the future repair and operating costs for these containers could be significantly higher and the useful life of the containers may be decreased.

Use of counterfeit and improper refrigerant in refrigeration machines for refrigerated containers could result in irreparable damage to the refrigeration machines, death or personal injury, and materially impair the value of our refrigerated container fleet.

In 2011, counterfeit and improper refrigerant gas was used to service refrigeration machines, which led to the explosion of several refrigeration machines within the industry. Three of those incidents resulted in personal injury or death, and in all cases, the counterfeit gas caused irreparable damage to the refrigeration machines.

Industry wide, certain standard testing procedures have been developed to determine whether a refrigeration machine has been contaminated with counterfeit or improper refrigerant gas. Although these testing procedures help identify improper refrigerants, the worldwide implementation of such tests and procedures remain in the early stages and therefore, it is possible that contaminated refrigeration machines could go undetected while they are on-hire with our customers. Operation by our customers of contaminated refrigeration machines could result in injury or damage, which could expose us to personal injury liabilities. Further, we could be unable to sell or shift the cost of repairing contaminated refrigeration machines to our customers, which could result in material impairments and could therefore have a material adverse effect on our financial condition, results of operations and cash flows.

Litigation to enforce our leases and recover our containers has inherent uncertainties that are increased by the location of our containers in jurisdictions that have less developed legal systems.

While almost all of our lease agreements are governed by New York law and provide for the non-exclusive jurisdiction of the courts located in the state of New York, our ability to enforce the lessees' obligations under the leases and other arrangements for use of the containers often is subject to applicable laws in the jurisdiction in which enforcement is sought. It is not possible to predict, with any degree of certainty, the jurisdictions in which enforcement proceedings may be commenced. Our containers are manufactured in Asia, primarily in China, and a substantial portion of our containers are leased out of Asia, primarily China, and are used by our customers in service between Asia and North America, Europe, Central and South America, the Middle East, and Africa and in intra-Asia trade. Litigation and enforcement proceedings have inherent uncertainties in any jurisdiction and are expensive. These uncertainties are enhanced in countries that have less developed legal systems where the interpretation of laws and regulations is not consistent, may be influenced by factors other than legal merits and may be cumbersome, time-consuming and even more expensive. For example, repossession from defaulting lessees may be difficult and more expensive in jurisdictions whose laws do not confer the same security interests and rights to creditors and lessors as those in the United States and where the legal system is not as well developed. As a result, the remedies available and the relative success and expedience of collection and enforcement proceedings with respect to the containers in various jurisdictions cannot be predicted. As more of our business shifts to areas outside of the United States and Europe, such as China, it may become more difficult and expensive to enforce our rights and recover our containers.

In 2008 and 2009, the success of our recovery efforts for defaulted leases was hampered by undeveloped creditor protections and legal systems in a number of countries. In 2008, we experienced an increase in average recovery costs per unit and a decrease in the percentage of containers recovered in default situations primarily due to excessive charges applied to our containers by the depot or terminal facilities that had been storing the containers for the defaulted lessee. In these cases, the payments demanded by the depot or terminal operators often significantly exceeded the amount of storage costs that we would reasonably expect to pay for the release of the containers. However, our

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legal remedies were limited in many of the jurisdictions where the containers were being stored, and we were sometimes forced to accept the excessive storage charges to gain control of our containers. If the number and size of defaults increases in the future, and if a large percentage of the defaulted containers are being stored in countries with less developed legal systems, losses resulting from recovery payments and unrecovered containers could be large and our profitability significantly reduced.

We may incur future asset impairment charges.

An asset impairment charge may result from the occurrence of unexpected adverse events or management decisions that impact our estimates of expected cash flows generated from our long-lived assets. We review our long-lived assets, including our container and chassis equipment, goodwill and other intangible assets for impairment, when events or changes in circumstances indicate the carrying value of an asset may not be recoverable. We may be required to recognize asset impairment charges in the future as a result of reductions in demand for specific container and chassis types, a weak economic environment, challenging market conditions, events related to particular customers or asset types, or as a result of asset or portfolio sale decisions by management.

Effective October 1, 2012, we further increased the estimated residual values used in our depreciation calculations for several of our containers types from the last increase made in the fourth quarter of 2010. If, in the future, we experience weak demand for these specific container types the amount of a potential impairment charge would be higher than if we had not increased our residual estimates.

Manufacturers of our equipment may be unwilling or unable to honor manufacturer warranties covering defects in our equipment.

We obtain warranties from the manufacturers of our equipment. When defects in the containers occur, we work with the manufacturers to identify and rectify the problem. However, there is no assurance that manufacturers will be willing or able to honor warranty obligations. If defects are discovered in containers that are not covered by manufacturer warranties we could be required to expend significant amounts of money to repair the containers, the useful lives of the containers could be shortened and the value of the containers reduced.

For example, there has been an increase in the number of premature failures of wood floors on our containers. A shortage of mature tropical hardwood has forced manufacturers to use younger and alternative species of wood to make container floors, and it is likely that the number and magnitude of warranty claims related to premature floor failure will increase. If container manufacturers do not honor warranties covering these failures, or if the failures occur after the warranty period expires, we could be required to expend significant amounts of money to repair or sell containers earlier than expected. This could have a material adverse effect on our operating results and financial condition.

Changes in market price or availability of containers in China could adversely affect our ability to maintain our supply of containers.

China is currently the largest container producing nation in the world, and we currently purchase substantially all of our dry containers, special containers and refrigerated containers from manufacturers based there. In addition, over the last several years, there has been a consolidation in the container manufacturing industry, resulting in two manufacturers controlling a majority of the market. In the event that it were to become more expensive for us to procure containers in China because of further consolidation among container suppliers, a dispute with one of our manufacturers, increased tariffs imposed by the United States or other governments or for any other reason, we would have to seek alternative sources of supply. We may not be able to make alternative arrangements quickly enough to meet our equipment needs, and the alternative arrangements may increase our costs.

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We may incur costs associated with relocation of leased equipment.

When lessees return equipment to locations where supply exceeds demand, we routinely reposition containers to higher demand areas. Positioning expenses vary depending on geographic location, distance, freight rates and other factors, and may not be fully covered by drop-off charges collected from the last lessees of the equipment or pick-up charges paid by the new lessees. Positioning expenses can be significant if a large portion of our containers are returned to locations with weak demand. For example, prior to the Asia crisis of the late 1990's containerized trade was relatively evenly balanced globally, and as a result, many of our lease contracts provided extensive drop-off flexibility in North America and Europe. However, global containerized trade patterns changed dramatically in the aftermath of the Asia crisis, and demand for leased containers in North America and Europe substantially decreased. We incurred significant positioning expenses from 2000-2003 to shift our inventory of containers from North America and Europe to Asia.

We currently seek to limit the number of containers that can be returned to areas where demand for such containers is not expected to be strong. However, future market conditions may not enable us to continue such practices. In addition, we cannot assure you that we have accurately anticipated which port locations will be characterized by weak or strong demand in the future, and our current contracts will not provide much protection against positioning costs if ports that we expect to be strong demand ports turn out to be surplus container ports at the time leases expire. In particular, we could incur significant positioning costs in the future if trade flows change from net exports to net imports in locations such as the main ports in China that we currently consider to be high demand locations and where our leases typically allow large numbers of containers to be returned to us.

Sustained Asian economic, social or political instability could reduce demand for leasing.

Many of the shipping lines to which we lease containers are entities domiciled in Asian countries. In addition, many of our customers are substantially dependent upon shipments of goods exported from Asia. From time to time, there have been economic disruptions, financial turmoil and political instability in this region. If these events were to occur in the future, they could adversely affect these customers and lead to reduced demand for leasing of our containers or otherwise adversely affect us.

It may become more expensive for us to store our off-hire containers.

We are dependent on third party depot operators to repair and store our equipment in port areas throughout the world. In many locations the land occupied by these depots is increasingly being considered as prime real estate. Accordingly, local communities are considering increasing restrictions on the depot operations which would increase their costs and in some cases force depots to relocate to sites further from the port areas. If these changes affect a large number of our depots it could significantly increase the cost of maintaining and storing our off-hire containers.

We rely on our information technology systems to conduct our business. If these systems fail to adequately perform their functions, or if we experience an interruption in their operation, our business and financial results could be adversely affected.

The efficient operation of our business is highly dependent on two of our information technology systems: our equipment tracking and billing system and our customer interface system. For example, these systems allow customers to place pick-up and drop-off orders on the Internet, view current inventory and check contractual terms in effect with respect to any given container lease agreement. We correspondingly rely on such information systems to track transactions, such as container pick-ups and drop-offs, repairs, and to bill our customers for the use and damage to our equipment. We also use the information provided by these systems in our day-to-day business decisions in order to effectively manage our lease portfolio and improve customer service. The failure of these systems to perform as

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we anticipate could limit our ability to bill customers for the use of our containers, disrupt our business and cause our relationships with our customers to suffer. In addition, our information technology systems are vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, power loss and computer systems failures and viruses. Any such interruption could have a material adverse effect on our business.

A number of key personnel are critical to the success of our business.

Most of our senior executives and other management level employees have been with us for over ten years and have significant industry experience. We rely on this knowledge and experience in our strategic planning and in our day-to-day business operations. Our success depends in large part upon our ability to retain our senior management, the loss of one or more of whom could have a material adverse effect on our business. Our success also depends on our ability to retain our experienced sales force and technical personnel as well as recruiting new skilled sales, marketing and technical personnel. Competition for experienced managers in our industry can be intense and we may not be able to successfully recruit, train or retain qualified personnel. If we fail to retain and recruit the necessary personnel, our business and our ability to retain customers and provide acceptable levels of customer service could suffer.

The international nature of the container industry exposes us to numerous risks.

We are subject to risks inherent in conducting business across national boundaries, any one of which could adversely impact our business. These risks include:

- regional or local economic downturns;
- changes in governmental policy or regulation;
- restrictions on the transfer of funds into or out of countries in which we operate;
- compliance with U.S. Treasury sanctions regulations restricting doing business with certain nations or specially designated nationals;
- import and export duties and quotas;
- domestic and foreign customs and tariffs;
- international incidents;
- military outbreaks;
- government instability;
- nationalization of foreign assets;
- government protectionism;

compliance with export controls, including those of the U.S. Department of Commerce;

compliance with import procedures and controls, including those of the U.S. Department of Homeland Security;

potentially negative consequences from changes in tax laws;

requirements relating to withholding taxes on remittances and other payments by subsidiaries;

labor or other disruptions at key ports;

difficulty in staffing and managing widespread operations; and

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restrictions on our ability to own or operate subsidiaries, make investments or acquire new businesses in these jurisdictions.

Any one or more of these factors could impair our current or future international operations and, as a result, harm our overall business.

The lack of an international title registry for containers increases the risk of ownership disputes.

There is no internationally recognized system of recordation or filing to evidence our title to containers nor is there an internationally recognized system for filing security interests in containers. Although this has not occurred to date, the lack of a title recordation system with respect to containers could result in disputes with lessees, end-users, or third parties who may improperly claim ownership of the containers.

Certain liens may arise on our containers.

Depot operators, repairmen and transporters may come into possession of our containers from time to time and have sums due to them from the lessees or sublessees of the containers. In the event of nonpayment of those charges by the lessees or sublessees, we may be delayed in, or entirely barred from, repossessing the containers, or be required to make payments or incur expenses to discharge such liens on the containers.

As a U.S. corporation, we are subject to the Foreign Corrupt Practices Act, and a determination that we violated this act may affect our business and operations adversely.

As a U.S. corporation, we are subject to the regulations imposed by the Foreign Corrupt Practices Act (FCPA), which generally prohibits U.S. companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business. Any determination that we have violated the FCPA could have a material adverse effect on our business, financial condition, results of operations and cash flows.

As a U.S. corporation, we are subject to U.S. Executive Orders and U.S. Treasury Sanctions Regulations regarding doing business in or with certain nations and specially designated nationals (SDNs).

As a U.S. corporation, we are subject to U.S. Executive Orders and U.S. Treasury sanctions regulations restricting or prohibiting business dealings in or with certain nations and with certain SDNs (individuals and legal entities). Any determination that we have violated such Executive Orders and U.S. Treasury sanctions regulations could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may incur increased costs associated with the implementation of new security regulations, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may be subject to regulations promulgated in various countries, including the United States, seeking to protect the integrity of international commerce and prevent the use of containers for international terrorism or other illicit activities. For example, the Container Safety Initiative, the Customs-Trade Partnership Against Terrorism and Operation Safe Commerce are among the programs administered by the U.S. Department of Homeland Security that are designed to enhance security for cargo moving throughout the international transportation system by identifying existing vulnerabilities in the supply chain and developing improved methods for ensuring the security of containerized cargo entering and leaving the United States. Moreover, the International Convention for Safe Containers, 1972 (CSC), as amended, adopted by the International Maritime Organization, applies to containers and seeks to maintain a high level of safety of human life in the transport and handling of containers by providing uniform international safety regulations. As these regulations develop and change, we may

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incur increased compliance costs due to the acquisition of new, compliant containers and/or the adaptation of existing containers to meet any new requirements imposed by such regulations. Additionally, certain companies are currently developing or may in the future develop products designed to enhance the security of containers transported in international commerce. Regardless of the existence of current or future government regulations mandating the safety standards of intermodal shipping containers, our competitors may adopt such products or our customers may require that we adopt such products in the conduct of our container leasing business. In responding to such market pressures, we may incur increased costs, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Terrorist attacks could negatively impact our operations and our profitability and may expose us to liability and reputational damage.

Terrorist attacks may negatively affect our operations. Such attacks have contributed to economic instability in the United States and elsewhere, and further acts of terrorism, violence or war could similarly affect world trade and the industries in which we and our customers operate. In addition, terrorist attacks or hostilities may directly impact ports our containers come in and out of, depots, our physical facilities or those of our suppliers or customers and could impact our sales and our supply chain. A severe disruption to the worldwide ports system and flow of goods could result in a reduction in the level of international trade and lower demand for our containers. The consequences of any terrorist attacks or hostilities are unpredictable, and we may not be able to foresee events that could have an adverse effect on our operations.

It is also possible that one of our containers could be involved in a terrorist attack. Although our lease agreements require our lessees to indemnify us against all damages arising out of the use of our containers, and we carry insurance to potentially offset any costs in the event that our customer indemnifications prove to be insufficient, our insurance does not cover certain types of terrorist attacks, and we may not be fully protected from liability or the reputational damage that could arise from a terrorist attack which utilizes one of our containers.

Environmental liability may adversely affect our business and financial situation.

We are subject to federal, state, local and foreign laws and regulations relating to the protection of the environment, including those governing the discharge of pollutants to air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. We could incur substantial costs, including cleanup costs, fines and third-party claims for property damage and personal injury, as a result of violations of or liabilities under environmental laws and regulations in connection with our current or historical operations. Under some environmental laws in the United States and certain other countries, the owner of a leased container may be liable for environmental damage, cleanup or other costs in the event of a spill or discharge of material from a container without regard to the owner's fault. We have not yet experienced any such claims, although we cannot assure you that we will not be subject to such claims in the future. Liability insurance policies, including ours, usually exclude claims for environmental damage. Some of our lessees may have separate insurance coverage for environmental damage, but we cannot assure you that any such policies would cover or otherwise offset any liability we may have as the owner of a leased container. Our standard master tank container lease agreement insurance clause requires our tank container lessees to provide pollution liability insurance. Such insurance or indemnities may not fully protect us against damages arising from environmental damage.

Adverse changes in U.S. tax rules or business conditions could negatively impact our income tax provision or future cash payments.

While we record a tax provision in our financial statements, we currently do not pay any meaningful income taxes primarily due to the benefit we receive from accelerated tax depreciation on our container investments. A change in the rules governing the tax depreciation for our containers, in particular, a change that increases the period over which we can depreciate our containers for tax purposes, could reduce or eliminate this tax benefit and significantly increase our cash tax payments.

In addition, even under current tax rules, we need to make substantial, ongoing investments in new containers in order to continue to benefit from the tax deferral generated by accelerated tax depreciation. If our investment level slows due to a decrease in the growth rate of world trade, decisions by our customers to buy more of their containers, a loss of market share to one or more of our peers, or for any other reason, the favorable tax treatment from accelerated tax depreciation would diminish, and we could face significantly increased cash tax payments.

Also, our net deferred tax liability balance includes a deferred tax asset for U.S. federal and various states resulting from net operating loss carryforwards. A reduction to our future earnings, which will lower taxable income, may require us to record a charge against earnings in the form of a valuation allowance, if it is determined that it is more-likely-than-not that some or all of the loss carryforwards will not be realized.

Fluctuations in foreign exchange rates could reduce our profitability.

The majority of our revenues and costs are billed in U.S. dollars. Most of our non-U.S. dollar transactions are individually of small amounts and in various denominations and thus are not suitable for cost-effective hedging. In addition, almost all of our container purchases are paid for in U.S. dollars.

Our operations and used container sales in locations outside of the U.S. have some exposure to foreign currency fluctuations, and trade growth and the direction of trade flows can be influenced by large changes in relative currency values. Adverse or large exchange rate fluctuations may negatively affect our results of operations and financial condition.

Most of our equipment fleet is manufactured in China. Although the purchase price is in U.S. dollars, our manufacturers pay labor and other costs in the local currency, the Chinese Yuan. To the extent that our manufacturers' costs increase due to changes in the valuation of the Chinese Yuan, the dollar price we pay for equipment could be affected.

Increases in the cost of or the lack of availability of insurance could increase our risk exposure and reduce our profitability.

Our lessees and depots are required to maintain all risks physical damage insurance, comprehensive general liability insurance and to indemnify us against loss. We also maintain our own contingent liability insurance and off-hire physical damage insurance. Nevertheless, lessees' and depots' insurance or indemnities and our insurance may not fully protect us. The cost of such insurance may increase or become prohibitively expensive for us and our customers and such insurance may not continue to be available.

We also maintain director and officer liability insurance. Potential new accounting standards and new corporate governance regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to incur substantial costs to maintain increased levels of coverage or it may not continue to be available.

We currently maintain credit insurance that in certain circumstances covers losses and costs incurred due to defaults by our lessees. However, this insurance has significant deductibles, exclusions,

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payment and other limitations, and therefore may not protect us from losses arising from customer defaults. We typically need to renew these insurance policies on an annual basis, and the cost of such insurance may increase or become prohibitively expensive for us and our customers and such insurance may not continue to be available.

The price of our common stock may be highly volatile and may decline regardless of our operating performance.

The trading price of our common shares is likely to be subject to wide fluctuations. Factors affecting the trading price of our common shares may include:

- variations in our financial results;
- changes in financial estimates or investment recommendations by securities analysts following our business;
- the public's response to our press releases, other public announcements and filings with the Securities and Exchange Commission;
- changes in accounting standards, policies, guidance or interpretations or principles;
- future sales of common stock by us and our directors, officers and significant stockholders;
- announcements of technological innovations or enhanced or new products by us or our competitors;
- our failure to achieve operating results consistent with securities analysts' projections;
- the operating and stock price performance of other companies that investors may deem comparable to us;
- changes in our dividend policy;
- fluctuations in the worldwide equity markets;
- recruitment or departure of key personnel;
- our failure to timely address changing customer preferences;
- broad market and industry factors; and
- other events or factors, including those resulting from war, incidents of terrorism or responses to such events.

In addition, if the market for intermodal equipment leasing company stocks or the stock market in general experiences a loss of investor confidence, the trading price of our common shares could decline for reasons unrelated to our business or financial results. The trading price of our common shares might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us.

Future sales of shares of our common stock by us or certain original investors could cause our stock price to decline.

We have an effective shelf registration statement on file with the U.S. Securities and Exchange Commission that expires on December 29, 2013. Following our public offering on April 6, 2011, in which certain original investors in TAL also sold common stock, the effective shelf registration statement enables us to issue additional public debt and equity securities up to $210 million. The price of our shares could be negatively impacted if we or any of the original investors in TAL undertake an offering to sell additional shares pursuant to this shelf registration, or otherwise.

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If securities analysts do not publish research or reports about our business or if they downgrade our stock, the price of our stock could decline.

The trading market for our common shares relies in part on the research and reports that industry or financial analysts publish about us or our business or our industry. We have no influence or control over these analysts. Furthermore, if one or more of the analysts who do cover us downgrades our stock, the price of our stock could decline. If one or more of these analysts ceases coverage of our company, we could lose visibility in the market, which in turn could cause our stock price to decline.

As a U.S. publicly held company, we must comply with new and existing federal financial rules and regulations, including those issued by the Securities and Exchange Commission, and we are required to prepare and report our consolidated financial statements in accordance with U.S. GAAP. Our failure to comply with required public company corporate governance and financial reporting practices and regulations could materially and adversely impact our financial condition, operating results and the price of our common stock. Further, our internal controls over financial reporting may not detect all errors or omissions in the financial statements.

Interactive Data Filings We are required to submit and post certain interactive data files when we report our quarterly financial statements on Form 10-Q and our annual financial statements on Form 10-K. While our interactive data files are subject to a thorough and rigorous review, there could be errors or omissions in those files, and we could be subject to sanctions or investigations by the Securities and Exchange Commission or other regulatory authorities as a result. Errors or omissions in our interactive data files could result in an adverse effect on our business, financial condition, and results of operations and cash flows.

Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") The Dodd-Frank Act introduced certain new rules and regulations that require companies to make additional disclosures including those related to corporate governance and, in certain instances, the use of products containing certain types of minerals originating in the Democratic Republic of Congo and neighboring countries. Noncompliance with these disclosure requirements, or any of the other provisions of the Dodd-Frank Act, could have an adverse effect on our business, financial condition, and results of operations and cash flows.

Accounting for Leases In August 2010, the Financial Accounting Standards Board and the International Accounting Standards Board (jointly, the "Boards") issued *Proposed Accounting Standards Update Leases (Topic 840)*. The Boards have subsequently indicated that revisions would be made to the new lease accounting model proposed in this Exposure Draft and that they intend to issue another exposure draft with their revised proposals. The proposed lease accounting model, in its current form, differs significantly from current practice. Most notably it would require lessors to record receivables related to their right to receive lease payments and residual value assets on their balance sheets, and would result in the front-loading of lease-related income for certain types of leases. Further, it would require lessees to record leased assets and related liabilities on their balance sheets, and would result in the front-loading of lease-related expenses for certain types of leases. If this proposed lease accounting model becomes effective in its current or in a similar form, it could significantly impact our customers' lease versus buy decisions and could, therefore, have an adverse effect on our business, financial condition, and results of operations and cash flows.

Sarbanes Oxley Act of 2002 (the "Sarbanes Oxley Act") The Sarbanes Oxley Act requires that we maintain effective internal controls for financial reporting and disclosure controls and procedures. If we do not maintain compliance with the requirements of Section 404 of the Sarbanes Oxley Act, or if we or our independent registered public accounting firm identify deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, we could suffer a loss of investor confidence in the reliability of our financial statements, which could cause the market price of our

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stock to decline. We can also be subject to sanctions or investigations by the New York Stock Exchange, the Securities and Exchange Commission or other regulatory authorities for failure to comply with public company corporate governance and financial reporting practices and regulations.

Section 404 of the Sarbanes Oxley Act requires an annual management assessment of the effectiveness of internal controls over financial reporting and a report by our independent registered public accounting firm. If we fail to maintain the adequacy of internal controls over financial accounting, we may not be able to conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with the Sarbanes Oxley Act and related regulations. Although our management has concluded that adequate internal control procedures are currently in place, no system of internal controls can provide absolute assurance that the financial statements are accurate and free of material errors. As a result, the risk exists that our internal controls may not detect all errors or omissions in the financial statements.

We may decide to pursue acquisitions and joint ventures that may present unforeseen integration obstacles or costs.

We may selectively pursue acquisitions and joint ventures, which could involve a number of risks and present financial, managerial and operational challenges, including:

- potential disruption of our ongoing business and distraction of management;
- difficulty with integration of personnel and financial and other systems;
- hiring additional management and other critical personnel; and
- increasing the scope, geographic diversity and complexity of our operations.

In addition, we may encounter unforeseen obstacles or costs in the integration of acquired businesses. Also, the presence of one or more material liabilities of an acquired company that are unknown to us at the time of acquisition may have a material adverse effect on our business. Our acquisition and joint venture strategy may not be successfully received by customers, and we may not realize any anticipated benefits from acquisitions or joint ventures.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Office Locations. As of December 31, 2012, our employees are located in 17 offices in 11 different countries. We have 6 offices in the U.S. including our headquarters in Purchase, New York. We have 11 offices outside the U.S. We lease all of our office space.

ITEM 3. 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, 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 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock has been traded on the New York Stock Exchange under the symbol "TAL" since October 12, 2005. Prior to that time, there was no public market for our common stock.

The following table reflects the range of high and low sales prices, as reported on the New York Stock Exchange, for our common stock in each quarter of the years ended December 31, 2012 and 2011.

	High	Low
2012:		
Fourth Quarter	$ 36.70	$ 30.58
Third Quarter	$ 35.75	$ 31.41
Second Quarter	$ 42.00	$ 30.95
First Quarter	$ 40.17	$ 29.35
2011:		
Fourth Quarter	$ 31.25	$ 22.35
Third Quarter	$ 35.86	$ 23.69
Second Quarter	$ 38.45	$ 29.50
First Quarter	$ 38.40	$ 29.61

On February 11, 2013, the closing price of our common stock was $43.81, as reported on the New York Stock Exchange. On that date, there were approximately 57 holders of record of our common stock and approximately 27,200 beneficial holders, based on information obtained from our transfer agent.

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PERFORMANCE GRAPH

The graph below compares our cumulative shareholder returns with the S&P 500 Stock Index and the Russell 2000 Stock Index for the five years ended December 31, 2012. The graph assumes that the value of the investment in our common stock, the S&P 500 Stock Index and the Russell 2000 Stock Index was $100 as of December 31, 2007, and that all dividends were reinvested.

Comparison of Cumulative Total Return
Five Years Ended December 31, 2012

	Base Period As of	INDEXED RETURNS FOR THE YEARS ENDED				
Company/Index	**12/31/2007**	**12/31/2008**	**12/31/2009**	**12/31/2010**	**12/31/2011**	**12/31/2012**
TAL International Group, Inc.	**100.00**	67.92	63.99	157.60	157.05	212.62
S&P 500 Index	**100.00**	63.00	79.67	91.67	93.60	108.58
Russell 2000 Index	**100.00**	66.21	84.20	106.81	102.34	119.08

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Dividends

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

Record Date	Payment Date	Aggregate Payment	Per Share Payment
December 6, 2012	December 27, 2012	$ 20.6 million	$ 0.62
September 4, 2012	September 25, 2012	$ 20.0 million	$ 0.60
June 1, 2012	June 22, 2012	$ 19.2 million	$ 0.58
March 8, 2012	March 29, 2012	$ 18.3 million	$ 0.55
December 1, 2011	December 22, 2011	$ 17.2 million	$ 0.52
September 1, 2011	September 22, 2011	$ 17.2 million	$ 0.52
June 2, 2011	June 23, 2011	$ 16.5 million	$ 0.50
March 3, 2011	March 24, 2011	$ 13.8 million	$ 0.45

We increased our quarterly cash dividend to $0.64 per share for the first quarter of 2013. We cannot provide any assurance as to future dividends because they depend on our future earnings, capital investments, and financial condition.

Historically, most of our dividends have been treated as a non-taxable return of capital, and based on our current estimates we believe that our dividends paid in 2012 will also be treated as a non-taxable return of capital to TAL shareholders. The taxability of the dividends to TAL shareholders does not impact TAL's corporate tax position. Investors should consult with a tax advisor to determine the proper tax treatment of these distributions.

Stock Repurchase Program

On March 13, 2006, our Board of Directors authorized a stock repurchase program for the repurchase of our common stock. The stock repurchase program, as now amended, authorizes us to repurchase up to 4.0 million shares of our common stock.

There was no material share purchase activity during the three months ended December 31, 2012.

Stock repurchases under this program may be made through open market and/or privately negotiated transactions at such times and in such amounts as a committee of our Board of Directors deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, restrictions regarding a repurchase program included in our credit facilities and other market conditions. The stock repurchase program does not have an expiration date and may be limited or terminated by the Board of Directors at any time without prior notice.

Recent Sales of Unregistered Securities; Use of Proceeds From Registered Securities

None.

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by this Item is incorporated herein by reference from our proxy statement to be issued in connection with the Annual Meeting of our Stockholders to be held on April 23, 2013, the proxy statement for which will be filed with the SEC within 120 days of the close of our fiscal year ended December 31, 2012.

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain selected historical financial, operating and other data of TAL International Group, Inc. The selected historical consolidated statement of operations data, balance sheet data and other financial data for each of the five years ended December 31, 2012 were derived from the Company's audited consolidated financial statements and related notes. The data below should be read in conjunction with, and is qualified by reference to, our Management's Discussion and

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Analysis and our consolidated financial statements and notes thereto contained elsewhere in this report. The historical results are not necessarily indicative of the results to be expected in any future period.

	Years Ended December 31, (Dollars and shares in thousands, except per share data)				
	2012	2011	2010	2009	2008
Statement of Operations Data:					
Leasing revenues	$ 524,970	$ 451,062	$ 328,530	$ 309,261	$ 319,292
Equipment trading revenues	60,975	62,324	34,636	39,693	95,394
Management fee income	3,076	2,798	2,932	2,629	3,136
Other revenues	151	503	702	954	2,170
Total revenues	589,172	516,687	366,800	352,537	419,992
Operating expenses (income):					
Equipment trading expenses	53,431	51,330	28,814	37,538	84,216
Direct operating expenses	25,039	18,157	24,489	36,942	28,246
Administrative expenses	43,991	42,727	41,724	40,908	46,154
Depreciation and amortization(1)	193,466	152,576	115,927	115,688	110,450
(Reversal) provision for doubtful accounts	(208)	162	(843)	545	4,878
Net (gain) on sale of leasing equipment	(44,509)	(51,969)	(25,765)	(9,278)	(23,534)
Net (gain) on sale of container portfolios				(185)	(2,789)
Total operating expenses	271,210	212,983	184,346	222,158	247,621
Operating income	317,962	303,704	182,454	130,379	172,371
Other expenses (income):					
Interest and debt expense	114,629	105,470	79,104	68,807	64,983
Write-off of deferred financing costs		1,143	675		250
(Gain) on debt extinguishment(2)				(14,130)	(23,772)
Net loss (gain) on interest rate swaps(3)	2,469	27,354	13,029	(35,152)	76,047
Total other expenses	117,098	133,967	92,808	19,525	117,508
Income before income taxes	200,864	169,737	89,646	110,854	54,863
Income tax expense	70,732	60,013	31,922	39,268	19,067
Net income	$ 130,132	$ 109,724	$ 57,724	$ 71,586	$ 35,796
Earnings Per Share Data:					
Basic income per share applicable to common stockholders	$ 3.92	$ 3.39	$ 1.90	$ 2.31	$ 1.10
Diluted income per share applicable to common stockholders	$ 3.87	$ 3.34	$ 1.88	$ 2.30	$ 1.09
Weighted average common shares outstanding:					
Basic	33,224	32,414	30,441	31,021	32,573
Diluted	33,623	32,821	30,717	31,072	32,693
Cash dividends paid per common share	$ 2.35	$ 1.99	$ 1.30	$ 0.04	$ 1.61

(1) Depreciation expense was reduced by $5.2 million ($3.4 million after tax or $0.10 per diluted share) beginning October 1, 2012 and by $5.5 million ($3.6 million after tax or $0.12 per diluted share) beginning October 1, 2010 as the result of the increase in residual value estimates included in the Company's depreciation policy (see Note 2 in the Notes to Consolidated Financial Statements).

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(2)

Gain on debt extinguishment of $14.1 million and $23.8 million for the years ended December 31, 2009 and 2008, respectively, were due to the repurchase of a portion of asset backed term notes issued during 2006.

(3)

Net losses and gains on interest rate swaps are primarily due to changes in interest rates, and reflect changes in the fair value of interest rate swaps not designated as cash flow hedges.

	As of December 31, (In thousands, except fleet data)				
	2012	**2011**	**2010**	**2009**	**2008**
Balance Sheet Data (end of period):					
Cash and cash equivalents (including restricted cash)	$ 101,680	$ 175,343	$ 85,612	$ 73,604	$ 56,958
Accounts receivable, net	71,363	56,491	46,342	30,638	42,012
Revenue earning assets, net	3,418,446	2,857,233	2,286,831	1,603,819	1,764,522
Total assets	3,701,194	3,197,303	2,517,557	1,800,978	1,957,561
Total debt	2,604,015	2,235,585	1,770,332	1,161,298	1,351,036
Stockholders' equity	615,975	562,802	428,410	418,829	364,471
Other Financial Data:					
Capital expenditures	831,826	815,730	844,214	57,957	492,635
Proceeds from sale of equipment leasing fleet, net of selling costs	133,367	123,659	102,176	69,473	83,956
Selected Fleet Data(1)(2):					
Dry container units	1,021,642	847,902	720,008	592,953	640,838
Refrigerated container units	57,229	50,751	45,215	36,061	37,740
Special container units	57,198	48,039	45,234	47,857	50,893
Tank container units	6,608	5,396	2,648	1,350	1,319
Chassis	13,146	10,789	9,208	8,778	8,796
Equipment trading units	45,860	46,767	33,373	14,947	16,735
Total container units/chassis	1,201,683	1,009,644	855,686	701,946	756,321
Total containers/chassis in TEUs	1,957,776	1,645,868	1,397,183	1,139,523	1,224,452
Total containers/chassis in cost equivalent units(3)	2,404,516	2,044,012	1,699,053	1,369,504	1,445,939
Average utilization %(4)	97.9%	98.7%	97.6%	92.4%	96.2%

(1)

Includes both owned and managed units, as well as units on finance leases.

(2)

Calculated as of the end of the relevant period.

(3)

The Company has included total fleet count information based on cost equivalent units (CEUs). CEU is a ratio used to convert the actual number of containers in the Company's fleet to a figure based on the relative purchase price of various equipment types to that of a 20 foot dry container. For example, the CEU ratio for a 40 foot standard height dry container is 1.6, and a 40 foot high cube refrigerated container is 10.0. These CEU ratios are from the Company's debt agreements and may differ slightly from CEU ratios used by others in the industry.

(4)

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

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ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 "Cautionary Note Regarding Forward-Looking Statements" as discussed elsewhere in this Form 10-K. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

Our Company

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

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

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

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

Operations

Our consolidated operations include the acquisition, leasing, re-leasing and subsequent sale of multiple types of intermodal containers and chassis. As of December 31, 2012, our total fleet consisted of 1,201,683 containers and chassis, including 22,848 containers under management for third parties, representing 1,957,776 twenty-foot equivalent units (TEUs). We have an extensive global presence, offering leasing services through approximately 230 third-party container depot facilities in 40 countries as of December 31, 2012. Our customers are among the world's largest shipping lines and include, among others, APL-NOL, CMA CGM, Hapag-Lloyd, Mediterranean Shipping Company and NYK Line. For the year ended December 31, 2012, our twenty largest customers accounted for 81% of our leasing revenues, our five largest customers accounted for 48% of our leasing revenues, and our largest customer accounted for 16% of our leasing revenues.

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The following tables provide the composition of our equipment fleet as of the dates indicated below (in units, TEUs and CEUs):

Equipment Fleet in Units

	December 31, 2012			December 31, 2011			December 31, 2010		
	Owned	Managed	Total	Owned	Managed	Total	Owned	Managed	Total
Dry	1,000,612	21,030	1,021,642	823,541	24,361	847,902	694,351	25,657	720,008
Refrigerated	57,124	105	57,229	50,580	171	50,751	44,955	260	45,215
Special	55,485	1,713	57,198	46,080	1,959	48,039	43,062	2,172	45,234
Tank	6,608		6,608	5,396		5,396	2,648		2,648
Chassis	13,146		13,146	10,789		10,789	9,208		9,208
Equipment leasing fleet	1,132,975	22,848	1,155,823	936,386	26,491	962,877	794,224	28,089	822,313
Equipment trading fleet	45,860		45,860	46,767		46,767	33,373		33,373
Total	1,178,835	22,848	1,201,683	983,153	26,491	1,009,644	827,597	28,089	855,686
Percentage	98.1%	1.9%	100.0%	97.4%	2.6%	100.0%	96.7%	3.3%	100.0%

Equipment Fleet in TEUs

	December 31, 2012			December 31, 2011			December 31, 2010		
	Owned	Managed	Total	Owned	Managed	Total	Owned	Managed	Total
Dry	1,607,232	37,796	1,645,028	1,323,458	44,155	1,367,613	1,116,392	46,462	1,162,854
Refrigerated	109,316	186	109,502	95,671	298	95,969	85,166	455	85,621
Special	98,888	2,883	101,771	81,514	3,283	84,797	74,273	3,622	77,895
Tank	6,608		6,608	5,396		5,396	2,698		2,698
Chassis	23,432		23,432	19,217		19,217	16,367		16,367
Equipment leasing fleet	1,845,476	40,865	1,886,341	1,525,256	47,736	1,572,992	1,294,896	50,539	1,345,435
Equipment trading fleet	71,435		71,435	72,876		72,876	51,748		51,748
Total	1,916,911	40,865	1,957,776	1,598,132	47,736	1,645,868	1,346,644	50,539	1,397,183
Percentage	97.9%	2.1%	100.0%	97.1%	2.9%	100.00%	96.4%	3.6%	100.0%

Equipment Fleet in CEUs

	December 31, 2012			December 31, 2011			December 31, 2010		
	Owned	Managed	Total	Owned	Managed	Total	Owned	Managed	Total
Total	2,367,636	36,880	2,404,516	2,000,747	43,265	2,044,012	1,652,564	46,489	1,699,053
Percentage	98.5%	1.5%	100.0%	97.9%	2.1%	100.0%	97.3%	2.7%	100.0%

In the equipment fleet tables above, we have included total fleet count information based on CEUs. CEU is a ratio used to convert the actual number of containers in our fleet to a figure based on the relative purchase price of our various equipment types to that of a 20 foot dry container. For example, the CEU ratio for a 40 foot standard height dry container is 1.6, and a 40 foot high cube refrigerated container is 10.0. The CEU ratios used in this calculation are from our debt agreements and may differ slightly from CEU ratios used by others in the industry.

We lease five types of equipment: (1) dry freight containers, which are used for general cargo such as manufactured component parts, consumer staples, electronics and apparel, (2) refrigerated containers, which are used for perishable items such as fresh and frozen foods, (3) special containers, which are used for heavy and oversized cargo such as marble slabs, building products and machinery, (4) tank containers, which are used to transport bulk liquid products such as chemicals, and (5) chassis, which are used for the transportation of containers domestically. Our in-house equipment sales group manages the sale process for our used containers and chassis from our equipment leasing fleet and buys and sells used and new containers and chassis acquired from third parties.

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As of December 31, 2012, the percentages of our equipment fleet in units and our leasing revenues by equipment type were as follows:

Equipment Type	Percent of total fleet units	Percent of leasing revenue
Dry	85.0%	64.4%
Refrigerated	4.8	22.0
Special	4.8	7.2
Tank	0.6	2.8
Chassis	1.0	2.0
Equipment leasing fleet	96.2	98.4
Equipment trading fleet	3.8	1.6
Total	100.0%	100.0%

We generally lease our equipment on a per diem basis to our customers under three types of leases: long-term leases, finance leases and service leases. Long-term leases, typically with initial contractual terms ranging from three to eight years, provide us with stable cash flow and low transaction costs by requiring customers to maintain specific units on-hire for the duration of the lease. Finance leases, which are typically structured as full payout leases, provide for a predictable recurring revenue stream with the lowest cost to the customer because customers are generally required to retain the equipment for the duration of its useful life. Service leases command a premium per diem rate in exchange for providing customers with a greater level of operational flexibility by allowing the pick-up and drop-off of units during the lease term. We also have expired long-term leases whose fixed terms have ended but for which the related units remain on-hire and for which we continue to receive rental payments pursuant to the terms of the initial contract. Some leases have contractual terms that have features reflective of both long-term and service leases and we classify such leases as either long-term or service leases, depending upon which features we believe are the most predominant.

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

	December 31,		
Lease Portfolio	**2012**	**2011**	**2010**
Long-term leases	67.5%	68.2%	66.7%
Finance leases	6.6	8.4	9.8
Service leases	21.0	18.8	16.5
Expired long-term leases (units on-hire)	4.9	4.6	7.0
Total	100.0%	100.0%	100.0%

The increase in our service lease portfolio over the last year reflects the completion of several large sale-leaseback transactions which are usually structured to provide customers with significant flexibility to redeliver units. Due to the age of this equipment, we expect to sell these units when they are redelivered.

As of December 31, 2012, 2011 and 2010, our long-term and finance leases had an average remaining contract term of approximately 43 months, 48 months and 50 months, respectively, assuming no leases are renewed.

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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 gains or losses that we realize on the sale of our used equipment and the net sales margins on our equipment trading activities.

Our leasing revenues are primarily driven by the size of our owned fleet, our equipment utilization and the average lease rates in our lease portfolio. Our leasing revenues also include ancillary fees driven by container pick-up and drop-off volumes. Leasing revenues for the year ended December 31, 2012 increased 16% from 2011.

Owned fleet size. As of December 31, 2012, our owned fleet included 2,367,636 CEUs with a net book value of $3,418.4 million, an increase of 18% and 20% respectively from December 31, 2011. The increase in our fleet size in 2012 was primarily due to our purchases of new containers and the completion of several large sale-leaseback transactions, both of which were supported by a combination of moderate growth in global containerized trade volumes and the continued shift to leasing from container ownership by our shipping line customers.

Clarkson estimates that global container liftings increased by 4.2% in 2012. Growth in the main lane East-West trades was minimal, but strong growth in intra-Asia, north-south and other regional trades led to moderately positive global trade growth and a need for additional container equipment. Demand for leased containers was further supported in 2012 by our customers' increased reliance on leasing for both their existing container fleets and new container additions. Historically, our shipping line customers have generally purchased 55%-60% of the containers they operate and leased 40%-45% from leasing companies like TAL. However, since 2010 our customers have relied on leasing for the majority of the containers added to their fleets, and they have become increasingly interested in selling portions of their existing fleets of owned containers to leasing companies through sale-leaseback transactions. This increased reliance on leasing has been mainly driven by the financial challenges facing our customers due to persistent excess vessel capacity and the resulting pressure on freight rates, high fuel prices, and reduced access to financing.

During 2012, we invested nearly $875 million in our fleet, purchasing over 225,000 TEUs of new containers and over 200,000 TEUs of used containers through sale-leaseback transactions.

Leasing revenue growth in 2012 was slightly less than our fleet growth. The pick-up of new containers committed to leases was slower than anticipated, as expectations for trade growth diminished during the year and as peak-season shipping volumes were lighter than expected. Many of our customers responded to this lower growth level by extending the time they took in completing committed pick-ups of our containers. In addition, a large portion of the sale-leaseback transactions were completed and placed on-hire in the second half of the year. We also placed several orders for dry containers in the fourth quarter of 2012 that were primarily intended to support anticipated leasing demand in 2013.

Utilization. Our average utilization was 97.9% for the full year of 2012, a decrease of 0.8% from the average for 2011. Our utilization remained quite high in 2012 due to the general tight supply / demand balance for containers and our customers' reluctance to order large volumes of new containers directly. We expect our utilization to decrease slightly in the first quarter of 2013 since the first quarter typically represents the weakest season for our dry container product line.

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

	Year Ended	Quarter Ended			
Average Utilization	**December 31,**	**December 31,**	**September 30,**	**June 30,**	**March 31,**
2012	97.9%	97.7%	97.7%	97.8%	98.2%
2011	98.7%	98.6%	98.6%	98.8%	98.6%
2010	97.6%	98.6%	98.2%	97.5%	95.6%

Ending Utilization	**December 31,**	**September 30,**	**June 30,**	**March 31,**
2012	97.9%	97.4%	97.6%	97.7%
2011	98.6%	98.7%	98.9%	98.6%
2010	98.7%	98.1%	98.1%	96.2%

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

Average lease rates. Average lease rates for our dry container product line decreased slightly in 2012 compared to 2011. This decrease was mainly the result of the completion of several large sale-leaseback transactions for older dry containers. These older containers were purchased for prices well below the current cost of new containers, and the leaseback rates are substantially below our current portfolio average. Excluding the effects of these sale-leaseback transactions, average lease rates on our dry container product line increased 1.8% in 2012 compared to 2011.

The increase in average dry container lease rates in 2012 (excluding the impact of sale-leaseback transactions) was mainly due to the steady increase in our average lease rates during 2011. New container prices were exceptionally high during 2011 and market leasing rates reached recent historical peak levels in the first half of the year. In 2012, lower new container prices and very low interest rates for financing structures used by leasing companies to fund new container purchases caused market lease rates to decrease from peak 2011 levels, and our average dry container lease rates held fairly steady in 2012, excluding the impact of sale-leaseback transactions. Lower new container prices and widespread availability of attractively priced financing for container leasing companies continue to pressure market lease rates, and market lease rates for dry containers are currently below our portfolio average. Because of this, we expect our average dry container lease rates to decrease slightly in the first part of 2013 as new units are picked up on lease.

Average lease rates for refrigerated containers were 2.9% lower in 2012 compared to 2011. Our average lease rates for refrigerated containers were negatively impacted by the addition of new refrigerated containers placed on lease at rates lower than our portfolio average. The cost of the refrigeration machines included in refrigerated containers has trended down over the last few years, which has led to lower refrigerated container prices and lease rates. Lease rates for new refrigerated containers are also being negatively impacted by aggressive pricing from new entrants seeking to build market share and the widespread availability of attractively priced financing for container leasing companies.

The average lease rates for special containers were approximately 2% higher in 2012 compared to 2011 due to relatively high prices and lease rates for new special containers added to our fleet, and the drop-off and sale of older special containers on leases with rates well below current market levels. Late in the fourth quarter, we completed a large sale-leaseback transaction for older special containers. We purchased these older containers for prices well below the current cost of new containers, and the leaseback rate is substantially below our current portfolio average. We expect the average lease rates on

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our special containers to trend down in the first quarter of 2013 as a result of this sale-leaseback transaction.

Equipment disposals. During 2012, we recognized a $44.5 million gain on the sale of our used containers compared to $52.0 million in 2011. Gain on sale decreased primarily due to lower average sale prices and the higher cost of equipment sold, partially offset by higher sales volumes. The cost of equipment sold in 2012 was higher than in 2011 due to the substantial number of sale-leaseback containers with higher book values sold during the year. Those sale-leaseback containers had been purchased in the latter part of 2011 and second half of 2012 for prices higher than the typical book value of our older containers.

Used container sale prices reached record levels during the summer of 2011 due to the general tight supply / demand balance for containers and the high price for new containers at that time. Used container disposal prices trended down roughly 20% from the 2011 peak to March 2012 as shipping line customers redelivered older containers after the peak season and the shortage of sale containers eased. In the second half of 2012, disposal prices stabilized, and remained quite high at the end of the year compared to historical averages and in relation to new container prices. We expect used container sale prices to trend down further toward historical levels, but this may take some time if the container supply / demand balance remains tight.

Equipment ownership expenses. Our ownership expenses, which consist of depreciation and interest expense, increased by $50.0 million or 19.4% in 2012 compared to 2011. TAL purchased a large volume of new containers in 2011 and 2012, and our average revenue earning assets increased by approximately 18% from 2011 to 2012.

Depreciation expense increased $40.9 million or 26.8% in 2012 compared to 2011 mainly due to the net increase in the size of our depreciable fleet, partially offset by another vintage year of equipment becoming fully depreciated. Depreciation expense would have increased an additional $5.2 million in 2012 if we excluded the beneficial impact of a change in residual value estimates we implemented in the fourth quarter. Depreciation expense increased faster than our revenue earning assets in 2012 mainly due to our fleet demographics. The portion of our fleet that is fully depreciated has decreased significantly as we have invested in a large number of new containers over the last several years and as a large volume of fully depreciated containers purchased in the mid-1990's has been returned by customers and sold. We purchased relatively few containers in the late 1990's, so a relatively low volume of containers reached the end of their depreciable lives in 2011 and 2012. Going forward we expect increases in our depreciation expense to be more in line with the growth in our revenue earnings assets.

After conducting our regular depreciation policy review, we decided to increase the estimated residual values used in our equipment depreciation policy. The new residual value estimates were put into effect beginning October 1, 2012. We last changed our estimated residual values in the fourth quarter of 2010 due to the consistent excess of disposal prices over our estimated residual values. Since then, we have continued to experience relatively high gains on the sale of our equipment as disposal prices have remained well in excess of our residual values. Accordingly, we have increased the estimated residual values for certain of our major container types to be more reflective of our recent disposal history and our expectations for future used container sale prices. Over time, these higher residual value estimates will result in lower disposal gains and lower depreciation expense compared to what would have been reported using our previous residual value estimates.

As a result of our regular depreciation policy review, we have also decided to revise the estimated depreciation start date used in our leasing equipment depreciation policy. Under our revised estimate, depreciation on leasing equipment will begin on the date of initial on-hire. This policy change does not affect 2012, but will have an impact on the first quarter of 2013 as new equipment purchased during 2012 and not yet placed in service will not begin depreciating on January 1, 2013 as it would have under our previous estimate.

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Interest expense increased $9.1 million or 8.6% in 2012 compared to 2011. This increase was due to an increase in our average outstanding debt, partially offset by a decrease in our average effective interest rate. Our average debt balance increased by 16% to $2,374 million mainly due to new equipment purchases in 2011 and 2012. Our average effective interest rate decreased by 0.35% in 2012 compared to 2011 primarily due to the termination of interest rate swap agreements with higher interest rates and shorter maturities, and the replacement of those terminated agreements with longer term interest rate swap agreements that have lower fixed interest rates. We use interest rate swap agreements to synthetically convert a portion of our floating rate debt to a fixed rate basis to match the duration of our interest rates to the duration of our lease portfolio. In addition, we issued new debt at interest rates lower than those on our existing facilities.

Credit performance. Our credit performance remained strong during 2012, and we recorded a $0.2 million reversal of our provision for doubtful accounts. However, our concern about credit risk remains heightened due to the difficult market conditions facing our shipping line customers. During 2011, excess vessel capacity placed severe pressure on freight rates on the major East/West trade lanes. Higher fuel prices combined with the drop in freight rates to squeeze the profitability of our customers, and many reported large losses in 2011 and the first half of 2012.

In general, the freight rate environment improved during 2012 as shipping lines focused on profitability rather than market share. Shipping lines were able to increase freight rates by managing excess vessel capacity through further slow steaming and idling. As a result, shipping lines' operating performance through the third quarter was markedly improved over 2011. However, shipping lines' financial performance is likely to remain under pressure as it is anticipated that the volume of new vessels entering service over the next several years will be in excess of trade growth.

Operating expenses. Our direct operating expenses were $25.0 million in 2012, compared to $18.2 million in 2011. Our direct operating expenses increased during 2012 mainly due to higher storage and repair costs resulting from a higher volume of redeliveries and slightly lower utilization, and increased inspection costs due to the higher volume of new units built and inspected during the year.

Our administrative expenses were $44.0 million in 2012 compared to $42.7 million in 2011, an increase of 3.0% reflecting higher compensation costs. The limited change in our administrative expenses over the last several years highlights the leverage we have over our fixed costs. TAL has existing business relationships with essentially all of the world's major shipping lines, and our global operating infrastructure covers most of the world's major export and import locations. As a result, we have not needed to significantly grow our organization as we have rapidly grown our business. Over the last few years, the ratio of our administrative expenses to our leasing revenues decreased from 14.5% in 2008 to 9.5% in 2011, and 8.4% in 2012.

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Dividends

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

Record Date	Payment Date	Aggregate Payment	Per Share Payment
December 6, 2012	December 27, 2012	$ 20.6 million	$ 0.62
September 4, 2012	September 25, 2012	$ 20.0 million	$ 0.60
June 1, 2012	June 22, 2012	$ 19.2 million	$ 0.58
March 8, 2012	March 29, 2012	$ 18.3 million	$ 0.55
December 1, 2011	December 22, 2011	$ 17.2 million	$ 0.52
September 1, 2011	September 22, 2011	$ 17.2 million	$ 0.52
June 2, 2011	June 23, 2011	$ 16.5 million	$ 0.50
March 3, 2011	March 24, 2011	$ 13.8 million	$ 0.45

Historically, most of our dividends have been treated as a non-taxable return of capital, and based on our current estimates we believe that 100% of our dividends paid in 2012 will be treated as a non-taxable return of capital to TAL shareholders. The taxability of the dividends to TAL shareholders does not impact TAL's corporate tax position. Investors should consult with a tax advisor to determine the proper tax treatment of these distributions.

Results of Operations

The following table summarizes our results of operations for the years ended December 31, 2012, 2011 and 2010 (in thousands).

	Year Ended December 31,		
	2012	2011	2010
Leasing revenues	$ 524,970	$ 451,062	$ 328,530
Equipment trading revenues	60,975	62,324	34,636
Management fee income	3,076	2,798	2,932
Other revenues	151	503	702
Total revenues	589,172	516,687	366,800
Operating expenses (income):			
Equipment trading expenses	53,431	51,330	28,814
Direct operating expenses	25,039	18,157	24,489
Administrative expenses	43,991	42,727	41,724
Depreciation and amortization	193,466	152,576	115,927
(Reversal) provision for doubtful accounts	(208)	162	(843)
Net (gain) on sale of leasing equipment	(44,509)	(51,969)	(25,765)
Total operating expenses	271,210	212,983	184,346
Operating income	317,962	303,704	182,454
Other expenses:			
Interest and debt expense	114,629	105,470	79,104
Write-off of deferred financing costs		1,143	675
Net loss on interest rate swaps	2,469	27,354	13,029
Total other expenses	117,098	133,967	92,808
Income before income taxes	200,864	169,737	89,646
Income tax expense	70,732	60,013	31,922
Net income	$ 130,132	$ 109,724	$ 57,724

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Comparison of Year Ended December 31, 2012 to Year Ended December 31, 2011

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; fee and ancillary lease revenue represent fees billed for the pick-up and drop-off of containers in certain geographic locations and billings of certain reimbursable operating costs such as repair and handling expenses; and finance lease revenues represent interest income earned under finance lease contracts.

	Year Ended December 31, 2012	Year Ended December 31, 2011
	(Dollars in thousands)	
Leasing revenues:		
Operating lease revenues:		
Per diem revenue	$ 487,832	$ 414,873
Fee and ancillary lease revenue	23,357	19,795
Total operating lease revenues	511,189	434,668
Finance lease revenues	13,781	16,394
Total leasing revenues	$ 524,970	$ 451,062

Total leasing revenues were $525.0 million for 2012 compared to $451.1 million for 2011, an increase of $73.9 million, or 16.4%.

Per diem revenue increased by $73.0 million, or 17.6%, compared to 2011. The primary reasons for the increase in per diem revenue are as follows:

- $73.3 million increase due to an increase in the average number of units on hire. This reflects an increase in the average number of units on hire from approximately 792,000 in 2011 to approximately 918,000 in 2012;

- $3.3 million increase due to the recognition of revenue during the first half of 2012 for the early termination of certain lease contracts; and

- $3.4 million decrease due to lower average per diem rates. The decrease in average per diem rates was primarily due to a $2.4 million decrease resulting from lower average lease rates for refrigerated containers, which reflects the downward trend of the cost of refrigeration machines experienced over the last few years and aggressive pricing from new entrants seeking to build market share. Average lease rates for dry containers and chassis were $1.5 million lower in 2012 due to the completion of large sale-leaseback transactions for older dry containers at the end of the first half of this year. These older containers were purchased for prices well below the current cost of new containers, and the leaseback rate is substantially below our current portfolio average. Average lease rates for dry and refrigerated containers were also negatively impacted by the widespread availability of attractively priced financing for container leasing companies. These decreases were partially offset by an increase of $0.5 million due to higher average lease rates for special containers.

Fee and ancillary lease revenue increased $3.6 million in 2012 compared to the prior year primarily due to an increase in repair revenue and fees resulting from increased redeliveries.

Finance lease revenue decreased by $2.6 million primarily due to a decrease in the average size of our finance lease portfolio.

Equipment Trading Activities. Equipment trading revenues represent the proceeds on the sale of equipment purchased for resale. Equipment trading expenses represent the cost of equipment sold, including costs associated with the acquisition, maintenance and selling of trading inventory, such as positioning, repairs, handling and storage costs, and estimated direct selling and administrative costs.

	Year Ended December 31, 2012	Year Ended December 31, 2011
	(Dollars in thousands)	
Equipment trading revenues	$ 60,975	$ 62,324
Equipment trading expenses	(53,431)	(51,330)
Equipment trading margin	$ 7,544	$ 10,994

The equipment trading margin decreased $3.5 million in 2012 compared to 2011. The trading margin decreased by $2.2 million due to lower per unit sales margins as a result of lower selling prices, and by $1.3 million due to lower sales volumes.

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

Direct operating expenses were $25.0 million in the 2012, compared to $18.2 million in 2011, an increase of $6.8 million. The primary reasons for the increase are as follows:

- $2.8 million net increase due to higher storage costs due to an increase in the number of idle units, offset by a slightly lower handling costs;

- $2.8 million increase in repair costs due to a higher volume of repairs, primarily for our dry and refrigerated containers; and

- $1.3 million increase in inspection costs due to the higher volume of new units built and inspected during 2012.

Administrative expenses. Administrative expenses were $44.0 million in 2012 compared to $42.7 million in 2011, an increase of $1.3 million or 3.0%, primarily due to increased compensation costs and costs related to two secondary share offerings by our major shareholders.

Depreciation and amortization. Depreciation and amortization was $193.5 million in 2012, compared to $152.6 million in 2011, an increase of $40.9 million or 26.8%. Depreciation expense increased by $47.8 million due to the net increase in the size of our depreciable fleet, partially offset by a decrease of $1.7 million due to another vintage year of equipment becoming fully depreciated and a benefit of $5.2 million, resulting from the change in residual value estimates effective October 1, 2012.

Excluding the benefit of $5.2 million related to the residual value change, depreciation increased by 30%, while our average revenue earning assets increased by approximately 18% from 2011 to 2012. Depreciation expense increased faster than our revenue earning assets mainly due to our fleet demographics. The percentage of our fleet that is fully depreciated has decreased significantly as we have grown the fleet rapidly over the last several years. This increases our depreciation expense relative to our revenue earning assets.

(Reversal) provision for doubtful accounts. The reversal of our provision for doubtful accounts was $0.2 million in 2012, compared to a provision for doubtful accounts of $0.2 million in 2011. In general, our credit losses remain low due to the absence of any major customer defaults.

Net (gain) on sale of leasing equipment. Gain on sale of equipment was $44.5 million in 2012, compared to $52.0 million in 2011, a decrease of $7.5 million. Gain on sale decreased by $17.6 million due to lower selling prices and $5.6 million due to the higher cost of equipment sold, partially offset by

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an increase of $15.7 million due to higher sales volumes. The higher cost of equipment sold was driven by the large portion of units sold that had been purchased in sale-leaseback transactions in the latter half of 2011 and second half of 2012 for prices higher than the typical book value of our older containers. The increase in sales volume was due to increased redeliveries of sale age containers.

Interest and debt expense. Interest and debt expense was $114.6 million in 2012, compared to $105.5 million in 2011, an increase of $9.1 million. Interest and debt expense increased by $19.8 million due to a higher average debt balance of $2,374.4 million in 2012, compared to $2,040.1 million in 2011, resulting from our substantial equipment purchases this year and during 2011. This was partially offset by a $10.7 million decrease due to a lower effective interest rate of 4.75% in 2012 compared to 5.10% in 2011.

Net loss on interest rate swaps. Net loss on interest rate swaps was $2.5 million in 2012, compared to $27.4 million in 2011. The fair value of our interest rate swap agreements decreased during both 2012 and 2011 due to a decrease in long-term interest rates. Under the majority of our interest rate swap agreements, we make interest payments based on fixed interest rates and receive payments based on the applicable prevailing variable interest rate. As long-term interest rates have decreased, the current market rate on interest rate swap agreements with similar terms decreased relative to our existing interest rate swap agreements, which caused their fair value to decline.

Income tax expense. Income tax expense was $70.7 million in 2012, compared to $60.0 million in 2011. The effective tax rate was 35.2% in 2012 and 35.4% in 2011.

While we record income tax expense we do not currently pay any significant federal, state or foreign income taxes due to the availability of net operating loss carryovers and accelerated tax depreciation for our equipment. The majority of the expense recorded for income taxes is recorded as a deferred tax liability on the balance sheet. We anticipate that the deferred income tax liability will continue to grow for the foreseeable future.

Comparison of Year Ended December 31, 2011 to Year Ended December 31, 2010

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; fee and ancillary lease revenue represent fees billed for the pick-up and drop-off of containers in certain geographic locations and billings of certain reimbursable operating costs such as repair and handling expenses; and finance lease revenues represent interest income earned under finance lease contracts.

	Year Ended December 31, 2011	Year Ended December 31, 2010
	(Dollars in thousands)	
Leasing revenues:		
Operating lease revenues:		
Per diem revenue	$ 414,873	$ 291,219
Fee and ancillary lease revenue	19,795	19,002
Total operating lease revenues	434,668	310,221
Finance lease revenues	16,394	18,309
Total leasing revenues	$ 451,062	$ 328,530

Total leasing revenues were $451.1 million for 2011, compared to $328.5 million for 2010, an increase of $122.6 million, or 37.3%.

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Per diem revenue increased by $123.7 million, or 42.5%, compared to 2010. The primary reasons for the increase are as follows:

$87.2 million increase due to an increase in the average number of units on hire. This reflects increased utilization and an increase in the average number of units on hire from approximately 625,000 in 2010 to approximately 792,000 in 2011;

$36.8 million increase due to higher per diem rates resulting from a significant number of units placed on-hire during the second half of 2010 and during 2011 at lease rates exceeding our portfolio average, the re-pricing of certain existing leases and the expiration of lease incentives during 2010 that had been primarily provided during 2009. Due to the extreme shortage of containers in 2010 and concerns about a recurring shortage in 2011, container manufacturers were able to charge a premium for new container production for much of 2010 and 2011, and new dry container prices and market leasing rates were historically high. As a result, our average dry container lease rates increased throughout 2011 as new containers and sale-leaseback containers were placed on lease and as certain existing leases were re-priced. However, during the latter part of 2011, new dry container prices and market lease rates decreased from peak levels reached earlier in the year;

$1.4 million increase due to the recognition of revenue related to the drop-off of sale-leaseback containers in the second half of 2011; and

$1.9 million decrease due to the recognition of revenue in the first half of 2010 for the early termination of certain lease contracts that did not reoccur in 2011.

Fee and ancillary lease revenue increased by $0.8 million in 2011 compared to the prior year primarily due to an increase in fees resulting from an increase in drop-off volumes, partially offset by decreases in handling and repair revenues.

Finance lease revenues decreased by $1.9 million in 2011 primarily due to a decrease in the average size of our finance lease portfolio.

Equipment trading activities. Equipment trading revenues represent the proceeds on the sale of equipment purchased for resale. Equipment trading expenses represent the cost of equipment sold, including costs associated with the acquisition, maintenance and sale of trading inventory, such as positioning, repairs, handling and storage costs, and estimated direct selling and administrative costs.

	Year Ended December 31,	
	2011	**2010**
	(Dollars in thousands)	
Equipment trading revenues	$ 62,324	$ 34,636
Equipment trading expenses	(51,330)	(28,814)
Equipment trading margin	$ 10,994	$ 5,822

The equipment trading margin increased $5.2 million in 2011, compared to 2010. The trading margin increased by $2.8 million due to increased sales volume and increased $2.4 million due to an increase in selling margin per unit.

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

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Direct operating expenses were $18.2 million for 2011, compared to $24.5 million for 2010, a decrease of $6.3 million. The primary reasons for the decrease are outlined below:

- $2.7 million decrease in repair costs due to a lower volume of repairs, primarily for our dry and refrigerated containers;
- $2.7 million decrease in storage and handling costs due to a decrease in the number of idle units; and
- $0.9 million decrease in container repositioning costs.

Administrative expenses. Administrative expenses were $42.7 million for 2011, compared to $41.7 million for 2010. Our administrative expenses increased primarily due to increased incentive compensation.

Depreciation and amortization. Depreciation and amortization was $152.6 million for 2011, compared to $115.9 million for 2010, an increase of $36.7 million or 31.7%. Depreciation increased by approximately $59.0 million due to a net increase in the size of the depreciable fleet and was partially offset by a decrease of $16.6 million due to an increase in the estimated residual values included in our depreciation policy effective October 1, 2010, and a decrease of $5.8 million due to another vintage year of equipment becoming fully depreciated during the fourth quarter of 2010.

Provision (reversal) for doubtful accounts. Provision for doubtful accounts was $0.2 million for 2011, compared to a net reversal for doubtful accounts of $0.8 million for 2010. During 2010, there was a net reversal of certain provisions recorded in 2009 and 2008 due to better than expected container recoveries. In general, our provision for doubtful accounts has remained low due to the absence of any major customer defaults.

Net (gain) on sale of leasing equipment. Gain on sale of leasing equipment was $52.0 million for 2011, compared to a gain of $25.8 million for 2010, an increase of $26.2 million. Gain on sale increased by $36.6 million primarily due to higher selling prices, partially offset by a decrease of $8.2 million due to the higher cost of equipment sold. The higher cost of equipment sold was driven by the large portion of units sold in the second half of 2011 that had been recently purchased in a sale-leaseback transaction for prices higher than the typical net book value for our older containers. Gain on sale of equipment also decreased by $2.2 million due to lower selling volumes.

Interest and debt expense. Interest and debt expense was $105.5 million for 2011, compared to $79.1 million for 2010, an increase of $26.4 million, or 33.4%. Interest and debt expense increased by $41.0 million due to an increase in the Company's average debt balance to $2,040.1 million in 2011 from $1,322.7 million in 2010, mostly due to new equipment purchases during 2011 and the second half of 2010. This was partially offset by a $14.6 million decrease due to a lower effective interest rate of 5.10% in 2011 compared to 5.90% in 2010.

Net loss on interest rate swaps. Net loss on interest rate swaps was $27.4 million for 2011, compared to $13.0 million for 2010. The fair value of our interest rate swap agreements decreased during 2011 and 2010 due to decreases in long-term interest rates. Under our interest rate swap agreements, we make interest payments based on fixed interest rates and receive payments based on the applicable prevailing variable interest rate. As long-term interest rates decreased during 2011, the current market rate on interest rate swap agreements with similar terms decreased relative to our existing interest rate swap agreements, which caused their fair value to decline during the year.

Income tax expense. Income tax expense was $60.0 million for 2011, compared to $31.9 million for 2010. The effective tax rates were 35.4% in 2011 and 35.6% in 2010.

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While we record income tax expense, we do not currently pay any significant federal, state or foreign income taxes due to the availability of net operating loss carryforwards and accelerated tax depreciation for our equipment. The majority of the expense recorded for income taxes is recorded as a deferred tax liability on our consolidated balance sheets. We anticipate that the deferred income tax liability will continue to grow for the foreseeable future.

Business Segments

We operate our business in one industry, intermodal transportation equipment, and in two business segments, Equipment leasing and Equipment trading.

Equipment leasing

We own, lease and ultimately dispose of containers and chassis from our leasing fleet, as well as manage containers owned by third parties. Equipment leasing segment revenues represent leasing revenues from operating and finance leases, fees earned on managed container leasing activities, as well as other revenues. Expenses related to equipment leasing include direct operating expenses, administrative expenses, depreciation expense and interest expense. The Equipment leasing segment also includes gains and losses on the sale of owned leasing equipment.

Equipment trading

We purchase containers from shipping line customers and other sellers of containers, and resell these containers to container retailers and users of containers for storage or one-way shipment. Equipment trading segment revenues represent the proceeds on the sale of containers purchased for resale. Expenses related to equipment trading include the cost of containers purchased for resale that were sold and related selling costs, as well as direct operating expenses, administrative expenses and interest expense.

Segment income before income taxes

The following table lists the income before income taxes for each of the Equipment leasing and Equipment trading segments for the years ended December 31, 2012, 2011 and 2010:

	Year Ended December 31,			% Change Between	
	2012	2011	2010	2012 and 2011	2011 and 2010
	(Dollars in thousands)				
Income before income taxes(1):					
Equipment leasing segment	$ 195,166	$ 186,865	$ 97,526	4.4%	91.6%
Equipment trading segment	$ 8,167	$ 11,369	$ 5,824	(28.2)%	95.2%

(1) Income before income taxes excludes net losses on interest rate swaps and the write-off of deferred financing costs.

Equipment leasing income before income taxes. Income before income taxes for the Equipment leasing segment was $195.2 million in 2012 compared to $186.9 million in 2011, an increase of $8.3 million, or 4.4%. The leasing margin (leasing revenue net of depreciation and amortization, interest and debt expense, and direct operating expenses) increased by $15.8 million primarily due to an increase in fleet size and the average number of units on hire in 2012. Gain on the sale of leasing equipment decreased $7.5 million due to lower selling prices and the higher cost of equipment sold, partially offset by higher sales volumes.

Income before income taxes for the Equipment leasing segment was $186.9 million in 2011 compared to $97.5 million in 2010, an increase of $89.4 million, or 91.6%. The leasing margin (leasing

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revenue net of depreciation and amortization, interest and debt expense, and direct operating expenses) increased by $63.2 million primarily due to increases in fleet size and the average number of units on hire, and higher per diem rates in 2011. Gain on the sale of leasing equipment increased $26.2 million due to higher selling prices partially offset by the higher cost of equipment sold and lower selling volumes.

Equipment trading income before income taxes. Income before income taxes for the Equipment trading segment was $8.2 million in 2012, compared to $11.4 million in 2011, a decrease of $3.2 million, or 28.2%. This decrease was primarily due to a decrease in the equipment trading margin resulting from lower selling prices and lower sales volumes.

Income before income taxes for the Equipment trading segment was $11.4 million in 2011, compared to $5.8 million in 2010, an increase of $5.6 million, or 95.2%. This increase was primarily due to an increase in the equipment trading margin resulting from increases in sales volume and selling prices.

Liquidity and Capital Resources

Our principal sources of liquidity are cash flows provided by operating activities, proceeds from the sale of our leasing equipment, principal payments on finance lease receivables and borrowings under our debt facilities. Our cash in-flows and borrowings are used to meet debt service requirements, finance capital expenditures and pay dividends.

We continue to have sizable cash in-flows. For the year ended December 31, 2012, cash provided by operating activities, together with the proceeds from the sale of our leasing equipment and principal payments on our finance leases, was $478.9 million. In addition, as of December 31, 2012, we had $65.8 million of unrestricted cash and $340.0 million of additional borrowing capacity under our current debt facilities.

During 2012, we issued $250 million of fixed rate secured notes under the asset backed securitization facilities and increased the size of our asset backed warehouse facility by $200 million to bring its maximum availability to $600 million. In addition, we completed a private placement of term notes for $153 million.

As of December 31, 2012, major committed cash outflows in the next 12 months include $353.8 million of scheduled principal payments on our existing debt facilities and $184.7 million of committed but unpaid capital expenditures.

We believe that cash provided by operating activities and existing cash, proceeds from the sale of our leasing equipment, principal payments on our finance lease receivables and availability under our borrowing facilities will be sufficient to meet our obligations over the next 12 months.

As of December 31, 2012, our outstanding indebtedness was comprised of the following (amounts in millions):

	Current Amount Outstanding	Current Maximum Borrowing Level
Asset backed securitization term notes (ABS)	$ 1,343.8	$ 1,343.8
Term loan facilities	698.6	768.6
Asset backed warehouse facility	355.0	600.0
Revolving credit facility	75.0	100.0
Capital lease obligations	131.6	131.6
Total Debt	$ 2,604.0	$ 2,944.0

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

As of December 31, 2012 we had $1,282.8 million of debt outstanding on facilities with fixed interest rates. These fixed rate facilities are scheduled to mature between 2014 and 2024, had a weighted average effective interest rate of 5.20% in 2012 and a weighted average remaining term of 4.7 years as of December 31, 2012.

As of December 31, 2012 we had $1,321.2 million of debt outstanding on facilities with interest rates based on floating rate indices (primarily LIBOR). These floating rate facilities are scheduled to mature between 2013 and 2018, had a weighted average effective interest rate of 2.53%, in 2012, and had a weighted average remaining term of 3.0 years as of December 31, 2012. Including the impact of our interest rate swaps, the weighted average effective interest rate on our floating rate facilities was 4.32% in 2012.

We economically hedge the risks associated with fluctuations in interest rates on a portion of our floating rate borrowings by entering into interest rate swap agreements that convert a portion of our floating rate debt to a fixed rate basis, thus reducing the impact of interest rate changes on future interest expense. As of December 31, 2012, we had interest rate swaps in place with a net notional amount of $733.9 million to fix the floating interest rates on a portion of our floating rate debt obligations, with a weighted average fixed leg interest rate of 1.97% and a weighted average remaining term of 5.6 years.

Asset Backed Securitization Term Notes

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

Our borrowings under the ABS facilities amortize in equal 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 containers not aged more than 60 days plus 100% of restricted cash. The net book value for purposes of calculating our borrowing capacity is the original equipment cost depreciated over 12 years to either 20% or 32% of original equipment cost, depending on the type of equipment. Advance rates under the ABS facilities range from 76% to 82%. We are required to maintain restricted cash balances on deposit in designated bank accounts equal to either five or nine months of interest expense depending on the type of facility.

Term Loan Facilities

We utilize our 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.

The borrowing capacity under the term loan facilities is determined by applying an advance rate in the range of 75% 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 $600 million. Under the amended facility, funds are available on a revolving basis until August 12, 2013, after which if the facility is not refinanced, the notes will convert to term notes with a maturity date of August 12, 2017.

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 76% 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 12 years to either 20% or 32% of original equipment cost depending on equipment type. 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 Facility

Our revolving credit facility has a maximum borrowing capacity of $100.0 million and matures on November 30, 2016. We are required to maintain unencumbered assets equivalent to 50% of the maximum commitment.

Capital Lease Obligations

We have 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.

Debt Covenants

We are subject to certain financial covenants under our debt agreements. As of December 31, 2012, we were in compliance with all such covenants. Below are the primary financial covenants to which we are subject:

- Minimum Earnings Before Interest and Taxes ("Covenant EBIT") to Cash Interest Expense;
- Minimum Tangible Net Worth ("TNW"); and
- Maximum Indebtedness to TNW.

Non-GAAP Measures

We primarily rely on our results measured in accordance with generally accepted accounting principles ("GAAP") in evaluating our business. Covenant EBIT, Cash Interest Expense, TNW, and Indebtedness are non-GAAP financial measures defined in our debt agreements that are used to determine our compliance with certain covenants contained in our debt agreements and should not be used as a substitute for analysis of our results as reported under GAAP. However, we believe that the inclusion of this non-GAAP information provides additional information to investors regarding our debt covenant compliance.

Minimum Covenant EBIT to Cash Interest Expense

For the purpose of this covenant, Covenant EBIT is calculated based on the cumulative sum of our earnings for the last four quarters (excluding income taxes, interest expense, amortization, net gain or loss on interest rate swaps and certain non-cash charges). Cash Interest Expense is calculated based on interest expense adjusted to exclude interest income, amortization of deferred financing costs, and the difference between current and prior period interest expense accruals.

Minimum Covenant EBIT to Cash Interest Expense is calculated on a consolidated basis and for certain of our wholly-owned special purpose entities ("SPEs"), whose primary activity is to issue asset

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backed notes. Covenant EBIT for each of our SPEs is calculated based on the net earnings generated by the assets pledged as collateral for the underlying debt issued. The actual Covenant EBIT to Cash Interest Expense ratio for each SPE may differ depending on the specific net earnings associated with those pledged assets. As of December 31, 2012, the minimum and actual consolidated Covenant EBIT to Cash Interest Expense ratio and Covenant EBIT to Cash Interest Expense ratio for each of the issuers of our debt facilities whose initial borrowing capacity was approximately $200 million or greater were as follows:

Entity/Issuer	Minimum Covenant EBIT to Cash Interest Expense Ratio	Actual Covenant EBIT to Cash Interest Expense Ratio
Consolidated	1.10	2.54
TAL Advantage I, LLC	1.10	1.75
TAL Advantage II, LLC	1.10	1.30
TAL Advantage III, LLC	1.30	2.36
TAL Advantage IV, LLC	1.10	2.25

Minimum TNW and Maximum Indebtedness to TNW Covenants

We are required to meet consolidated Minimum TNW and Maximum Indebtedness to TNW covenants. For the purpose of calculating these covenants, all amounts are based on the consolidated balance sheet of TAL International Group, Inc. TNW is calculated as total tangible assets less total indebtedness, which includes equipment purchases payable and, in certain cases, the fair value of derivative instruments liability.

For the majority of our debt facilities, the Minimum TNW is calculated as $321.4 million plus 50% of cumulative net income or loss since January 1, 2006. As of December 31, 2012, the minimum and actual TNWs for each of our SPEs were $564.3 million and $879.1 million, respectively. As of December 31, 2012, the maximum and actual Indebtedness to TNW ratios for each of our debt facilities whose initial borrowing capacity was approximately $200 million or greater was as follows:

Entity/Issuer	Maximum Indebtedness to TNW Ratio	Actual Indebtedness to TNW Ratio
TAL Advantage I, LLC	4.75	3.14
TAL Advantage II, LLC	4.75	3.10
TAL Advantage III, LLC	4.75	3.10
TAL Advantage IV, LLC	4.75	3.10

As of December 31, 2012, our outstanding debt on facilities whose initial borrowing capacity was approximately $200 million or greater was approximately $1,781.0 million.

Failure to comply with these covenants would result in a default under the related credit agreements and could result in the acceleration of our outstanding debt if we were unable to obtain a waiver from the creditors.

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Cash Flow

The following table sets forth certain cash flow information for the years ended December 31, 2012, 2011 and 2010 (dollars in thousands):

	Year Ended December 31,		
	2012	2011	2010
Net cash provided by operating activities	$ 310,210	$ 269,854	$ 160,261
Purchases of leasing equipment and investments in finance leases	(831,826)	(815,730)	(844,214)
Proceeds from sale of equipment, net of selling costs	133,367	123,659	102,176
Cash collections on finance lease receivables, net of income earned	35,326	35,940	35,484
Other	219	13	(211)
Net cash (used in) investing activities	$ (662,914)	$ (656,118)	$ (706,765)
Net cash provided by financing activities	$ 277,670	$ 464,547	$ 549,208

Operating Activities

Net cash provided by operating activities increased by $40.3 million to $310.2 million in 2012, compared to $269.9 million in 2011 primarily due to an increase in earnings excluding depreciation. In addition, we had net sales of trading equipment of $7.8 million in 2012, compared to net purchases of trading equipment of $9.5 million in 2011 resulting in an increase in operating cash flows of $17.3 million. Partially offsetting these increases were payments of $49.1 million in 2012 to our interest rate swap counterparties for the termination of certain interest rate swap agreements compared to payments of $12.5 million in 2011.

Net cash provided by operating activities increased by $109.6 million to $269.9 million in 2011 compared to $160.3 million in 2010. The increase in 2011 was primarily driven by increased earnings excluding depreciation and was partially offset by payments of $12.5 million to our interest rate swap counterparties for the termination of certain interest rate swap contracts and a $3.6 million increase in our net purchases of trading equipment.

Investing Activities

Net cash used in investing activities increased by $6.8 million to $662.9 million in 2012 compared to $656.1 million in 2011. This increase was primarily due to a $16.1 million increase in payments made for the purchase of leasing equipment and investments in finance lease in 2012, partially offset by an increase in proceeds on the sale of leasing equipment of $9.7 million due to the higher volume of units sold.

Net cash used in investing activities decreased by $50.7 million to $656.1 million in 2011 compared to $706.8 million in 2010. This decrease was primarily due to a $28.5 million decrease in payments made for leasing equipment and investments in finance leases in 2011, and an increase in sales proceeds from the sale of equipment of $21.5 million in 2011.

Financing Activities

Net cash provided by financing activities decreased by $186.8 million to $277.7 million in 2012 compared to $464.5 million in 2011. This decrease was due to a decrease in net borrowings under our debt facilities of $93.3 million in 2012 and an increase in dividends paid of $13.4 million in 2012. In addition, we sold 2,500,000 shares of common stock for net proceeds of $85.7 million in 2011, and had no similar stock issuances in 2012.

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Net cash provided by financing activities decreased by $84.7 million to $464.5 million in 2011 compared to $549.2 million in 2010. During 2011, net borrowings under our various debt facilities decreased $144.7 million, partially offset by net proceeds of $85.7 million we received from the public offering and sale of 2,500,000 shares of our common stock on April 6, 2011. In addition, dividends paid in 2011 increased $25.1 million compared to 2010.

Contractual Obligations

We are party to various operating 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 purchase obligations are in the form of conventional accounts payable, and are satisfied from cash flows from operating and/or long term financing activities.

The following table summarizes our contractual obligations and commercial commitments as of December 31, 2012 (does not include amounts potentially due under guarantees, as amounts, if any, are indeterminable):

	Contractual Obligations by Twelve Month Periods Ending December 31,					
Contractual Obligations:	**Total**	**2013**	**2014**	**2015**	**2016**	**2017 and thereafter**
	(Dollars in millions)					
Total debt obligations(1)	$ 2,916.1	$ 434.7	$ 447.8	$ 417.6	$ 410.2	$ 1,205.8
Capital lease obligations(2)	150.7	20.4	24.0	39.7	29.9	36.7
Operating leases (mainly facilities)	7.4	1.4	1.1	0.7	0.7	3.5
Purchase obligations:						
Equipment purchases payable	111.2	111.2				
Equipment purchase commitments	73.5	73.5				
Total contractual obligations	$ 3,258.9	$ 641.2	$ 472.9	$ 458.0	$ 440.8	$ 1,246.0

(1) Amounts include actual and estimated interest. For floating-rate debt, we have estimated interest based on December 31, 2012 rates and the net effect of our interest rate swaps.

(2) Amounts include interest.

Off-Balance Sheet Arrangements

At December 31, 2012, we did not have any relationships with unconsolidated entities or financial partnerships, which are often referred to as structured finance or special purpose entities, which would have been 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 historical financial statements contained elsewhere in this Form 10-K.

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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 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 the Financial Accounting Standards Board (the "FASB") Accounting Standards Codification No. 605, *Revenue Recognition* ("ASC 605"), we recognize 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, we are responsible for fulfillment of the services, supplier selection and service specifications, and have ultimate responsibility to pay the supplier for the services whether or not it collects the amount billed to the lessee.

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 an option to purchase the equipment at the end of the lease term for an amount determined to be a bargain.

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 operations.

Leasing Equipment

In general, we purchase new equipment from equipment manufacturers for the purpose of leasing such equipment to customers. We also purchase 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 our 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 our leasing equipment are based on historical disposal experience and our expectations for future used container prices. We review our depreciation policies on a regular basis to determine whether changes have taken place that would suggest that a change in depreciation policies, useful lives of equipment or the assigned residual values is warranted.

After conducting our regular depreciation policy review, we decided to increase the estimated residual values used in our equipment depreciation policy. The new residual value estimates were put

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into effect beginning October 1, 2012. We last changed our estimated residual values in the fourth quarter of 2010 due to the consistent excess of disposal prices over our estimated residual values. Since then, we have continued to experience relatively high gains on the sale of equipment as disposal prices have remained well in excess of residual values. Accordingly, we increased the estimated residual values for certain of our major container types to be more reflective of our recent disposal history and our expectations for future used container sale prices. The estimated useful lives of all leasing equipment remain the same. The estimated useful lives and residual values for the majority of our leasing equipment from the date of manufacture are as follows:

		Residual Values ($)		
	Useful Lives (Years)	Effective October 1, 2012	Effective October 1, 2010	Prior to October 1, 2010
Dry containers				
20 foot	13	$ 1,000	$ 900	$ 750
40 foot	13	$ 1,200	$ 1,100	$ 900
40 foot high cube	13	$ 1,400	$ 1,200	$ 900
Refrigerated containers				
20 foot	12	$ 2,500	$ 2,500	$ 2,200
40 foot high cube	12	$ 3,500	$ 3,400	$ 2,700
Special containers				
40 foot flat rack	14	$ 1,500	$ 1,200	$ 1,000
40 foot open top	14	$ 2,300	$ 2,100	$ 1,200
Tank containers	20	$ 3,000	$ 3,000	$ 3,000
Chassis	20	$ 1,200	$ 1,200	$ 1,200

As a result of our regular depreciation policy review, we have also decided to revise the estimated depreciation start date used in our leasing equipment depreciation policy. Under our revised estimate, depreciation on leasing equipment will begin on the date of initial on-hire. This change had no impact in 2012.

Costs incurred to place new equipment into service, including costs to transport the equipment to its initial on-hire location, are capitalized. We charge 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 include these costs in direct operating expenses.

If indicators of impairment are present, a determination is made as to whether the carrying value of our 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 decrease in operating profitability, a sustained decrease in 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. We consider the assumptions on expected utilization and the remaining useful life to have the greatest impact on our estimate of future undiscounted cash flows. These estimates are principally based on our historical experience and management's judgment of market conditions.

An allowance is 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

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value of equipment on-hire to those customers that, based on historical experience, we believe will ultimately not be recovered.

Equipment Held for Sale

When leasing equipment is returned off lease, we make a determination of whether to repair and re-lease the equipment or sell the equipment. At the time we determine that equipment will be sold, we reclassify 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 Held for Resale Trading Activity

On an opportunistic basis, we purchase equipment with markings or specifications different from our own equipment for purposes of reselling it for a net profit. Equipment purchased for resale is reported as equipment held for sale when the timeframe between when the equipment is purchased and when it is sold is expected to be short, generally less than one year. Cash flows associated with equipment purchased for resale having a short expected holding period are classified as cash flows from operating activities. Equipment purchased for resale is reported as leasing equipment when the timeframe between when the equipment is purchased and leased back to the seller, and when it is sold is expected to be one year or greater. Cash flows associated with equipment purchased for resale having a long expected holding period are classified as cash flows from investing activities.

Equipment trading revenues represent the proceeds from the sale of this equipment, while Equipment trading expenses include the cost of equipment sold, any costs to sell such equipment, including administrative costs, and costs associated with the related inventory of equipment, such as storage and handling charges.

Allowance for Doubtful Accounts

Our allowance for doubtful accounts is provided based upon a review of the collectability of our 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, we do 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. We believe our allowance for doubtful accounts is adequate to provide for credit losses inherent in existing receivables.

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Income Taxes

We account 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 our 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 our ability to realize deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

If applicable, we accrue 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 measure 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.

Deferred Financing Costs

Deferred financing costs represent the fees incurred in connection with our 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.

Goodwill

We account 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, we recorded $71.9 million of goodwill. Management determined that the Company has two reporting units, Equipment leasing and Equipment trading, and allocated $70.9 million and $1.0 million, respectively, to each reporting unit. We have 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. Market capitalization of the entity is compared to the carrying value of the entity since virtually all of the goodwill is allocated to, and nearly all of the market capitalization is attributable to, the Equipment leasing reporting unit. 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. Our annual review of goodwill, conducted in the fourth quarter of 2012, indicated that no impairment of goodwill existed.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

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

The primary external risk of our interest rate swap agreements is counterparty credit exposure, which is defined as the ability of one or more of our counterparties to perform their financial obligations under a derivative instrument. All of our derivative instruments are with highly rated financial institutions. Credit exposures are measured based on the market value of outstanding derivative instruments. Both current and potential exposures are calculated for each derivative instrument to monitor counterparty credit exposure.

As of December 31, 2012, we had net interest rate swap agreements in place to fix the interest rates on a portion of our borrowings under debt facilities with floating interest rates as summarized below:

Net Notional Amount	Weighted Average Fixed Leg (Pay) Interest Rate	Weighted Average Remaining Term
$733.9 million	1.97%	5.6 years

Changes in the fair value of these interest rate swap agreements are recognized in the consolidated statements of operations as net gains or losses on interest rate swaps as we do not apply hedge accounting treatment for these agreements. During 2012, our net loss on interest rate swaps was $2.5 million, compared to $27.4 million in 2011.

Since approximately 56% of our floating rate debt is economically hedged using interest rate swap agreements, 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 $5.1 million in interest expense over the next 12 months.

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 and obligations, and most of our revenues and expenses in 2012 and 2011 were denominated in U.S. dollars. However we pay our non-U.S. staff in local currencies, and certain of our direct operating expenses and disposal transactions for our older containers are structured in foreign currencies.

For the years ended December 31, 2012 and 2011, we recorded net foreign currency exchange losses of $0.3 million and $0.4 million, respectively. These losses resulted primarily from fluctuations in exchange rates related to our Euro and Pound Sterling transactions and related assets and liabilities.

In April 2008, we entered into foreign currency rate swap agreements to exchange Euros for U.S. Dollars based on expected payments under our Euro denominated finance lease receivables. The foreign currency rate swap agreements expire in April 2015. As of December 31, 2012 and 2011, the fair value of these agreements were $0.5 million and $0.8 million, respectively, and are reported as assets in Fair value of derivative instruments on our consolidated balance sheets.

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 Chairman, 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 Chairman, 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.

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As of December 31, 2012, our management, with the participation of our Chairman, 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"). Based on this evaluation, management has determined that TAL International Group, Inc.'s internal control over financial reporting is effective as of December 31, 2012.

Ernst & Young LLP, the independent registered public accounting firm that audited our 2012 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, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (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, 2012, 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, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2012 of TAL International Group, Inc. and our report dated February 20, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
February 20, 2013

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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 period covered by this Annual Report on Form 10-K that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated herein by reference from the sections captioned "Election of Directors," "The Named Executive Officers," and "Section 16(a) Beneficial Ownership Reporting Compliance" in our proxy statement to be issued in connection with the Annual Meeting of Stockholders to be held on April 23, 2013 (the "2013 Proxy Statement"), which will be filed with the SEC within 120 days after the close of our fiscal year ended December 31, 2012.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference from the section captioned "Director Compensation Table," "Compensation of Executive Officers, Compensation Discussion and Analysis," "Summary Compensation Table" and "Grants of Plan-Based Awards Table," in the 2013 Proxy Statement, which will be filed with the SEC within 120 days after the close of our fiscal year ended December 31, 2012.

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

The information required by this Item is incorporated herein by reference from the section captioned "Outstanding Equity Awards at Fiscal Year End Table" and "Information Regarding Beneficial Ownership of Principal Stockholders and Management" in the 2013 Proxy Statement, which will be filed with the SEC within 120 days after the close of our fiscal year ended December 31, 2012.

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

The information required by this Item is incorporated herein by reference from the section captioned "Certain Relationships and Related Transactions" in the 2013 Proxy Statement, which will be filed with the SEC within 120 days after the close of our fiscal year ended December 31, 2012.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated herein by reference from the section captioned "Audit Fees" in the 2013 Proxy Statement, which will be filed with the SEC within 120 days after the close of our fiscal year ended December 31, 2012.

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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 Schedules*

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
2.1	Stock Purchase Agreement, dated July 10, 2004, by and between TA Leasing Holding Co, Inc. and Klesch & Company Limited (incorporated by reference from Exhibit 2.1 to TAL International Group, Inc.'s Form S-1 filed on June 30, 2005, file number 333-126317)
2.2	First Amendment to Stock Purchase Agreement, dated August 10, 2004, by and among TA Leasing Holding Co, Inc., Klesch & Company Limited and Transamerica Corporation (incorporated by reference from Exhibit 2.2 to Amendment No. 1 to TAL International Group, Inc.'s Form S-1 filed on August 26, 2005, file number 333-126317)
2.3	Second Amendment to Stock Purchase Agreement, dated September 30, 2004, by and among TA Leasing Holding Co, Inc., Klesch & Company Limited and Transamerica Corporation (incorporated by reference from Exhibit 2.3 to Amendment No. 1 to TAL International Group, Inc.'s Form S-1 filed on August 26, 2005, file number 333-126317)

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Exhibit No.	Description
2.4	Third Amendment to Stock Purchase Agreement, dated November 3, 2004, by and among TA Leasing Holding Co, Inc., Klesch & Company Limited, TAL International Group, Inc. and Transamerica Corporation (incorporated by reference from Exhibit 2.4 to Amendment No. 1 to TAL International Group, Inc.'s Form S-1 filed on August 26, 2005, file number 333-126317)
2.5	Fourth Amendment to Stock Purchase Agreement, dated January 3, 2005, by and among TA Leasing Holding Co, Inc., Klesch & Company Limited, TAL International Group, Inc. and Transamerica Corporation (incorporated by reference from Exhibit 2.5 to Amendment No. 1 to TAL International Group, Inc.'s Form S-1 filed on August 26, 2005, file number 333-126317)
2.6	Fifth Amendment to Stock Purchase Agreement, dated March 31, 2005, by and among TA Leasing Holding Co, Inc., Klesch & Company Limited, TAL International Group, Inc. and Transamerica Corporation (incorporated by reference from Exhibit 2.6 to Amendment No. 1 to TAL International Group, Inc.'s Form S-1 filed on August 26, 2005, file number 333-126317)
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 3.2 to TAL International Group, Inc.'s Form 10-K filed on March 20, 2006)
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)
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)

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Exhibit No.	Description
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	Omnibus Amendment No. 2, dated June 1, 2006 (incorporated by reference from Exhibit 10.42 to TAL International Group, Inc.'s Form 8-K filed on June 6, 2006)
4.13	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)
4.14	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)
4.15	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)
4.16	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)
4.17	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)
4.18	Indenture, dated as of March 27, 2008, by and between TAL Advantage II LLC and U. S. Bank National Association (incorporated by reference from Exhibit 10.52 to TAL International Group, Inc.'s Form 10-Q filed on May 9, 2008)

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Exhibit No.	Description
4.19	First Supplemental Indenture between TAL Advantage II LLC and U.S. Bank National Association dated June 20, 2008 to the Indenture dated March 27, 2008 (incorporated by reference from Exhibit 10.60 to TAL International Group, Inc.'s Form 10-Q filed on August 8, 2008)
4.20	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)
4.21	Series 2008-1 Supplement, dated as of March 27, 2008, by and between TAL Advantage II LLC and U. S. Bank National Association (incorporated by reference from Exhibit 10.53 to TAL International Group, Inc.'s Form 10-Q filed on May 9, 2008)
4.22	Management Agreement dated as of March 27, 2008, by and between TAL Advantage II LLC and TAL International Container Corporation (incorporated by reference from Exhibit 10.54 to TAL International Group, Inc.'s Form 10-Q filed on May 9, 2008)
4.23	Contribution and Sale Agreement, dated as of March 27, 2008, by and between TAL Advantage II LLC and TAL International Container Corporation (incorporated by reference from Exhibit 10.55 to TAL International Group, Inc.'s Form 10-Q filed on May 9, 2008)
4.24	Series 2008-1 Note Purchase Agreement, dated as of March 27, 2008, by and among TAL Advantage II LLC, Fortis Capital Corp., the other purchasers party thereto from time to time and the other parties named therein (incorporated by reference from Exhibit 10.56 to TAL International Group, Inc.'s Form 10-Q filed on May 9, 2008)
4.25	Guaranty dated March 27, 2008 made by TAL International Group, Inc. (incorporated by reference from Exhibit 10.57 to TAL International Group, Inc.'s Form 10-Q filed on May 9, 2008)
4.26	Appendix A dated as of March 27, 2009 to Indenture dated as of March 27, 2008 by and between TAL Advantage II LLC and U. S. Bank National Association (incorporated by reference from Exhibit 4.30 to TAL International Group, Inc.'s Form 10-K filed on March 1, 2010)
4.27	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)
4.28	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)
4.29	Indenture, dated as of June 28, 2010, by and between TAL Advantage IV, LLC and Wells Fargo Bank, National Association, as Indenture Trustee (incorporated by reference from Exhibit 4.47 to TAL International Group, Inc.'s Form 10-Q filed on July 30, 2010)
4.30	Series 2010-1 Supplement dated as of June 28, 2010, by and between TAL Advantage IV, LLC and Wells Fargo Bank, National Association, as Indenture Trustee (incorporated by reference from Exhibit 4.48 to TAL International Group, Inc.'s Form 10-Q filed on July 30, 2010)

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Exhibit No.	Description
4.31	Management Agreement dated as of June 28, 2010 by and between TAL International Container Corporation and TAL Advantage IV LLC (incorporated by reference from Exhibit 4.49 to TAL International Group, Inc.'s Form 10-Q filed on July 30, 2010)
4.32	Contribution and Sale Agreement dated as of June 28, 2010 by and between TAL International Container Corporation and TAL Advantage IV LLC (incorporated by reference from Exhibit 4.50 to TAL International Group, Inc.'s Form 10-Q filed on July 30, 2010)
4.33	Transition Agent Agreement dated as of June 28, 2010 by and between Wells Fargo Bank, National Association, TAL International Container Corporation and TAL Advantage IV LLC (incorporated by reference from Exhibit 4.51 to TAL International Group, Inc.'s Form 10-Q filed on July 30, 2010)
4.34	Series 2010-1 Note Purchase Agreement dated as of June 28, 2010 by and between TAL Advantage IV LLC, TAL International Container Corporation and Wells Fargo Securities, LLC (incorporated by reference from Exhibit 4.52 to TAL International Group, Inc.'s Form 10-Q filed on July 30, 2010)
4.35	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)
4.36	Series 2010-2 Supplement dated as of October 19, 2010, by and between TAL Advantage IV, LLC and Wells Fargo Bank, National Association, as Indenture Trustee (incorporated by reference from Exhibit 4.57 to TAL International Group, Inc.'s Form 10-Q filed on November 1, 2010)
4.37	Series 2010-2 Note Purchase Agreement dated as of October 19, 2010 by and between TAL Advantage IV LLC, TAL International Container Corporation and Wells Fargo Securities, LLC (incorporated by reference from Exhibit 4.58 to TAL International Group, Inc.'s Form 10-Q filed on November 1, 2010)
4.38	Series 2011-1 Supplement dated as of January 21, 2011, by and between TAL Advantage IV, LLC and Wells Fargo Bank, National Association, as Indenture Trustee (incorporated by reference from Exhibit 4.59 to TAL International Group, Inc.'s Form 10-K filed on February 18, 2011)
4.39	Series 2011-1 Note Purchase Agreement dated as of January 21, 2011 by and between TAL Advantage IV LLC, TAL International Container Corporation and Wells Fargo Securities, LLC (incorporated by reference from Exhibit 4.60 to TAL International Group, Inc.'s Form 10-K filed on February 18, 2011)
4.40	Series 2011-2 Supplement dated as of May 13, 2011 by and between TAL Advantage IV LLC and Wells Fargo Bank, National Association (incorporated by reference from Exhibit 4.63 to TAL International Group, Inc.'s Form 10-Q filed on July 29, 2011)
4.41	Series 2011-2 Note Purchase Agreement dated as of May 13, 2011 by and between TAL Advantage IV LLC, TAL International Container Corporation and Wells Fargo Securities, LLC (incorporated by reference from Exhibit 4.64 to TAL International Group, Inc.'s Form 10-Q filed on July 29, 2011)

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Exhibit No.	Description
4.42	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's Inc. Form 10-Q filed on October 28, 2011)
4.43	Amended and Restated Series 2009-1 Supplement dated as of August 12, 2011 by and between TAL Advantage III LLC and Wells Fargo Bank, National Association (incorporated by reference from Exhibit 4.66 to TAL International Group's Inc. Form 10-Q filed on October 28, 2011)
4.44	Amended and Restated Note Purchase Agreement dated as of August 12, 2011 by and between TAL Advantage III LLC, Wells Fargo Securities, LLC, Wells Fargo Bank, National Association, 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 4.67 to TAL International Group's Inc. Form 10-Q filed on October 28, 2011)
4.45	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's Inc. Form 10-K filed on February 22, 2012)
4.46	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's Inc. Form 10-K filed on February 22, 2012)
4.47	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's Inc. Form 10-K filed on February 22, 2012)
4.48	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's Inc. Form 10-K filed on on February 22, 2012)
4.49	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's Inc. Form 10-K filed on on February 22, 2012)
4.50	Series 2012-1 Supplement dated as of May 22, 2012 by and between TAL Advantage IV, LLC and Wells Fargo Bank, National Association as Indenture Trustee (incorporated by reference from Exhibit 4.50 to TAL International Group's Inc. Form 10-Q filed on July 31, 2012)

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Exhibit No.	Description
4.51	Series 2012-1 Note Purchase Agreement dated as of May 10, 2012 by and between TAL Advantage IV, LLC, TAL International Container Corporation, Merrill Lynch Pierce Fenner & Smith Incorporated, Wells Fargo Securities, LLC, Nomura Securities International, Inc., Suntrust Robinson Humphrey, Inc., RBC Capital Markets, LLC and RBS Securities Inc. (incorporated by reference from Exhibit 4.51 to TAL International Group's Inc. Form 10-Q filed on July 31, 2012)
10.1	Second Amended and Restated Shareholders Agreement, dated as of March 23, 2012, by and among TAL International Group, Inc. and the several shareholders party thereto (incorporated by reference from Exhibit 10.1 to TAL International Group, Inc.'s Form 8-K filed on March 27, 2012)
10.2	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)
10.3	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)
10.4+	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)
10.5+	2004 Management Stock Plan (incorporated by reference from Exhibit 10.14 to TAL International Group, Inc.'s Form S-1 filed on June 30, 2005, file number 333-126317)
10.6+	First Amendment to 2004 Management Stock Plan (incorporated by reference from Exhibit 10.34 to TAL International Group, Inc.'s Form 10-K filed on March 20, 2006)
10.7+	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)
10.8+	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)
10.9	Agreement dated June 1, 2010 by and among TAL International Group, Inc. and certain of its stockholders (incorporated by reference from Exhibit 10.16 to TAL International Group, Inc.'s Form 10-Q filed on July 30, 2010)
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)

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Exhibit No.	Description
31.1*	Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2*	Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1**	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2**	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS***	XBRL Instance Document
101.SCH***	XBRL Instance Extension Schema
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase
101.DEF***	XBRL Taxonomy Extension Definition Linkbase
101.LAB***	XBRL Taxonomy Extension Label Linkbase
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase

+ Indicates a management contract or compensatory plan or arrangement.

* Filed herewith.

** Furnished herewith.

*** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability.

(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 20, 2013

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 20th day of February 2013.

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/ MALCOLM P. BAKER Malcolm P. Baker	Director
/s/ A. RICHARD CAPUTO, JR. A. Richard Caputo, Jr.	Director
/s/ CLAUDE GERMAIN Claude Germain	Director

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Signature	Title(s)
/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, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2012. 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, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, 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, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 20, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
February 20, 2013

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TAL INTERNATIONAL GROUP, INC.

Consolidated Balance Sheets

(Dollars in thousands, except share data)

	December 31, 2012	December 31, 2011
ASSETS:		
Leasing equipment, net of accumulated depreciation and allowances of $766,898 and $626,965	$ 3,249,374	$ 2,663,443
Net investment in finance leases, net of allowances of $897 and $1,073	121,933	146,742
Equipment held for sale	47,139	47,048
Revenue earning assets	3,418,446	2,857,233
Unrestricted cash and cash equivalents	65,843	140,877
Restricted cash	35,837	34,466
Accounts receivable, net of allowances of $692 and $667	71,363	56,491
Goodwill	71,898	71,898
Deferred financing costs	26,450	24,028
Other assets	9,453	11,539
Fair value of derivative instruments	1,904	771
Total assets	$ 3,701,194	$ 3,197,303
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Equipment purchases payable	$ 111,176	$ 55,320
Fair value of derivative instruments	34,633	78,122
Accounts payable and other accrued expenses	64,936	66,607
Net deferred income tax liability	270,459	198,867
Debt	2,604,015	2,235,585
Total liabilities	3,085,219	2,634,501
Stockholders' equity:		
Preferred stock, $.001 par value, 500,000 shares authorized, none issued		
Common stock, $.001 par value, 100,000,000 shares authorized, 36,697,366 and 36,412,659 shares issued respectively	37	36
Treasury stock, at cost, 3,011,843 shares	(37,535)	(37,535)
Additional paid-in capital	493,456	489,468
Accumulated earnings	168,447	120,449
Accumulated other comprehensive (loss)	(8,430)	(9,616)
Total stockholders' equity	615,975	562,802
Total liabilities and stockholders' equity	$ 3,701,194	$ 3,197,303

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 Operations

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

	Year Ended December 31,		
	2012	**2011**	**2010**
Revenues:			
Leasing revenues:			
Operating leases	$ 511,189	$ 434,668	$ 310,221
Finance leases	13,781	16,394	18,309
Total leasing revenues	524,970	451,062	328,530
Equipment trading revenues	60,975	62,324	34,636
Management fee income	3,076	2,798	2,932
Other revenues	151	503	702
Total revenues	589,172	516,687	366,800
Operating expenses (income):			
Equipment trading expenses	53,431	51,330	28,814
Direct operating expenses	25,039	18,157	24,489
Administrative expenses	43,991	42,727	41,724
Depreciation and amortization	193,466	152,576	115,927
(Reversal) provision for doubtful accounts	(208)	162	(843)
Net (gain) on sale of leasing equipment	(44,509)	(51,969)	(25,765)
Total operating expenses	271,210	212,983	184,346
Operating income	317,962	303,704	182,454
Other expenses:			
Interest and debt expense	114,629	105,470	79,104
Write-off of deferred financing costs		1,143	675
Net loss on interest rate swaps	2,469	27,354	13,029
Total other expenses	117,098	133,967	92,808
Income before income taxes	200,864	169,737	89,646
Income tax expense	70,732	60,013	31,922
Net income	$ 130,132	$ 109,724	$ 57,724
Net income per common share:			
Basic	$ 3.92	$ 3.39	$ 1.90
Diluted	$ 3.87	$ 3.34	$ 1.88
Cash dividends paid per common share	$ 2.35	$ 1.99	$ 1.30
Weighted average number of common shares outstanding Basic	33,224	32,414	30,441
Dilutive stock options and restricted stock	399	407	276

Weighted average number of common shares outstanding	Diluted	33,623	32,821	30,717

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,		
	2012	**2011**	**2010**
Net income	$ 130,132	$ 109,724	$ 57,724
Other comprehensive income (loss):			
Change in fair value of derivative instruments designated as cash flow hedges (net of income tax effect of $(625), $(827), and $(5,171), respectively)	(1,145)	(1,513)	(9,467)
Amortization of loss on terminated derivative instruments designated as cash flow hedges (net of income tax effect of $1,162, $1,153, and $222, respectively)	2,128	2,110	407
Amortization of gain on terminated derivative instruments designated as cash flow hedges (net of income tax effect of $0, $(157), and $(265), respectively)		(287)	(476)
Foreign currency translation adjustment	203	32	(438)
Other comprehensive income (loss), net of tax	1,186	342	(9,974)
Comprehensive income	$ 131,318	$ 110,066	$ 47,750

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

(In thousands, except share amounts)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Earnings	Accumulated Other Comprehensive (Loss) Income		Total
	Shares	Amount	Shares	Amount			Cash Flow Hedges	Foreign Currency Translation	
Balance at December 31, 2009	33,592,066	$ 33	3,009,171	$ (37,489)	$ 398,016	$ 58,253	$ 762	$ (746)	$ 16
Stock compensation issuance of stock options/modification					140				
Stock compensation restricted stock activity	128,000	1			1,570				
Stock options exercised	5,000				90				
Treasury stock acquired			2,672	(46)					
Net income						57,724			
Foreign currency translation adjustment								(438)	(438)
Change in fair value cash flow hedges, net of income taxes $(5,171)							(9,467)		(9,467)
Amortization of net gain on terminated derivative instruments designated as cash flow hedges, net of income tax effect of $(43)							(69)		(69)
Common stock dividends declared						(39,924)			
Balance at December 31, 2010	33,725,066	$ 34	3,011,843	$ (37,535)	$ 399,816	$ 76,053	$ (8,774)	$ (1,184)	$ (9,958)
Issuance of common stock	2,500,000	2			85,722				
Stock compensation restricted stock activity	119,000				2,284				
Stock options exercised, net of retirements	68,593				1,247				
Excess tax benefits from stock compensation					399				
Net income						109,724			
Foreign currency translation adjustment								32	32
Change in fair value cash flow hedges, net of income taxes $(827)							(1,513)		(1,513)
Amortization of net loss on terminated derivative instruments designated as cash flow hedges, net of income tax effect of $996							1,823		1,823
Common stock dividends declared						(65,328)			
Balance at December 31, 2011	36,412,659	$ 36	3,011,843	$ (37,535)	$ 489,468	$ 120,449	$ (8,464)	$ (1,152)	$ (9,616)
Stock compensation restricted stock activity	142,000	1			3,706				
Stock options exercised, net of retirements	142,707				282	(3,212)			
Net income						130,132			
Foreign currency translation adjustment								203	203
Change in fair value cash flow hedges, net of income taxes $(625)							(1,145)		(1,145)
Amortization of net loss on terminated derivative instruments designated as cash flow hedges, net of income tax effect of $1,162							2,128		2,128
Common stock dividends declared						(78,922)			
Balance at December 31, 2012	36,697,366	$ 37	3,011,843	$ (37,535)	$ 493,456	$ 168,447	$ (7,481)	$ (949)	$ (8,430)

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,		
	2012	**2011**	**2010**
Cash flows from operating activities:			
Net income	$ 130,132	$ 109,724	$ 57,724
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	193,466	152,576	115,927
Amortization of deferred financing costs	5,827	4,732	2,166
Amortization of net loss on terminated derivative instruments designated as cash flow hedges	3,290	3,263	629
Net (gain) on sale of leasing equipment	(44,509)	(51,969)	(25,765)
Net loss on interest rate swaps	2,469	27,354	13,029
Write-off of deferred financing costs		1,143	675
Deferred income taxes	70,428	59,386	31,922
Stock compensation charge	3,706	2,284	1,710
Changes in operating assets and liabilities:			
Net equipment purchased for resale activity	7,832	(9,468)	(5,904)
Realized loss on interest rate swaps terminated prior to their contractual maturities	(49,124)	(12,524)	(27,447)
Accounts receivable	(14,872)	(10,149)	(16,103)
Deferred revenue	(4,190)	1,862	16,770
Accounts payable and other accrued expenses	(435)	(1,117)	(3,470)
Income taxes payable	(119)	272	(53)
Other assets	6,466	(5,296)	498
Other, net	(157)	(2,219)	(2,047)
Net cash provided by operating activities	310,210	269,854	160,261
Cash flows from investing activities:			
Purchases of leasing equipment and investments in finance leases	(831,826)	(815,730)	(844,214)
Proceeds from sale of equipment leasing fleet, net of selling costs	133,367	123,659	102,176
Cash collections on finance lease receivables, net of income earned	35,326	35,940	35,484
Other	219	13	(211)
Net cash (used in) investing activities	(662,914)	(656,118)	(706,765)
Cash flows from financing activities:			
Issuance of common stock		85,724	
Stock options exercised and stock related activity	(2,930)	1,247	90
Financing fees paid under debt facilities	(8,249)	(12,101)	(11,761)
Borrowings under debt facilities and proceeds under capital lease obligations	1,265,404	1,122,982	951,512
Payments under debt facilities and capital lease obligations	(897,094)	(657,555)	(341,751)
Excess tax benefits from stock compensation		399	
(Increase) in restricted cash	(1,371)	(11,448)	(9,304)
Common stock dividends paid	(78,090)	(64,701)	(39,578)
Net cash provided by financing activities	277,670	464,547	549,208
Net (decrease) increase in cash and cash equivalents	(75,034)	78,283	2,704
Unrestricted cash and cash equivalents, beginning of period	140,877	62,594	59,890
Unrestricted cash and cash equivalents, end of period	$ 65,843	$ 140,877	$ 62,594

Supplemental disclosures:			
Interest paid	$ 104,834	$ 96,333	$ 75,840
Income taxes paid (refunded)	$ (147)	$ 355	$ (59)
Supplemental non-cash financing activities:			
Accrued and unpaid purchases of equipment	$ 111,176	$ 55,320	$ 57,756

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

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TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Description of the Business and Basis of Presentation

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

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

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.

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% of the Company's leasing revenues in 2012, 2011 and 2010. Mediterranean Shipping Company accounted for 10% of the Company's leasing revenues in 2012 and approximately 12% in 2011 and 2010. APL-NOL accounted for 7% of the Company's leasing revenues in 2012, approximately 9% in

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TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

2011 and 11% in 2010. No other customer exceeded 10% of the Company's leasing revenues in 2012, 2011 or 2010.

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.

After conducting its regular depreciation policy review, the Company decided to increase the estimated residual values used in its equipment depreciation policy. The new residual value estimates were put into effect beginning October 1, 2012. The Company last changed its estimated residual values in the fourth quarter of 2010 due to the consistent excess of disposal prices over the Company's estimated residual values. Since then, the Company has continued to experience relatively high gains on the sale of equipment as disposal prices have remained well in excess of residual values. Accordingly, the Company has increased the estimated residual values for certain of its major container types to be more reflective of the Company's recent disposal history and its expectations for future used container sale prices. The estimated useful lives of all leasing equipment remain the same. These increases in assigned residual values resulted in a decrease in the Company's depreciation expense of $5.2 million ($3.4 million after tax or $0.10 per diluted share) for the year ended December 31, 2012, and $5.5 million ($3.6 million after tax or $0.12 per diluted share) for the year ended December 31, 2010. Based on the Company's fleet as of December 31 of the year of the respective change, the increase in assigned residual values would result in a decrease in future depreciation expense of approximately $19.3 million annually ($12.5 million after tax or $0.37 per diluted share) for the 2012 change and approximately $22.1 million annually ($14.3 million after tax or $0.44 per diluted share) for the 2010 change, assuming no other changes to depreciation method, estimated useful lives or residual value

TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

estimates. The estimated useful lives and residual values for the majority of the Company's leasing equipment from the date of manufacture are as follows:

		Residual Values ($)		
	Useful Lives (Years)	Effective October 1, 2012	Effective October 1, 2010	Prior to October 1, 2010
Dry containers				
20 foot	13	$ 1,000	$ 900	$ 750
40 foot	13	$ 1,200	$ 1,100	$ 900
40 foot high cube	13	$ 1,400	$ 1,200	$ 900
Refrigerated containers				
20 foot	12	$ 2,500	$ 2,500	$ 2,200
40 foot high cube	12	$ 3,500	$ 3,400	$ 2,700
Special containers				
40 foot flat rack	14	$ 1,500	$ 1,200	$ 1,000
40 foot open top	14	$ 2,300	$ 2,100	$ 1,200
Tank containers	20	$ 3,000	$ 3,000	$ 3,000
Chassis	20	$ 1,200	$ 1,200	$ 1,200

As a result of its regular depreciation policy review, the Company has also decided to revise the estimated depreciation start date used in its leasing equipment depreciation policy. Under the Company's revised estimate, depreciation on leasing equipment will begin on the date of initial on-hire. This change had no impact in 2012.

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.

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 decrease in operating profitability, a sustained decrease in 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.

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TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

The net book value of the Company's leasing equipment by equipment type as of the dates indicated was (in thousands):

	December 31,	
	2012	2011
Dry container units	$ 2,247,918	$ 1,820,108
Refrigerated container units	617,618	524,134
Special container units	181,646	141,264
Tank container units	138,614	118,847
Chassis	63,578	59,090
	$ 3,249,374	$ 2,663,443

Included in the amounts above are units not on lease at December 31, 2012 and 2011 with a total net book value of $302.7 million and $176.2 million, respectively. Amortization on equipment purchased under capital lease obligations is included in depreciation and amortization expense in the consolidated statements of operations.

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. As of December 31, 2012 and 2011, the Company's allowance for equipment on lease was $0.1 million and $0.2 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 Held for Resale Trading Activity

On an opportunistic basis, the Company purchases equipment with markings or specifications different from its own equipment for purposes of reselling it for a net profit. Equipment purchased for resale is reported as equipment held for sale when the timeframe between when the equipment is purchased and when it is sold is expected to be short, generally less than one year. Cash flows

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TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

associated with equipment purchased for resale having a short expected holding period are classified as cash flows from operating activities. Equipment purchased for resale is reported as leasing equipment when the timeframe between when the equipment is purchased and leased back to the seller, and when it is sold is expected to be one year or greater. Cash flows associated with equipment purchased for resale having a long expected holding period are classified as cash flows from investing activities.

Equipment trading revenues represent the proceeds from the sale of this equipment, while Equipment trading expenses include the cost of equipment sold, any costs to sell such equipment, including administrative costs, and costs associated with the related inventory of equipment, such as storage and handling charges.

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. Management determined that the Company has two reporting units, Equipment leasing and Equipment trading, and allocated $70.9 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. Market capitalization of the entity is compared to the carrying value of the entity since virtually all of the goodwill is allocated to, and nearly all of the market capitalization is attributable to, the Equipment leasing reporting unit. 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. The Company's annual review of goodwill, conducted in the fourth quarter of 2012, indicated that no impairment of goodwill existed.

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.

Other Assets

The Company's other assets primarily consist of leasehold improvements and related assets, prepaid expenses and deferred rents.

TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

During 2012, the Company renewed the office lease for its corporate headquarters. In connection with the renewal, the Company paid for leasehold improvements and related assets. As of December 31, 2012, the unamortized balance of the Company's leasehold improvements and related assets was $2.3 million. The Company expects to amortize $0.4 million in each of the next five years and $0.3 million thereafter.

As of December 31, 2012 and 2011, the Company had prepaid assets of $2.6 million and $0.9 million, respectively, related to the prepayment of insurance premiums and other maintenance and service contracts. The Company expects to amortize the majority of its prepaid assets over the next twelve months.

The Company has deferred rents from its customers resulting from the straight-line recognition of leasing revenue over the lease term. As of December 31, 2012 and 2011, the Company's deferred rents were $3.2 million and $1.9 million, respectively.

During 2012, the Company received $7.6 million to reinstate certain purchase options contained in leases with a customer. As of December 31, 2012, the Company had no remaining balance in other assets related to these purchase options.

Fair Value of Financial Instruments

The Company believes that the carrying amounts of its cash and cash equivalents, accounts receivable, equipment purchases payable, accounts payable and other accrued expenses approximated their fair value as of December 31, 2012 and 2011.

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.

TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

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

	December 31,	
	2012	2011
Liabilities		
Debt carrying value	$ 2,604,015	$ 2,235,585
Debt estimated fair value	$ 2,701,668	$ 2,241,679

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

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 five to ten 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.

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TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

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 operations.

Management Fee Income and 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 reflected as accrued expenses in the Company's financial statements until paid as required by our contracts. As of December 31, 2012 and 2011, approximately $4.1 million and $4.0 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 principally include fee income for third party positioning of equipment.

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. 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. As of December 31, 2012 and 2011, the Company did not have any derivative instruments that were designated and accounted for as hedging instruments.

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

TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

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, 2012 and 2011, 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 statement of operations accounts. The effects of changes in exchange rates in translating foreign subsidiaries' financial statements are included in stockholders' equity as accumulated other comprehensive loss.

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 remeasurment of assets and liabilities are included in administrative expenses as net foreign exchange gains and losses.

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 cost 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).

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.

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TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

For the year ended December 31, 2010, the Company excluded 11,500 options to purchase shares of common stock from the calculation of weighted average shares outstanding for diluted earnings per share because their effects were antidilutive. There were no antidilutive options to purchase shares of common stock or restricted stock excluded from the calculations of weighted average shares outstanding for diluted earnings per share for the other periods presented.

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 Adopted Accounting Pronouncements

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

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

Note 3 Debt

Debt consisted of the following (amounts in thousands):

	December 31,	
	2012	**2011**
Asset backed securitization term notes (ABS)	$ 1,343,826	$ 1,220,500
Term loan facilities	698,570	580,900
Asset backed warehouse facility	355,000	216,500
Revolving credit facility	75,000	70,000
Capital lease obligations	131,619	147,685
Total Debt	$ 2,604,015	$ 2,235,585

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TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Debt (Continued)

As of December 31, 2012 the Company had $1,282.8 million of debt outstanding on facilities with fixed interest rates. These fixed rate facilities had a weighted average effective interest rate of 5.20% in 2012, are scheduled to mature between 2014 and 2024, and had a weighted average remaining term of 4.7 years as of December 31, 2012.

As of December 31, 2012 the Company had $1,321.2 million of 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 2.53% in 2012, are scheduled to mature between 2013 and 2018, and had a weighted average remaining term of 3.0 years as of December 31, 2012.

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, 2012, the Company had interest rate swaps in place with a net notional amount of $733.9 million, a weighted average fixed leg interest rate of 1.97%, and a weighted average remaining term of 5.6 years to fix the floating interest rates on a portion of its floating rate debt obligations (see Note 4 for additional information on the Company's interest rate swap agreements).

Asset Backed Securitization Term Notes

The Company's Asset Backed Securitization ("ABS") facilities have been the primary funding source 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 equal 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 12 years to either 20% or 32% of original equipment cost, depending on the type of equipment. Advance rates under the ABS facilities range from 76% to 82%. The Company is required to maintain restricted cash balances on deposit in designated bank accounts equal to either five or 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.

The borrowing capacity under the term loan facilities is determined by applying an advance rate in the range of 75% 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 $600 million. Under the amended facility, funds are available on a revolving basis until August 12, 2013, after which if the

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TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Debt (Continued)

facility is not refinanced, the notes will convert to term notes with a maturity date of August 12, 2017. The term notes will amortize on a level basis over the four year term period to 60% of the outstanding balance. The proceeds of the facility are primarily used to finance the acquisition of equipment.

The borrowing capacity under the asset backed warehouse facility is determined by applying the advance rate of 76% 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 12 years to either 20% or 32% of original equipment cost depending on equipment type. 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 Facility

The Company's revolving credit facility has a maximum borrowing capacity of $100.0 million and matures on November 30, 2016. The Company is required to maintain unencumbered assets equivalent to 50% of the maximum commitment.

Debt maturities (excluding capital lease obligations), amounts in thousands:

Years ending December 31,		
2013	$	338,866
2014		361,144
2015		342,217
2016		346,275
2017		429,514
2018 and thereafter		654,380
Total	$	2,472,396

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.

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TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Debt (Continued)

At December 31, 2012, future lease payments under these capital leases were as follows (in thousands):

2013	$ 20,416
2014	24,027
2015	39,717
2016	29,923
2017	18,771
2018 and thereafter	17,818
Total future payments	150,672
Less: amount representing interest	(19,053)
Capital lease obligations	$ 131,619

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 the revolving credit facility and the amounts payable under certain interest rate swap agreements.

As of December 31, 2012, 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)
$733.9 million	1.97%	5.6 years

(1) As of December 31, 2012, the net notional amount outstanding on the Company's interest rate swap agreements is comprised of $1,077.7 million of pay-fixed rate/receive-floating rate agreements and $343.8 million of pay-floating rate/receive-fixed rate agreements. The

TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4 Derivative Instruments (Continued)

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

The Company's net expense on its interest rate swap agreements was $22.0 million, $31.4 million and $43.4 million for the years ended December 31, 2012, 2011 and 2010, respectively. The Company records net expense on its interest rate swap agreements in interest and debt expense in its consolidated statements of operations.

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

In 2012, the Company paid $49.1 million to terminate interest rate swap agreements. Of this amount, $47.3 million related to the termination of non-designated interest rate swaps that were previously recognized in the consolidated statements of operations as net loss on interest rate swaps. The remaining $1.8 million related to the termination of an interest rate swap designated as a cash flow hedge in April 2012 and terminated in connection with the May 2012 closing of fixed rate secured notes under the ABS facilities. The loss on this designated interest rate swap was recorded in accumulated other comprehensive loss and will be amortized to interest expense over the 10 year scheduled term of the fixed rate secured notes. There was no material ineffectiveness during the period the hedge was designated.

For the years ended December 31, 2012, 2011 and 2010, the Company recognized $3.3 million, $3.3 million, and $0.6 million, respectively, in interest and debt expense related to the amortization of accumulated other comprehensive loss attributable to terminated interest rate swap agreements that had been designated as cash flow hedges. As of December 31, 2012, the unamortized pre-tax balance in accumulated other comprehensive loss related to these terminated interest rate swaps was approximately $11.6 million, of which $3.0 million is expected to be amortized to interest and debt expense over the next 12 months. Amounts recorded in accumulated other comprehensive loss attributable to these terminated interest rate swaps would be recognized in earnings immediately in connection with the termination of the related debt agreements.

Foreign Currency Exchange Rate Swaps

In April 2008, the Company entered into foreign currency rate swap agreements to manage foreign currency rate risk exposure by exchanging Euros for U.S. dollars based on expected payments under its Euro denominated finance lease receivables. The Company will pay a total of approximately 2.5 million Euros and receive approximately $3.8 million over the remaining term of the foreign currency rate swap agreements, which expire in April 2015. The Company does not account for the foreign currency rate swap agreements as hedging instruments under ASC 815, and therefore changes in the fair value

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TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4 Derivative Instruments (Continued)

of the foreign currency rate swap agreements are reflected in the consolidated statements of operations in administrative expenses.

Fair Value of Derivative Instruments

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

Location of Derivative Instruments in Financial Statements

Fair Value of Derivative Instruments
Derivatives Not Designated as Hedging Instruments
(in millions)

	Asset Derivatives				Liability Derivatives			
	December 31,				December 31,			
	2012		2011		2012		2011	
Instrument	**Consolidated Balance Sheet Location**	**Fair Value**	**Consolidated Balance Sheet Location**	**Fair Value**	**Consolidated Balance Sheet Location**	**Fair Value**	**Consolidated Balance Sheet Location**	**Fair Value**
Interest rate swap agreements	Fair value of derivative instruments	$ 1.4	Fair value of derivative instruments	$	Fair value of derivative instruments	$ 34.6	Fair value of derivative instruments	$ 78.1
Foreign exchange agreements	Fair value of derivative instruments	$ 0.5	Fair value of derivative instruments	$ 0.8	Fair value of derivative instruments	$	Fair value of derivative instruments	$
Total Derivatives		$ 1.9		$ 0.8		$ 34.6		$ 78.1

TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4 Derivative Instruments (Continued)

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

Derivative Instrument	Location of Loss (Gain) on Derivatives Recognized in Income	Amount of Loss (Gain) on Derivatives Recognized in Income — Years ended December 31, 2012	2011	2010
Interest rate swap agreements	Net loss on interest rate swaps	$ 2.5	$ 27.4	$ 13.0
Foreign exchange agreements	Administrative expenses	0.3	0.1	(0.4)
Total		$ 2.8	$ 27.5	$ 12.6

Note 5 Net Investment in Finance Leases

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

	December 31, 2012	2011
Gross finance lease receivables(1)	$ 152,321	$ 187,509
Allowance on gross finance lease receivables	(897)	(1,073)
Gross finance lease receivables, net of allowance	151,424	186,436
Unearned income(2)	(29,491)	(39,694)
Net investment in finance leases(3)	$ 121,933	$ 146,742

(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 $6.5 million and $7.0 million of unguaranteed residual value at December 31, 2012 and 2011, respectively, were included in gross finance lease receivables. There were no executory costs included in gross finance lease receivables as of December 31, 2012 and 2011.

(2) The difference between the gross finance lease receivable and the cost of the equipment or carrying amount 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, 2012 and 2011.

(3) As of December 31, 2012 and 2011, Mediterranean Shipping Company accounted for approximately 53% and 52%, respectively, of the Company's net investment in finance leases.

TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5 Net Investment in Finance Leases (Continued)

Contractual maturities of the Company's gross finance lease receivables subsequent to December 31, 2012 are as follows (in thousands):

2013	$ 43,855
2014	36,033
2015	30,063
2016	21,151
2017	10,849
2018 and thereafter	10,370
	$ 152,321

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

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

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

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

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

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

TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5 Net Investment in Finance Leases (Continued)

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

	December 31, 2012	December 31, 2011
Tier 1	$ 109,883	$ 131,513
Tier 2	42,438	55,996
Tier 3		
	$ 152,321	$ 187,509

The Company considers an account past due when a payment has not been received in accordance with the terms of the related lease agreement. As of December 31, 2012 $0.1 million of the Company's Tier 1 gross finance lease receivables and $0.5 million of the Company's Tier 2 gross finance lease receivables were past due, substantially all of which were aged approximately 31 days. As of December 31, 2012, none of the Company's gross finance lease receivables were in non-accrual status. The Company recognizes income on gross finance lease receivables in non-accrual status as collections are made.

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

	Beginning Balance	Additions/ (Reversals)	Other(a)	Ending Balance
Finance Lease Allowance for doubtful accounts:				
For the year ended December 31, 2012	$ 1,073	$ (177)	$ 1	$ 897
For the year ended December 31, 2011	$ 1,169	$ (94)	$ (2)	$ 1,073
For the year ended December 31, 2010	$ 1,618	$ (441)	$ (8)	$ 1,169

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

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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, 2012 and 2011 on our issued and outstanding common stock:

Record Date	Payment Date	Aggregate Payment	Per Share Payment
December 6, 2012	December 27, 2012	$ 20.6 million	$ 0.62
September 4, 2012	September 25, 2012	$ 20.0 million	$ 0.60
June 1, 2012	June 22, 2012	$ 19.2 million	$ 0.58
March 8, 2012	March 29, 2012	$ 18.3 million	$ 0.55
December 1, 2011	December 22, 2011	$ 17.2 million	$ 0.52
September 1, 2011	September 22, 2011	$ 17.2 million	$ 0.52
June 2, 2011	June 23, 2011	$ 16.5 million	$ 0.50
March 3, 2011	March 24, 2011	$ 13.8 million	$ 0.45

Treasury Stock

On March 13, 2006, the Board of Directors authorized a stock buyback program for the repurchase of Company's common stock. The stock repurchase program, as now amended, authorizes the Company to repurchase up to 4.0 million shares of its common stock. There were no material purchases of treasury stock during the years ended December 31, 2012, 2011 and 2010. As of December 31, 2012, a total of 988,157 shares may yet be repurchased under the stock repurchase program.

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

	Year Ended December 31,		
	2012	2011	2010
Stock options	$	$	$ 140
Restricted stock	3,706	2,284	1,570
Stock based compensation	$ 3,706	$ 2,284	$ 1,710

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TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6 Capital Stock and Stock Options (Continued)

Total unrecognized compensation cost of approximately $4.2 million as of December 31, 2012 related to restricted shares granted during 2012, 2011 and 2010 will be recognized over a weighted average vesting period of approximately 1.7 years.

Stock option activity under the Plans for the year ended December 31, 2012 was as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Life (Yrs)	Aggregate Intrinsic Value ($ in 000's)
Outstanding January 1, 2012	515,288	$ 18.03	3.8	$ 5,543
Granted				
Exercised(1)	(449,102)	$ 18.01		$ 8,111
Canceled				
Outstanding: December 31, 2012	66,186	$ 18.15	2.8	$ 1,206
Exercisable: December 31, 2012	66,186	$ 18.15	2.8	$ 1,206

(1) Plan participants tendered 306,395 shares of common stock, all of which were subsequently retired by the Company, to satisfy payment of the exercise price and, in certain instances withholding taxes, for a portion of the options exercised during the year ended December 31, 2012.

Restricted stock activity for the year ended December 31, 2012 was as follows:

	Number of shares outstanding	Weighted Average Grant date fair value
Nonvested at January 1, 2012	314,250	$ 19.84
Granted	142,000	33.59
Vested(1)	(103,000)	13.48
Nonvested at December 31, 2012	353,250	$ 27.24

(1) The fair value of restricted stock awards that vested during 2012 was $1.4 million.

Issuance of Common Stock

On April 6, 2011, the Company completed a public offering of 5,500,000 shares of common stock. Of the total shares offered, the Company issued and sold 2,500,000 shares of common stock and certain of the Company's stockholders sold an aggregate of 3,000,000 shares of common stock. The Company's proceeds from the offering were $85.7 million.

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 segments:

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

Equipment trading the Company purchases containers from its 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 redelivered.

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

Year Ended December 31, 2012	Equipment Leasing	Equipment Trading	Totals
Total revenues	$ 519,860	$ 69,312	$ 589,172
Equipment trading expenses		53,431	53,431
Depreciation and amortization	189,710	3,756	193,466
Net (gain) on sale of equipment	(44,509)		(44,509)
Interest and debt expense	111,598	3,031	114,629
Income before income taxes(1)	195,166	8,167	203,333
Equipment held for sale at December 31	16,936	30,203	47,139
Goodwill at December 31	70,898	1,000	71,898
Total assets at December 31	3,620,228	80,966	3,701,194
Purchases of leasing equipment and investments in finance leases(2)	822,698	9,128	831,826

TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 Segment and Geographic Information (Continued)

Year Ended December 31, 2011	Equipment Leasing	Equipment Trading	Totals
Total revenues	$ 448,292	$ 68,395	$ 516,687
Equipment trading expenses		51,330	51,330
Depreciation and amortization	150,336	2,240	152,576
Net (gain) on sale of equipment	(51,969)		(51,969)
Interest and debt expense	102,858	2,612	105,470
Income before income taxes(1)	186,865	11,369	198,234
Equipment held for sale at December 31	14,061	32,987	47,048
Goodwill at December 31	70,898	1,000	71,898
Total assets at December 31	3,112,239	85,064	3,197,303
Purchases of leasing equipment and investments in finance leases(2)	782,569	33,161	815,730

Year Ended December 31, 2010	Equipment Leasing	Equipment Trading	Totals
Total revenues	$ 328,619	$ 38,181	$ 366,800
Equipment trading expenses		28,814	28,814
Depreciation and amortization	115,261	666	115,927
Net (gain) on sale of equipment	(25,721)	(44)	(25,765)
Interest and debt expense	77,261	1,843	79,104
Income before income taxes(1)	97,526	5,824	103,350
Equipment held for sale at December 31	5,120	24,100	29,220
Goodwill at December 31	70,898	1,000	71,898
Total assets at December 31	2,473,619	43,938	2,517,557
Purchases of leasing equipment and investments in finance leases(2)	828,570	15,644	844,214

(1) Segment income before taxes excludes net losses on interest rate swaps of $2.5 million, $27.4 million and $13.0 million for the years ended December 31, 2012, 2011 and 2010, respectively, and the write-off of deferred financing costs of $1.1 million and $0.7 million for the years ended December 31, 2011 and 2010, 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 period 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. As 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. Substantially all of the Company's leasing related revenue is denominated in U.S. dollars. The following table represents the geographic allocation of revenues for the periods indicated based on the customers' primary domicile and allocates equipment trading revenue based on the location of sale (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Total revenues:			
United States of America	$ 43,867	$ 41,387	$ 32,838
Asia	252,119	209,731	148,672
Europe	260,181	231,979	161,930
Other international	33,005	33,590	23,360
Total	$ 589,172	$ 516,687	$ 366,800

Note 8 Net (Gain) on Sale of Leasing Equipment

The net (gain) on sale of leasing equipment consists of the following (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Impairment loss on equipment held for sale	$ 247	$ 141	$ 221
(Gain) on sale of equipment net of selling costs	(44,756)	(52,110)	(25,986)
Net (gain) on sale of leasing equipment	$ (44,509)	$ (51,969)	$ (25,765)

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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,		
	2012	**2011**	**2010**
Current taxes:			
Federal	$	$ 526	$
State		101	
Foreign	304		
	304	627	
Deferred taxes:			
Federal	69,804	58,536	31,378
State	998	740	450
Foreign	(374)	110	94
	70,428	59,386	31,922
Total	$ 70,732	$ 60,013	$ 31,922

The following table reconciles federal income taxes computed at the statutory rate with income tax expense (benefit) (in thousands):

	Year Ended December 31,		
	2012	**2011**	**2010**
Federal income taxes at statutory rate	$ 70,012	$ 59,270	$ 31,376
State income taxes (net of federal income tax benefit)	651	551	293
Foreign income taxes	203	100	(150)
Reversal of deferred foreign tax liabilities	(273)		
Other/effect of permanent differences	139	92	403
	$ 70,732	$ 60,013	$ 31,922

Effective April 2012, an income tax rate reduction was enacted in the U.K. reducing the corporate tax rate from 26% to 24%. 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 approximately $0.3 million in its income tax expense in 2012 to reflect the impact of this rate change on the Company's net deferred income tax liability related to its U.K. operations.

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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, 2012	December 31, 2011
Deferred income tax assets:		
Net operating loss carryforwards	$ 90,484	$ 75,670
Allowance for losses	1,031	1,303
Derivative instruments	16,300	32,690
Deferred income	10,216	12,166
Accrued liabilities and other	14	
	118,045	121,829
Deferred income tax liabilities:		
Accelerated depreciation	371,841	306,599
Goodwill amortization	14,568	12,765
Other	2,095	1,332
	388,504	320,696
Net deferred income tax liability	$ 270,459	$ 198,867

The Company has U.S. Federal net operating loss carryforwards of approximately $256 million at December 31, 2012. These losses will expire in 2026 through 2033. The Company has unrealized excess tax benefits related to restricted stock compensation costs of $3.3 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, 2012 the Company's cumulative undistributed earnings were approximately $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, 2012 and December 31, 2012, 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.

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TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 Income Taxes (Continued)

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 operations. The Company has not recorded any interest or penalties associated with unrecognized tax benefits. The 2006 through 2012 tax years remain subject to examination by major tax jurisdictions.

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, 2012, 2011 and 2010 were approximately $0.3 million.

Note 11 Rental Income under Operating Leases

The following are the minimum future rentals at December 31, 2012 due to TAL under non-cancelable operating leases of the Company's equipment (in thousands):

2013	$ 364,568
2014	296,106
2015	239,488
2016	175,351
2017	113,069
2018 and thereafter	87,246
	$ 1,275,828

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 $2.2 million for the years ended December 31, 2012, 2011 and 2010.

Future minimum rental commitments under non-cancelable operating leases at December 31, 2012 were as follows (in thousands):

2013	$ 1,416
2014	1,071
2015	748
2016	657
2017	778
2018 and thereafter	2,730
	$ 7,400

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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, 2012, the maximum potential amount of the guarantees under which the Company could be required to perform was approximately $27.1 million. The carrying values of the guarantees of $1.1 million have been deferred, are included in accounts payable and accrued expenses. 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, 2012.

Purchase Commitments

At December 31, 2012, the Company had commitments to purchase equipment in the amount of $73.5 million payable in 2013.

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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TAL INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13 Selected Quarterly Financial Data (Unaudited)

The following table sets forth certain key interim financial information for the years ended December 31, 2012 and 2011:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share amounts)			
2012:				
Total revenues	$ 138,332	$ 150,023	$ 149,021	$ 151,796
Net income(1)(2)	$ 32,927	$ 29,297	$ 31,153	$ 36,755
Net income per basic common share	$ 0.99	$ 0.88	$ 0.94	$ 1.11
Net income per diluted common share	$ 0.98	$ 0.87	$ 0.93	$ 1.09
2011:				
Total revenues	$ 124,528	$ 120,221	$ 137,752	$ 134,186
Net income(3)	$ 32,587	$ 23,191	$ 18,079	$ 35,867
Net income per basic common share	$ 1.07	$ 0.70	$ 0.55	$ 1.08
Net income per diluted common share	$ 1.05	$ 0.70	$ 0.54	$ 1.07

(1) Net income for 2012 reflects net gains on interest rate swaps of $3.0 million ($1.9 million on an after-tax basis) and $2.6 million ($1.6 million on an after-tax basis) in the first and fourth quarters, respectively. Net losses on interest rate swaps of $6.7 million ($4.4 million on an after-tax basis) and $1.3 million ($0.8 million on an after-tax basis) are reflected in the second and third quarters, respectively.

(2) Effective October 1, 2012, the Company increased the residual value estimates used in its equipment depreciation policy. Without this change, the Company's depreciation expense would have been $5.2 million higher ($3.4 million after tax or $0.10 per diluted share) in the fourth quarter of 2012 (see Note 2).

(3) Net income for 2011 reflects net gains on interest rate swaps of $8.0 million ($5.2 million on an after-tax basis) and $3.0 million ($1.9 million on an after-tax basis) in the first and fourth quarters, respectively. Net losses on interest rate swaps of $15.1 million ($9.8 million on an after-tax basis) and $23.2 million ($15.0 million on an after-tax basis) are reflected in the second and third quarters, respectively.

Note 14 Foreign Currency Activities

The Company recorded net foreign currency exchange losses of $0.3 million in the year ended December 31, 2012 and $0.4 million in the years ended December 31, 2011 and 2010. 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 13, 2013, the Company's Board of Directors approved and declared a $0.64 per share quarterly cash dividend on its issued and outstanding common stock, payable on March 28, 2013 to shareholders of record at the close of business on March 7, 2013.

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SCHEDULE II

TAL International Group, Inc.

Valuation and Qualifying Accounts

Years ended December 31, 2012, 2011 and 2010

(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, 2012	$ 1,073	$ (177)	$	$ 1	$ 897
For the year ended December 31, 2011	$ 1,169	$ (94)	$	$ (2)	$ 1,073
For the year ended December 31, 2010	$ 1,618	$ (441)	$	$ (8)	$ 1,169
Accounts Receivable Allowance for doubtful accounts:					
For the year ended December 31, 2012	$ 667	$ 40	$ (16)	$ 1	$ 692
For the year ended December 31, 2011	$ 429	$ 275	$ (36)	$ (1)	$ 667
For the year ended December 31, 2010	$ 757	$ (124)	$ (194)	$ (10)	$ 429
Allowance for equipment loss:					
For the year ended December 31, 2012	$ 156	$ (72)	$ (62)	$ (1)	$ 21
For the year ended December 31, 2011	$	$ 181	$ (25)	$	$ 156
For the year ended December 31, 2010	$ 1,051	$ (278)	$ (773)	$	$

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