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

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For The Fiscal Year Ended December 31, 2009

or

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

For the Transition Period from to

Commission file number- 001-32638

TAL International Group, Inc.

(Exact name of registrant as specified in the charter)

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

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

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

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

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

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

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

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 þ No o

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

Part of Form 10-K	Document Incorporated by Reference
Part II, Item 5, Part III, Items 10, 11, 12, 13, and 14	Portion of the Registrant's proxy statement to be filed in connection with the Annual Meeting of the Stockholders of the Registrant to be held on April 29, 2010.

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TAL International Group, Inc.

2009 Annual Report on Form 10-K

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

WEBSITE ACCESS TO COMPANY'S REPORTS AND CODE OF ETHICS

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

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

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

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

SERVICE MARKS MATTERS

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

PART I

ITEM 1. BUSINESS

Our Company

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

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

Business Segments

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

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

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

Equipment Leasing Segment

Our equipment leasing operations include the acquisition, leasing, re-leasing and ultimate sale of multiple types of intermodal transportation equipment, primarily intermodal containers. We have an extensive global presence, offering leasing services through 18 offices in 11 countries and 199 third-party container depot facilities in 37 countries as of December 31, 2009. Our customers are among the world's largest shipping lines and include, among others, APL-NOL, CMA CGM, Maersk Line, Mediterranean Shipping Company and NYK Line.

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

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

Our leases require lessees to maintain the equipment in good operating condition, defend and indemnify us from liabilities relating to the equipments' contents and handling, and return the equipment to specified drop-off locations. As of December 31, 2009, 68% of our on-hire containers and chassis were on long-term leases, 12% were on finance leases, 16% were on service leases and 4% were on long-term leases whose fixed terms have expired. As of December 31, 2009, our long-term leases had an average remaining lease term of 43 months.

Our equipment leasing revenues primarily consist of leasing revenues derived from the lease of our owned equipment and, to a lesser extent, fees received for managing equipment owned by third parties. The most important driver of our profitability is the extent to which leasing revenues, which are driven primarily by our owned equipment fleet size, utilization and average rental rates, exceed our ownership and operating costs.

Equipment Trading Segment

Through our extensive operating network, we purchase containers from shipping line customers and other sellers of containers and resell these containers to container traders and users of containers for storage and one-way shipments. Over the last five years, we have sold an average of approximately 41,000 twenty-foot equivalent units (TEU) of containers purchased for resale annually.

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

Industry Overview

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

Over the last twenty-five years, containerized trade has grown at a rate greater than that of general worldwide economic growth. According to Clarkson Research Studies ("Clarkson"), worldwide containerized cargo volume increased at a compound annual growth rate ("CAGR") of 8.6% from 1985 to 2009. We believe that this high historical growth was due to several factors, including the shift in global manufacturing capacity to lower labor cost areas such as China and India, the continued integration of developing high growth economies into global trade patterns and the continued conversion of cargo from bulk shipping into containers. However, due to the recent global financial crisis and recession, global containerized trade growth turned significantly negative beginning in the fourth quarter of 2008, and Clarkson estimates that containerized trade volumes decreased by approximately 10% in 2009. Clarkson is currently projecting that containerized trade volumes will rebound somewhat in 2010, but they are not projecting growth rates to return to the historical level in the near future.

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Container leasing firms maintain inventories of new and used containers in a wide range of worldwide locations and supply these containers primarily to shipping line customers under a variety of short and long-term lease structures. According to Containerisation International as reported in mid-2009, container lessors' ownership was approximately 10.4 million TEU or 38% of the total worldwide container fleet of 27.4 million TEU.

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

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

Operations

We operate our business through 18 worldwide offices located in 11 different countries as of December 31, 2009. Our field operations include a global sales force, a global container operations group, an equipment resale group, and a logistics services group. Our headquarters are located in Purchase, New York, USA.

Our Equipment

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

Our fleet primarily consists of three types of equipment:

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

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

Special Containers. Most of our special containers are open top and flat rack containers. Open top containers come in similar sizes as dry containers, but do not have a fixed roof. Flat rack containers come in varying sizes and are steel platforms with folding ends and no fixed sides.

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Open top and flat rack containers are generally used to move heavy or bulky cargos, such as marble slabs, steel coils or factory components, that cannot be easily loaded on a fork lift through the doors of a standard container.

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

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

Chassis. An intermodal chassis is a rectangular, wheeled steel frame, generally 23$^{1}/_{2}$, 40 or 45 feet in length, built specifically for the purpose of transporting intermodal containers domestically. Longer sized chassis, designed solely to accommodate domestic containers, can be up to 53 feet in length. Once mounted, the chassis and container are the functional equivalent of a trailer. When mounted on a chassis, the container may be trucked either to its destination or to a railroad terminal for loading onto a rail car. Our chassis are primarily used in the United States.

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

Our Leases

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

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

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

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

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

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

We categorize our operating leases as either long-term leases or service leases. Some leases have contractual terms that have features reflective of both long-term and service leases. We classify such leases as either long-term or service leases, depending upon which features we believe are predominant.

Long-term leases typically have initial contractual terms ranging from three to eight years with an average term of approximately five years at lease inception. Our long-term leases require our customers to maintain specific units on-hire for the duration of the lease term, and they provide us with predictable recurring cash flow. As of December 31, 2009, 68% of our on-hire containers and chassis were under long-term operating leases. As of December 31, 2009, our long-term leases had an average remaining duration of 43 months, assuming no leases are renewed. However, we believe that many of our customers will renew leases for equipment that is less than sale age at the expiration of the lease. In addition, our equipment typically remains on-hire at the contractual per diem rate for an additional six to twelve months beyond the end of the contractual lease term due to the logistical requirements of our customers having to return the containers and chassis to specific drop-off locations.

We also have expired long-term leases whose fixed terms have ended but for which the related units remain on-hire and for which we continue to receive rental payments pursuant to the terms of the initial contract. As of December 31, 2009, 4% of our on-hire containers and chassis were on long-term leases whose fixed terms have expired but for which the related units remain on-hire and for which we continue to receive rental payments.

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

Service leases allow our customers to pick-up and drop-off equipment during the term of the lease, subject to contractual limitations. Service leases provide the customer with a higher level of flexibility than term leases and, as a result, typically carry a higher per diem rate. The terms of our service leases can range from twelve months to five years, though because equipment can be returned during the term of a service lease and since service leases are generally renewed or modified and extended upon expiration, lease term does not dictate expected on-hire time for our equipment on service leases. As of December 31, 2009, 16% of our on-hire containers and chassis were under service leases and this equipment has been on-hire for an average of 38 months.

Finance Leases. Finance leases provide our customers with an alternative method to finance their equipment acquisitions. Finance leases typically have lease terms ranging from five to ten years. Finance leases are generally structured for specific quantities of equipment, generally require the customer to keep the equipment on-hire for its remaining useful life, and typically provide the customer with a purchase option at the end of the lease term. As of December 31, 2009, approximately 12% of our on-hire containers and chassis were under finance leases.

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

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

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

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

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

In addition, TAL attempts to minimize the costs of any container imbalances by moving empty containers as cheaply as possible. To accomplish this, TAL has developed an in-house group of experts, which we call Greyslot, to manage our empty container positioning program. As part of their mandate to reposition our empty containers, Greyslot maintains frequent contact with various shipping lines and vessel owners to identify available vessel space, and our success with managing our own positioning program has led to additional revenue opportunities. For the last several years Greyslot has acted as a broker of empty vessel space for moving additional empty containers for third parties. Our third-party customers include leasing companies and shipping lines, and such third-party business has usually represented a majority of the containers moved by Greyslot. While we believe we manage our logistics risks and costs effectively, logistical risk remains an important element of our business due to competitive pressures, changing trade patterns and other market factors and uncertainties.

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

Depot Management. As of December 31, 2009, we managed our equipment fleet through 199 third-party owned and operated depot facilities located in 37 countries. Depot facilities are generally responsible for repairing our containers and chassis when they are returned by lessees and for storing the equipment while it is off-hire. We have a worldwide operations group that is responsible for managing our depot contracts and they also periodically visit the depot facilities to conduct inventory and repair audits. We also supplement our internal operations group with the use of independent inspection agents.

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

Most of the depot agency agreements follow a standard form and generally provide that the depot will be liable for loss or damage of equipment and, in the event of loss or damage, will pay us the previously agreed loss value of the applicable equipment. The agreements require the depots to maintain insurance against equipment loss or damage and we carry insurance to cover the risk that the depot's insurance proves insufficient.

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

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

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

We have sold over 70,000 TEU of our owned and managed used containers on average over the last five years. The sale prices we receive for our used containers from our lease fleet are influenced by many factors, including the level of demand for used containers compared to the number of used containers available for disposal in a particular location, the cost of new containers, and the level of damage on the containers. While our total revenue is primarily made up of leasing revenues, gains or losses on the sale of used containers can have a significant positive or negative impact on our profitability.

Equipment Trading. We also buy and sell new and used containers and chassis acquired from third parties. We typically purchase our equipment trading fleet from our shipping line customers or other sellers of used or new equipment. Trading margins are dependent on the volume of units purchased and resold, selling prices, cost paid for equipment sold and selling and administrative costs. We have sold approximately 41,000 TEU of containers purchased from third parties for resale on average over the last five years.

Management Services

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

Environmental

We may be subject to environmental liability in connection with our current or historical operations that could adversely affect our business and financial prospects despite insurance coverage, terms of leases and other arrangements for use of the containers that place the responsibility for environmental liability on the end user. In certain countries like the United States, the owner of a leased container may be liable for the costs of environmental damage from the discharge of the contents of the container even though the owner is not at fault. We have not yet experienced any such claims, although we cannot assure you that we will not be subject to such claims in the future. Liability insurance policies, including ours, usually exclude claims for environmental damage. Our lessees are required to indemnify us from such claims. Some of our lessees may have separate insurance coverage for environmental damage, but we cannot assure you that any such policies would cover or otherwise offset any liability we may have as the owner of a leased container. Our standard master tank container lease agreement insurance clause requires our tank container lessees to provide pollution liability insurance. Such insurance or indemnities may not fully protect us against damages arising from environmental damage.

Countries that are signatories to the Montreal Protocol on the environment agreed in November 1992 to restrict the use of environmentally destructive refrigerants, banning production (but not use) of chlorofluorocarbon compounds ("CFCs") beginning in January 1996. Less than 1% of our refrigerated containers still use CFC refrigerants. Over 99% of our refrigerated containers currently use R134A or 404A refrigerant. While R134A and 404A do not contain CFC's, the European Union has instituted regulations to phase out the use of R134A in automobile air conditioning systems beginning in 2011 due to concern that the release of R134A into the atmosphere may contribute to global warming. The European Union regulations do not restrict the use of R134A in refrigerated containers or trailers, though we are continuing to monitor regulatory developments. If future regulations prohibit the use or servicing of containers using R134A or 404A refrigerants, we could be forced to incur large retrofitting expenses.

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

Credit Controls

We monitor our customers' performance and our lease exposures on an ongoing basis. Our credit management processes are aided by the long payment experience we have with most of our customers and our broad network of relationships in the shipping industry that provides current information about our customers' market reputations. Credit criteria may include, but are not limited to, customer payment history, customer financial position and performance (e.g., net worth, leverage, profitability), trade routes, country of domicile, social and political climate, and the type of, and location of, equipment that is to be supplied. To mitigate the impact from potential defaults, we entered into a credit insurance policy in the third quarter of 2009 that in certain circumstances covers losses and costs incurred in default situations. However, this policy has significant deductibles, exclusions and payment and other limitations, and therefore may not protect us from losses arising from customer defaults.

Marketing and Customer Service

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

Customers

We believe that we have strong, long standing relationships with our largest customers, most of whom we have done business with for over 20 years. We currently have equipment on-hire to more than 300 customers, although approximately 76% of our units are on-hire to our 20 largest customers. Our customers are mainly international shipping lines, but we also lease containers to freight forwarding companies and manufacturers. The shipping industry has been consolidating for a number of years, and further consolidation could increase the portion of our revenues that come from our largest customers. Our five largest customers accounted for approximately 52% of our 2009 leasing revenues. Our largest customer is CMA CGM, which accounted for approximately 17% of our leasing revenues in 2009 and 12% in 2008. APL-NOL accounted for approximately 12% of our leasing revenues in 2009, 15% in 2008 and 18% in 2007. Mediterranean Shipping Company accounted for approximately 10% of our leasing revenues in 2009. No other customer exceeded 10% of our leasing revenues in 2009, 2008 or 2007. A default by any of these major customers could have a material adverse impact on our business, financial condition and future prospects.

Currency

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

Systems and Information Technology

We have a proprietary, fully integrated fleet management system. The system tracks all of our equipment individually by unit number, provides design specifications for the equipment, tracks on-hire and off-hire transactions, matches each on-hire unit to a lease contract and each off-hire unit to a depot contract, maintains the major terms for each lease contract, calculates the monthly bill for each customer and tracks and bills for equipment repairs. Our system is EDI capable, which means it can receive and process equipment activity transactions electronically.

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

Suppliers

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

Competition

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

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

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

Employees

As of December 31, 2009, we employed 184 people, in 18 offices, in 11 countries. We believe that our relations with our employees are good and we are not a party to any collective bargaining agreements.

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ITEM 1A. RISK FACTORS

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

Demand for containers depends largely on the rate of world trade and economic growth. Demand for leased containers is also driven by our customers' "lease vs. buy" decisions. Cyclical recessions can negatively affect lessors' operating results because during economic downturns or periods of reduced trade, shipping lines tend to lease fewer containers, or lease containers only at reduced rates, and tend to rely more on their own fleets to satisfy a greater percentage of their requirements.

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

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

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

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

Lease rates may decrease, resulting in reduced revenues, lower margins, and reduced profitability and cash flows.

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

A decrease in market leasing rates impacts both our new container investments and the existing containers in our fleet. Most of our existing containers are on operating leases, which means that the lease term is shorter than the expected life of the container, so the lease rate we receive for the container is subject to change at the expiration of the current lease. As a result, during periods of low lease rates, the average lease rate we receive for our containers is negatively impacted by both the addition of new containers at low lease rates as well as the turnover of existing containers from leases with higher lease rates to leases with lower lease rates.

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

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

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

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

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

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

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

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

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

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

Although our revenues primarily depend upon equipment leasing, our profitability is also affected by the residual values of our containers upon the expiration of their leases because, in the ordinary course of our business, we sell certain containers when such containers are returned to us. The volatility of the residual values of such equipment may be significant. These values, which can vary substantially, depend upon, among other factors, the global supply and demand balance for containers, the location of the containers, worldwide steel prices and the cost of new containers, the supply and demand for used containers at a particular location, applicable maintenance standards, refurbishment needs, inflation rates, market conditions, materials and labor costs and equipment obsolescence. Most of these factors are outside of our control. Operating leases, which represent the predominant form of leases in our portfolio, are subject to greater residual value risk than finance leases.

Containers are typically sold if it is in our best interest to do so after taking into consideration the book value, remaining useful life, repair condition, suitability for leasing or other uses and the prevailing local sales price for the containers. As these considerations vary, gains or losses on sale of equipment will also fluctuate and may be significant if we sell large quantities of containers.

From 1999 through 2003 our average sale prices for used containers were historically low due to low prices for new containers and an extreme over-supply of used containers in North America and Europe following the Asia crisis. We recorded large losses on the disposal of our equipment during these years. Used container selling prices were generally at historically high levels from 2005-2008, resulting in substantial gains on the disposal of our equipment, due to the increased cost of new containers, a high rate of containerized trade growth and the resulting limited amount of idle container inventories.

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

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

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

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

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

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

We periodically make capital investments to, among other things, maintain and expand our container fleet. However, financing has become scarcer and more expensive due to the ongoing financial crisis. If we are unsuccessful in obtaining sufficient additional financing on acceptable terms, we will not be able to invest in our fleet and our profitability will decrease. Even if we are successful in securing additional financial commitments, we expect that our effective interest rates will increase over time.

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

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

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

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

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

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

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

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

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

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

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

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

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

We will require a significant amount of cash to service and repay our outstanding indebtedness and fund future capital expenditures. Our ability to generate cash depends on many factors beyond our control.

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

We cannot assure investors that:

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

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

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

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

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

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

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

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

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

Our largest customers account for a significant portion of our revenues. Our five largest customers represented approximately 52% of our leasing revenues in the 2009 fiscal year, with our single largest customer representing approximately 17% during this period. Furthermore, the shipping industry has been consolidating for a number of years, and further consolidation is expected and could increase the portion of our revenues that come from our largest customers. The loss or significant reduction of orders from any of our large customers could have a material adverse effect on our business, financial condition and future prospects.

In addition, several of our largest customers, including our largest customer, have gone through or are currently undertaking significant financial restructurings as a result of large financial losses incurred in 2009. We expect the financial performance and financial condition of these customers will continue to be challenged due to ongoing excess capacity. A default by any of our large customers, and especially our largest customer, would have a material adverse effect on our business, financial condition, results of operations and future prospects.

We face extensive competition in the container leasing industry.

We may be unable to compete favorably in the highly competitive container leasing and sales business. We compete with more than ten other major leasing companies, many smaller lessors, manufacturers of container equipment, companies offering finance leases as distinct from operating leases, promoters of container ownership and leasing as a tax shelter investment, shipping lines, which 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 reduce lease rates and undermine our ability to maintain our current level of container utilization or achieve our growth plans.

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

While almost all of our lease agreements are governed by New York law and provide for the non-exclusive jurisdiction of the courts located in the state of New York, our ability to enforce the lessees' obligations under the leases and other arrangements for use of the containers often is subject to applicable laws in the jurisdiction in which enforcement is sought. It is not possible to predict, with any degree of certainty, the jurisdictions in which enforcement proceedings may be commenced. Our containers are manufactured in Asia, primarily in China, and a substantial portion of our containers are leased out of Asia, primarily China, and are used by our customers in service between Asia and North America, Europe, Central and South America, the Middle East, and Africa and in inter-Asia trade.

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Litigation and enforcement proceedings have inherent uncertainties in any jurisdiction and are expensive. These uncertainties are enhanced in countries that have less developed legal systems where the interpretation of laws and regulations is not consistent, may be influenced by factors other than legal merits and may be cumbersome, time-consuming and even more expensive. For example, repossession from defaulting lessees may be difficult and more expensive in jurisdictions whose laws do not confer the same security interests and rights to creditors and lessors as those in the United States and where the legal system is not as well developed. As a result, the remedies available and the relative success and expedience of collection and enforcement proceedings with respect to the containers in various jurisdictions cannot be predicted. As more of our business shifts to areas outside of the United States and Europe, such as China, it may become more difficult and expensive to enforce our rights and recover our containers.

In 2008 and 2009, the success of our recovery efforts for defaulted leases was hampered by undeveloped creditor protections and legal systems in a number of countries. In 2008, we experienced an increase in average recovery costs per unit and a decrease in the percentage of containers recovered in default situations primarily due to excessive charges applied to our containers by the depot or terminal facilities that had been storing the containers for the defaulted lessee. In these cases, the payments demanded by the depot or terminal operators often significantly exceeded the amount of storage costs that we would reasonably expect to pay for the release of the containers. However, our legal remedies were limited in many of the jurisdictions where the containers were being stored, and we were sometimes forced to accept the excessive storage charges to gain control of our containers. If the number and size of defaults increases in the future, and if a large percentage of the defaulted containers are being stored in countries with less developed legal systems, losses resulting from recovery payments and unrecovered containers could be large and our profitability significantly reduced.

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

As of December 31, 2009, the average age of the containers in our fleet was 7.5 years, and the average age of our fleet increased by 0.4 years in 2009 due to our limited procurement of new equipment. We believe that the average age of most 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 in 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 continues to decrease.

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

As of December 31, 2009, the average age of the containers in our fleet was 7.5 years. A large portion of our fleet was acquired in the mid-1990's and is on leases which take the units to the end of their serviceable life in marine transport. Upon redelivery, this equipment is likely to be disposed. From 2005 through 2009, we sold on average approximately 7% of our equipment leasing fleet containers annually. However, the rate of disposals in 2009 did not keep pace with the rate at which older containers were returned to us, and our disposal rate would have been close to 10% in 2009 if the sale market had been strong enough to allow our sales to keep pace with returns. Due to the significant portion of older containers in our fleet and the increase in our inventory of containers available for sale we expect that our disposal rate will increase in 2010 and remain at a historically high level for several years thereafter. If we are unable to purchase and lease the volumes of equipment necessary to replace the units sold, our revenues and profitability could decrease.

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We may incur future asset impairment charges.

An asset impairment charge may result from the occurrence of unexpected adverse events or management decisions that impact our estimates of expected cash flows generated from our long-lived assets. We review our long-lived assets, including our container and chassis equipment, goodwill and other intangible assets for impairment, 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.

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 containers, special containers and refrigerated containers from manufacturers based in China. In addition, over the last several years, there has been a consolidation in the container manufacturing industry, resulting in two manufacturers controlling over 65% of the market. 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 the factory locations in China to the locations where they are needed by our customers, because of further consolidation among container suppliers, a dispute with one of our manufacturers, changes in trade patterns, 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.

We may incur costs associated with relocation of leased equipment.

When lessees return equipment to locations where supply exceeds demand, we routinely reposition containers to higher demand areas. Positioning expenses vary depending on geographic location, distance, freight rates and other factors, and may not be fully covered by drop-off charges collected from the last lessees of the equipment or pick-up charges paid by the new lessees. Positioning expenses can be significant if a large portion of our containers are returned to locations with weak demand. For example, prior to the Asia crisis of the late 1990's containerized trade was relatively evenly balanced globally, and as a result, many of our lease contracts provided extensive drop-off flexibility in North America and Europe. However, global containerized trade patterns changed dramatically in the aftermath of the Asia crisis, and demand for leased containers in North America and Europe substantially decreased. We incurred significant positioning expenses from 2000-2003 to shift our inventory of containers from North America and Europe to Asia. Further changes in the pattern of global containerized trade could force us to incur significant 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. In particular, we could incur significant positioning costs in the future if trade flows change from net exports to net imports in locations such as the main ports in China that we currently consider to be high demand locations and where our leases typically allow large numbers of container to be returned to us.

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

Our asset backed securities 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 TAL and our subsidiaries;
- make loans and investments;
- create liens;
- sell certain assets or merge with or into other companies;
- enter into certain transactions with stockholders and affiliates;
- cause our subsidiaries to make dividends, distributions and other payments to TAL; and
- otherwise conduct necessary corporate activities.

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

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

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

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.

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

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

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

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

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

military outbreaks;

government instability;

- nationalization of foreign assets;
- government protectionism;
- compliance with export controls, including those of the U.S. Department of Commerce;
- compliance with import procedures and controls, including those of the U.S. Department of Homeland Security;
- potentially negative consequences from changes in tax laws;
- requirements relating to withholding taxes on remittances and other payments by subsidiaries;
- labor or other disruptions at key ports;
- difficulty in staffing and managing widespread operations; and
- 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.

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.

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

There is no internationally recognized system of recordation or filing to evidence our title to containers nor is there an internationally recognized system for filing security 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.

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

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

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

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

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

We may be subject to regulations promulgated in various countries, including the United States, seeking to protect the integrity of international commerce and prevent the use of containers for international terrorism or other illicit activities. For example, the Container Safety Initiative, the Customs-Trade Partnership Against Terrorism and Operation Safe Commerce are among the programs administered by the U.S. Department of Homeland Security that are designed to enhance security for cargo moving throughout the international transportation system by identifying existing vulnerabilities in the supply chain and developing improved methods for ensuring the security of containerized cargo entering and leaving the United States. Moreover, the International Convention for Safe Containers, 1972 (CSC), as amended, adopted by the International Maritime Organization, applies to containers and seeks to maintain a high level of safety of human life in the transport and handling of containers by providing uniform international safety regulations. As these regulations develop and change, we may incur increased compliance costs due to the acquisition of new, compliant containers and/or the adaptation of existing containers to meet any new requirements imposed by such regulations. Additionally, certain companies are currently developing or may in the future develop products designed to enhance the security of containers transported in international commerce. Regardless of the existence of current or future government regulations mandating the safety standards of intermodal shipping containers, our competitors may adopt such products or our customers may require that we adopt such products in the conduct of our container leasing business. In responding to such market pressures, we may incur increased costs, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

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

Environmental liability may adversely affect our business and financial situation.

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

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. Over 99% of our refrigerated containers currently use R134A or 404A refrigerant. While R134A and 404A do not contain CFC's, the European Union has instituted regulations to phase out the use of R134A in automobile air conditioning systems beginning in 2011 due to concern that the release of R134A into the atmosphere may contribute to global warming. 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 or 404A refrigerants, we could be forced to incur large retrofitting expenses. In addition, refrigerated containers that are not retrofitted may become difficult to lease and command lower prices in the market for used containers once we retire these containers from our fleet.

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

Fluctuations in foreign exchange rates could reduce our profitability.

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

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

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

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

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

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

We could become subject to additional risks associated with financing of port equipment, which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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.

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 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 and joint ventures 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.

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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.

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;
- changes in our dividend policy;
- fluctuations in the worldwide equity markets;
- recruitment or departure of key personnel;
- our failure to timely address changing customer preferences;
- broad market and industry factors; and
- other events or factors, including those resulting from war, incidents of terrorism or responses to such events.

In addition, if the market for intermodal equipment leasing company stocks or the stock market in general experiences 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.

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

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

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Our failure to comply with required public company corporate governance and financial reporting practices and regulations could materially and adversely impact our financial condition, operating results and the price of our common stock.

The Sarbanes-Oxley Act of 2002 requires that we maintain effective internal controls for financial reporting and disclosure controls and procedures. If we do not maintain compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or if we or our independent registered public accounting firm identify deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, we could suffer a loss of investor confidence in the reliability of our financial statements, which could cause the market price of our stock to decline. We can also be subject to sanctions or investigations by the New York Stock Exchange, the Securities and Exchange Commission or other regulatory authorities for failure to comply with public company corporate governance and financial reporting practices and regulations.

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

Section 404 of the Sarbanes-Oxley Act requires an annual management assessment of the effectiveness of internal controls over financial reporting and a report by our independent registered public accounting firm. If we fail to maintain the adequacy of internal controls over financial accounting, we may not be able to conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with the Sarbanes-Oxley Act of 2002 and related regulations. Although our management has concluded that adequate internal control procedures are currently in place, no system of internal controls can provide absolute assurance that the financial statements are accurate and free of material errors. As a result, the risk exists that our internal controls may not detect all errors or omissions in the financial statements.

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

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

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 pay significant income taxes sooner than we currently project.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Office Locations. As of December 31, 2009, our employees are located in 18 offices in 11 different countries. We have 7 offices in the U.S. including our headquarters in Purchase, New York. We have 11 offices outside the U.S. We lease all of our office space.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. 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 2009.

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, 2009 and 2008.

	High	Low
2009:		
Fourth Quarter	$ 15.19	$ 11.10
Third Quarter	$ 14.65	$ 8.81
Second Quarter	$ 11.46	$ 5.96
First Quarter	$ 14.40	$ 5.51
2008:		
Fourth Quarter	$ 20.82	$ 8.00
Third Quarter	$ 26.96	$ 20.06
Second Quarter	$ 28.35	$ 22.51
First Quarter	$ 25.26	$ 19.78

On February 19, 2010, the closing price of a share of our common stock was $15.90, as reported on the New York Stock Exchange. On that date, there were approximately 50 holders of record of the common stock and approximately 3,021 beneficial holders, based on information obtained from our transfer agent.

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PERFORMANCE GRAPH

The graph below compares our cumulative shareholder returns with the S&P 500 Stock Index and the Russell 2000 Stock Index for the period from October 12, 2005 (the date our common stock began trading) to December 31, 2009. The graph assumes the investment of $100 as of October 12, 2005 and the reinvestment of all dividends.

Comparison of Cumulative Five Year Total Return

Company / Index	Base Period 10/12/05	INDEXED RETURNS Years Ending 12/31/05	12/31/06	12/31/07	12/31/08	12/31/09
TAL International Group, Inc.	**100**	114.72	151.18	136.68	92.01	86.66
S&P 500 Index	**100**	106.52	123.34	130.12	81.98	103.67
Russell 2000 Index	**100**	108.62	128.58	126.56	83.80	107.94

Dividends

We paid the following quarterly dividends during the years ended December 31, 2009 and 2008 on our issued and outstanding common stock:

Record Date	Payment Date	Aggregate Payment	Per Share Payment
December 1, 2009	December 22, 2009	$ 0.3 million	$ 0.01
September 3, 2009	September 24, 2009	$ 0.3 million	$ 0.01
June 2, 2009	June 23, 2009	$ 0.3 million	$ 0.01
March 12, 2009	March 26, 2009	$ 0.3 million	$ 0.01
November 19, 2008	December 10, 2008	$ 13.4 million	$ 0.4125
August 21, 2008	September 12, 2008	$ 13.5 million	$ 0.4125
May 22, 2008	June 12, 2008	$ 13.4 million	$ 0.4125
March 20, 2008	April 10, 2008	$ 12.2 million	$ 0.3750

Beginning in the first quarter of 2010, we increased our quarterly cash dividend to $0.25 per share. We cannot provide any assurance as to future dividends because they depend on our future earnings, capital requirements, and financial condition.

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Stock Repurchase Program

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

Our share purchase activity during the fourth quarter ended December 31, 2009 is summarized in the following table:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 31, 2009				1,094,619
November 1 30, 2009	103,790	$ 12.10	103,790	990,829
December 1 31, 2009				990,829

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

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

None.

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by this Item is incorporated herein by reference from our proxy statement to be issued in connection with the Annual Meeting of our Stockholders to be held on April 29, 2010, which proxy statement will be filed with the SEC within 120 days of the close of our fiscal year ended December 31, 2009.

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain selected historical financial, operating and other data of TAL International Group, Inc. The selected historical consolidated statement of operations data, balance sheet data and other financial data for the fiscal years ended December 31, 2009, 2008, 2007, 2006 and 2005 were derived from the Company's audited consolidated financial statements and related notes. The data below should be read in conjunction with, and is qualified by reference to, our Management's Discussion and Analysis and our consolidated financial statements and notes thereto contained elsewhere in this report. The historical results are not necessarily indicative of the results to be expected in any future period.

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.

	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005
Statement of Operations Data:					
Leasing revenues	$ 309,261	$ 319,292	$ 286,273	$ 273,157	$ 287,218
Equipment trading revenues	39,693	95,394	49,214	23,665	24,244
Management fee income	2,629	3,136	5,475	6,454	6,482
Other revenues	954	2,170	2,303	2,301	2,383
Total revenues	352,537	419,992	343,265	305,577	320,327
Operating expenses (income):					
Equipment trading expenses	37,538	84,216	43,920	21,863	21,715
Direct operating expenses	36,942	28,246	28,552	25,938	27,635
Administrative expenses	40,908	46,154	39,843	36,950	39,428
Depreciation and amortization	115,688	110,450	101,670	103,849	115,138
Provision (reversal) for doubtful accounts	545	4,878	792	(529)	697
Net (gain) on sale of leasing equipment	(9,278)	(23,534)	(12,119)	(6,242)	(9,665)
Net (gain) on sale of container portfolios	(185)	(2,789)			
Total operating expenses	222,158	247,621	202,658	181,829	194,948
Operating income	130,379	172,371	140,607	123,748	125,379
Other expenses (income):					
Interest and debt expense(1)	68,807	64,983	52,129	47,578	72,379
Write-off of deferred financing costs(2)		250	204	2,367	43,503
(Gain) on debt extinguishment(3)	(14,130)	(23,772)			
Unrealized (gain) loss on interest rate	(35,152)	76,047	27,883	8,282	(12,499)

swaps(4)					
Management fees(5)					4,878
Total other expenses	19,525	117,508	80,216	58,227	108,261
Income before income taxes	110,854	54,863	60,391	65,521	17,118
Income tax expense	39,268	19,067	21,600	23,388	7,446
Net income	71,586	35,796	38,791	42,133	9,672
Preferred stock dividends and accretion to redemption value					(19,868)
Net income (loss) applicable to common stockholders	$ 71,586	$ 35,796	$ 38,791	$ 42,133	$ (10,196)
Earnings (Loss) Per Share Data:					
Basic income (loss) per share applicable to common stockholders	$ 2.31	$ 1.10	$ 1.17	$ 1.28	$ (0.68)
Diluted income (loss) per share applicable to common stockholders	$ 2.30	$ 1.09	$ 1.16	$ 1.26	$ (0.68)
Weighted average common shares outstanding:					
Basic	31,021,339	32,572,901	33,183,252	32,987,077	14,912,242
Diluted	31,072,265	32,693,320	33,369,958	33,430,438	14,912,242
Cash dividends paid per common share	$ 0.04	$ 1.61	$ 1.43	$ 0.45	

(1) Higher interest and debt expense in 2005 of $72.4 million was the result of changes in our capital structure resulting from the Acquisition, which increased debt levels and effective interest rates.

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(2)

Write-off of deferred financing costs in 2005 of $43.5 million was due to refinancing and repayment of various debt facilities in 2005.

(3)

Gain on debt extinguishment of $14.1 million for the year ended December 31, 2009 was due to the repurchase of a portion of the Series 2006-1 Term Notes. Gain on debt extinguishment of $23.8 million for the year ended December 31, 2008 was due to the repurchase of a portion of the Series 2006-1 Term Notes.

(4)

Unrealized gains and losses on interest rate swaps are primarily due to changes in interest rates. The swaps were designated as hedges during the period from November 2005 to April 2006. For all other periods, changes in fair value of the swaps were recorded to the statement of operations.

(5)

Management fees of $4.9 million in 2005 payable pursuant to certain management agreements were terminated upon completion of the initial public offering in October 2005.

	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005
Balance Sheet Data (end of period):					
Cash and cash equivalents (including restricted cash)	$ 73,604	$ 56,958	$ 70,695	$ 58,167	$ 27,259
Accounts receivable, net	33,086	42,335	41,637	39,318	36,470
Revenue earning assets, net	1,603,819	1,764,522	1,500,056	1,253,877	1,135,026
Total assets	1,800,978	1,955,498	1,705,887	1,455,663	1,304,268
Total debt	1,161,298	1,351,036	1,174,654	958,317	872,627
Stockholders' equity	418,829	364,471	393,477	398,750	379,967
Other Financial Data:					
Capital expenditures	$ 57,957	$ 492,635	$ 392,883	$ 253,340	$ 186,133
Proceeds from sale of equipment leasing fleet, net of selling costs	69,473	83,956	63,006	58,462	90,481
Selected Fleet Data(1):					
Dry container units(2)	592,953	640,838	576,887	547,172	523,533
Refrigerated container units(2)	36,061	37,740	37,511	35,038	35,631
Special container units(2)	47,857	50,893	45,668	42,183	43,414
Trader(2)	14,947	16,735	14,583	8,815	10,123
Chassis(2)	8,778	8,796	7,955	6,579	1,210
Tank container units(2)	1,350	1,319	110		
Total container units/chassis(2)	701,946	756,321	682,714	639,787	613,911
Total containers/chassis in TEU(2)	1,139,523	1,224,452	1,111,164	1,037,323	988,295
Average utilization %(3)	88.0%	94.4%	94.9%	92.6%	93.2%

(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.

(3)

Average utilization is computed by dividing our total units on lease by the total units in our fleet excluding new units not yet leased.

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

The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described under "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" as discussed elsewhere in this Form 10-K. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

Our Company

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

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

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

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

Operations

Our consolidated operations include the acquisition, leasing, re-leasing and subsequent sale of multiple types of intermodal containers and chassis. As of December 31, 2009, our total fleet consisted of 701,946 containers and chassis, including 31,137 containers under management for third parties, representing 1,139,523 twenty-foot equivalent units (TEU). We have an extensive global presence, offering leasing services through 18 offices in 11 countries and 199 third party container depot facilities in 37 countries as of December 31, 2009. Our customers are among the world's largest shipping lines and include, among others, APL-NOL, CMA CGM, Maersk Line, Mediterranean Shipping Company and NYK Line. For the year ended December 31, 2009, our twenty largest customers accounted for 77% of our leasing revenues, our five largest customers accounted for 52% of our leasing revenues, and our largest customer accounted for 17% of our leasing revenues.

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

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As of December 31, 2009, the percentages of our equipment fleet and leasing revenues by equipment type are as follows:

Equipment Type	Percent of total fleet units	Percent of leasing revenue
Dry	85%	59%
Refrigerated	5	25
Special	7	12
Chassis	1	3
Tank		1
Equipment leasing fleet	98	100
Equipment trading fleet	2	
Total	100%	100%

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, 2009			December 31, 2008			December 31, 2007		
	Owned	**Managed**	**Total**	**Owned**	**Managed**	**Total**	**Owned**	**Managed**	**Total**
Dry	564,885	28,068	592,953	610,759	30,079	640,838	549,800	27,087	576,887
Refrigerated	35,611	450	36,061	37,119	621	37,740	36,650	861	37,511
Special	45,238	2,619	47,857	48,054	2,839	50,893	42,049	3,619	45,668
Tank	1,350		1,350	1,319		1,319	110		110
Chassis	8,778		8,778	8,796		8,796	7,955		7,955
Equipment leasing fleet	655,862	31,137	686,999	706,047	33,539	739,586	636,564	31,567	668,131
Equipment trading fleet	14,947		14,947	16,735		16,735	14,583		14,583
Total	670,809	31,137	701,946	722,782	33,539	756,321	651,147	31,567	682,714
Percentage	95.6%	4.4%	100.0%	95.6%	4.4%	100.0%	95.4%	4.6%	100.0%

Equipment Fleet in TEU's

	December 31, 2009			December 31, 2008			December 31, 2007		
	Owned	**Managed**	**Total**	**Owned**	**Managed**	**Total**	**Owned**	**Managed**	**Total**
Dry	899,599	50,426	950,025	968,772	53,692	1,022,464	886,816	47,315	934,131
Refrigerated	65,971	758	66,729	68,270	1,022	69,292	66,625	1,436	68,061
Special	77,617	4,255	81,872	82,322	4,624	86,946	69,544	6,023	75,567
Tank	1,400		1,400	1,369		1,369	110		110
Chassis	15,612		15,612	15,645		15,645	13,924		13,924
Equipment leasing fleet	1,060,199	55,439	1,115,638	1,136,378	59,338	1,195,716	1,037,019	54,774	1,091,793
Equipment trading fleet	23,885		23,885	28,736		28,736	19,371		19,371
Total	1,084,084	55,439	1,139,523	1,165,114	59,338	1,224,452	1,056,390	54,774	1,111,164
Percentage	95.1%	4.9%	100.0%	95.2%	4.8%	100.0%	95.1%	4.9%	100.0%

We generally lease our equipment on a per diem basis to our customers under three types of leases: long-term leases, finance leases and service leases. Long-term leases, typically with initial contractual terms ranging from three to eight years, provide us with stable cash flow and low transaction costs by requiring customers to maintain specific units on-hire for the duration of the lease. Finance leases, which are typically structured as full payout leases, provide for a predictable recurring revenue stream with the lowest daily cost to the customer because customers are generally required to retain the equipment for the duration of its useful life. Service leases command a premium per diem

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rate in exchange for providing customers with a greater level of operational flexibility by allowing the pick-up and drop-off of units during the lease term. We also have expired long-term leases whose fixed terms have ended but for which the related units remain on-hire and for which we continue to receive rental payments pursuant to the terms of the initial contract. Some leases have contractual terms that have features reflective of both long-term and service leases and we classify such leases as either long-term or service leases, depending upon which features we believe are more predominant.

The following table provides a summary of our lease portfolio by lease type, based on total on-hire units as of the dates indicated below:

Lease Portfolio	December 31, 2009	December 31, 2008	December 31, 2007
Long-term leases	67.7%	60.3%	59.0%
Finance leases	11.5	9.9	10.9
Service leases	16.5	20.3	23.5
Expired long-term leases (units on hire)	4.3	9.5	6.6
Total	100.0%	100.0%	100.0%

During 2009, we reached agreements with several of our customers that limit the total number of containers that could be returned from expired leases. We have included the maximum number of containers that can be returned during the limitation periods as expired term leases, while the balance of the affected units are included in current term leases. As of December 31, 2009, our long-term leases had an average remaining contract term of approximately 43 months, assuming no leases are renewed.

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 and the net sales margins on our equipment trading activities.

Our leasing revenues are primarily driven by our owned fleet size, utilization and average rental rates. In 2009, our leasing revenues decreased throughout the year due to a shrinking fleet size, a drop in utilization and decreasing leasing rates.

As of December 31, 2009, our owned fleet included 1,084,084 TEUs, a decrease of 7.0% from December 31, 2008. The decrease in fleet size during 2009 was mainly due to the small amount of new containers purchased in 2009 combined with our normal disposal of used containers. According to Clarkson Research Services ("Clarkson"), global containerized trade volumes decreased by approximately 10% in 2009, and our shipping line customers aggressively decreased the number of containers in their fleets, especially in the first two quarters of the year. As a result, the size of our idle container inventory rapidly increased during the first half of 2009, and we significantly reduced our level of fleet investment. Container trade volumes and related container lease demand began to recover during the second half of 2009. This improvement in demand has reduced the number of our idle containers, and we have re-started fleet investment in the first quarter of 2010.

In 2009, we sold approximately 79,000 TEUs of our owned containers, or 7.0% of our owned equipment leasing fleet as of the beginning of the year. This annual disposal rate is in line with the 6 to 8% annual disposal rate we have been experiencing for the last several years, and is generally consistent with our expected long-term average disposal rate given the 12 14 year expected useful life of our containers. However, the rate of our disposals in 2009 did not keep pace with the rate at which older units were returned off lease, and the portion of our fleet designated as available for sale

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increased from 3.2% as of December 31, 2008 to 4.2% as of December 31, 2009. Based on our increased inventory of containers available for sale, the age profile of our leasing fleet and scheduled lease expirations, we expect that our rate of disposals will increase when the market for used container disposals improves and then remain at an above-average level for several years before decreasing significantly for several years thereafter. During years of above-average disposals, our TEU growth rate and leasing revenues may be constrained if we are unable to generate a sufficient number of attractive lease transactions for an expanded level of new container investment.

Our average utilization was 88.0% in the year ended December 31, 2009, a decrease of 6.4% from the year ended December 31, 2008. Ending utilization decreased 2.1% from 92.4% as of December 31, 2008 to 90.3% as of December 31, 2009. The decrease in our utilization during 2009 was mainly due to the decrease in global containerized trade volumes and the resulting weak demand for leased containers, especially for leased dry containers. During 2009, dry container drop-offs were high and pick-ups exceptionally low for the first half of the year as our shipping line customers reacted to reduced trade volumes by decreasing the size of their operated containers fleets. In the second half of the year, a partial recovery of trade volumes led to reduced dry container drop off volumes, improved container pick-ups and a partial recovery in our utilization. The improved market conditions have continued into 2010, and we expect our utilization to continue to trend up in the first quarter of 2010.

Utilization and leasing demand for our refrigerated containers remained solid in 2009 despite the weak economic environment. The utilization of our refrigerated containers does not heavily influence our overall utilization since they represent only 5% of the units in our fleet. However, these container types are significantly more expensive than dry containers, generate higher per diem lease rates and currently represent approximately 25% of our leasing revenues.

Utilization of our special containers also remained relatively healthy in 2009, though we are seeing signs that leasing demand for special containers is weakening. Leasing demand for our chassis product line remained weak during 2009 due to ongoing weakness in U.S. containerized imports and an oversupply of chassis in the marketplace.

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

Average Utilization	Year Ended December 31,	Quarter Ended December 31,	Quarter Ended September 30,	Quarter Ended June 30,	Quarter Ended March 31,
2009	88.0%	88.7%	86.2%	87.0%	90.1%
2008	94.4%	94.0%	95.5%	94.3%	93.8%
2007	94.9%	94.9%	95.1%	94.6%	94.8%

Ending Utilization	December 31,	September 30,	June 30,	March 31,
2009	90.3%	87.6%	85.9%	88.5%
2008	92.4%	95.8%	95.4%	94.0%
2007	94.4%	95.5%	94.8%	93.9%

(1) Utilization is computed by dividing our total units on lease by the total units in our fleet excluding new units not yet leased.

Average lease rates for our dry container product line in 2009 were 5.4% lower compared to the average level in 2008. The decrease in average lease rates in 2009 primarily reflects the impact of lease extension transactions and other incentives provided to our customers, such as free or discounted usage periods, to encourage them to keep or pick-up containers. In addition, lease rates for containers placed on hire in 2009 were much lower than our portfolio average, while a significant portion of the containers returned to us have been from our higher per diem short-term leases. We expect our average lease rates for dry containers to gradually improve in 2010 if the recent improvement in market

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conditions is sustained, as discount periods expire and as containers are supplied to leases at higher rates.

Average lease rates for refrigerated containers in 2009 were 4.6% lower compared to 2008, while average rental rates for our special containers were 1.1% lower during 2009 compared to 2008. The decrease in average lease rates for our refrigerated containers was primarily due to lease rate concessions provided to certain customers for lease extension transactions. In addition, market leasing rates for new refrigerated containers are still below our portfolio average rates due to lower container prices, so we generally expect our average rates for refrigerated containers to continue to trend down. The decrease in average leasing rates for special containers was primarily due to discounts associated with lease extension transactions and weaker demand.

During 2009, we recognized a $9.3 million gain on the sale of our used containers compared to a $23.5 million gain in 2008. The decrease compared to 2008 mainly resulted from a decrease in selling prices for our used containers. Used container selling prices decreased this year due to weak demand for used containers as well as the slowdown in global containerized trade and the resulting increase in worldwide idle container inventories. In addition, in 2009 we recorded a $1.5 million loss on new factory units placed on a finance lease. These units were purchased in 2008 when equipment prices were historically high and we leased them out in 2009 at a lower implied price per container. We recognize an up-front gain or loss when we place existing equipment on finance leases and the market value of the equipment is different from our net book value. We do not incur up-front gains or losses when we place existing equipment on operating leases.

During 2009, we recognized a net equipment trading margin of $2.2 million on the sale of equipment purchased for resale, compared to an $11.2 million margin in 2008. In 2009, our trading volume was considerably lower than in 2008 due to the weaker disposal environment and our decision to reduce our purchases of trading equipment in order to focus our efforts on the sale of our owned equipment. In addition, our per unit trading margin was pressured by decreasing used container selling prices in 2009.

Our ownership expenses, principally depreciation and interest expense, increased by $8.8 million, or 5% in 2009 as compared to 2008. Although we purchased very few new containers during 2009 we invested heavily in containers during 2008 and this resulted in the average book value of our revenue earning assets increasing 3.2% in 2009 as compared to 2008.

Depreciation increased 4.7% in 2009 compared to 2008, primarily due to new equipment purchases made throughout 2008 which had a full year's depreciation in 2009. Interest expense increased 5.5% in 2009 compared to 2008 primarily due to an increase in our effective interest rate.

For 2009, our provision for doubtful accounts was $0.5 million, down from a provision of $4.9 million in 2008. During 2009, we experienced several small customer defaults which were largely offset by a partial reversal of provisions made in 2008 due to better than expected container recoveries. During the third and fourth quarters of 2008, we recorded sizable credit provisions primarily due to the default on a finance lease by one of our customers, and we recorded additional provisions to increase the loss reserves for the remaining leases in the finance lease portfolio.

While our provisions for doubtful accounts were limited in 2009, we remain concerned that we may see an increase in the number and size of customer defaults due to the ongoing severe market conditions our customers are facing. Many of our customers were in the middle of major expansion programs when trade volumes collapsed at the end of 2008, and vessel capacity is expected to increase for the next several years despite the recent reduction in trade volume growth. The combination of reduced trade volumes and increasing vessel capacity has led to substantial decreases in freight rates on the major trade lanes, and many shipping lines reported large losses during 2009. While our collections performance in 2009 was solid and the average number of days outstanding for our receivables

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remained close to where it was at the beginning of the year, several of our customers, including a few major shipping lines, missed contractual payment dates during the year. In addition, several major shipping lines, including our largest customer, are currently involved in comprehensive financial restructuring negotiations with their major creditors.

If one of our major customers defaulted on our leases and ceased operations because of deterioration in its financial performance, we would face reduced revenues and we would likely incur significant write-offs due to lost units and recovery expenses. We do not maintain an equipment reserve for units on lease to performing customers, so a major customer default would have a significant impact on our financial statements at the time the major customer defaulted. To mitigate this impact from potential defaults, we entered into a credit insurance policy in the third quarter of 2009 that in certain circumstances covers losses and costs incurred in default situations. However, this policy has significant deductibles, exclusions and payment and other limitations, and therefore may not protect us from losses arising from customer defaults.

Our direct operating expenses were $36.9 million in 2009, compared to $28.2 million in 2008. We incurred significantly more repair and storage costs in 2009 due to the increased level of drop-offs and idle containers.

Dividends

We paid the following quarterly dividends during the years ended December 31, 2009 and 2008 on our issued and outstanding common stock:

Record Date	Payment Date	Aggregate Payment	Per Share Payment
December 1, 2009	December 22, 2009	$ 0.3 million	$ 0.01
September 3, 2009	September 24, 2009	$ 0.3 million	$ 0.01
June 2, 2009	June 23, 2009	$ 0.3 million	$ 0.01
March 12, 2009	March 26, 2009	$ 0.3 million	$ 0.01
November 19, 2008	December 10, 2008	$ 13.4 million	$ 0.4125
August 21, 2008	September 12, 2008	$ 13.5 million	$ 0.4125
May 22, 2008	June 12, 2008	$ 13.4 million	$ 0.4125
March 20, 2008	April 10, 2008	$ 12.2 million	$ 0.3750

Treasury Stock

We repurchased the following amounts of Treasury shares:

Year	Shares Purchased	Amount Paid
2009	1,953,692	$ 17.4 million
2008	643,200	$ 10.9 million
2007	276,029	$ 6.3 million

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Results of Operations

The following table summarizes our results of operations for the three years ended December 31, 2009, 2008 and 2007 in dollars (in thousands) and as a percentage of total revenues.

	Year Ended December 31,					
	2009		2008		2007	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
Leasing revenues	$ 309,261	87.7%	$ 319,292	76.0%	$ 286,273	83.4%
Equipment trading revenues	39,693	11.2	95,394	22.7	49,214	14.3
Management fee income	2,629	0.8	3,136	0.8	5,475	1.6
Other revenues	954	0.3	2,170	0.5	2,303	0.7
Total revenues	352,537	100.0	419,992	100.0	343,265	100.0
Operating expenses (income):						
Equipment trading expenses	37,538	10.6	84,216	20.1	43,920	12.8
Direct operating expenses	36,942	10.5	28,246	6.7	28,552	8.3
Administrative expenses	40,908	11.6	46,154	11.0	39,843	11.6
Depreciation and amortization	115,688	32.8	110,450	26.3	101,670	29.6
Provision for doubtful accounts	545	0.2	4,878	1.2	792	0.3
Net (gain) on sale of leasing equipment	(9,278)	(2.6)	(23,534)	(5.6)	(12,119)	(3.6)
Net (gain) on sale of container portfolios	(185)	(0.1)	(2,789)	(0.7)		
Total operating expenses	222,158	63.0	247,621	59.0	202,658	59.0
Operating income	130,379	37.0	172,371	41.0	140,607	41.0
Other expenses (income):						
Interest and debt expense (including write-off of deferred financing costs of $0, $250, and $204)	68,807	19.5	65,233	15.6	52,333	15.3
(Gain) on debt extinguishment	(14,130)	(4.0)	(23,772)	(5.7)		
Unrealized (gain) loss on interest rate swaps	(35,152)	(10.0)	76,047	18.1	27,883	8.1
Total other expenses	19,525	5.5	117,508	28.0	80,216	23.4
Income before income taxes	110,854	31.5	54,863	13.0	60,391	17.6
Income tax expense	39,268	11.2	19,067	4.5	21,600	6.3
Net income	$ 71,586	20.3%	$ 35,796	8.5%	$ 38,791	11.3%

Comparison of Year Ended December 31, 2009 to Year Ended December 31, 2008

Leasing revenues. The principal components of our leasing revenues are presented in the following table. Per diem revenue represents revenue earned under operating lease contracts; fee and ancillary lease revenue represent fees billed for the pick-up and drop-off of containers in certain geographic

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locations and billings of certain reimbursable operating costs such as repair and handling expenses; and finance lease revenue represents interest income earned under finance lease contracts.

	Year Ended December 31,	
	2009	2008
	(Dollars in thousands)	
Leasing revenues:		
Operating lease revenues:		
Per diem revenue	$ 256,879	$ 266,978
Fee and ancillary lease revenue	31,880	31,935
Total operating lease revenue	288,759	298,913
Finance lease revenues	20,502	20,379
Total leasing revenues	$ 309,261	$ 319,292

Total leasing revenues were $309.3 million for 2009, compared to $319.3 million for 2008, a decrease of $10.0 million, or 3.1%.

Per diem revenue decreased by $10.1 million compared to 2008. The primary reasons for the decrease are as follows:

- $8.1 million decrease due to overall lower utilization;
- $12.1 million decrease due to lower per diem rates primarily related to certain lease concessions that were given in return for extended on hire time;
- $2.0 million increase due to an increase in average fleet size, reflecting large fleet investments made in 2008 partially offset by limited procurement during 2009;
- $8.0 million increase due to the recognition of fee revenue for the early termination of certain lease contracts. In 2009, we negotiated the early termination of several contracts for fees of approximately $11.0 million. As of December 31, 2009, approximately $3.0 million of these fees remain categorized as deferred revenue and will be recognized as units are redelivered;

Fee and ancillary lease revenue as well as finance lease revenue remained relatively unchanged from the 2008 level.

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

	Year Ended December 31,	
	2009	2008
	(Dollars in thousands)	
Equipment trading revenues	$ 39,693	$ 95,394
Equipment trading expenses	(37,538)	(84,216)
Equipment trading margin	$ 2,155	$ 11,178

The equipment trading margin decreased $9.0 million compared to 2008. The trading margin decreased by $6.6 million due to a lower per unit trading margin and by $2.7 million due to a lower volume of units sold. These decreases were partially offset by a decrease in selling costs and administrative expenses related to the volume of units sold. We typically experience a lag of several

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months between the time that we buy and sell used containers, and in periods of falling prices inventory losses reduce our sales margins.

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 $36.9 million for 2009, compared to $28.2 million for 2008, an increase of $8.7 million. The primary reasons for the increase are outlined below:

- $10.2 million increase in storage costs due to an increase in units off-hire;

- $1.0 million increase in repair costs due to a higher repair volume, primarily for our dry and refrigerated containers;

- $1.3 million decrease in surveying costs due to a decrease in new equipment purchases; and

- $1.2 million decrease in other operating costs due to lower positioning costs in 2009.

Administrative expenses. Administrative expenses were $40.9 million for 2009, compared to $46.2 million for 2008, a decrease of $5.3 million, or 13.0%. This decrease was mainly due to lower employee incentive costs of $3.0 million, lower foreign exchange losses of $0.8 million, lower travel expenses of $0.7 million, and lower consulting fees of $0.7 million.

Depreciation and amortization. Depreciation and amortization was $115.7 million for 2009, compared to $110.5 million for 2008, an increase of $5.2 million, or 4.7%. Depreciation increased by $18.5 million due to a larger depreciable fleet, resulting from our large investment in equipment in 2008. This increase was partially offset by a $9.3 million decrease due to another vintage year of older equipment becoming fully depreciated in the fourth quarter of 2008 and a $3.7 million decrease due to disposals.

Provision for doubtful accounts. There was a provision for doubtful accounts of $0.5 million for 2009, compared to $4.9 million for 2008, a decrease of $4.4 million. In 2008, a $2.7 million reserve was established for amounts estimated to be uncollectible under a finance lease receivable for one of our customers, as well as an additional provision of $1.4 million against our finance lease portfolio for expected uncollectible accounts. In 2009, the provision for several small customer defaults was largely off-set by the reversal of certain provisions recorded in 2008 due to better than expected container recoveries.

Net (gain) on sale of leasing equipment. Gain on sale of equipment was $9.3 million for 2009, compared to a gain of $23.5 million for 2008, a decrease of $14.2 million. Gain on sale decreased $12.8 million due to lower selling prices and higher selling costs. In addition, in 2009 we recorded a $1.5 million loss on new factory units placed on a finance lease. These units were purchased in 2008 when equipment prices were historically high and we leased them out in 2009 at a lower implied price per container. We recognize an up-front gain or loss when we place existing equipment on finance leases and the market value of the equipment is different from our net book value. We do not incur up-front gains or losses when we place existing equipment on operating leases.

Net (gain) on sale of container portfolios. Gain on sale of container portfolios was $0.2 million for 2009, and $2.8 million for 2008. In the third quarter of 2009 we sold container portfolios for total proceeds of $8.5 million, while in the third quarter of 2008 we sold container portfolios for total proceeds of $40.5 million.

Interest and debt expense. Interest and debt expense was $68.8 million for 2009, compared to $65.2 million for 2008, an increase of $3.6 million. The increase was primarily due to a higher effective interest rate on the Company's consolidated debt balances.

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(Gain) on debt extinguishment. Gain on debt extinguishment of $14.1 million (net of the write-off of deferred financing costs of approximately $0.2 million) for 2009 was due to the repurchase of a portion of the Series 2006-1 Term Notes. Gain on debt extinguishment of $23.8 million (net of the write-off of deferred financing costs of $0.3 million) for 2008 was due to the repurchase of a portion of the Series 2006-1 Term Notes.

Unrealized (gain) loss on interest rate swaps. Unrealized gain on interest rate swaps was $35.2 million for 2009, compared to an unrealized loss $76.0 million for 2008. The net fair value of the interest rate swap contracts was a net liability of $59.6 million at December 31, 2009, compared to net liability of $95.2 million at December 31, 2008. The decrease in the liability resulted from an increase in long-term interest rates during 2009.

Income tax expense. Income tax expense was $39.3 million for 2009, compared to $19.1 million for 2008, and the effective tax rates were 35.4% in 2009 and 34.8% in 2008. The 2008 effective tax rate was lower than 2009 primarily due to a decrease in the required state rate in 2008.

The Company records income tax expense, with the majority of the expense recorded as a deferred income tax liability on the balance sheet. We expect this deferred liability to increase for the foreseeable future. Due to the availability of net operating loss carryovers and continued accelerated tax depreciation for our equipment, the Company currently does not pay any significant federal, state or foreign income taxes.

Comparison of Year Ended December 31, 2008 to Year Ended December 31, 2007

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

	Year Ended December 31, 2008	Year Ended December 31, 2007
	(Dollars in thousands)	
Leasing revenues:		
Operating lease revenues:		
Per diem revenue	$ 266,978	$ 240,409
Fee and ancillary lease revenue	31,935	27,596
Total operating lease revenues	298,913	268,005
Finance lease revenues	20,379	18,268
Total leasing revenues	$ 319,292	$ 286,273

Total leasing revenues were $319.3 million for 2008, compared to $286.3 million for 2007, an increase of $33.0 million, or 11.5%.

Per diem revenue increased by $26.6 million from 2007 primarily due to an increase in fleet size, partially offset by a decrease in per diem rates. Below outlines the primary reasons for the increase:

- $24.5 million increase due to an increase in fleet size, reflecting a larger number of dry, special and refrigerated containers, chassis and tanks in our fleet compared to the prior year;

- $1.8 million increase due to higher utilization from special and refrigerated containers and chassis compared to the prior year; and

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$0.5 million decrease due to lower per diem rates primarily for dry and refrigerated containers.

Fee and ancillary lease revenue increased by $4.3 million as compared to the prior year primarily due to an increase in drop off volume.

Finance lease revenues increased by $2.1 million in 2008, primarily due to an increase in the average size of our finance lease portfolio.

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

	Year Ended December 31,	
	2008	2007
	(Dollars in thousands)	
Equipment trading revenues	$ 95,394	$ 49,214
Equipment trading expenses	(84,216)	(43,920)
Equipment trading margin	$ 11,178	$ 5,294

The equipment trading margin increased $5.9 million for 2008 compared to 2007. The trading margin increased by $7.2 million due to a higher volume of units sold and by $1.8 million due to a higher per unit trading margin. These increases were partially offset by an increase of $3.1 million in selling costs and administrative expenses related to the volume of units sold. Equipment trading margins were higher in 2008 partially due to the upward trend in used container selling prices in 2008. We typically experience a lag of several months between the time that we buy and sell used containers, so that we benefit from inventory profits in addition to our target sales margins when prices are increasing.

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 $28.2 million for 2008, compared to $28.6 million for 2007, a decrease of $0.4 million. Below outlines the primary reasons for the decrease:

handling costs increased by $0.9 million due to greater on hire and off hire activity for our equipment;

surveying costs increased by $0.5 million due to an increase in our fleet size;

positioning costs decreased by $0.9 million due to a lower volume of dry and refrigerated containers moved; and

repair costs decreased by $0.7 million due to a lower repair volume, primarily for our dry and refrigerated containers.

Administrative expenses. Administrative expenses were $46.2 million for 2008, compared to $39.8 million for 2007, an increase of $6.4 million, or 16.1%. This increase was mainly due to higher employee incentive and compensation costs of $4.2 million related to our high level of profitability growth in 2008 and $1.8 million in foreign exchanges losses in 2008 versus foreign exchange gains in 2007.

Depreciation and amortization. Depreciation and amortization was $110.5 million for 2008, compared to $101.7 million for 2007, an increase of $8.8 million, or 8.6%. Depreciation expense increased by $12.1 million due to new equipment added to the fleet and placed in service in 2008, and increased by $5.6 million due to the purchase of 57,000 TEU of older managed units in the fourth quarter of 2007. The increase in depreciation expense in 2008 was partially offset by a decrease of $9.0 million due to certain equipment becoming fully depreciated in the fourth quarter of 2007 and 2008.

Provision for doubtful accounts. There was a provision for doubtful accounts for $4.9 million for 2008, compared to $0.8 million for 2007, an increase of $4.1 million. The increase was primarily due to a $2.7 million reserve established for amounts estimated to be uncollectible under a finance lease receivable for one of our customers, as well as an additional provision of $1.4 million against our finance lease portfolio for expected uncollectible accounts.

Net (gain) on sale of leasing equipment. Gain on sale of equipment was $23.5 million for 2008, compared to a gain of $12.1 million for 2007, an increase of $11.4 million. Gain on sale of equipment increased by $8.5 million due to higher selling prices for used containers, and increased by $2.9 million primarily due to higher volume of units sold.

Net (gain) on sale of container portfolios. Gain on the sale of container portfolios was $2.8 million for 2008. There were no sales of container portfolios for the year ended December 31, 2007. In the third quarter of 2008 we sold several container portfolios for total proceeds of $40.5 million.

Interest and debt expense. Interest and debt expense was $65.0 million for 2008, compared to $52.1 million for 2007, an increase of $12.9 million. The increase was primarily due to an increase in the average debt balance driven by the increase in the average size of our fleet. Our average effective interest rate was slightly lower during 2008 as compared to 2007.

(Gain) on debt extinguishment. Gain on debt extinguishment of $23.8 million (net of the write-off of deferred financing costs of $0.3 million) for 2008 was due to the repurchase of a portion of the Series 2006-1 Term Notes. There were no gains on debt extinguishment for 2007.

Unrealized loss on interest rate swaps. Unrealized loss on interest rate swaps was $76.0 million for 2008, compared to $27.9 million for 2007. The net fair value of the interest rate swap contracts was a net liability of $95.2 million at December 31, 2008, compared to net liability of $17.9 million at December 31, 2007, with the decrease in fair value due to the decrease in long-term interest rates during 2008.

Income tax expense. Income tax expense was $19.1 million for 2008, compared to $21.6 million for 2007, and the effective tax rate was 34.8% in 2008 compared to 35.8% in 2007. The decrease in our effective rate is primarily due to a decrease in our state tax rate.

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

Business Segments

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

Equipment leasing

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

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revenues from operating and finance leases, fees earned on managed container leasing activities, as well as other revenues. Expenses related to equipment leasing include direct operating expenses, administrative expenses, depreciation expense, and interest expense. The Equipment leasing segment also includes gains and losses on the sale of owned leasing equipment.

The following table lists selected revenue and expense items for our Equipment leasing segment for the years ended December 31, 2009, 2008 and 2007:

	Year Ended December 31,		
	2009	**2008**	**2007**
	(Dollars in thousands)		
Equipment leasing segment:			
Total revenues	$ 311,875	$ 324,083	$ 293,062
Depreciation expense	115,429	110,400	101,670
Interest expense	68,004	63,797	51,656
Net (gain) on sale of leasing equipment	(9,278)	(23,534)	(12,119)
Pre-tax income(1)	60,691	98,724	83,753

(1) Pre-tax income excludes unrealized gains and losses on interest rate swaps, and gain on debt extinguishment.

Segment Comparison of Year Ended December 31, 2009 to Year Ended December 31, 2008

Equipment leasing revenues. Total revenues for the Equipment leasing segment were $311.9 million in 2009 compared to $324.1 million in 2008, a decrease of $12.2 million, or 3.8%. The primary changes are as follows:

- $8.1 million decrease due to overall lower utilization;
- $12.1 million decrease due to lower per diem rates primarily related to certain lease concessions that were given in return for extended on hire time;
- $2.0 million increase due to an increase in average fleet size, reflecting large fleet investments made in 2008 partially offset by limited procurement during 2009;
- $8.0 million increase due to the recognition of fee revenue for the early termination of certain lease contracts.

Fee and ancillary lease revenue as well as finance lease revenues remained relatively unchanged in 2009 from the 2008 level.

Equipment leasing pretax income. Pretax income for the Equipment leasing segment was $60.7 million in 2009 compared to $98.7 million in 2008, a decrease of $38.0 million, or 38.5%. The primary reasons for the decrease in pretax income are as follows:

- $14.2 million decrease in gain on the sale of leasing equipment, primarily due to lower selling prices in 2009.
- $12.2 million decrease in Equipment leasing revenues;

$5.0 million increase in depreciation expense, primarily due to an increase in the depreciable fleet;

$4.2 million increase in interest expense, primarily due to an increase in the average effective rate;

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$8.7 million increase in direct operating expenses, primarily related to increased storage costs associated with lower utilization;

Segment Comparison of Year Ended December 31, 2008 to Year Ended December 31, 2007

Equipment leasing revenues. Total revenues for the Equipment leasing segment were $324.1 million in 2008 compared to $293.1 million in 2007, an increase of $31.0 million, or 10.6%. In 2008, leasing revenues increased by $24.5 million due to a larger fleet size and by $1.8 million due to higher utilization of our leasing equipment. Fee and ancillary lease revenue increased by $4.3 million as compared to the prior year. These increases were partially offset by a $0.5 million reduction in leasing revenues from lower per diem rates.

Equipment leasing pretax income. Pretax income for the Equipment leasing segment was $98.7 million in 2008 compared to $83.8 million in 2007, an increase of $14.9 million, or 17.8%. Equipment leasing revenues increased by $31.0 million in 2008, and the gain on the sale of leasing equipment increased by $11.4 million primarily due to higher selling prices for used containers in 2008 compared to 2007.

The increase in revenue and gain on sale of leasing equipment were partially offset by an $8.7 million increase in depreciation expense, a $12.4 million increase in interest expense, and a $5.6 million increase in administrative expenses.

Equipment trading

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

The following table lists selected revenue and expense items for our Equipment trading segment for the years ended December 31, 2009, 2008 and 2007:

	Year Ended December 31,		
	2009	2008	2007
	(Dollars in thousands)		
Equipment trading segment:			
Equipment trading revenues	$ 39,693	$ 95,394	$ 49,214
Equipment trading expense	(37,538)	(84,216)	(43,920)
Equipment trading margin	2,155	11,178	5,294
Interest expense	803	1,186	473
Pre-tax income(1)	881	8,414	4,521

(1) Pre-tax income excludes unrealized gains and losses on interest rate swaps, and gain on debt extinguishment.

Segment Comparison of Year Ended December 31, 2009 to Year Ended December 31, 2008

Equipment trading margin. The Equipment trading margin, the difference between Equipment trading revenues and expenses, decreased $9.0 million in 2009 compared to 2008. The trading margin decreased by $6.6 million due to a lower per unit trading margin and by $2.7 million due to a lower volume of units sold. These decreases were partially offset by a decrease in selling costs and administrative expenses related to the volume of units sold.

Equipment trading pretax income. Pretax income for the Equipment trading segment was $0.9 million in 2009 compared to $8.4 million in 2008, a decrease of $7.5 million, or 89.3%. which was primarily due to the Equipment trading margin decrease of $9.0 million. The decrease in administrative expenses was primarily due to lower allocated corporate expenses. Corporate expenses are allocated to the equipment trading segment primarily based on the volume of units sold in the equipment trading fleet relative to total units sold from both the equipment trading and equipment leasing fleets.

Segment Comparison of Year Ended December 31, 2008 to Year Ended December 31, 2007

Equipment trading margin. Equipment trading revenues and Equipment trading expenses increased significantly in 2008 compared to 2007 primarily due to an increase in the number of units purchased and sold. The equipment trading margin, the difference between Equipment trading revenues and expenses, increased $5.9 million in 2008 compared to 2007. The trading margin increased by $7.2 million due to a higher volume of units sold and by $1.8 million due to a higher per unit trading margin. These increases were partially offset by an increase in selling costs and administrative expenses related to the volume of units sold.

Equipment trading pretax income. Pretax income for the Equipment trading segment was $8.4 million in 2008 compared to $4.5 million in 2007, an increase of $3.9 million, or 86.7%. The Equipment trading margin increased by $5.9 million in 2008. The increase in Equipment trading margin was partially offset by a $0.7 million increase in administrative expenses and $0.7 million increase in interest expense. The increase in administrative expenses was primarily due to higher allocated corporate expenses. Corporate expenses are allocated to the equipment trading segment primarily based on the volume of units sold in the equipment trading fleet relative to total units sold from both the equipment trading and equipment leasing fleets.

Liquidity and Capital Resources

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

We continue to have sizable cash in-flows. For 2009, cash provided by operating activities, together with the proceeds from the sale of our leasing equipment and principal payments on our finance leases, was $263.7 million. In addition, as of December 31, 2009 we had $59.9 million of unrestricted cash and $165.5 million of additional borrowing capacity under our current credit facilities.

As of December 31, 2009, major committed cash outflows in the next 12 months include $91.4 million of committed but unpaid capital expenditures and $164.9 million of scheduled principal payments on our existing debt facilities.

We believe that cash provided by operating activities and existing cash, proceeds from the sale of our leasing equipment and principal payments on our finance lease receivables will be sufficient to meet our committed obligations over the next 12 months. In addition, we were successful in securing new financing commitments in 2009 despite the challenging market for equipment financing. During

2009, we entered into a $75 million asset backed credit facility, which was increased to $100 million in December, we entered into other term loans totaling $32.5 million, and we entered into a capital lease for $10.0 million. We expect that we will be able to secure additional financing in 2010 to support investment in our fleet.

At December 31, 2009, our outstanding indebtedness was comprised of the following (amounts in millions):

	Current Amount Outstanding	Current Maximum Borrowing Level
Asset backed securitization (ABS)		
Term notes Series 2006-1	$ 357.8	$ 357.8
Term notes Series 2005-1	342.4	342.4
2008 Asset backed credit facility	209.5	225.0
2009 Asset backed credit facility	50.0	100.0
Revolving credit facility		100.0
Finance lease facility	38.5	38.5
2007 Term loan facility	26.7	26.7
2009 Term loan facilities	32.2	32.2
Port equipment facility	10.6	10.6
Capital lease obligations	93.6	93.6
Total Debt	$ 1,161.3	$ 1,326.8

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

Interest rates on the majority of our debt obligations are based on floating rate indices (such as LIBOR). We economically hedge the risks associated with fluctuations in interest rates on our long-term borrowings by entering into interest rate swap contracts.

Asset Backed Securitization Term Notes

Our Asset Backed Securitization program was the primary funding source used to finance our existing container fleet and new container purchases from the program's inception in April of 2006 through the conversion of the Term Note Series 2005-1 to a term loan in April 2008. The Term Note Series 2006-1 issued in April 2006 was used to finance the majority of the containers in our fleet at that time, and the Term Notes Series 2005-1 was primarily used to finance our new container purchases between April 2006 and April 2008. The Term Note Series 2005-1 automatically converted to a nine year amortizing term loan as of April 12, 2008.

The borrowing capacity under the ABS program is determined by applying the advance rate of 82% against the net book values of designated eligible containers plus accounts receivable for sold containers not outstanding more than 60 days plus restricted cash. The net book value for purposes of calculating our borrowing capacity is the original equipment cost depreciated over 12 years to a range of 20% to 32% of original equipment cost depending on equipment type. Under the ABS program, we are required to maintain restricted cash balances on deposit in a designated bank account equal to five months of interest expense.

During the second quarter of 2009, we repurchased approximately $35.0 million of our Series 2006-1 Term Notes and recorded a gain on debt extinguishment of $14.1 million, net of the write-off of deferred financing costs of $0.2 million. During the fourth quarter of 2008, we repurchased approximately $48.2 million of our Series 2006-1 Term Notes and recorded a gain on debt extinguishment of $23.8 million, net of the write-off of deferred financing costs of $0.3 million.

2008 Asset Backed Credit Facility

On March 27, 2008, we entered into an Asset Backed Credit Facility. The facility has a revolving credit period and the current borrowing capacity under this facility is $225 million. The revolving period ends June 30, 2010, on which date the facility will convert to a term loan and amortize in equal monthly installments through June 2018. The interest rate margin will increase by 75 basis points when this facility is converted to a term loan.

The borrowing capacity under the Asset Backed Credit Facility is determined by applying the advance rate of 82% against the net book values of designated eligible containers plus accounts receivable for sold containers not outstanding more than 60 days. The net book value for purposes of calculating our borrowing capacity is the original equipment cost depreciated over 12 years to a range of 20% to 32% of original equipment cost depending on equipment type.

2009 Asset Backed Credit Facility

On October 26, 2009, we entered into a $75 million Asset Backed Credit Facility, which was increased to $100 million on December 21, 2009. The facility initially has a 24 month revolving credit period, commencing on the date of the facility, followed by a four year term period. The term notes amortize on a level basis over the four year period to 60% of the outstanding balance. The interest rate margin will increase by 150 basis points if the facility is converted to a term loan at the end of the revolving credit period.

The borrowing capacity under the Asset Backed Credit Facility is determined by applying the advance rate of 75% against the net book values of designated eligible containers plus accounts receivable for sold containers not outstanding more than 60 days. The net book value for purposes of calculating our borrowing capacity is the original equipment cost depreciated over 12 years to a range of 20% to 32% of original equipment cost depending on equipment type. Under the 2009 Asset Backed Credit Facility, we are required to maintain restricted cash balances on deposit in a designated bank account equal to three months of interest expense.

Revolving Credit Facility

On August 15, 2007, we entered into a Revolving Credit Agreement. The current commitment under the Revolving Credit Facility is $100.0 million and the maturity date is August 15, 2012. We are required to maintain unencumbered assets equivalent to 50% of the maximum commitment.

Finance Lease Facility

On July 31, 2006, we entered into a $50 million credit facility to support the growth of our finance lease business (the "Finance Lease Facility"). The Finance Lease Facility had a two year revolving period which preceded 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. The Finance Lease Facility has a final maturity of July 2018.

The borrowing capacity under the Finance Lease Facility is determined by applying the advance rate of 90% against the lesser of the original equipment cost or the net present value of the minimum lease payments discounted using the facility rate at the time of borrowing.

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2007 Term Loan Facility

On November 19, 2007, we entered into a three year term loan, which is secured by approximately 57,000 TEU of previously managed dry and special containers that we purchased on October 1, 2007. The final maturity date of the loan is November 19, 2010. Our initial borrowing under this facility of $20.0 million was made on November 19, 2007. We made an additional borrowing under this facility of $19.9 million on January 2, 2008 pursuant to a lender commitment dated December 20, 2007.

The borrowing capacity under the 2007 Term Loan Facility is determined by applying the advance rate of 80% against the net book values of designated eligible containers plus accounts receivable for sold containers not outstanding more than 90 days. The net book value for purposes of the borrowing base calculation is the equipment acquisition cost depreciated at an annual rate of 8%.

2009 Term Loan Facilities

On July 31, 2009, we entered into a six year $7.5 million term loan which is secured by certain containers on lease to a single customer.

On December 24, 2009, we entered into a five year $25 million term loan which is secured by certain containers on lease to various customers.

Port Equipment Facility

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.

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.

In August 2008 and December 2008, we entered into sale-leaseback transactions for approximately 12,500 and 2,250 of containers for net proceeds of $33.9 million and $10.5 million, respectively. The leases were accounted for as capital leases with interest expense recognized on a level yield basis over seven years, at which point there are early purchase options.

In March 2009, we entered into a sale-leaseback transaction for approximately 2,800 containers for net proceeds of $10.0 million. The lease was accounted for as a capital lease with interest expense recognized on a level yield basis over five years, at which point there is an early purchase option.

Debt Covenants

We are subject to certain financial covenants under our debt facilities. At December 31, 2009, we were in compliance with all such covenants. Below are the primary financial covenants to which we are subject:

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

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Non-GAAP Measures

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

Minimum EBIT to Cash Interest Expense

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

Minimum EBIT to Cash Interest Expense is calculated at the consolidated level and for TAL Advantage I LLC and TAL Advantage II LLC, wholly owned special purpose entities whose primary activity is to issue asset backed notes. The Consolidated Minimum EBIT to Cash Interest Expense ratio is fixed at 1.10 to 1.00 for our Asset backed securitization (ABS), 2008 Asset backed facility and Revolving credit facility. The TAL Advantage I LLC and the TAL Advantage II LLC Minimum EBIT to Cash Interest Expense ratio is fixed at 1.10 to 1.00 for the Asset backed securitization and the Asset backed credit facilities. The Finance lease facility Consolidated Minimum EBIT to Cash Interest Expense ratio is fixed at 1.05 to 1.00.

TAL Advantage III LLC is a wholly owned special purpose entity whose primary activity is to issue asset backed notes for the 2009 Asset Backed Credit Facility. TAL Advantage III LLC must maintain a Minimum EBIT to Cash Interest Expense ratio of 1.30 to 1.00. The first compliance date for this covenant under the 2009 Asset Backed Credit Facility is March 31, 2010.

Below is the calculation of EBIT to Cash Interest Expense (based on the last four quarters) as of December 31, 2009 (in thousands):

EBIT to Cash Interest Expense:	**Consolidated(1)**	**TAL Adv I**	**TAL Adv II**
Net income	$ 71,586	$ 37,810	$ 9,239
Plus: Income tax expense	39,268	20,892	5,103
Interest expense including write-off of deferred financing costs	68,807	38,781	13,175
Unrealized (gains) on interest rate swaps	(35,152)	(17,746)	(10,608)
All non-cash expenses attributable to incentive arrangements	1,717		
EBIT	$ 146,226	$ 79,737	$ 16,909
Interest expense (excluding interest income of $185, $120, and $6 respectively)	$ 68,992	$ 38,901	$ 13,181
Amortization and write-off of deferred financing costs	(1,170)	(607)	(294)
Accrued interest (represents 2009 interest expense not paid)	(4,213)	(1,078)	(403)
Cash payments of prior period accrued interest	3,160	1,121	347
Cash Interest Expense	$ 66,769	$ 38,337	$ 12,831
EBIT to Cash Interest Expense Ratio	2.19	2.08	1.32
Required Minimum EBIT to Cash Interest Expense Ratio	1.10	1.10	1.10

(1) The consolidated amounts shown above include all consolidated subsidiaries of TAL International Group, Inc., including TAL Advantage I, LLC, TAL Advantage II, LLC and TAL Advantage III, LLC.

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Minimum TNW and Maximum Indebtedness to TNW Covenants

We are required to meet consolidated Minimum TNW and Maximum Indebtedness to TNW covenants. For the purposes of calculating these covenants, all amounts are based on the consolidated balance sheet of TAL International Group, Inc.

For the ABS and Asset backed credit facilities, the required minimum TNW is calculated as $321.4 million plus 50% of cumulative net income or loss since January 1, 2006. At December 31, 2009, the required minimum TNW for the ABS facilities was $415.5 million. For the Finance lease facility the required minimum TNW is fixed at $300 million.

The Maximum Indebtedness to TNW ratio is fixed at 4.75 to 1.00 for the ABS, 2008 Asset backed, 2007 Term loan and Revolving credit facilities and 5.00 to 1.00 for the Finance lease and Port equipment facilities.

Below is the calculation of the covenant compliance for the consolidated Minimum TNW and consolidated Maximum Indebtedness to TNW as of December 31, 2009 for the ABS, Asset backed credit facility and other facilities (in thousands):

	Other Facilities*	ABS	2008/2009 Asset Backed Credit Facilities
Minimum TNW:			
Tangible Assets			
Total Assets	$ 1,800,978	$ 1,800,978	$ 1,800,978
Deferred Financing Costs	(8,882)	(8,882)	(8,882)
Goodwill	(71,898)	(71,898)	(71,898)
Intangibles	(1,868)	(1,868)	(1,868)
Fair value of derivative instruments (asset)	(2,674)	(2,674)	(2,674)
Total Tangible Assets	$ 1,715,656	$ 1,715,656	$ 1,715,656
All indebtedness:			
Total debt	$ 1,161,298	$ 1,161,298	$ 1,161,298
Accrued interest	4,213	4,213	4,213
Fair value of derivative instruments (liability)	61,799	N/A	N/A
Equipment purchases payable	3,312	3,312	3,312
Total Indebtedness	$ 1,230,622	$ 1,168,823	$ 1,168,823
TNW (Total Tangible Assets less Total Indebtedness)	$ 485,034	$ 546,833	$ 546,833
Required Minimum TNW	**$ 300,000**	**$ 415,504**	**$ 415,504**
Maximum Indebtedness to TNW:			
Total Indebtedness	$ 1,230,622	$ 1,168,823	$ 1,168,823
Fair value of derivative instruments (liability)	N/A	61,799	N/A
Total Indebtedness for Maximum Indebtedness to TNW	$ 1,230,622	$ 1,230,622	$ 1,168,823
TNW	$ 485,034	$ 546,833	$ 546,833
Total Indebtedness / TNW	2.54	2.25	2.14
Maximum Allowable Indebtedness to TNW	**4.75 / 5.00**	**4.75**	**4.75**

* The Minimum TNW covenant only applies to the Finance lease facility. The Maximum Indebtedness to TNW covenant applies to the Finance lease facility, Revolving credit facility, 2007 Term loan facility and Port equipment facility.

N/A Not applicable for calculation purposes.

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

Dividends Paid

We paid the following quarterly dividends during the years ended December 31, 2009 and 2008 on our issued and outstanding common stock:

Record Date	Payment Date	Aggregate Payment	Per Share Payment
December 1, 2009	December 22, 2009	$ 0.3 million	$ 0.01
September 3, 2009	September 24, 2009	$ 0.3 million	$ 0.01
June 2, 2009	June 23, 2009	$ 0.3 million	$ 0.01
March 12, 2009	March 26, 2009	$ 0.3 million	$ 0.01
November 19, 2008	December 10, 2008	$ 13.4 million	$ 0.4125
August 21, 2008	September 12, 2008	$ 13.5 million	$ 0.4125
May 22, 2008	June 12, 2008	$ 13.4 million	$ 0.4125
March 20, 2008	April 10, 2008	$ 12.2 million	$ 0.3750

Treasury Stock

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

We repurchased the following amounts of Treasury shares:

Year	Shares Purchased	Amount Paid
2009	1,953,692	$ 17.4 million
2008	643,200	$ 10.9 million
2007	276,029	$ 6.3 million

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Cash Flow

The following table sets forth certain cash flow information for the three years ended December 31, 2009, 2008 and 2007 (dollars in thousands):

	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
Net cash provided by operating activities	$ 162,686	$ 201,013	$ 166,404
Purchases of leasing equipment	$ (30,859)	$ (450,902)	$ (334,476)
Investments in finance leases	(27,098)	(41,733)	(58,407)
Proceeds from sale of equipment, net of selling costs	69,473	83,956	63,006
Proceeds from sale of container portfolios	8,532	40,539	
Cash collections on finance lease receivables, net of income earned	31,533	28,232	24,791
Other	(151)	134	92
Net cash provided by (used in) investing activities	$ 51,430	$ (339,774)	$ (304,994)
Net cash (used in) provided by financing activities	$ (195,024)	$ 126,923	$ 147,585

Operating Activities

Net cash provided by operating activities decreased by $38.3 million to $162.7 million in 2009 compared to $201.0 million in 2008 primarily due to a decrease in the level of operating profitability.

Net cash provided by operating activities increased by $34.6 million to $201.0 million in 2008 compared to $166.4 million in 2007 primarily due to an increase in our level of operating profitability.

Investing Activities

Net cash provided by investing activities was $51.4 million in 2009, compared to net cash used in investing activities of $339.8 million in 2008. The major changes were as follows:

Capital expenditures were $58.0 million, including investments in finance leases of $27.1 million, for 2009 compared to $492.6 million, including investments in finance leases of $41.7 million, for 2008. Capital expenditures decreased by $434.6 million in 2009 primarily due to a decrease in the number of leasing units purchased.

Sales proceeds from the disposal of equipment decreased $14.5 million to $69.5 million in 2009 compared to $84.0 million in 2008. Proceeds from the disposal of used containers decreased in 2009 primarily due to lower selling prices.

Proceeds from the sale of container portfolios decreased by $32.0 million to $8.5 million in 2009, compared to $40.5 million in 2008.

Cash collections on finance leases, net of income earned, increased by $3.3 million to $31.5 million for 2009 compared to $28.2 million for 2008 as a result of an increase in our finance lease portfolio.

Net cash used in investing activities increased by $34.8 million to $339.8 million for 2008 compared to $305.0 million in 2007. Major reasons for the increase were as follows:

Capital expenditures were $492.6 million, including investments in finance leases of $41.7 million, for 2008 compared to $392.9 million, including investments in finance leases of $58.4 million, for 2007. Capital expenditures increased by

$99.7 million in 2008 primarily due to

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an increase in the number of leasing units purchased and an increase in new equipment prices, including units purchased as part of a purchase lease-back transaction, as well as higher per unit costs.

Sales proceeds from the disposal of equipment increased $21.0 million to $84.0 million in 2008 compared to $63.0 million in 2007. Proceeds from the disposal of used containers increased in 2008 due to an increase in the number of units sold, as well as higher equipment selling prices.

The proceeds from disposals include $40.5 million in 2008 from the sale of container portfolios while no container portfolios were sold in 2007.

Cash collections on finance leases, net of income earned, increased by $3.4 million to $28.2 million for 2008 compared to $24.8 million for 2007 as a result of an increase in our finance lease portfolio.

Financing Activities

Net cash used in financing activities was $195.0 million for 2009 compared to net cash provided by financing activities of $126.9 million for 2008. The major changes were as follows:

During 2009, we had net payments of $154.9 million under our various credit facilities and capital lease obligations.

We also extinguished $35.0 million of our outstanding debt in a repurchase for $20.7 million, which resulted in a gain on debt extinguishment, of $14.1 million, net of the write-off of deferred financing costs of $0.2 million.

$ 17.4 million was used during 2009 to purchase treasury shares.

$ 1.2 million was used in 2009 to pay dividends on our common stock outstanding.

Net cash provided by financing activities was $126.9 million for 2008 compared to $147.6 million for 2007. The major changes were as follows:

During 2008, we had net borrowings of $215.8 million under our various credit facilities and capital lease obligations, primarily used to finance the purchase of new equipment.

We also extinguished $48.2 million of our outstanding debt in a repurchase for $24.1 million, which resulted in a gain on debt extinguishment, of $23.8 million, net of the write-off of deferred financing costs of $0.3 million.

$52.5 million was used in 2008 to pay dividends on our common stock outstanding.

$10.9 million was used during 2008 to purchase treasury shares.

We entered into capital leases in 2008 and 2007 for $9.4 million and $9.7 million, respectively, to finance the acquisition of chassis equipment, which is considered a non-cash financing activity.

Contractual Obligations

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

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The following table summarizes our contractual obligations and commercial commitments as of December 31, 2009: (does not include amounts potentially due under guarantees, as amounts, if any, are indeterminable)

	Contractual Obligations by Twelve Month Period Ending December 31,					
Contractual Obligations:	Total	2010	2011	2012	2013	2014 and thereafter
	(Dollars in millions)					
Total debt obligations(1)	$ 1,300.0	$ 218.2	$ 197.2	$ 189.7	$ 175.2	$ 519.7
Capital lease obligations(2)	114.9	12.7	13.0	13.2	11.2	64.8
Operating leases (mainly facilities)	5.6	2.7	2.0	0.8	0.1	
Purchase obligations:						
Equipment purchases payable	3.3	3.3				
Equipment purchase commitments	88.1	88.1				
Total contractual obligations	$ 1,511.9	$ 325.0	$ 212.2	$ 203.7	$ 186.5	$ 584.5

(1) Amounts include actual and estimated interest for floating-rate debt based on December 31, 2009 rates and the net effect of the interest rate swaps.

(2) Amounts include interest.

Off-Balance Sheet Arrangements

At December 31, 2009, we did not have any relationships with unconsolidated entities or financial partnerships, which are often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements. We are, therefore, not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Critical Accounting Policies

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

Revenue Recognition

Operating Leases with Customers

We enter into long-term leases and service leases with ocean carriers, principally as lessor in operating leases, for marine cargo equipment. Long-term leases provide our customers with specified equipment for a specified term. Our leasing revenues are based upon the number of equipment units leased, the applicable per diem rate and the length of the lease. Long-term leases typically range for a period of three to eight years. Revenues are recognized on a straight-line basis over the life of the respective lease. Advanced billings are deferred and recognized in the period earned. Service leases do not specify the exact number of equipment units to be leased or the term that each unit will remain on-hire but allow the lessee to pick up and drop off units at various locations specified in the lease agreement. Under a service lease, rental revenue is based on the number of equipment units on hire for a given period. Revenue for customers where collection is not reasonably assured is deferred and recognized when the amounts are received.

In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification No. 605 "Revenue Recognition" (ASC 605), we recognize billings to customers for damages and certain other operating costs as leasing revenue as it is earned based on the terms of the contractual agreements with the customer. As principal, we are responsible for fulfillment of the services, supplier selection and service specifications, and we have ultimate responsibility to pay the supplier for the services whether or not we collect the amount billed to the lessee.

Finance Leases with Customers

We enter into finance leases as lessor for some of the equipment in our fleet. The net investment in finance leases represents the receivables due from lessees, net of unearned income. Unearned income is recognized on a level yield basis over the lease term and is recorded as leasing revenue. Finance leases are usually long-term in nature, typically ranging for a period of five to ten years and typically include a bargain purchase option that enables the lessee to purchase the equipment at the end of the lease term.

Equipment Trading Revenues and Expense

Equipment trading revenues represent the proceeds from the sale of equipment purchased for resale and is recognized as units are sold and delivered to the customer. The related expenses represent the cost of equipment sold as well as other selling costs that are recognized as incurred and are reflected as equipment trading expense in the consolidated statements of operations.

Management Fee Income

We manage equipment which is owned by third parties and we earn management fees based on the income earned by the leasing and sales of such equipment. Management fees are recognized as services are provided. We collect amounts billed and pay operating costs as agent on behalf of the third parties that own such equipment. These billings and operating costs are not included in revenue and expense; instead, the net amounts owed to these equipment owners are reflected as accrued expenses in our financial statements until paid as required by our contracts.

Other Revenues

Other revenues include fee income for third party positioning of equipment.

Leasing Equipment

In general, we purchase new equipment from equipment manufacturers for the purpose of leasing such equipment to our customers. Occasionally, we may also purchase used equipment with the intention of leasing such equipment. Used units are typically purchased with an existing lease in place or were previously owned by one of our third party owner investors.

Leasing equipment is recorded at cost and depreciated to an estimated residual value on a straight-line basis over the estimated useful life. We will continue to review our depreciation policies on a regular basis to determine whether changes have taken place that would suggest that a change in our depreciation policies, useful lives of our equipment or the assigned residual values is warranted. If indicators of impairment are present, a determination is made as to whether the carrying value of our fleet exceeds its estimated future undiscounted cash flows. Leasing equipment is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recovered. Key indicators of impairment on leasing equipment include, among other factors, a sustained decrease

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in operating profitability, a sustained decrease in utilization, or indications of technological obsolescence.

When testing for impairment, leasing equipment is generally grouped by equipment type, and is tested separately from other groups of assets and liabilities. Some of the significant estimates and assumptions used to determine future undiscounted cash flows and the measurement for impairment are the remaining useful life, expected utilization, expected future lease rates, and expected disposal prices of the equipment. We consider the assumptions on expected utilization and the remaining useful life to have the greatest impact on our estimated future undiscounted cash flows. These estimates are principally based on historical experience and management's judgment of market conditions.

Estimated useful lives and residual values have been principally determined based on our historical disposal experience. The estimated useful lives and residual values for our leasing equipment from the date of manufacture are currently as follows:

	Useful Lives (Years)	Residual Values ($)
Dry container units	13	$750 to $900
Refrigerated container units	12	$2,200 to $2,700
Special container units	14	$600 to $1,200
Tank container units	20	$3,000
Chassis	20	$1,200

Costs incurred to place new equipment into service, including costs to transport the equipment to its initial on-hire location, are capitalized. We charge to expense inspection costs on new equipment and repair and maintenance costs that do not extend the lives of the assets at the time the costs are incurred, and include these costs in direct operating expenses.

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

Equipment Held For Sale

When leasing equipment is returned off lease, we make a determination of whether to repair and re-lease the equipment or sell the equipment. At the time we determine that equipment will be sold, we reclassify the appropriate amounts previously recorded as leasing equipment to equipment held for sale. In accordance with FASB Accounting Standards Codification No. 360 "Property, Plant and Equipment (ASC 360), equipment held for sale is carried at the lower of its estimated fair value, based on current transactions, less costs to sell, or carrying value; depreciation on such assets is halted and disposals generally occur within 90 days. Subsequent changes to the asset's fair value, either increases or decreases, are recorded as adjustments to the carrying value of the equipment held for sale; however, any such adjustments may not exceed the equipment's carrying value at the time it was initially classified as held for sale. Initial write-downs of assets held for sale are recorded as an impairment charge and are included in net (gain) loss on sale of leasing equipment. Realized gains and losses resulting from the sale of equipment held for sale are recorded as a (gain) loss on sale of leasing equipment, and cash flows associated with the disposal of equipment held for sale are classified as cash flows from investing activities.

Equipment Held For Resale Trading Activity

On an opportunistic basis, we purchase used equipment with markings or specifications different from our own equipment for purposes of reselling it within a short time frame for a net profit.

Equipment purchased for resale is reported as equipment held for sale due to the short timeframe, generally less than one year, between the time the equipment is purchased and the time the equipment is sold. Due to this short expected holding period, cash flows associated with equipment held for resale are classified as operating cash flows. Equipment trading revenues represent the proceeds from the sale of this equipment, while Equipment trading expense includes the cost of equipment sold, any costs to sell such equipment, including administrative costs, and costs associated with the inventory such as storage and handling charges.

Allowance for Doubtful Accounts

Our allowance for doubtful accounts is updated on a regular basis and is based upon a review of the collectability of our receivables. This review considers the risk profile of the customer, credit quality indicators such as the level of past-due amounts and economic conditions. An account is considered past due when a payment has not been received in accordance with the contractual terms. Accounts are generally charged off after an analysis is completed which indicates that collection of the full principal balance is in doubt. Changes in economic conditions or other events may necessitate additions or deductions to the allowance for doubtful accounts. The allowance for doubtful accounts is intended to provide for losses inherent in our receivables, and requires the application of estimates and judgments as to the outcome of collection efforts and the realization of collateral, among other things. We believe our allowance for doubtful accounts is adequate to provide for credit losses inherent in our existing receivables. However, actual losses could exceed the amounts provided for in certain periods.

Income Taxes

We account for income taxes using the asset and liability method, which requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between tax bases and financial reporting bases of our assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. In assessing the ability to realize deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

If applicable, we accrue income tax liabilities for unrecognized tax benefits resulting from uncertain tax positions by evaluating whether the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit and then measures the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. Potential interest and penalties associated with such uncertain tax positions are recorded as a component of income tax expense.

Goodwill

We account for goodwill in accordance with FASB Accounting Standards Codification No. 350, "Intangibles Goodwill and Other" (ASC 350). ASC 350 requires goodwill and other intangible assets with indefinite lives to be reviewed for impairment annually or more frequently if circumstances indicate a possible impairment. In connection with the Acquisition, we recorded $71.9 million of goodwill. Management determined that the Company has two reporting units, Equipment leasing and Equipment trading, and allocated $70.9 million and $1.0 million, respectively, to each reporting unit. The annual impairment test is conducted by comparing the Company's carrying amount, to the fair value of the Company using a market capitalization approach. Market capitalization of the entity is compared to the carrying value of the entity since virtually all of the goodwill is allocated to, and nearly

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all of the market capitalization is attributable to, the Equipment leasing reporting unit. If the carrying value of the entity exceeds its market capitalization, then a second step would be performed that compares the implied fair value of goodwill with the carrying amount of goodwill. The determination of implied fair value of goodwill would require management to compare the estimated fair value of the reporting units to the estimated fair value of the assets and liabilities of the reporting units. Any excess fair value represents the implied fair value of goodwill. To the extent that the carrying amount of the goodwill exceeds its implied fair value, an impairment loss would be recorded. Our annual review of goodwill, conducted in the fourth quarter of 2009, indicated that no impairment of goodwill existed.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DICLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

We enter into interest rate swap contracts to fix the interest rates on a portion of our debt. We assess and manage the external and internal risk associated with these derivative instruments in accordance with our overall operating goals. External risk is defined as those risks outside