TAL International Group, Inc.
Form 10-K
March 13, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For The Fiscal Year Ended December 31, 2006
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)

Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value $0.001 per share

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

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 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, or a non-accelerated filer. See definition of ''accelerated filer and large accelerated filer'' in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of June 30, 2006, the last business day of the Registrant's most recently completed second fiscal quarter, there were 32,949,521 shares of the Registrant's common stock outstanding, and the aggregate market value of such shares held by non-affiliates of the Registrant (based upon the closing sale price of such shares on the New York Stock Exchange on June 30, 2006) was approximately $218,434,000. Shares of Registrant's common stock held by each executive officer and director and by each entity or person that, to the Registrant's knowledge, owned 5% or more of Registrant's outstanding common stock as of June 30, 2006 have been excluded in that such persons may be deemed to be affiliates of the Registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 1, 2007, there were 33,257,723 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to the registrant's Annual Meeting of Stockholders to be held on May 1, 2007, are incorporated by reference into Part III hereof.

TAL International Group, Inc.
2006 Annual Report on Form 10-K
Table of Contents

Table of Contents

CAUTIONARY STATEMENT FOR PURPOSES OF THE ''SAFE HARBOR'' PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Annual Report on Form 10-K contains certain forward-looking statements, including, without limitation, statements concerning the conditions in our industry, our operations, our economic performance and financial condition, including, in particular, statements relating to our business and growth strategy and service development efforts. The Private Securities Litigation Reform Act of 1995 provides a ''safe harbor'' for certain forward-looking statements so long as such information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. When used in this Annual Report on Form 10-K, the words ''may'', ''might'', ''should'', ''estimate'', ''project'', ''anticipate'', ''expect'', ''intend'', ''outlook'', ''believe'' and other similar expressions are intended to identify forward-looki statements and information. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. These forward-looking statements are based on estimates and assumptions by our management that, although we believe to be reasonable, are inherently uncertain and subject to a number of risks and uncertainties. These risks and uncertainties include, without limitation, those identified under the caption Item 1A. ''Risk Factors'' in this annual report and in our registration statement on Form S-1 (File No. 333-126317) filed with the Securities and Exchange Commission (''SEC''), as such registration statement became effective on October 11, 2005, and all of our other filings filed with the SEC from October 11, 2005 through the current date pursuant to the Securities Exchange Act of 1934.

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

WEBSITE ACCESS TO COMPANY’S REPORTS AND CODE OF ETHICS

Our Internet website address is 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 Securities and Exchange Commission. Our Code of Ethics is also available on our website.

Also, copies of the Company’s annual report and Code of Ethics will be made available, free of charge, upon written request.

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 us and our subsidiaries: TAL®, Tradex®, Trader® and Greyslot®.

PART I

ITEM 1. BUSINESS

Our Company

We were formed in 1963 and are one of the world’s largest and oldest lessors of intermodal containers and chassis. Intermodal containers are large, standardized steel boxes used to transport freight by ship, rail or truck. Because of the handling efficiencies they provide, intermodal containers are the primary means by which many goods and materials are shipped internationally. Chassis are used for the transportation of containers domestically.

Our operations include the acquisition, leasing, re-leasing and subsequent sale of multiple types of intermodal equipment. As of December 31, 2006, our fleet consisted of 639,787 containers and chassis,

including 70,488 containers under management for third parties, representing approximately 1,037,000 twenty-foot equivalent units (TEU). We also believe that we are the world’s largest seller of used containers. We have an extensive global presence, offering leasing services through 19 offices in 11 countries and 184 third party container depot facilities in 37 countries as of December 31, 2006. Our customers are among the world’s largest shipping lines and include, among others, APL-NOL, CMA-CGM, Hanjin Shipping, Maersk Line, Mediterranean Shipping Company and NYK Line.

We primarily lease four principal types of equipment: (1) dry freight containers, which are used for general cargo such as manufactured component parts, consumer staples, electronics and apparel, (2) refrigerated containers, which are used for perishable items such as fresh and frozen foods, (3) special containers, which are used for heavy and oversized cargo such as marble slabs, building products and machinery, and (4) chassis, which are used for the transportation of containers domestically via rail and roads. As of December 31, 2006, dry, refrigerated and special containers represented approximately 87%, 5% and 7% of our fleet on a unit basis, respectively. Our chassis leasing business, which we re-entered in the fourth quarter of 2005, represented approximately 1% of our fleet on a unit basis as of December 31, 2006. For each of the fiscal years 2006, 2005 and 2004, dry, refrigerated and special containers represented approximately 60%, 30% and 10 % of our leasing revenues, respectively. Our chassis leasing revenue is less than 1% of our total revenue during these years.

We generally lease our equipment on a per diem basis to our customers under three types of leases: long-term leases, service leases and finance leases. Long-term leases, typically with terms of three to eight years, provide us with stable cash flow and low transaction costs by requiring customers to maintain specific equipment on-hire for the duration of the lease. Service leases command a premium per diem rate in exchange for providing customers with a greater level of operational flexibility by allowing the pick-up and drop-off of equipment during the lease term. Finance leases, which are typically structured as full payout leases, provide for a predictable recurring revenue stream with the lowest daily cost to the customer because customers are generally required to retain the equipment for the duration of its useful life. 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, 2006, 93% of our equipment was on-hire to customers, with 58% of our equipment on long-term leases, 27% on service leases or long-term leases whose fixed terms have expired but for which the related units remain on-hire and for which we continue to receive rental payments and 8% on finance leases. As of December 31, 2006, our long-term leases had an average remaining lease term of 33 months. In addition, 5% of our equipment was available for lease and 2% was available for sale.

In December 2006 we entered into our first port equipment finance transaction in which we financed several container cranes, reach stackers, tractors, trailers and related equipment. We believe that the financing of such equipment is a natural extension of our equipment leasing business.

We believe that we are the world's largest seller of used containers, having sold over 50,000 used containers in each of the last five years on behalf of ourselves and third parties. We manage our own container disposals, act as the disposal agent for a number of our shipping line customers and buy and sell used containers on an opportunistic basis.

Our total 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 and equipment trading revenue. 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, which primarily consist of depreciation and amortization, interest expense, direct operating expenses and administrative expenses. We seek to exceed a targeted return on our investment over the life cycle of our equipment by managing equipment utilization, per diem lease rates, drop-off restrictions and the used equipment sale process.

Table of Contents

History

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 (‘‘TAL International Corporation’’ or ‘‘TALI’’) and Trans Ocean Ltd. (‘‘Trans Ocean’’ or ‘‘TOL’’) from TA Lea Holding Co., Inc. (‘‘the Acquisition’’). Prior to the consummation of the Acquisition, TAL International Corporation and Trans Ocean were subsidiaries of an international insurance and finance company and provided long-term leases, service leases and finance leases, maritime equipment management services and subsequent sale of multiple types of intermodal equipment through a worldwide network of offices, third party depots and other facilities.

Industry Overview

According to Drewry Shipping Consultants Limited, as of December 2006, the container shipping industry was an approximately $190.7 billion industry, as measured by the annual gross revenues of shipping lines. 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 grew in every year from 1980 through 2005, attaining a compound annual growth rate (‘‘CAGR’’) of 11.3 % during that period. Furthermore, as of January 2007, Clarkson projected that loaded container liftings, which is a measure of volume in the industry, will increase by 10.7% in 2006 and 9.6 % in 2007. We believe that this projected growth is 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, the continued conversion of cargo from bulk shipping into containers and the growing liberalization and integration of world trade.

According to Containerisation International, container lessors’ ownership was approximately 9.5 million TEU or 42.7% of the total worldwide container fleet of 22.3 million TEU as of mid-2006. The percentage of owned versus leased containers utilized by shipping lines has ranged from approximately 42% to 47% over the last decade according to Containerisation International. In general, 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 significantly reduces a shipping line’s need to purchase and maintain larger container inventory buffers. In addition, the flexibility provided by operating leases also allows the shipping lines to adjust their container fleet sizes 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.

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 can only be 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.

Table of Contents

Operations

Fleet Overview

As of December 31, 2006, we operated approximately 1,037,000 TEU of intermodal containers and chassis. Our fleet consists of four types of equipment: dry containers, refrigerated containers, special containers and chassis. The equipment that we lease is either owned outright by us, or owned by third-parties and managed by us. The table below summarizes the composition of our fleet by the type of unit:

	Drys	Refrigerated	Specials	Chassis	Total
Owned	500,638	34,440	27,608	6,613	569,299
Managed	54,675	1,048	14,765	—	70,488
Total fleet	555,313	35,488	42,373	6,613	639,787
% of Fleet owned	90.2%	97.1%	65.2%	100.0%	89.0%

We operate our business through 19 worldwide offices located in 11 different countries as of December 31, 2006. Our 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.

Our Containers

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 container fleet consists of three types of containers:

- 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 8½ or 9½ feet tall. Dry containers are the least-expensive type of intermodal container and are used to carry general cargo such as manufactured component parts, consumer staples, electronics and apparel. As of December 31, 2006, our fleet included 555,313 dry containers, which accounted for 87% of our total fleet.
- 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 8½ or 9½ feet tall. These containers are typically used to carry perishable cargo such as fresh and frozen produce. As of December 31, 2006, our fleet included 35,488 refrigerated containers, which accounted for 5% of our total fleet.
- 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 into a standard container. As of December 31, 2006, our fleet included 42,373 special containers, which accounted for 7% of our total fleet.

Our Chassis

An intermodal chassis is a rectangular, wheeled steel frame, generally 23½, 40 or 45 feet in length, built specifically for the purpose of transporting a container domestically. Longer sized chassis, designed solely to accommodate domestic containers, can be up to 53 feet in length. Once mounted,

Table of Contents

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. As of December 31, 2006, our fleet included 6,613 chassis, which accounted for approximately 1% of our total fleet.

Our Port Equipment

In December 2006 we entered into our first port equipment finance transaction in which we financed several container cranes, reach stackers, tractors, trailers and related equipment. 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 vast 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, drop-off restrictions 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 Flexibility. Container and chassis leases allow shipping lines to adjust the size of their fleets as their trade volumes 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. Long-term lease terms typically range 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 all units on-hire for the duration of the lease term, and they provide us with predictable recurring cash flow. As of December 31, 2006, 58% of our containers and chassis were on-hire under long-term leases. As of December 31, 2006, our long-term leases had an average remaining duration of 33 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.

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.

Table of Contents

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 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, 2006, 27% of our containers and chassis were on-hire 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 (usually new equipment), generally require the customer to keep the equipment on-hire for its remaining useful life, and provide the customer with a purchase option at the end of the lease term. As of December 31, 2006, approximately 8% of our containers and chassis were on-hire 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 and repair, to return the equipment in good condition in accordance with the return condition set forth in the master lease agreement, to use the equipment in compliance with all 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 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.

Re-leasing, Logistics Management, Depot Management and Used Equipment Sales. 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.

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, to maintain high utilization of older equipment, leasing companies benefit from having a large number of customers and maintaining a high level of operating contact with these customers. In addition, the utilization of older containers and chassis is highly influenced by the worldwide supply and demand balance of equipment at a particular time.

Logistics Management. Since the Asian financial crisis in the late 1990's, the shipping industry has been characterized by large regional trade imbalances, with loaded containers generally flowing

Table of Contents

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. For several years after the Asian financial crisis, the return of large numbers of containers to North America and Europe reduced utilization for TAL and the rest of the leasing industry and significantly increased container positioning costs as leasing companies were forced to ship empty containers back to high container demand areas in Asia.

In the aftermath of the Asian financial crisis, we embarked on a program to reduce logistical and utilization risk by increasing the percentage of our containers on long-term lease or finance lease and restricting the ability of our customers to return containers outside of Asian demand locations. From December 31, 2000 to December 31, 2006, the portion of our containers on long-term lease and finance leases increased from 48% to 66%, the annual number of dry containers returned in North America and Europe from service leases fell by 72%, and our empty container positioning cost fell by 90%.

In addition to restructuring our leases, we increased our operational focus on moving empty containers as cheaply as possible. To accomplish this, we 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 currently represents a majority of the containers moved by Greyslot. While we have made important strides over the last few years in our logistics management, logistical risk remains an important element of our business due to competitive pressures, changing trade patterns and other market factors and uncertainties.

Depot Management. As of December 31, 2006, we manage our equipment fleet through 184 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 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, or the 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.

Table of Contents

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 usually, 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.

Used Equipment Sales. Our in-house used equipment sales group, Trader, has a worldwide team of specialists that manage the sale process for our used containers and chassis. Trader also manages the used equipment sale process for a number of our customers and buys and sells used containers and chassis opportunistically. Trader has sold over 50,000 used containers in each of the last five years on behalf of us and third parties, and we believe that we are the world’s largest seller of used containers. The sale age of our used containers averages between 12 and 14 years. Trader generally sells to domestic storage companies, freight forwarders (who often use the containers for one-way trips into less developed countries) and other purchasers of used containers.

The sale prices we receive for our used containers 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 revenue, gains or losses on the sale of used containers can have a significant positive or negative impact on our profitability.

Management Services

A portion of our container fleet is managed for third-party owners. We receive management fees that are a percentage of net revenues. 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 or disposing 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. Liability insurance policies, including ours, usually exclude claims for environmental damage. Our lessees may, but we do not require them to, have separate insurance coverage for environmental damage. 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. Since then, the environmental impact of CFCs has become increasingly prominent. On January 1, 2001, it became illegal for environmentally destructive refrigerants to be handled, other than for disposal, in most of the countries that are members of the European Union. CFCs are used in the operation, insulation and manufacture of refrigerated containers. All of our refrigerated containers purchased since June 1993 use non-CFC refrigerant gas in the operation and insulation of the containers, although a reduced quantity of CFCs are still used in the container manufacturing process. The replacement refrigerant used in our new refrigerated containers may also become subject to similar governmental regulations. In the past, we have retrofitted certain refrigerated containers with non-CFC refrigerants. Less than 3% of our refrigerated containers still use CFC refrigerants.

Table of Contents

The vast majority of our refrigerated containers currently use R134A refrigerant. While R134A does 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.

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 provide 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), trade routes, country of domicile, social and political climate, and the type of, and location of, equipment that is to be supplied.

Currency

The vast majority of our revenues and expenses are denominated in U.S. dollars, and we typically do not engage in currency hedging. However, our operations and used equipment 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.

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 had a relationship with for over 20 years. We currently have equipment on-hire to more than 300 customers, although approximately 78% 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. Our five largest customers accounted for approximately 47% of our 2006 leasing revenues. Our largest customer is APL-NOL, which accounted for approximately 18% of our leasing revenues in both 2006 and 2005. No other customer exceeded 10% of our leasing revenues in 2006 or 2005. A default by any of these major customers could have a material adverse impact on our business, financial condition and future prospects.

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, tracks accumulated depreciation, 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

Table of Contents

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 two large manufacturers of dry and special containers and three large manufacturers of refrigerated containers. 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 approximately 10 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 the shipping lines that are our customers to utilize several leasing companies to meet their equipment needs.

Our competitors compete with us in many ways, including 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, maintain close day-to-day coordination with customers' operating staffs and have developed powerful and user-friendly systems that allow our customers to transact with us through the Internet.

Employees

As of December 31, 2006, we employed 189 people, in 19 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.

ITEM 1A. RISK FACTORS

Risks Related to Our Business and Industry

Container leasing demand is affected by numerous market factors as well as external political and economic events and a decrease in the volume of world trade and other operating factors may adversely affect our container leasing business.

Demand for containers depends largely on the rate of world trade and economic growth. Cyclical recessions can negatively affect lessors' operating results because during economic downturns or periods of reduced trade, such as those that occurred in 2001 and 2002, 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. Thus, a decrease in the volume of world trade may adversely affect our container utilization and lease rates and lead to reduced revenue, reduced capital investment, increased operating expenses (such as storage and positioning) and reduced financial performance. In the late 1990's, the economic downturn in Asia, lower prices for new containers and the consolidation of shipping lines adversely affected the container leasing business. These events may re-occur.

Table of Contents

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, including the market acceptance of new container types and overbuying by competitors and customers, changes in the operating efficiency of customers, economic conditions and competitive pressures in the shipping industry, including fluctuations in ship charter and freight rates, containership fleet overcapacity or undercapacity, consolidation or withdrawal of individual customers in that industry, shifting trends and patterns of cargo traffic, acts of God such as droughts, storms, or other natural disasters, flu or other pandemics that result in economic disruptions that may disrupt or interfere with trade. The availability and terms of equipment financing, 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 external factors may have a material adverse affect on our business. For example, in 2005 the inventory of new containers held at container factories by leasing companies and shipping lines increased substantially despite continued growth in the volume of world trade. We believe that this container inventory build-up was mainly caused by our customers achieving improved container operating efficiency in 2005 due to an unexpected reduction in port and rail congestion relative to the significant congestion problems that were experienced in 2004. The build-up of container inventories in Asia by our customers reduced our volume of leasing transactions in 2005 and caused our container utilization to decrease. Additionally, as a result of the build-up of inventories of new equipment, we reduced our container orders for the third and fourth quarters of 2005.

Equipment prices and lease rates may decrease.

Lease rates depend on the type and length of the lease, the type, age and location of the equipment, competition, and other factors more fully discussed herein. Container lease rates also move with the fluctuations in prices for new containers. Because steel is the major component used in the construction of new containers, the price for new containers, as well as prevailing container lease rates, are both highly correlated with the price of steel. For example, new container prices and lease rates decreased in the late 1990's, because of, among other factors, a drop in worldwide steel prices and a shift in container manufacturing from Taiwan and Korea to areas with lower labor costs in mainland China. Container prices and market leasing rates increased by over 40% from the middle of 2003 to the middle of 2005 primarily due to an increase in the price of steel in China, while during the second half of 2005 container prices and market leasing rates decreased significantly primarily due to reductions in the cost of steel in China. Container prices and market lease rates for new containers increased in the second quarter of 2006 though they remain subject to further volatility. In addition, despite the increase in container prices and market leasing rates in the second quarter of 2006, our average leasing rates decreased throughout the year. 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 our older containers.

Leasing rates can also be negatively impacted by the entrance of new leasing companies, overproduction of new containers by factories and over-buying by shipping lines and leasing competitors. For example, during 2001 and again in the second quarter of 2005, overproduction of new containers, coupled with a build-up of container inventories in Asia by leasing companies and shipping lines, led to decreasing utilization rates and more aggressive lease pricing from some of our competitors. In the event that the container shipping industry were to be characterized by over-capacity in the future, or if available supply of containers were to increase significantly as a result of, among other factors, new companies entering the business of leasing and selling containers, both utilization and lease rates can be expected to decrease, thereby adversely affecting the revenues generated by our container leasing business.

A number of new leasing companies have been started during the last several years, reflecting the high global availability of debt and equity capital. Since they typically cannot compete on service capability, new leasing companies typically seek to gain share by offering low leasing rates, and in 2005 and 2006 market leasing rates were negatively impacted by aggressive pricing from recent entrants.

Table of Contents

Sustained Asian economic instability could reduce demand for leasing.

A number 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 a reduced demand for leasing of our containers or otherwise adversely affect us.

Our customers may decide to lease fewer containers.

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 revenue, 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, several trends may cause the percentage of leased containers to decrease in the future. These trends include increased access of shipping lines to low-cost bank financing, the consolidation of the shipping industry and improvements in information technology.

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 approximately 10 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 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 have large, 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 undermine our ability to maintain a high level of container utilization or achieve our growth plans.

The age of our container fleet may become a competitive disadvantage.

As of December 31, 2006, the average age of the containers in our fleet was 8.4 years. We believe that the average age of some of our competitors' container fleets is lower than the average age of our fleet, and customers generally have a preference for younger containers. Historically, we have been successful marketing our older equipment by positioning older containers to areas where demand is very strong, offering incentives for customers to extend containers on lease, and providing greater drop-off location flexibility for containers approaching sale age. However, our marketing strategies for older containers may not continue to be successful, particularly if demand for containers becomes weaker.

The age of our fleet may result in an increase in disposals of equipment and result in a reduction of lease revenue if we are unable to purchase and lease similar volumes of equipment.

As of December 31, 2006, the average age of the containers in our fleet was 8.4 years and accordingly a large portion of our fleet is on leases which take the units to the end of their serviceable

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life in marine transport. Upon redelivery, this equipment is likely to be disposed. From 2004 through 2006, we sold slightly less than 8% of our containers annually. Due to the aging of our fleet, we expect that our disposal rate will increase for several years beginning in 2008. If we are unable to purchase and lease the volumes of equipment necessary to replace the units sold, our revenue could decrease.

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

Our containers and chassis are leased to numerous customers. Rent and other compensation, as well as indemnification for damage to or loss of our equipment, is payable under the leases and other arrangements by the end users. 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 compensation and other 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 the containers, principally lease rentals, management fees, proceeds from the sale of owned containers and commissions earned on container agency and brokerage activities, is affected significantly by our ability to collect payments under leases and other arrangements for the use of the containers and our ability to replace cash flows from terminating leases by re-leasing or selling containers on favorable terms. All of these factors are subject to external economic conditions and performance by lessees and service providers that will not fully be within 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.

From 1997 to 2000 we experienced significant lessee defaults as a result of the cyclical down turn in the shipping industry. During this period we maintained insolvency insurance to cover such defaults and as a result these defaults did not have a significant impact on our financial results. We have not maintained insurance to cover lessee defaults since 2001.

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 we believe currently present a significant risk of default. These reserves are currently at historically low levels, mainly due to the low level of defaults we have experienced in recent years. However, future defaults may be material and any such future defaults could have a material adverse effect on our business condition and financial prospects.

We are dependent upon continued demand from our large customers.

Our largest customers account for a significant portion of our revenues. Our five largest customers represented approximately 47% of our revenues for our 2006 fiscal year, with our single largest customer representing approximately 18% during such period. Furthermore, the shipping industry has been consolidating for a nunber of years, and further consolidation could increase the portion of our revenue that comes from our largest customers. The loss, default or significant reduction of orders from any of our large customers, and especially our single largest customer, could have a material adverse effect on our business, financial condition and future prospects.

Gains and losses associated with container sales may fluctuate and adversely affect our operating results.

Although our revenue primarily depends 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

Table of Contents

substantially, depend upon, among other factors, the location of the containers, worldwide steel prices and the cost of new containers, the supply of used containers for disposal, 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 lease 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 very 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. It is possible that a decrease in new container prices or an over-supply of used containers could cause our used container sale prices to decrease again.

Changes in market price, availability or transportation costs 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 and special containers from two manufacturers based in China and substantially all of our refrigerated containers from three manufacturers based in China. In the event that it were to become more expensive for us to procure containers in China or to transport these containers at a low cost from China to the locations where they are needed by our customers, because of further consolidation among container suppliers, 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.

Our business strategies entail risk and we may not be able to realize our plans with regard to these strategies.

As discussed herein, in order to grow our business, we expect to employ various strategies, including consummating strategic acquisitions and investing in our container fleet. Unanticipated issues may arise in the implementation of these contemplated strategies, which could impair our ability to expand our business as expected. For example:

- favorable conditions in the equipment leasing market, including the rate of world trade and economic growth, could deteriorate;
- equipment prices and lease rates could decrease as a result of a variety of factors, including a decrease in worldwide steel prices;
- the financial condition of our third party depot operators and other business partners may deteriorate;
- our customers could decide to buy rather than lease a larger percentage of the containers they operate; and
- we may not be able to execute strategic acquisitions or to integrate such acquired assets successfully into our business.

Any of the above risks could adversely affect our financial position and results of operations. Furthermore, the execution of our plans could result in our having greater losses than we have historically experienced and could have a material adverse effect on our business.

If we are unable to meet future capital requirements, our business may be adversely affected.

We periodically make capital investments to, among other things, maintain and expand our container fleet. As we maintain and grow our business, we may have to incur significant capital

Table of Contents

expenditures. We believe that we will be able to fund these expenditures through cash flow from operations and borrowings under our various credit facilities. However, future borrowings may not be available under such facilities and we may not be able to refinance such facilities on commercially reasonable terms or at all. Additionally, we may not have, and may not be able to obtain, adequate funds to make all necessary capital expenditures when required, and the amount of future capital expenditures may materially exceed our anticipated or current expenditures. If we are unable to make necessary capital expenditures, our profitability could suffer.

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 large positioning expenses from 2000-2003 to shift our inventory of containers from North America and Europe to Asia. Further changes in the pattern of global containerized trade could force us to incur large positioning expenses in the future.

We currently seek to limit the number of containers that can be returned and impose surcharges on containers 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.

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. For example, we, along with some of our competitors and one of our lessees, currently have identified cracks in rails in certain containers manufactured in two factories in China in 2003 and 2004. To date, the manufacturer has agreed to be responsible for the repair of the containers, even though the cause of the problem has not yet been identified. However, there is no assurance that the manufacturer will continue to honor its warranty obligations or that manufacturers will be willing or able to honor such warranty obligations in the future. 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 and/or the useful life of the containers could be shortened and the value of the containers reduced.

We rely on our information technology systems to conduct our business. If these systems fail to adequately perform these 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 system and our ''Tradex'' 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 repairs and changes to book value, and movements associated with each of our owned or managed containers. We 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

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perform as we anticipate could disrupt our business and results of operation 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 these persons in our industry is 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.

Our ability to enforce the end users' obligations under the leases and other arrangements for use of the containers will be subject to applicable laws in the jurisdiction in which enforcement is sought. As the containers are predominantly located on international waterways, it is not possible to predict, with any degree of certainty, the jurisdictions in which enforcement proceedings may be commenced. 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 in jurisdictions where recovery of equipment from the defaulting lessee is more cumbersome. As a result, the relative success and expedience of enforcement proceedings with respect to the containers in various jurisdictions also cannot be predicted.

We are also 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 the country;
- 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;
- higher interest rates;
- requirements relating to withholding taxes on remittances and other payments by subsidiaries;

Table of Contents

- labor or other disruptions at key ports;
- difficulty in staffing and managing widespread operations; and
- 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.

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 us.

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 TAL International Corporation's title to containers nor is there an internationally recognized system for filing security interest 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.

We may incur costs associated with new security regulations.

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 new and existing 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 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 financial condition and results of operations.

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

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

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Table of Contents

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, we may not be fully protected from liability arising 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. Our lessees are required to indemnify us from such claims. Liability insurance policies, including ours, usually exclude claims for environmental damage. Our lessees may, but we do not require them to, have separate insurance converage for environmental damage. So such insurance or indemnities may not fully protect us against damages arising from environmental damage. Under the terms of the stock purchase agreement in respect of the Acquisition, the seller is obligated to indemnify us for certain environmental liabilities relating to the operation of the business prior to our acquisition. This indemnification, however, may not be sufficient to reimburse us for all losses relating to environmental liabilities.

Many countries, including the United States, restrict, prohibit or otherwise regulate the use of chlorofluorocarbon compounds (‘‘CFCs’’) due to their ozone depleting and global warming effects. CFCs have historically been used in the manufacture and operation of older refrigerated containers, including some containers purchased in the past by TAL

International Corporation and Trans Ocean, which we acquired in the Acquisition and which are currently used in less than 3% of our refrigerated containers. The vast majority of our refrigerated containers currently use R134A refrigerant. While R134A does 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. While the European Union regulations do not currently restrict the use of 134A 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. If future regulations prohibit the use or servicing of containers using R134A refrigerant, 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 prices in the market for used containers once we retire these containers from our fleet.

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.

Table of Contents

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 effected.

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. New accounting standards and new corporate governance regulations of the New York Stock Exchange 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.

Financing of Port Equipment

In December 2006 we entered into our first port equipment finance transaction in which we financed several container cranes, reach stackers, tractors, trailers and related equipment. The financing of port equipment such as container cranes involves additional risks such as the additional maintenance requirements for the equipment which if not followed could reduce the value of the equipment, the risk of personal injury inherent in operating this equipment, the limited remarketing opportunities for such equipment, the increased risk of technical obsolescence of such equipment and the high cost of transporting the equipment should it need to be repositioned.

Other Risks Related to Our Business

We are a ‘‘controlled company’’ within the meaning established by the New York Stock Exchange and, as a result, qualify for, and intend to rely on, exemptions from certain corporate governance requirements.

The Resolute Fund, L.P., its affiliated funds and the other parties to a shareholders agreement among the investors who acquired our company in November 2004, management and certain of our other shareholders, as a group, control a majority of our outstanding common stock, and, as a result, we are considered a ‘‘controlled company’’ within the meaning of the corporate governance standards of the New York Stock Exchange. Under these rules, a ‘‘controlled company’’ is exempt from complying with certain corporate governance requirements, including (1) the requirement that a majority of the board of directors consist of independent directors, (2) the requirement that we have a nominating/corporate governance committee that is composed entirely of independent directors and (3) the requirement that we have a compensation committee that is composed entirely of independent directors. As a result, our board of directors does not consist of a majority of independent directors nor does our board of directors have compensation and nominating/corporate governance committees

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Table of Contents

consisting entirely of independent directors. Accordingly, investors do not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the New York Stock Exchange.

Our strategy to selectively pursue complementary acquisitions may present unforeseen integration obstacles or costs.

We may selectively pursue complementary acquisitions and joint ventures. Acquisitions 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.

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, 2006, we have outstanding indebtedness of $919.9 million under our asset backed securities program and our other credit facilities. In addition, we have capital lease obligations in the amount of $38.4 million. Our interest and debt expense for the fiscal year ended December 31, 2006 was $47.6 million. As of December 31, 2006, our total debt to total assets was 66%.

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;
- 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.

Table of Contents

Despite our substantial leverage, we and our subsidiaries will 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 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 planned 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.

Financial, business, economic and other factors, many of which we cannot control, will affect our ability to generate cash in the future and to make these payments.

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

Our asset backed securities program 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 us 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.

Table of Contents

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, our other public announcements and our 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;
- 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 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.

We may not always pay dividends on our common stock.

There is no assurance as to our ability to pay future dividends because they depend on future earnings, capital requirements, and financial condition.

We are uncertain of our ability to obtain additional financing for our future capital needs.

We believe that cash from operations and existing cash, together with available borrowings under our asset backed securities program and our other credit facilities will be sufficient to meet our working capital, capital expenditure and expense requirements for at least the next twelve months. However, we may need to raise additional funds in order to fund our business, expand our sales activities, develop new or enhance existing products and/or respond to competitive pressures. Additional financing may not be available on terms favorable to us, or at all.

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. We do not control 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.

Table of Contents

Implementation of required public company corporate governance and financial reporting practices and policies increases our costs significantly and require our management to devote substantial time to comply therewith and we may be unable to provide the required financial information in a timely and reliable manner.

As a newly public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the Securities and Exchange Commission and the New York Stock Exchange, have imposed various new requirements on public companies, including changes in corporate governance practices. Our management and other personnel need to devote a substantial amount of time to these new requirements. Moreover, these rules and regulations increase our legal and financial compliance costs and make some activities more time-consuming and costly. For example, these new rules and regulations 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.

In addition, Section 404 of the Sarbanes-Oxley Act of 2002 requires that we maintain effective internal controls for financial reporting and disclosure controls and procedures. If we are not able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 in a timely manner, 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, the market price of our stock could decline and we could be subject to sanctions or investigations by the New York Stock Exchange, the Securities and Exchange Commission or other regulatory authorities. Any failure by us to timely implement these required public company corporate governance and financial reporting practices and policies could materially and adversely impact our financial condition and results of operation and the price of our common stock.

Our internal control over financial accounting and reporting may not detect all errors or omissions in the financial statements.

Section 404 of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of internal control over financial reporting and a report by our independent auditors addressing these assessments. If we fail to maintain the adequacy of internal control over financial accounting, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of 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 control can provide absolute assurance that the financial statements are accurate and free of errors. As a result, the risk exists that our internal control may not detect all errors or omissions in the financial statements.

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 regularly review our long-lived assets for impairment, including 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 type, or as a result of asset or portfolio sale decisions by management.

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

Our 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 tax charge against earnings, in the form of a valuation allowance, if it is determined it is more-likely-than-not that some or all of the loss carryforwards will not be realized.

Table of Contents

In addition, under certain conditions, if our future investment in new container and chassis operating leases is significantly less than estimated, we may fail to benefit from future accelerated depreciation for income tax purposes. If this occurs we could become a cash taxpayer sooner than we currently project.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 2. PROPERTIES

Office Locations. As of December 31, 2006, our employees are located in 19 offices in 11 different countries. We have 7 offices in the U.S. including our headquarters in Purchase, New York. We have 12 offices outside the U.S. We lease all of our office space. In addition, we have agents dedicated to our business in South Korea.

The following table summarizes the facilities we leased as of December 31, 2006:

Office Location—U.S. Properties
Purchase, NY (Headquarters)
Cranford, NJ
Houston, TX
Danville, CA
San Francisco, CA
Miami, FL
Kansas City, MO

Office Location—International Properties
Barking, United Kingdom
London, United Kingdom
Antwerp, Belgium
Hong Kong
Sydney, Australia
Singapore

Milan, Italy
Tokyo, Japan
Hamburg, Germany
Shanghai, China
Mumbai, India
Taipei, Taiwan

Table of Contents

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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders of TAL International Group, Inc. during the fourth quarter of 2006.

Table of Contents

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, 2006 and 2005.

	High	Low
2006:		
Fourth Quarter	$ 27.67	$ 20.98

Third Quarter	$ 25.60	$ 20.18
Second Quarter	$ 27.70	$ 21.60
First Quarter	$ 24.24	$ 20.28
2005:		
Fourth Quarter	$ 20.89	$ 17.05

On March 1, 2007, the closing price of the common stock was $23.70, as reported on the New York Stock Exchange. On that date, there were approximately 36 holders of record of the common stock and approximately 2,985 beneficial holders, based on information obtained from the Company’s transfer agent.

Table of Contents

PERFORMANCE GRAPH

The graph below compares cumulative shareholder returns for the Company as compared with the S&P 500 Stock Index and the Russell 2000 Stock Index for the period from October 12, 2005 (the date TAL International Group, Inc. common stock began trading) to December 31, 2006. The graph assumes the investment of $100 as of October 12, 2005 and the reinvestment of all dividends.

		INDEXED RETURNS				
	Base Period	Quarters Ending				
Company / Index	10/12/05	12/31/05	3/31/06	6/30/06	9/30/06	12/31/06
TAL INTERNATIONAL GROUP, INC.	100	114.72	133.94	133.89	118.94	151.18
S&P 500 INDEX	100	106.52	111.00	109.40	115.60	123.34
RUSSELL 2000 INDEX	100	108.62	123.77	117.55	118.06	128.58

Dividends

On August 8, 2006, our Board of Directors approved and declared a $0.20 per share quarterly cash dividend on our issued and outstanding common stock, which was paid on September 26, 2006 to shareholders of record at the close of business on September 12, 2006.

On November 3, 2006, our Board of Directors approved and declared a $0.25 per share quarterly cash dividend on our issued and outstanding common stock, which was paid on December 8, 2006 to shareholders of record at the close of business on November 21, 2006.

On December 19, 2006, our Board of Directors approved and declared a $0.30 per share quarterly cash dividend on our issued and outstanding common stock, which will be payable on March 9, 2007 to shareholders of record at the close of business on February 23, 2007.

The Company expects to continue its policy of paying quarterly cash dividends, although there is no assurance as to future dividends because they depend on future earnings, capital requirements, and financial condition.

Stock Repurchase Program

On March 13, 2006, our Board of Directors authorized a stock buyback program for the repurchase of up to 1,500,000 shares of our common stock. Stock repurchases under this program may be made through open market and/or privately negotiated transactions at such times and in such

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Table of Contents

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.

During the quarter ended December 31, 2006, there were no shares repurchased under the stock repurchase program. For the year ended December 31, 2006, a total of 136,250 shares were repurchased, and 1,363,750 shares may yet be repurchased under the stock repurchase program.

Unregistered Sales of Equity Securities

In 2006, we granted options to purchase 21,000 shares of common stock under our 2005 Management Omnibus Incentive Plan, which have a weighted average exercise price of $23.28 per share. In 2006, 420,823 shares of common stock were issued upon exercise of stock options granted in 2004 and 2005 under our 2004 Management Stock Plan and our 2005 Management Omnibus Incentive Plan. The weighted average exercise price of the options exercised in 2006 was $0.03 per share. All options were granted under Rule 701 promulgated under the Securities Act or, in the case of employees who are officers or directors of our Company or are accredited investors, Section 4(2) of the Securities Act.

There were no underwriters employed in connection with any of the transactions set forth above. The recipients of securities in each such transactions represented their intention to acquire the securities for investment only and not with a view to any distribution thereof. Appropriate legends were affixed to the share certificates and other instruments issued in such transactions. All recipients were given the opportunity to ask questions and receive answers from our representatives concerning our business and financial affairs. Each of the recipients that were employees of TAL had access to such information through their employment with TAL.

Securities Authorized for Issuance Under Equity Compensation Plans

Our Equity Compensation Plan Information table is incorporated by reference to our Proxy Statement, which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the Company’s fiscal year ended December 31, 2006.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain selected historical financial, operating and other data of TAL International Group, Inc. (the ‘‘Successor’’) and Trans Ocean and certain operations of TAL International Container Corporation on a combined basis (collectively, the ‘‘Predecessor’’). The summary historical consolidated statement of operations data, balance sheet data and other financial data for the fiscal years ended December 31, 2006 and 2005 and for the two months ended December 31, 2004 were derived from the Successor’s audited consolidated financial statements and related notes appearing elsewhere in this Form 10-K. The summary historical combined consolidated statement of operations data, balance sheet data and other financial data for the ten months ended October 31, 2004 (appearing elsewhere in this Form 10-K) and for the years ended December 31, 2003 and 2002 were derived from the Predecessor's audited combined consolidated financial statements and related notes. The historical results are not necessarily indicative of the results to be expected in any future period.

All actual common share and per share data have been adjusted to retroactively reflect the 101.5052-to-1 stock split that occurred on October 5, 2005.

30

Table of Contents

	Successor			Predecessor		
	Year Ended December 31, 2006	Year Ended December 31, 2005	Two Months Ended December 31, 2004	Ten Months Ended October 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002
	(dollars in thousands other than per share data)					
Statement of Operations Data:						
Leasing revenues	$ 271,028	$ 285,406	$ 48,365	$242,963	$301,352	$303,786
Equipment trading revenue	23,665	24,244	1,713	9,641	15,235	15,893
Management fee income	6,454	6,482	1,071	6,046	6,612	5,927
Other revenues	2,301	2,383	313	2,858	2,823	2,395
Total revenues	303,448	318,515	51,462	261,508	326,022	328,001
Equipment trading expenses	19,344	19,227	1,361	7,044	12,822	12,937
Direct operating expenses	25,114	26,907	4,372	23,043	37,268	53,595
Administrative expenses	38,012	40,671	6,419	29,014	38,404	33,383
Depreciation and amortization	103,849	115,138	19,769	119,449	134,985	150,256
Equipment rental expense	149	299	1,140	4,342	36,264	37,307
(Reversal) provision for doubtful accounts	(526)	559	225	300	(33)	(322)
Net (gain) loss on sale of leasing equipment	(6,242)	(9,665)	(126)	3,325	35,940	55,782
Write-off- deferred financing costs	2,367	43,503	—	—	—	—
Interest and debt expense	47,578	72,379	13,185	22,181	23,756	25,063
Unrealized loss (gain) on interest rate swaps	8,282	(12,499)	(2,432)	—	—	—
Management fees and other Parent Company charges	—	4,878	—	28,360	—	3,563
Total expenses	237,927	301,397	43,913	237,058	319,406	371,564
Income (loss) before income taxes and cumulative effect of accounting change	65,521	17,118	7,549	24,450	6,616	(43,563)
Income tax expense (benefit)	23,388	7,446	2,680	8,926	740	(15,783)
Income (loss) before cumulative effect of accounting change	42,133	9,672	4,869	15,524	5,876	(27,780)
	—	—	—	—	—	(35,377)

Cumulative effect of accounting change						
Net income (loss)	42,133	9,672	4,869	$ 15,524	$ 5,876	$ (63,157)
Preferred stock dividends and accretion to redemption value	—	(19,868)	(8,410)			
Net income (loss) applicable to common stockholders	$ 42,133	$ (10,196)	$ (3,541)			
Earnings (Loss) Per Share Data:						
Basic income (loss) per share applicable to common stockholders	$ 1.28	$ (0.68)	$ (0.35)			
Diluted income (loss) per share applicable to common stockholders	$ 1.26	$ (0.68)	$ (0.35)			
Weighted average common shares outstanding:						
Basic	32,987,077	14,912,242	10,150,506			
Diluted	33,430,438	14,912,242	10,150,506			
Cash dividends paid per common share	$ 0.45	—	—			

	Successor			Predecessor		
	Year Ended December 31, 2006	Year Ended December 31, 2005	Two Months Ended December 31, 2004	Ten Months Ended October 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002
	(dollars in thousands other than per share data)					
Balance Sheet Data (end of period):						
Cash and cash equivalents	$ 58,167	$ 27,259	$ 16,424		$ 2,167	$ 426
Accounts receivable, net	39,318	36,470	35,014		37,593	44,955
Leasing equipment, net	1,080,523	1,036,363	1,103,423		977,022	1,093,233
Total assets	1,455,663	1,304,268	1,319,639		1,052,996	1,178,289
Total debt	958,317	872,627	1,072,000		614,242	667,574
Redeemable preferred stock	—	—	203,738		—	—
Redeemable common stock	—	—	3		—	—
Stockholders' equity (deficit)/ owners' net investment	398,750	379,967	(3,427)		100,998	111,522
Other Financial Data:						
Capital expenditures	$ 262,647	$ 190,032	$ 29,775	$ 261,183	$ 94,822	$ 77,645
Container sales proceeds, net of selling costs	58,462	90,481	9,721	46,898	43,865	31,540
Selected Fleet Data[1]:						
Dry container units[2]	547,172	523,533	538,390	540,428	548,401	581,885

Refrigerated container units(2)	35,038	35,631	35,851	35,706	35,830	35,840
Special container units(2)	42,183	43,414	46,797	47,363	52,903	56,356
Trader(2)	8,815	10,123	5,531	5,199	—	-
Chassis(2)	6,579	1,210	—	—	—	-
Total container units / chassis(2)	639,787	613,911	626,569	628,696	637,134	674,081
Total containers / chassis in TEU(2)	1,037,323	988,295	1,002,391	1,002,469	1,001,368	1,053,183
Average utilization %	90.8%	90.7%	92.8%	92.5%	87.2%	79.4

(1)Includes our operating fleet (which is comprised of our owned and managed fleet) plus certain other units including finance leases.

(2)Calculated as of the end of the relevant period.

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 ''Forward-Looking Statements'' as discussed eslewhere 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.

Our operations include the acquisition, leasing, re-leasing and subsequent sale of multiple types of intermodal containers and chassis. As of December 31, 2006, our fleet consisted of 639,787 containers and chassis, including 70,488 containers under management for third parties, representing approximately 1,037,000 twenty-foot equivalent units (TEU). We have an extensive global presence, offering leasing services through 19 offices in 11 countries and 184 third party container depot facilities in 37 countries as of December 31, 2006. Our customers are among the world's largest shipping lines and include, among others, APL-NOL, CMA-CGM, Hanjin Shipping, Maersk Line, Mediterranean Shipping Company and NYK Line.

Table of Contents

We primarily lease four principal types of equipment: (1) dry freight containers, which are used for general cargo such as manufactured component parts, consumer staples, electronics and apparel, (2) refrigerated containers, which are used for perishable items such as fresh and frozen foods, (3) special containers, which are used for heavy and oversized cargo such as marble slabs, building products and machinery, and (4) chassis which are used for the transportation of containers domestically. We also manage our own container disposals, act as the disposal agent for a number of our shipping line customers, and buy and sell used containers through our Trader group. As of December 31, 2006, dry, refrigerated, special containers and Trader represented approximately 86%, 5%, 7% and 1% of our fleet on a unit basis, respectively. Our chassis equipment, which was first purchased in the fourth quarter of 2005, represented 1% of our fleet on a unit basis as of December 31, 2006.

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

Equipment Fleet in Units

	December 31, 2006			December 31, 2005			December 31, 2004		
	Owned	Managed	Total	Owned	Managed	Total	Owned	Managed	Total
Dry	492,497	54,675	547,172	464,353	59,180	523,533	478,171	60,219	538,390
Refrigerated	33,990	1,048	35,038	34,006	1,625	35,631	34,154	1,697	35,851
Special	27,418	14,765	42,183	27,389	16,025	43,414	29,145	17,652	46,797
Chassis	6,579	—	6,579	1,210	—	1,210	—	—	—
Subtotal	560,484	70,488	630,972	526,958	76,830	603,788	541,470	79,568	621,038
Trader	8,815	—	8,815	10,123	—	10,123	5,531	—	5,531
Total	569,299	70,488	639,787	537,081	76,830	613,911	547,001	79,568	626,569

Equipment Fleet in TEU's

	December 31, 2006			December 31, 2005			December 31, 2004		
	Owned	Managed	Total	Owned	Managed	Total	Owned	Managed	Total
Dry	787,687	93,525	881,212	737,802	100,759	838,561	757,690	101,511	859,201
Refrigerated	61,208	1,652	62,860	60,674	2,394	63,068	59,787	2,521	62,308
Special	43,449	24,495	67,944	42,249	26,179	68,428	44,796	28,586	73,382
Chassis	11,508	—	11,508	2,270	—	2,270	—	—	—
Subtotal	903,852	119,672	1,023,524	842,995	129,332	972,327	862,273	132,618	994,891
Trader	13,799	—	13,799	15,968	—	15,968	7,500	—	7,500
Total	917,651	119,672	1,037,323	858,963	129,332	988,295	869,773	132,618	1,002,391

Our equipment fleet increased by 5.0% in 2006 on a TEU basis. Our revenue earning asset growth was significantly higher on a dollar basis, at 10.5%. Our growth in the net book value of our revenue earning assets exceeded our growth rate on a TEU basis, since our new chassis and port equipment investments are much more expensive than dry containers on a per TEU basis. The growth of our fleet has decreased the average age, and increased the average net book value, of the units in our fleet.

In 2006, excluding Trader units purchased for resale, we added approximately 125,000 TEU of new equipment to our fleet and sold approximately 65,000 TEU of our older equipment. Over the last three years, our disposal of older equipment, excluding Trader units purchased for resale, has averaged approximately 7.5% of our beginning fleet on an annual basis. As such, our disposal rate in recent years has been close to our theorectical steady-state disposal rate given the 12-14 year expected useful life of our containers.

Based on the age profile of our existing fleet and scheduled lease expirations, we expect our rate of disposals will increase for several years beginning in 2008. We invested in a relatively small number of containers from 1997 through 2003, and as a result, a large portion of the containers in our fleet are ten years and older. We currently plan that our annual rate of disposals will increase into the 10% range in 2008 and for several years thereafter, before decreasing significantly for several years after

Table of Contents

the bulk of the pre-1997 containers are sold. During years of above-average disposals, our TEU growth rate may be constrained if we are unable to generate a sufficient number of attractive lease transactions for an expanded level of new container purchases.

We generally lease our equipment on a per diem basis to our customers under three types of leases: long-term leases, service leases and finance leases. Long-term leases, typically with terms of three to eight years, provide us with stable cash flow and low transaction costs by requiring customers to maintain specific units on-hire for the duration of the lease. Service leases command a premium per diem rate in exchange for providing customers with a greater level of operational flexibility by allowing the pick-up and drop-off of units during the lease term. Finance leases, which are typically structured as full payout leases, provide for a predictable recurring revenue stream with the lowest daily cost to the customer because customers are generally required to retain the equipment for the duration of its useful life. As of December 31, 2006, approximately 93% of our containers and chassis were on-hire to customers, with approximately 58% of our equipment on long-term leases, approximately 27% on service leases or long-term leases whose fixed terms have expired but for which the related units remain on-hire and for which we continue to receive rental payments, and approximately 8% on finance leases. In addition, approximately 5% of our fleet was available for lease and approximately 2% was available for sale.

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

Lease Portfolio	December 31, 2006	December 31, 2005	December 31, 2004
Long-term lease	58.1%	59.0%	64.4%
Service lease	27.2	25.6	28.3
Finance lease	8.2	4.6	1.2
Total leased	93.5	89.2	93.9
Used units available for lease	3.1	5.1	2.9
New units available for lease	1.3	2.6	1.5
Available for sale	2.1	3.1	1.7
Total portfolio	100.0%	100.0%	100.0%

Operating Performance

Our profitability is primarily determined by the extent to which our leasing and other revenues exceed our ownership, operating and administrative expenses. Our profitability is also impacted by the gain or loss that we realize on the sale of our used equipment.

During the first half of 2006, seasonal factors and market conditions placed pressure on our profitability. Our operating profitability improved in the latter part of 2006 as we were able to benefit from an increase in container prices and an improvement in market conditions.

Our leasing revenue is primarily driven by our owned fleet size, utilization and average rental rates. Our leasing revenue is also impacted by the mix of leases in our portfolio. As of December 31, 2006, our fleet included 1,037,323 TEU, an increase of 5.0% from December 31, 2005. The increase in fleet size relative to the fourth quarter of 2005 was mainly due to the delivery of a large number of containers purchased in the first nine months of 2006. These deliveries proved to be timely since they allowed us to capitalize on the strong leasing demand for dry containers that we experienced early in the second quarter and late in the third quarter. Container deliveries were lower in the fourth quarter since we ordered fewer containers in the third quarter due to price uncertainty and our expectation for reduced dry container demand after the end of the summer peak season.

Table of Contents

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

Average Utilization[1]	Quarter Ended March 31,	Quarter Ended June 30,	Quarter Ended September 30,	Quarter Ended December 31,	Year Ended December 31,
2006	88.7%	89.8%	91.0%	93.0%	90.8%
2005	92.6%	90.4%	89.8%	89.8%	90.7%
2004	89.8%	92.9%	93.9%	94.5%	92.8%

(1) Utilization is computed by dividing our total units on lease by the total units in our fleet (which includes leased units, new and used units available for lease and units available for sale).

Our average utilization was 90.8% in the year ended December 31, 2006, an increase of 0.1% from the year ended December 31, 2005. Our utilization increased steadily throughout 2006, and our ending utilization increased from 89.2% as of December 31, 2005 to 93.5% as of December 31, 2006. At the beginning of 2006, the utilization of our dry and refrigerated containers was relatively low, reflecting an over building of containers in 2005 and a resulting slow market for container leasing. Utilization for our dry containers began to improve in the second quarter of 2006 as a shortage of new containers developed in Asia due to stronger than expected cargo demand and production delays at several container manufacturing facilities. Dry container leasing demand moderated over the summer before increasing at the end of the third quarter. Our dry container utilization remained high throughout the fourth quarter despite the end of the summer peak season due to strong cargo volumes and the completion of a number of lease extension transactions which reduced the number of containers that our customers were able to return.

Utilization for our refrigerated containers remained low for most of 2006 before improving during the fourth quarter. Since our refrigerated containers represent only 6.1% of our containers on a TEU basis, the performance of our refrigerated containers does not heavily influence our overall utilization. However, refrigerated containers are much more expensive than our other container types and represent nearly 23% of our revenue earning assets and nearly 30% of our leasing revenue, and the utilization of our refrigerated container fleet has a significant impact on our overall financial performance. Utilization for our refrigerated containers remained low for most of 2006 due to the weak leasing market we experienced during the 2005/2006 winter season. The winter season is typically our peak leasing season for refrigerated containers due to demand from Northern Hemisphere consumers for fresh fruits and vegetables during the winter months, and the 2005 / 2006 winter leasing market was weak partially due to an increase in new container buying by our customers. After the weak winter season, our refrigerated container utilization remained low for the second and third quarters, mostly reflecting the typical softness of the summer months. However, leasing demand increased sharply at the beginning of the 2006 / 2007 winter peak season and the utilization of our refrigerated containers increased 6.5% during the fourth quarter.

Utilization for our special containers increased steadily during 2006 reflecting strong leasing demand for special containers throughout the year.

Average lease rates for our dry container product line in December 2006 decreased by approximately 5% compared to December 2005 despite the high new container prices that prevailed during the latter part of 2006. The decrease in average dry container leasing rates was primarily caused by several large lease extension transactions completed during the second and third quarters of 2006. The profitability of our shipping line customers came under pressure in 2006 due to a large increase in vessel capacity and decreasing freight rates, and our customers were actively seeking ways to reduce operating expenses. In several cases, we responded to our customers' requests for lease rate reductions by renewing or extending lease agreements early in return for lease rate savings, and in 2006 we completed lease extension transactions that cover more than 10% of the dry containers and nearly 10% of the refrigerated containers in our fleet. While these lease extension transactions reduced our revenue in 2006, we expect they will have a positive impact on the net present value of our lease portfolio, particularly for our older containers, since they extend the revenue-earning life of the containers. The higher price of new containers was also not heavily reflected in our average lease rates

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Table of Contents

since a large portion of the containers we supplied to our customers in 2006 were placed on leases negotiated during the first quarter when container prices and market leasing rates were low.

New dry container prices were highly volatile in 2006. Container prices were very low at the beginning of the year, then increased roughly 40% in the second quarter. Container prices began to decrease at the end of the third quarter, although they strengthened at the end of the year to finish 2006 above $1,900 for a 20 foot dry container.

Our average lease rates for refrigerated containers in December 2006 decreased by approximately 7% compared to December 2005 mainly due to a large lease extension transaction completed at the beginning of the third quarter. Average lease rates for special containers in 2006 increased by approximately 0.4% as compared to 2005.

The percentage of our units on finance leases increased to 8.2 % as of December 31, 2006, compared to 4.6 % at the beginning of the year. Finance lease revenue increased to $12.4 million in 2006 as compared to $5.4 million in the prior year. However, the increase in the portion of our units on finance leases during 2006 resulted in a reduction in our overall leasing revenue compared to the level we would have achieved if the equipment was placed on operating leases. Under a finance lease, we recognize only interest income as revenue while the principle component of the lease payment reduces the net finance lease receivable on the balance sheet. Under an operating lease, we recognize the entire monthly billing as revenue and reduce the net book value of the underlying equipment through depreciation expense.

During 2006, we recognized a gain of $6.2 million on the sale of our used containers. Our disposal results improved throughout the year after beginning slowly in the first quarter. In the first quarter, we recorded a loss of $0.1 million on the sale of used equipment due to a low volume of disposals and price pressure resulting from the decrease in new container prices at the end of 2005. Selling prices and volumes improved in the second quarter of 2006 due to an increase in container demand and an increase in the price of new containers, and disposal volumes and prices remained at a high level for the rest of the year. Our gains on sale were also helped in the third and fourth quarters by a finance lease transaction for a portion of our older containers and gains resulting from an unusually high number of units reported lost by our customers. Due to the strong disposal volumes we achieved in the latter part of the year, the portion of our container fleet identified as for sale decreased from 3.1% as of December 31, 2005 to 2.1 % as of December 31, 2006.

Our direct operating expenses decreased by $1.8 million in 2006 as compared to 2005 mainly due to lower positioning and repair costs. Our operating expenses remain at historically low levels due to the high utilization of our container fleet, the large portion of our units on long-term and finance leases and the large portion of our returned units that are sale age. Typically we incur reduced repair and positioning expenses when returned equipment is sold rather than re-leased.

Our ownership expenses, principally depreciation and interest expense decreased by $36.1 million in 2006 as compared to 2005. The decrease in depreciation expense in 2006 resulted from the increase in the portion of our equipment covered by finance leases as well as the termination of depreciation charges for equipment that reached the end of its estimated depreciable life at the end of 2005, but remain in our fleet. The significant reduction in interest expense in 2006 compared to the level we experienced in 2005 was due to the benefit of lower interest rates from our securitization program, as well as the large reduction in the amount of outstanding debt that we achieved as a result of our initial public offering in the fourth quarter of last year.

We made improvements in our debt financing structure in 2006. On April 12, 2006, we successfully completed the placement of our $680.0 million Series 2006-1 Floating Rate Secured Notes (the ‘‘ABS Term Notes’’). The net proceeds from this offering, together with cash on hand, were used to repay all principal and interest that was owed under the Asset Securitization Facility. Simultaneously with the closing of the ABS Term Note offering, we also completed the placement of our $300.0 million Series 2005-1 Floating Rate Secured Notes (the ‘‘ABS Warehouse Facility’’). The ABS Warehouse Facility has a two year revolving period in which we can meet our new equipment procurement funding requirements. These two transactions have positively impacted our operating

performance by reducing the borrowing spread on $680.0 million of our previously outstanding indebtedness while also allowing us to finance our growth at significantly reduced rates. We also successfully renegotiated our Senior Secured Credit Facility to reduce the borrowing spread by 0.75% and reduce our commitment from $175.0 million to $165.0 million.

Dividends

On August 8, 2006, our Board of Directors approved and declared a $0.20 per share quarterly cash dividend on our issued and outstanding common stock, which was paid on September 26, 2006 to shareholders of record at the close of business on September 12, 2006.

On November 3, 2006, our Board of Directors approved and declared a $0.25 per share quarterly cash dividend on our issued and outstanding common stock, which was paid on December 8, 2006 to shareholders of record at the close of business on November 21, 2006.

On December 19, 2006, our Board of Directors approved and declared a $0.30 per share quarterly cash dividend on our issued and outstanding common stock, which will be payable on March 9, 2007 to shareholders of record at the close of business on February 23, 2007.

Treasury Stock

We repurchased 136,250 of our common shares in the open market during 2006 at a total cost of approximately $2.9 million.

Basis of Presentation

TAL International Group, Inc. (''TAL,'' the ''Company,'' or ''Successor'') was formed on October 26, 2004 and commenced operations on November 4, 2004 with the completion of the acquisition transaction described below. The agreements affecting this acquisition provided for an effective date of October 31, 2004, at which date the risks and rewards of ownership of the business were transferred to TAL. TAL consists of the consolidated accounts of TAL International Container Corporation, formerly known as Transamerica Leasing Inc., (''TALI'') and Trans Ocean Ltd. (''TOL'') and their subsidiaries.

Transamerica Maritime Container (the ''Predecessor'') consisted of the maritime container operations of Transamerica Finance Corporation (''TFC,'' the ''Parent'' or ''Parent Company''). The combined consolidated financial statements of the Predecessor have been derived from the accounting records of TALI and TOL and certain of their subsidiaries. Material intercompany and inter-division balances have been eliminated in combination and consolidation. TALI and TOL were wholly owned indirect subsidiaries of TFC, which is an indirect subsidiary of AEGON N. V. The results for the combined year ended December 31, 2004 combine the results of the Predecessor for the ten months ended October 31, 2004 with the results of the Successor for the two months ended December 31, 2004 by mathematical addition and do not comply with generally accepted accounting principles. Such data is being presented for analysis purposes only.

Effective October 31, 2004, TAL acquired all of the outstanding capital stock of TALI and TOL for approximately $1.2 billion in cash, including $275.0 million of financing provided by the seller. This acquisition of TALI and TOL is referred to as the ''Acquisition.'' The Acquisition was accounted for using the purchase method of accounting and accordingly, the consideration paid has been allocated based on the estimated fair values of the assets acquired and liabilities assumed. The financial statements for periods prior to November 1, 2004 have been prepared using the Predecessor's historical basis in the assets and liabilities presented as of the dates specified therein and the historical results of operations for such periods on a combined basis.

Table of Contents

Results of Operations

The following table summarizes our results of operations for the three years ended December 31, 2006, 2005 and 2004 in dollars in thousands and as a percentage of total revenues.

	Successor		Combined[1]
	Year Ended December 31,		
	2006	2005	2004

	Dollars	Percent	Dollars	Percent	Dollars	Percent
Leasing revenues	$271,028	89.3%	$285,406	89.6%	$291,328	93.1%
Equipment trading revenue	23,665	7.8	24,244	7.6	11,354	3.6
Management fee income	6,454	2.1	6,482	2.0	7,117	2.3
Other revenues	2,301	0.8	2,383	0.8	3,171	1.0
Total revenues	303,448	100.0	318,515	100.0	312,970	100.0
Equipment trading expenses	19,344	6.4	19,227	6.0	8,405	2.7
Direct operating expenses	25,114	8.3	26,907	8.4	27,415	8.8
Administrative expenses	38,012	12.5	40,671	12.8	35,433	11.3
Depreciation and amortization	103,849	34.2	115,138	36.1	139,218	44.5
Equipment rental expense	149	0.1	299	0.1	5,482	1.8
(Reversal) provision for doubtful accounts	(526)	(0.2)	559	0.2	525	0.2
Net (gain) loss on sale of leasing equipment	(6,242)	(2.1)	(9,665)	(3.0)	3,199	0.9
Write-off of deferred financing costs	2,367	0.8	43,503	13.7	—	—
Interest and debt expense	47,578	15.7	72,379	22.7	35,366	11.3
Unrealized loss (gain) on interest rate swaps	8,282	2.7	(12,499)	(3.9)	(2,432)	(0.8)
Management fees and other Parent Company charges	—	—	4,878	1.5	28,360	9.1
Total expenses	237,927	78.4	301,397	94.6	280,971	89.8
Income before income taxes	65,521	21.6	17,118	5.4	31,999	10.2
Income tax expense	23,388	7.7	7,446	2.4	11,606	3.7
Net income	$ 42,133	13.9%	$ 9,672	3.0%	$ 20,393	6.5%

(1)The results for the combined year ended December 31, 2004 combine the results of the Predecessor for the ten months ended October 31, 2004 with the results of the Successor for the two months ended December 31, 2004 by mathematical addition and do not comply with generally accepted accounting principles. Such data is being presented for analysis purposes only.

Comparison of Year Ended December 31, 2006 to Year Ended December 31, 2005

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

	Successor Year Ended December 31,	
	2006	2005
Leasing revenues:		
Per diem revenue	$ 230,217	$ 249,787
Finance lease revenue	12,422	5,387
Fee and ancillary lease revenue	28,389	30,232
Total leasing revenues	$ 271,028	$ 285,406

Total leasing revenues were $271.0 million for the year ended December 31, 2006, compared to $285.4 million for the year ended December 31, 2005, a decrease of $14.4 million, or 5.0%. The decrease primarily resulted from lower per diem rates for dry and refrigerated containers and lower

Table of Contents

utilization for refrigerated containers. While our finance lease revenue increased by $7.0 million, the increase in the portion of our units on finance leases resulted in a reduction in our overall leasing revenue compared to the amount we would have recognized if the units were placed on operating leases. Under a finance lease, we only recognize interest income as revenue while the principal component of the lease payment reduces the net finance lease receivable on the balance sheet. Under an operating lease we recognize the entire monthly billing as revenue, and reduce the net book value of the underlying equipment through depreciation expense.

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

	Successor Year Ended December 31,	
	2006	2005
Equipment trading revenues	$ 23,665	$ 24,244
Equipment trading expenses	(19,344)	(19,227)
Net equipment trading margin	$ 4,321	$ 5,017

The net equipment trading margin decreased $0.7 million for the year ended December 31, 2006 compared to the year ended December 31, 2005. In 2005, third-party selling margins were supported by increasing used container sale prices for most of the year, which generally increased the value of our trading inventory during the period the containers were held. In 2006, revenues decreased primarily due to lower selling prices, while expenses remained stable.

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 $25.1 million for the year ended December 31, 2006, compared to $26.9 million for the year ended December 31, 2005, a decrease of $1.8 million or 6.7%. During the year ended December 31, 2006, positioning costs decreased by $1.4 million resulting from fewer units moved, and repairs decreased by $3.3 million due to a decrease in the number of units repaired. These decreases were partially offset by an increase in storage and handling costs of $1.7 million due to lower utilization and higher volume of units picked up and dropped off. Additionally, other operating expenses increased by $1.2 million primarily due to higher equipment inspection and survey costs.

Administrative expenses. Administrative expenses were $38.0 million for the year ended December 31, 2006, compared to $40.7 million for the year ended December 31, 2005, a decrease of $2.7 million or 6.6%. This decrease was mainly due to a 2005 stock compensation charge of $3.9 million associated with stock options issued to certain members of management that fully vested upon completion of the IPO. This decrease was partially offset by costs incurred for Sarbanes-Oxley compliance activities in 2006.

Depreciation and amortization. Depreciation and amortization was $103.8 million for the year ended December 31, 2006, compared to $115.1 million for the year ended December 31, 2005, a decrease of $11.3 million or 9.8%. The decrease was primarily due to certain equipment becoming fully depreciated in the fourth quarter of 2005. In addition, a larger portion of our fleet was placed on finance leases in 2006, and units on finance leases are not subject to depreciation.

(Reversal) provision for doubtful accounts. There was a (reversal) for doubtful accounts for $(0.5) million for the year ended December 31, 2006, compared to a provision of $0.6 million for the year ended December 31, 2005. In 2006, we recorded a benefit for the reversal of an allowance upon collecting a past due repair receivable from one of our large customers.

Net (gain) loss on sale of leasing equipment. (Gain) on sale of equipment was $(6.2) million for the year ended December 31, 2006, compared to a (gain) of $(9.7) million for the year ended December 31, 2005, a decrease of $3.5 million. The (gain) recorded in 2005 included a $(2.9) million benefit from the sale of on-hire containers to one of our customers, and a sale of equipment to an

Table of Contents

investor as part of our managed equipment program. In addition, results in 2005 were supported by very strong selling prices for used containers.

Write-off of deferred financing costs. Write-off of deferred financing costs was $2.4 million for the year ended December 31, 2006, compared to $43.5 million for the year ended December 31, 2005. The current year write-off is the result of the refinancing of the Company's asset securitization facility in April 2006. The prior year write-offs were the result of: (1) refinancing our senior secured credit facility in August 2005, when we wrote off $24.3 million of unamortized financing costs that were previously deferred and (2) the repayment of the senior unsecured credit agreement in October 2005, when we wrote off $19.2 million of unamortized financing costs that were previously deferred.

Interest and debt expense. Interest and debt expense was $47.6 million for the year ended December 31, 2006, compared to $72.4 million for the year ended December 31, 2005, a decrease of $24.8 million. The decrease was primarily due to changes in our capital structure resulting from the IPO, and the subsequent refinancing of our asset securitization facility, which decreased our debt level and effective interest rate.

Unrealized loss (gain) on interest rate swaps. Unrealized loss on interest rate swaps was $8.3 million for the year ended December 31, 2006, compared to unrealized (gain) of $(12.5) million for the year ended December 31, 2005. The net fair value of the interest rate swap contracts was approximately $11.9 million at December 31, 2006, as compared to $13.9 million at December 31, 2005, with the decrease in fair value due to a decrease in interest rates.

Management fees and other Parent Company charges. Management fees and other Parent Company charges were zero for the year ended December 31, 2006, compared to $4.9 million for the year ended December 31, 2005. Management fees of $4.9 million for the year ended December 31, 2005 were payable pursuant to certain management agreements which terminated upon the completion of the IPO in October 2005.

Income tax expense. Income tax expense was $23.4 million for the year ended December 31, 2006, compared to an income tax expense of $7.4 million for the year ended December 31, 2005, and the effective tax rates for the periods were 35.7% and 43.5% respectively. The difference in the rate between 35.7% and 43.5% is primarily attributable to certain stock based compensation for 2005 that is not deductible for income tax purposes.

In conjunction with the Acquisition, both the seller and the purchaser elected to have the provisions of Internal Revenue Code Section 338(h)(10) apply to the sale, resulting in the transaction being treated as a taxable asset sale for U.S. federal income tax purposes. As a result of this election, the tax basis of our assets was adjusted to fair market value for U.S. federal income tax purposes, resulting in tax depreciation allowances over periods ranging from 5 to 7 years as well as the elimination of the net deferred U.S. federal income tax liability balance that existed immediately prior to the sale.

While we will be recording income tax expense, we do not expect to pay any significant U.S. federal income taxes for a number of years due to the following:

1) The Section 338(h)(10) election associated with the Acquisition, and the availability of accelerated U.S. tax depreciation to the existing container fleet, and
2) The availability of accelerated U.S. tax depreciation on our future purchases of containers and chassis.

Comparison of Year Ended December 31, 2005 to Year Ended December 31, 2004 (Combined)

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

	Successor	Combined
	Year Ended December 31,	
	2005	2004
Leasing revenues:		
Per diem revenue	$ 249,787	$ 265,081
Finance lease revenue	5,387	393
Fee and ancillary lease revenue	30,232	25,854
Total leasing revenues	$ 285,406	$ 291,328

Total leasing revenues were $285.4 million for the year ended December 31, 2005, compared to $291.3 million for the year ended December 31, 2004, a decrease of $5.9 million, or 2.0%. The decrease primarily resulted from a decrease in equipment utilization offset by an increase in per diem rates, and an increase in ancillary revenue related to a decrease in equipment utilization. While our finance lease revenue increased by $5.0 million, the increase in the portion of our units on finance leases resulted in a reduction in our overall leasing revenue compared to the amount we would have recognized if the units were placed on operating leases. Under a finance lease, we recognize only interest income as revenue, while the principal component of the lease payment reduces the net finance lease receivable on the balance sheet. Under an operating lease we recognize the entire monthly billing as revenue, and reduce the net book value of the underlying equipment through depreciation expense.

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

	Successor	Combined
	Year Ended December 31,	
	2005	2004
Equipment trading revenues	$ 24,244	$ 11,354
Equipment trading expenses	(19,227)	(8,405)
Net equipment trading margin	$ 5,017	$ 2,949

The net equipment trading margin increased by $2.1 million for the year ended December 31, 2005 compared to the year ended December 31, 2004. In 2005, third-party selling margins were supported by increasing used container sale prices for most of the year, which generally increased the value of our trading inventory during the period the containers were held. Equipment trading revenues and expenses were higher in 2005 primarily due to a large volume of containers purchased from one of our major customers and subsequently sold.

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 $26.9 million for the year ended December 31, 2005, compared to $27.4 million for the year ended December 31, 2004, a decrease of $0.5 million or 1.8%. During the year ended December 31, 2005, positioning costs decreased by $1.4 million resulting from fewer units moved, and repairs decreased by $2.9 million due to a decrease in the number of units repaired. These decreases were partially offset by an increase in storage costs of $1.3 million due to lower container utilization, and a net increase of $2.5 million in other operating expenses primarily due to the non-recurrance of a $2.7 million reversal in 2004 associated with the recovery of containers on lease from non-performing customers which were previously provided for under our equipment allowance policy.

Administrative expenses. Administrative expenses were $40.7 million for the year ended December 31, 2005, compared to $35.4 million for the year ended December 31, 2004, an increase of $5.3 million or 15.0%. This increase was mainly due to a stock compensation charge in 2005 of $3.9 million associated with stock options issued to certain members of management that fully vested

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Table of Contents

upon completion of the IPO. Other increases of $1.4 million were primarily due to higher professional fees and other administrative expenses related to being a public company.

Depreciation and amortization. Depreciation and amortization was $115.1 million for the year ended December 31, 2005, compared to $139.2 million for the year ended December 31, 2004, a decrease of $24.1 million or 17.3%. The decrease was primarily due to purchase accounting. Under purchase accounting each unit was assigned a fair value at the date of the Acquisition. The net book value assigned to the fleet under purchase accounting was $1,101.2 million, as compared to the net book value of the acquired fleet of $1,057.8 million, an increase of $43.4 million or 4.1%.

However, the allocation of values to the specific units had the effect of increasing values of the younger containers, while decreasing values of the older containers. Since the younger containers have a longer remaining depreciable life, this shift in value resulted in lower overall depreciation.

Equipment rental expense. Equipment rental expense was $0.3 million for the year ended December 31, 2005, compared to $5.5 million for the year ended December 31, 2004, a decrease of $5.2 million. The decrease was primarily due to the purchase of certain equipment in the first quarter of 2005 that was previously leased-in under operating leases.

Net (gain) loss on sale of leasing equipment. (Gain) on sale of equipment was $(9.7) million for the year ended December 31, 2005, compared to a loss of $3.2 million for the year ended December 31, 2004, an increase of $12.9 million. The increase was primarily due to increased selling prices for our used containers, as well as a higher number of units sold. The (gain) recorded in 2005 also included a $(2.9) million benefit from the sale of on-hire containers to one of our customers and a sale of containers to an investor as part of our managed equipment program.

Write-off of deferred financing costs. Write-off of deferred financing costs was $43.5 million for the year ended December 31, 2005, compared to zero for the year ended December 31, 2004. As a result of refinancing our senior secured credit facility on August 1, 2005, we wrote off $24.3 million of unamortized financing costs that were previously deferred. In connection with the repayment of the senior unsecured credit agreement in October 2005, we wrote off $19.2 million of unamortized financing costs that were previously deferred.

Interest and debt expense. Interest and debt expense was $72.4 million for the year ended December 31, 2005, compared to $35.4 million for the year ended December 31, 2004, an increase of $37.0 million. The increase was primarily due to changes in our capital structure resulting from the Acquisition, which increased our debt level and effective interest rate for the period prior to our IPO.

Unrealized (gain) on interest rate swaps. Unrealized (gain) on interest rate swaps was $(12.5) million for the year ended December 31, 2005, compared to $(2.4) million for the year ended December 31, 2004. We entered into interest rate swap agreements on December 14, 2004 to fix the floating interest rate on our senior secured credit facility. The interest rate swaps were accounted for on a mark-to-market basis until their designation at October 31, 2005. Fair value was approximately $13.9 million at December 31, 2005, as compared to $2.4 million at December 31, 2004, with the increase in fair value due to an increase in interest rates.

Management fees and other Parent Company charges. Management fees and other Parent Company charges were $4.9 million for the year ended December 31, 2005, compared to $28.4 million for the year ended December 31, 2004. Management fees of $4.9 million for the year ended December 31, 2005 were payable pursuant to certain management agreements which terminated upon the completion of the IPO in October 2005. Other Parent Company charges of $28.4 million for the year ended December 31, 2004 primarily consisted of long-term incentive and termination payments that were triggered by the sale of TAL and TAL's sister divisions in 2004.

Income tax expense. Income tax expense was $7.4 million for the year ended December 31, 2005, compared to an income tax expense of $11.6 million for the year ended December 31, 2004, and the effective tax rates for the periods were 43.5% and 36.3% respectively. The difference in the rate is primarily attributable to certain stock based compensation for 2005 that is not deductible for income tax purposes. In addition, the state tax rate was reduced from 3% to 1% in 2005 as a result of a favorable change in New York State tax law, which reduced our 2005 effective tax rate by 1%.

Table of Contents

In conjunction with the Acquisition, both the seller and the purchaser elected to have the provisions of Internal Revenue Code Section 338(h)(10) apply to the sale, resulting in the transaction being treated as a taxable asset sale for U.S. federal income tax purposes. As a result of this election, the tax basis of our assets was adjusted to fair market value for U.S. federal income tax purposes, resulting in tax depreciation allowances over periods ranging from 5 to 7 years as well as the elimination of the net deferred U.S. federal income tax liability balance that existed immediately prior to the sale.

While we will be recording income tax expense, we do not expect to pay any significant U.S. federal income taxes for a number of years due to the following:

1) The Section 338(h)(10) election associated with the Acquisition, and the availability of accelerated U.S. tax depreciation to the existing container fleet, and
2) The availability of accelerated U.S. tax depreciation on our future purchases of containers and chassis.

Liquidity and Capital Resources

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

At December 31, 2006, our outstanding indebtedness was comprised of the following (amounts in millions):

	Current Amount Outstanding	Current Maximum Borrowing Level
ABS Term Notes	$ 634.7	$ 634.7
ABS Warehouse Facility	132.5	300.0
Revolving Credit Facilities	126.5	175.0
Finance Lease Facility	12.5	50.0
Port Equipment Facility and Other Debt	13.7	13.7
Capital Lease Obligations	38.4	38.4
Total Debt	$ 958.3	$ 1,211.8

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

ABS Term Notes

On April 12, 2006, we issued our $680.0 million floating rate secured notes (''ABS Term Notes''). The proceeds from the issuance were used to repay outstanding borrowings under our asset securitization facility. The ABS Term Notes amortize in equal monthly installments and have a final maturity of April 2021.

ABS Warehouse Facility

On April 12, 2006, we entered into a floating rate revolving facility (the ‘‘ABS Warehouse Facility’’). The ABS Warehouse Facility has a two year revolving period that precedes a term period in which the outstanding balance amortizes in equal monthly installments. The ABS Warehouse Facility has a final maturity of April 2023.

Table of Contents

All debt to be issued under the ABS program is collateralized by the assets of TAL Advantage I LLC, a special purpose entity (the ‘‘SPE’’) consisting of containers that we use in our leasing business, restricted cash and certain receivables related to revenue earning equipment. The Series 2005-1 Notes and the Series 2006-1 Notes were both issued by the SPE.

Revolving Credit Facilities

In connection with the Acquisition, we entered into an $875.0 million Senior Secured Credit Facility (‘‘SSCF’’). Upon the closing of the Asset Securitization Facility on August 1, 2005, we amended and restated the SSCF to, among other things, reduce the maximum aggregate commitments thereunder to $175.0 million. Effective June 1, 2006, we further amended the SSCF to reduce the interest rate margin from LIBOR plus 2.125% to LIBOR plus 1.375% and to reduce the maximum aggregate commitments thereunder to $165.0 million. The final maturity date of this facility is August 1, 2008.

Effective June 7, 2006, we entered into an additional revolving credit facility (the ‘‘Swing Line Facility’’) to support general working capital requirements. The commitment under the Swing Line Facility is $10.0 million.

Finance Lease Facility

On July 31, 2006, we entered into a credit facility to support the growth of our finance lease business (the ‘‘Finance Lease Facility’’). The Finance Lease Facility has a two year revolving period that precedes a ten year term in which the outstanding balance, as of the term conversion date, amortizes in monthly installments. The Finance Lease Facility is secured by the finance lease receivables associated with certain containers and chassis not included in the SPE. The Finance Lease Facility has a final maturity of July 2018.

Port Equipment Facility and Other Debt

On December 28, 2006, we entered into a Euro denominated credit facility to support a port equipment financing transaction (the ‘‘Port Equipment Facility’’). The Port Equipment Facility has an eight year term and amortizes in equal monthly installments.

Other Debt consists of an interim agreement with a financial institution entered into during 2006 to provide funding for chassis equipment that is intended to be included in a TRAC lease. At December 31, 2006, this agreement was extended to June 2007.

Capital Lease Obligations

We have entered into a series of capital leases with various financial institutions to finance the purchase of chassis. The lease agreements have been structured as ten year Terminal Rental Adjustment Clause (''TRAC'') leases with purchase options at the end of the lease terms equal to the TRAC amount as defined in each lease. For income tax purposes, these leases are treated as operating leases.

Covenant Compliance

We are subject to various covenant requirements under our debt facilities. At December 31, 2006, we were in compliance with all covenants.

Treasury Stock

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

Table of Contents

Dividends Paid

On September 26, 2006, we paid a quarterly dividend of $0.20 per share or an aggregate of approximately $6.6 million on its issued and outstanding common stock. The dividend was paid to shareholders of record at the close of business on September 12, 2006.

On December 8, 2006, we paid a quarterly dividend of $0.25 per share or an aggregate of approximately $8.3 million on its issued and outstanding common stock. The dividend was paid to shareholders of record at the close of business on November 21, 2006.

Cash Flow

The following table sets forth certain cash flow information for the three years ended December 31, 2006, 2005 and 2004 (dollars in thousands):

	Successor Year Ended December 31, 2006	Successor Year Ended December 31, 2005	Combined Year Ended December 31, 2004[1]
Net cash provided by operating activities	$ 181,813	$ 148,917	$ 131,470
Cash paid for acquisition, net of cash acquired	$ —	$ —	(1,209,242)
Purchases of leasing equipment	(197,983)	(145,539)	(286,657)
Investment in finance leases	(64,664)	(44,493)	(4,301)
Proceeds from sale of equipment, net of selling costs	58,462	90,481	56,619
	15,248	8,737	3,272

Cash collections on finance lease receivables, net of unearned income			
Other	353	(67)	—
Net cash used in investing activities	$ (188,584)	$ (90,881)	$ (1,440,309)
Net cash provided by/(used in) financing activities	$ 23,153	$ (47,201)	$ 1,334,435

(1)The results for the combined year ended December 31, 2004 combine the results of the Predecessor for the ten months ended October 31, 2004 with the results of the Successor for the two months ended December 31, 2004 by mathematical addition and do not comply with generally accepted accounting principles. Such data is being presented for analysis purposes only.

Operating Activities

Net cash provided by operating activities increased by $ 32.9 million to $181.8 million in the year ended December 31, 2006, compared to $148.9 million in the year ended December 31, 2005 primarily due to an increase in net income.

Net cash provided by operating activities increased by $17.4 million to $148.9 million in the year ended December 31, 2005, compared to $131.5 million in the year ended December 31, 2004. In the year ended December 31, 2004 there were cash uses of $30.9 million in respect of U.S. Federal income taxes, while in the year ended December 31, 2005 we had no U.S. Federal income tax liability.

Investing Activities

Net cash used in investing activities increased by $97.7 million to $188.6 million for the year ended December 31, 2006, as compared to $90.9 million in the year ended December 31, 2005. Capital expenditures were $262.6 million, including investments in finance leases of $64.7 million, for the year ended December 31, 2006, compared to $190.0 million, including investments in finance leases of $44.5 million, for the year ended December 31, 2005. Capital expenditures increased by $72.6 million primarily due to an increase in the number of units purchased, as well as higher per unit costs. Sales proceeds from the disposal of equipment decreased $32.0 million to $58.5 million in the year ended December 31, 2006, compared to $90.5 million in the year ended December 31, 2005. Included in sales

Table of Contents

proceeds in 2005 were $26.4 million of sale proceeds related to the sale of on-hire containers to one of our customers and the sale of containers to an investor as part of our managed equipment program. The remaining decrease in sales proceeds is primarily due to a decrease in equipment selling prices. Cash collections on financing leases, net of unearned income increased by $6.5 million to $15.2 million for the year ended December 31, 2006, compared to $8.7 million for the year ended December 31, 2005 as a result of an increase in our finance lease portfolio.

Net cash used in investing activities decreased by $1,349.4 million to $90.9 million for the year ended December 31, 2005, as compared to $1,440.3 million in the year ended December 31, 2004. Cash paid to consumate the Acquisition, net of cash acquired was $1,209.2 million for the year ended December 31, 2004. Capital expenditures were $190.0 million, including investments in finance leases of $44.5 million, for the year ended December 31, 2005, compared to $291.0 million, including investment in finance leases of $4.3 million, for the year ended December 31, 2004. On January 2, 2004, we elected to exercise a purchase option for 67,251 units for $150.7 million that we had formerly leased-in on an operating lease. Excluding this purchase of existing containers, capital expenditures increased primarily due to an increase in the level of procurement and an increase in new container prices. Sales proceeds from the disposal of equipment increased $33.9 million to $90.5 million for the year ended December 31, 2005, compared to $56.6 million for the year ended December 31, 2004. Included in sales proceeds in 2005 were $26.4 million of sale proceeds related to the sale of on-hire containers to one of our customers and the sale of containers to an investor as part of our managed equipment program. The remaining increase was due to higher container sales prices and an increase in units sold. Net cash provided from finance receivables increased by $5.4 million to $8.7 million for the year ended December 31, 2005, compared to $3.3 million for the year ended December 31, 2004 mainly due to additional investment made in finance leases.

Financing Activities

Net cash provided by financing activities was $23.2 million for the year ended December 31, 2006, compared to net cash used in financing activities of $47.2 million for the year ended December 31, 2005. On April 12, 2006, we issued secured term notes under our ABS program and used the proceeds to pay off the outstanding balance on our Asset Securitization Facility. In addition, during the year ended December 31, 2006, we increased borrowings under our ABS Warehouse Facility, finance lease facility, and port equipment facility, the proceeds of which were primarily used to finance the purchase of new equipment. This was offset by net cash used to pay down borrowings on our ABS term notes and revolving credit facilities. In addition, cash was used during 2006 to purchase treasury shares and pay dividends on our common stock outstanding. In the year ended December 31, 2005, net cash used in financing activities was primarily used to pay down borrowings under our senior secured credit facility. In addition, we entered into capital leases in 2006 for $23.8 million to finance the acquisition of chassis equipment, which is considered a non-cash financing activity.

Net cash used in financing activities was $47.2 million for the year ended December 31, 2005, compared to net cash provided by financing activities of $1,334.4 million for the year ended December 31, 2004. In order to finance the Acquisition, we made initial borrowings of $805.0 million under our senior secured credit facility, entered into a senior unsecured credit agreement for $275.0 million, and equity investors made preferred and common equity investments in us in the aggregate of $200.1 million. Following the Acquisition, through December 31, 2004, we used $8.0 million to pay down borrowings under our senior secured credit facility. For the year ended December 31, 2005, we received proceeds from the issuance of common stock under the initial public offering of $189.2 million and proceeds from the issuance of preferred stock to certain members of management of $1.2 million. These preferred shares were converted to common shares in connection with the IPO. We repaid $275.0 under our senior unsecured credit agreement with the proceeds of our IPO and additional borrowings under our asset securitization facility and our amended senior secured credit facility. We made total borrowings, including the initial borrowing, under our asset securitization facility of $710.0 million and made net repayments under our senior secured credit facility of $649.0 million. Cumulative preferred dividends of $23.6 million were paid to preferred shareholders

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Table of Contents

after the conversion of preferred shares to common stock in connection with the IPO. In addition, we entered into a capital lease in 2005 for $14.6 million to finance the acquisition of chassis equipment, which is considered a non-cash financing activity.

Contractual Obligations

We are parties 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 manufacturer obligations are in the form of conventional accounts payable, and are satisfied from cash flows from operating and long term financing activities.

The following table summarizes our contractual obligations and commercial commitments as of December 31, 2006:

	Contractual Obligations by Twelve Month Period Ending December 31, (dollars in millions)					
Contractual Obligations:	Total	2007	2008	2009	2010	2011 and thereafter
Total debt obligations[1]:	$ 1,144.3	$ 117.8	$ 248.9	$ 117.7	$ 114.1	$ 545.8
Capital lease obligations	50.4	4.2	3.9	3.9	4.2	34.2
Operating leases (mainly facilities)	5.6	1.7	1.6	1.8	0.5	—
Equipment purchase obligations	68.8	68.8	—	—	—	—
Total contractual obligations	$ 1,269.1	$ 192.5	$ 254.4	$ 123.4	$ 118.8	$ 580.0

(1) Amounts include actual and estimated interest for floating-rate debt based on December 31, 2006 rates and the net effect of the interest rate swaps.

Off-Balance Sheet Arrangements

At December 31, 2006, we did not have any relationships with unconsolidated entities or financial partnerships, such entities which are often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements. We are, therefore, not materially 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.

Revenue Recognition

Operating Leases with Customers

We enter into long-term leases and service leases with ocean carriers, principally as lessor in operating leases, for marine cargo equipment. Long-term leases provide our customers with specified equipment for a specified term. Our leasing revenues are based upon the number of equipment units leased, the applicable per diem rate and the length of the lease. Long-term leases typically range for a period of three to eight years. Revenues are recognized on a straight-line basis over the life of the respective lease. Advanced billings are deferred and recognized in the period earned. Service leases

Table of Contents

do not specify the exact number of equipment units to be leased or the term that each unit will remain on-hire but allow the lessee to pick up and drop off units at various locations specified in the lease agreement. Under a service lease, rental revenue is based on the number of equipment units on hire for a given period. Revenue for customers where collection is not reasonably assured is deferred and recognized when the amounts are received. Also, in accordance with EITF No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent, we recognize billings to customers for damages incurred and certain other pass through costs as leasing revenue as it is earned based on the terms of the contractual agreements with the customer.

Finance Leases with Customers

We enter into finance leases as lessor for some of the equipment in our fleet. The net investment in finance leases represents the receivables due from lessees, net of unearned income. Unearned income is recognized on a level yield basis over the lease term and is rec