

TAL International Group, Inc.  
Form 10-K  
March 01, 2010

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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## 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, 2009

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  No

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  No

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

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 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  No

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.

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  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 the Exchange Act Rule 12b-2). Yes  No

The aggregate market value of voting common shares held by non-affiliates of the registrant as of June 30, 2009 was approximately \$62.3 million.

As of February 19, 2010, there were 30,709,104 shares of the Registrant's common stock outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE

#### Part of Form 10-K

Part II, Item 5, Part III, Items 10, 11, 12, 13, and 14

#### Document Incorporated by Reference

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 29, 2010.

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**TAL International Group, Inc.**

**2009 Annual Report on Form 10-K**

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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 [www.talinternational.com](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 on our website at <http://www.talinternational.com/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 and our subsidiaries: TAL®, Tradex®, Trader® and Greyslot®.

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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.

TAL International Group, Inc. ("TAL" or the "Company") was formed on October 26, 2004, and commenced operations on November 4, 2004, when it acquired all of the outstanding capital stock of TAL International Container Corporation ("the Acquisition"). The operations of TAL's predecessor companies commenced in 1963.

**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 traders 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 18 offices in 11 countries and 199 third-party container depot facilities in 37 countries as of December 31, 2009. Our customers are among the world's largest shipping lines and include, among others, APL-NOL, CMA CGM, Maersk Line, Mediterranean Shipping Company and NYK Line.

We primarily lease three principal types of equipment: (1) dry freight containers, which are used for general cargo such as manufactured component parts, consumer staples, electronics and apparel, (2) refrigerated containers, which are used for perishable items such as fresh and frozen foods, and (3) special containers, which are used for heavy and oversized cargo such as marble slabs, building products and machinery. We also lease chassis, which are used for the transportation of containers domestically, and tank containers, which are used to transport bulk liquid products such as chemicals. We also finance port equipment, which includes container cranes, reach stackers and other related equipment.

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 daily 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

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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 equipment to specified drop-off locations. As of December 31, 2009, 68% of our on-hire containers and chassis were on long-term leases, 12% were on finance leases, 16% were on service leases and 4% were on long-term leases whose fixed terms have expired. As of December 31, 2009, our long-term leases had an average remaining lease term of 43 months.

Our equipment leasing revenues primarily consist of leasing revenues derived from the lease of our owned equipment and, to a lesser extent, fees received for managing equipment owned by third parties. 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.

**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 traders and users of containers for storage and one-way shipments. Over the last five years, we have sold an average of approximately 41,000 twenty-foot equivalent units (TEU) of containers purchased for resale annually.

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 8.6% from 1985 to 2009. 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. However, due to the recent global financial crisis and recession, global containerized trade growth turned significantly negative beginning in the fourth quarter of 2008, and Clarkson estimates that containerized trade volumes decreased by approximately 10% in 2009. Clarkson is currently projecting that containerized trade volumes will rebound somewhat in 2010, but they are not projecting growth rates to return to the historical level in the near future.

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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. According to Containerisation International as reported in mid-2009, container lessors' ownership was approximately 10.4 million TEU or 38% of the total worldwide container fleet of 27.4 million TEU.

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 at a port-by-port level, the availability of containers for lease 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, 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 18 worldwide offices located in 11 different countries as of December 31, 2009. 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 primarily consists of three 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<sup>1</sup>/<sub>2</sub> or 9<sup>1</sup>/<sub>2</sub> 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, and are 8 feet wide, and either 8<sup>1</sup>/<sub>2</sub> or 9<sup>1</sup>/<sub>2</sub> 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.

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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.

Over the last few years, we have added three equipment types to our fleet:

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<sup>1</sup>/<sub>2</sub>, 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.

Port Equipment. We finance container cranes, reach stackers and related equipment. We believe that the financing of such equipment is a natural extension of our equipment leasing business.

***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.



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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, 2009, 68% of our on-hire containers and chassis were under long-term operating leases. As of December 31, 2009, our long-term leases had an average remaining duration of 43 months, assuming no leases are renewed. However, we believe that many of our customers will renew leases for equipment that is less than sale age at the expiration of the lease. In addition, our equipment 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.

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. As of December 31, 2009, 4% 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 rarely been exercised.

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, 2009, 16% of our on-hire containers and chassis were under service leases and this equipment has been on-hire for an average of 38 months.

*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, 2009, approximately 12% of our on-hire containers and chassis were under finance leases.

*Lease Documentation.* In general, our lease agreements consist of two basic elements, a master lease agreement and a lease addendum. Lease addenda contain the business terms (including daily rate, term duration and drop-off schedule, among other things) for specific leasing transactions, while master lease agreements 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 lease 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.

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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 moving empty containers as cheaply as possible. To accomplish this, TAL has developed an in-house group of experts, which we call Greyslot, to manage our empty container positioning program. As part of their mandate to reposition our empty containers, Greyslot maintains frequent contact with various shipping lines and vessel owners to identify available vessel space, and our success with managing our own positioning program has led to additional revenue opportunities. For the last several years Greyslot has acted as a broker of empty vessel space for moving additional empty containers for third parties. Our third-party customers include leasing companies and shipping lines, and such third-party business has usually represented a majority of the containers moved by Greyslot. 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, 2009, we managed our equipment fleet through 199 third-party owned and operated depot facilities located in 37 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 periodically 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

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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 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 domestic 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 over 70,000 TEU 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 41,000 TEU of containers purchased from third parties for resale on average over the last five years.

***Management Services***

A portion of our container 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

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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 floor amount. Typically the terms of the management agreements are 10 to 12 years from the acceptance dates of containers under the agreement.

**Environmental**

We may be subject to environmental liability in connection with our current or historical operations that could adversely affect our business and financial prospects despite insurance coverage, terms of leases and other arrangements for use of the containers that place the responsibility for environmental liability on the end user. 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. 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. Our lessees are required to indemnify us from such claims. 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.

Countries that are signatories to the Montreal Protocol on the environment agreed in November 1992 to restrict the use of environmentally destructive refrigerants, banning production (but not use) of chlorofluorocarbon compounds ("CFCs") beginning in January 1996. Less than 1% of our refrigerated containers still use CFC refrigerants. Over 99% of our refrigerated containers currently use R134A or 404A refrigerant. While R134A and 404A do not contain CFC's, 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. The European Union regulations do not restrict the use of R134A in refrigerated containers or trailers, though we are continuing to monitor regulatory developments. If future regulations prohibit the use or servicing of containers using R134A or 404A refrigerants, we could be forced to incur large retrofitting expenses.

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 which will 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 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.

**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, profitability),

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trade routes, country of domicile, social and political climate, and the type of, and location of, equipment that is to be supplied. To mitigate the impact from potential defaults, we entered into a credit insurance policy in the third quarter of 2009 that in certain circumstances covers losses and costs incurred in default situations. However, this policy has significant deductibles, exclusions and payment and other limitations, and therefore may not protect us from losses arising from customer defaults.

**Marketing and Customer Service**

Our global sales and customer service force is 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 76% 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 52% of our 2009 leasing revenues. Our largest customer is CMA CGM, which accounted for approximately 17% of our leasing revenues in 2009 and 12% in 2008. APL-NOL accounted for approximately 12% of our leasing revenues in 2009, 15% in 2008 and 18% in 2007. Mediterranean Shipping Company accounted for approximately 10% of our leasing revenues in 2009. No other customer exceeded 10% of our leasing revenues in 2009, 2008 or 2007. 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 company 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 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.

**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 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 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

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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 four large manufacturers of dry and special containers and three large manufacturers of refrigerated containers, though for both dry containers and refrigerated containers, the largest manufacturer accounts for 50% or more 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, 2009, we employed 184 people, in 18 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.

In 2009, the rate of global economic growth slowed significantly causing global containerized trade growth to decrease. Clarkson Research Studies ("Clarkson") estimates that global containerized trade volumes decreased by approximately 10% in 2009, and this decrease in trade volume led to reduced demand for containers, lower utilization of our containers, a decrease in market leasing rates and a decrease in our leasing revenues and profitability. The decreased demand for containers also constrained our ability to invest in new containers, and the size of our container fleet decreased in 2009 and the average age of our fleet increased. While Clarkson is currently projecting some growth in trade volumes for 2010, the projected rate of growth is well below historical average levels, and it is possible that market conditions, and our utilization, average lease rates, lease revenues and profitability will be negatively impacted by the weak global economy for some time.

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 or cash flows.

*Lease rates may decrease, 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 impacts 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



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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, during periods of low 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.

During the second half of 2008, market lease rates decreased rapidly due to the global economic slowdown and the resulting decrease in trade volumes and leasing demand. Market leasing rates remained low in 2009 as most leasing companies faced large excess inventories of containers for most of the year, even in traditionally strong demand locations. TAL's average leasing rates, leasing revenues and profitability decreased significantly in 2009 as containers were returned from leases with relatively high lease rates and placed on hire on leases with lower lease rates. In addition, TAL entered into several agreements with major customers that lowered the lease rates on existing leases in return for lease term extensions or other drop-off restrictions. Market lease rates and TAL's average lease rates are likely to remain under pressure as long as the global economy and trade volumes remain weak.

Leasing rates can also be negatively impacted by decrease in steel prices and new container prices (as occurred from 1998 - 2003 and in 2005), the entrance of new leasing companies, overproduction of new containers by factories and over-buying of new containers by shipping lines and leasing competitors.

In addition, our lease rates may not increase when market conditions improve or when container prices increase. For example, in 2006, our average leasing rates decreased throughout the year despite good leasing demand and relatively high container prices. The decrease in average leasing rates was mainly the result of lease renegotiations in which we offered several customers reduced lease rates in return for extensions of leases covering older containers.

***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. Rent 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.

When lessees or sublessees 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 and storing the equipment.

Due to the global economic crisis and the resulting decrease in trade volumes, we currently face an increased level of customer default risk. In general, the profitability of our shipping line customers

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deteriorated significantly in 2008 due to decreasing freight rates caused by excess vessel capacity and most major shipping lines recorded large financial losses in 2009. Excess vessel capacity is likely to persist for several years due to the combination of large vessel deliveries planned for the next several years and a decrease in the rate of global containerized trade growth. In addition, the ongoing financial crisis makes lessee defaults more likely since shipping lines may face difficulty in arranging financing for their committed vessel purchases and any operating losses they may incur. Several shipping lines, including our largest customer, are currently involved in comprehensive financial restructuring negotiations with their major creditors.

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 units 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

***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 residual values of our containers upon the expiration of their leases because, in the ordinary course of our business, we sell certain containers when such containers are returned to us. The volatility of the residual values of such equipment may be significant. These values, which can vary substantially, depend upon, among other factors, the global supply and demand balance for containers, the location of the containers, worldwide steel prices and the cost of new containers, the supply and demand for used containers at a particular location, applicable maintenance standards, refurbishment needs, inflation rates, market conditions, 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 residual value risk than finance leases.

Containers are typically sold if it is in our best interest to do so after taking into consideration the book value, remaining useful life, repair condition, suitability for leasing or other uses and the prevailing local sales price for the containers. 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.

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 these years. Used container selling prices were generally at historically high levels from 2005-2008, resulting in substantial gains on the disposal of our equipment, due to the increased cost of new containers, a high rate of containerized trade growth and the resulting limited amount of idle container inventories.

Market conditions for used equipment in 2009 deteriorated due the decrease in global trade volumes and the resulting decrease in leasing demand and build-up of excess container inventories. In 2009 average disposal prices decreased by approximately 25% from 2008 levels, and used container selling prices are likely to remain under pressure as long as excess container inventories persist. A further decrease in used container selling prices from the 2009 level could result in net disposal losses and significantly reduce our profitability.

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***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 periodically make capital investments to, among other things, maintain and expand our container fleet. However, financing has become scarcer and more expensive due to the ongoing financial crisis. 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. Even if we are successful in securing additional financial commitments, we expect that our effective interest rates will increase over time.

***We have a substantial amount of debt outstanding on a consolidated basis and have significant debt service obligations which could adversely affect our financial condition or our ability to fulfill our obligations and make it more difficult for us to fund our operations.***

We have a significant amount of debt outstanding on a consolidated basis. As of December 31, 2009, we had outstanding indebtedness of approximately \$1.1 billion under our asset backed securities program and our other credit facilities. In addition, we have capital lease obligations in the amount of \$93.7 million. Our interest and debt expense for the fiscal year ended December 31, 2009 was approximately \$68.8 million. As of December 31, 2009, our total net debt (total debt plus equipment purchases payable less cash) to total revenue earning assets was 68%.

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

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, 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;

make it more difficult for us to satisfy our obligations with respect to our debt obligations, and any failure to comply with such obligations, including financial and 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 or prospects;

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 more difficult for us to pay dividends on our common stock;

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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 which have less debt.

We may not generate sufficient revenues to service and repay our debt and have sufficient funds left over to achieve or sustain profitability in our operations, meet our working capital and capital expenditure needs or compete successfully in our markets.

***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 program and our 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 and fund future capital expenditures. Our ability to generate cash depends on many factors beyond our control.***

Our ability to make payments on and repay our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future.

We cannot assure investors that:

our business will generate sufficient cash flow from operations to service and repay our debt and to fund working capital and future capital expenditures;

future borrowings will be available under our current or future credit facilities in an amount sufficient to enable us to repay our debt; or

we will be able to refinance any of our debt on commercially reasonable terms or at all.

If we cannot generate sufficient cash from our operations to meet our debt service and repayment obligations, we may need to reduce or delay capital expenditures, the development of our business generally and any acquisitions. In addition, we may need to refinance our debt, obtain additional financing or sell assets, which we may not be able to do on commercially reasonable terms or at all.

***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 would decrease, resulting in decreased leasing revenues, increased storage costs and increased positioning costs.***

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 our control.

While the percentage of leased containers has been fairly steady historically, this percentage has been decreasing over the last few years, with the percentage of leased containers decreasing from 46% as reported in 2004 to 38% as reported in 2009, according to Containerisation International. We believe that increased share of containers owned directly by the shipping lines is the result of the improved financial performance, increased operating scale and improved information systems of our



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customers, which make it easier for our customers to finance and deploy new container purchases efficiently.

***We are dependent upon continued demand from our large customers and any default or significant reduction of orders from any of our large customers, and especially our largest customer, could have a material adverse effect on our business, financial condition and future prospects.***

Our largest customers account for a significant portion of our revenues. Our five largest customers represented approximately 52% of our leasing revenues in the 2009 fiscal year, with our single largest customer representing approximately 17% 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. The loss or significant reduction of orders from any of our large customers could have a material adverse effect on our business, financial condition and future prospects.

In addition, several of our largest customers, including our largest custom