

TAL International Group, Inc.
Form 10-Q
October 29, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For The Quarterly Period Ended September 30, 2013

Or

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

For the Transition Period from _____ to _____

Commission file number- 001-32638

TAL International Group, Inc.

(Exact name of registrant as specified in the charter)

Delaware

(State or other jurisdiction of

incorporation or organization)

20-1796526

(I.R.S. Employer

Identification Number)

100 Manhattanville Road, Purchase, New York

(Address of principal executive office)

10577-2135

(Zip Code)

(914) 251-9000

(Registrant's telephone number including area code)

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

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

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

Large Accelerated

Filer

Accelerated Filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of October 18, 2013, there were 33,848,464 shares of the Registrant's common stock, \$0.001 par value outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements in this report are subject to a number of known and unknown risks and uncertainties that could cause our actual results, performance or achievements to differ materially from those described in the forward-looking statements, including, but not limited to, the risks and uncertainties described in the section entitled "Risk Factors" in our Annual Report on Form 10-K filed with the SEC on February 20, 2013, in this report as well as in the other documents we file with the SEC from time to time, and such risks and uncertainties are specifically incorporated herein by reference.

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

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The consolidated financial statements of TAL International Group, Inc. ("TAL" or the "Company") as of September 30, 2013 and December 31, 2012 and for the three and nine months ended September 30, 2013 and September 30, 2012 included herein have been prepared by the Company, without audit, pursuant to U.S. generally accepted accounting principles and the rules and regulations of the SEC. In addition, certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements reflect, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the results for the interim periods. The results of operations for such interim periods are not necessarily indicative of the results for the full year. These financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K filed with the SEC, on February 20, 2013 from which the accompanying December 31, 2012 Balance Sheet information was derived, and all of our other filings filed with the SEC from October 11, 2005 through the current date pursuant to the Exchange Act.

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TAL INTERNATIONAL GROUP, INC.

Consolidated Balance Sheets

(Dollars in thousands, except share data)

(Unaudited)

	September 30, 2013	December 31, 2012
ASSETS:		
Leasing equipment, net of accumulated depreciation and allowances of \$872,180 and \$766,898	\$3,368,817	\$3,249,374
Net investment in finance leases, net of allowances of \$1,056 and \$897	205,911	121,933
Equipment held for sale	44,523	47,139
Revenue earning assets	3,619,251	3,418,446
Unrestricted cash and cash equivalents	53,036	65,843
Restricted cash	28,476	35,837
Accounts receivable, net of allowances of \$950 and \$692	77,122	71,363
Goodwill	74,523	71,898
Deferred financing costs	28,534	26,450
Other assets	11,161	9,453
Fair value of derivative instruments	17,948	1,904
Total assets	\$3,910,051	\$3,701,194
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Equipment purchases payable	\$38,797	\$111,176
Fair value of derivative instruments	3,498	34,633
Accounts payable and other accrued expenses	55,623	64,936
Net deferred income tax liability	336,282	270,459
Debt	2,801,749	2,604,015
Total liabilities	3,235,949	3,085,219
Stockholders' equity:		
Preferred stock, \$0.001 par value, 500,000 shares authorized, none issued	—	—
Common stock, \$0.001 par value, 100,000,000 shares authorized, 36,860,307 and 36,697,366 shares issued respectively	37	37
Treasury stock, at cost, 3,011,843 shares	(37,535	) (37,535)
Additional paid-in capital	497,737	493,456
Accumulated earnings	211,086	168,447
Accumulated other comprehensive income (loss)	2,777	(8,430)
Total stockholders' equity	674,102	615,975
Total liabilities and stockholders' equity	\$3,910,051	\$3,701,194

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

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TAL INTERNATIONAL GROUP, INC.

Consolidated Statements of Income

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

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Leasing revenues:				
Operating leases	\$ 139,994	\$ 131,839	\$ 410,352	\$ 375,623
Finance leases	3,868	3,339	10,118	10,589
Total leasing revenues	143,862	135,178	420,470	386,212
Equipment trading revenues	13,984	12,981	64,051	48,750
Management fee income	549	823	1,769	2,303
Other revenues	33	39	175	111
Total revenues	158,428	149,021	486,465	437,376
Operating expenses (income):				
Equipment trading expenses	11,977	11,273	55,082	42,867
Direct operating expenses	6,854	6,195	19,034	17,802
Administrative expenses	10,432	10,674	32,950	32,908
Depreciation and amortization	52,321	52,155	151,470	144,529
Provision (reversal) for doubtful accounts	256	(8	) 1,759	(177
Net (gain) on sale of leasing equipment	(4,293	) (11,317	) (22,580	) (35,229
Total operating expenses	77,547	68,972	237,715	202,700
Operating income	80,881	80,049	248,750	234,676
Other expenses:				
Interest and debt expense	27,105	30,390	84,291	85,088
Write-off of deferred financing costs	—	—	2,578	—
Net loss (gain) on interest rate swaps	295	1,286	(8,125	) 5,042
Total other expenses	27,400	31,676	78,744	90,130
Income before income taxes	53,481	48,373	170,006	144,546
Income tax expense	18,820	17,220	59,949	51,169
Net income	\$34,661	\$31,153	\$110,057	\$93,377
Net income per common share—Basic	\$1.04	\$0.94	\$3.29	\$2.81
Net income per common share—Diluted	\$1.03	\$0.93	\$3.27	\$2.78
Cash dividends paid per common share	\$0.68	\$0.60	\$1.98	\$1.73
Weighted average number of common shares outstanding—Basic	33,486	33,230	33,480	33,213
Dilutive stock options and restricted stock	222	402	194	401
Weighted average number of common shares outstanding—Diluted	33,708	33,632	33,674	33,614

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

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TAL INTERNATIONAL GROUP, INC.

Consolidated Statements of Comprehensive Income

(Dollars in thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net income	\$34,661	\$31,153	\$110,057	\$93,377
Other comprehensive (loss) income:				
Change in fair value of derivative instruments designated as cash flow hedges (net of income tax effect of \$(1,734), \$0, \$5,342 and \$(625), respectively)	(3,172	) —	9,780	(1,145
Amortization of loss on terminated derivative instruments designated as cash flow hedges (net of income tax effect of \$266, \$301, \$812 and \$871, respectively)	482	549	1,484	1,595
Foreign currency translation adjustment	288	118	(57	) 183
Other comprehensive (loss) income, net of tax	(2,402	) 667	11,207	633
Comprehensive income	\$32,259	\$31,820	\$121,264	\$94,010

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

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TAL INTERNATIONAL GROUP, INC.
Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 110,057	\$93,377
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	151,470	144,529
Amortization of deferred financing costs	5,400	4,234
Amortization of net loss on terminated derivative instruments designated as cash flow hedges	2,296	2,466
Net (gain) on sale of leasing equipment	(22,580)	) (35,229)
Net (gain) loss on interest rate swaps	(8,125)	) 5,042
Write-off of deferred financing costs	2,578	—
Deferred income taxes	59,836	50,964
Stock compensation charge	4,099	2,882
Changes in operating assets and liabilities:		
Net equipment purchased for resale activity	(5,214)	) 8,295
Net realized loss on interest rate swaps terminated prior to their contractual maturities	(24,235)	) (19,444)
Other changes in operating assets and liabilities	(17,123)	) (23,483)
Net cash provided by operating activities	258,459	233,633
Cash flows from investing activities:		
Purchases of leasing equipment and investments in finance leases	(534,884)	) (773,586)
Proceeds from sale of equipment, net of selling costs	106,141	98,886
Cash collections on finance lease receivables, net of income earned	29,083	25,846
Other	—	116
Net cash (used in) investing activities	(399,660)	) (648,738)
Cash flows from financing activities:		
Stock options exercised and stock related activity	(222)	) (27)
Financing fees paid under debt facilities	(10,062)	) (7,446)
Borrowings under debt facilities	1,521,207	1,165,404
Payments under debt facilities and capital lease obligations	(1,323,590)	) (769,127)
Decrease (increase) in restricted cash	7,361	(4,249)
Common stock dividends paid	(66,300)	) (57,479)
Net cash provided by financing activities	128,394	327,076
Net (decrease) in unrestricted cash and cash equivalents	\$(12,807)	) \$(88,029)