

TRINITY INDUSTRIES INC
Form 10-Q
April 26, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012

OR

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

For the transition period from to .

Commission File Number 1-6903

Trinity Industries, Inc.

(Exact name of registrant as specified in its charter)

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Delaware (State or Other Jurisdiction of Incorporation or Organization)	75-0225040 (I.R.S. Employer Identification No.)
2525 Stemmons Freeway	
Dallas, Texas (Address of principal executive offices)	75207-2401 (Zip Code)
Registrant's telephone number, including area code (214) 631-4420	

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 requirements for the past 90 days. Yes No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No .

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No .

At April 13, 2012 the number of shares of common stock outstanding was 80,263,121.

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TRINITY INDUSTRIES, INC.

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Table of Contents**PART I****Item 1. Financial Statements****Trinity Industries, Inc. and Subsidiaries****Consolidated Statements of Operations****(unaudited)**

	Three Months Ended	
	March 31,	
	2012	2011
	(in millions, except per share amounts)	
Revenues:		
Manufacturing	\$ 783.2	\$ 514.4
Leasing	142.1	119.8
	925.3	634.2
Operating costs:		
Cost of revenues:		
Manufacturing	672.0	431.7
Leasing	73.4	60.5
Other	11.1	8.1
	756.5	500.3
Selling, engineering, and administrative expenses:		
Manufacturing	36.5	34.0
Leasing	6.1	5.7
Other	11.3	10.6
	53.9	50.3
Gain on disposition of property, plant, and equipment:		
Net gains on railcar lease fleet sales	3.7	1.1
Other	3.8	0.8
Total operating profit	122.4	85.5
Other (income) expense:		
Interest income	(0.4)	(0.3)
Interest expense	47.9	44.5
Other, net	(3.0)	(0.5)
	44.5	43.7
Income before income taxes	77.9	41.8
Provision for income taxes	25.6	16.2
Net income	52.3	25.6
Net income (loss) attributable to noncontrolling interest	(0.6)	1.4
Net income attributable to Trinity Industries, Inc.	\$ 52.9	\$ 24.2

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Net income attributable to Trinity Industries, Inc. per common share:

Basic	\$	0.66	\$	0.30
Diluted	\$	0.66	\$	0.30

Weighted average number of shares outstanding:

Basic		77.8		77.1
Diluted		78.1		77.4

Dividends declared per common share	\$	0.09	\$	0.08
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See accompanying notes to consolidated financial statements.

Table of Contents**Trinity Industries, Inc. and Subsidiaries****Consolidated Statements of Comprehensive Income****(unaudited)**

	Three Months Ended	
	March 31,	
	2012	2011
	(in millions)	
Net income	\$ 52.3	\$ 25.6
Unrealized loss on derivative financial instruments:		
Unrealized gains arising during the period	2.7	14.3
Reclassification adjustments for losses included in net income	2.3	0.8
Funded status of pension liability amortization of actuarial loss	0.9	
Other comprehensive income, before tax	5.9	15.1
Income tax expense related to components of other comprehensive income	2.4	5.4
Other comprehensive income, net of tax	3.5	9.7
Comprehensive income	55.8	35.3
Less: comprehensive income (loss) attributable to noncontrolling interest	(0.1)	3.7
Comprehensive income attributable to Trinity Industries, Inc.	\$ 55.9	\$ 31.6

See accompanying notes to consolidated financial statements.

Table of Contents**Trinity Industries, Inc. and Subsidiaries****Consolidated Balance Sheets**

	March 31, 2012 (unaudited)	December 31, 2011
	(in millions)	
Assets		
Cash and cash equivalents	\$ 304.8	\$ 351.1
Receivables, net of allowance	367.2	384.3
Income tax receivable	1.4	1.6
Inventories:		
Raw materials and supplies	340.8	324.8
Work in process	146.2	125.6
Finished goods	109.0	99.5
	596.0	549.9
Restricted cash, including TRIP Holdings of \$59.2 and \$74.6	224.0	240.3
Property, plant, and equipment, at cost, including TRIP Holdings of \$1,271.4 and \$1,257.7	5,479.3	5,407.9
Less accumulated depreciation, including TRIP Holdings of \$128.7 and \$122.7	(1,262.0)	(1,228.4)
	4,217.3	4,179.5
Goodwill	225.9	225.9
Other assets	193.6	188.4
	\$ 6,130.2	\$ 6,121.0
Liabilities and Stockholders Equity		
Accounts payable	\$ 220.9	\$ 207.4
Accrued liabilities	384.0	421.3
Debt:		
Recourse, net of unamortized discount of \$96.8 and \$99.8	461.2	457.7
Non-recourse:		
Parent and wholly-owned subsidiaries	1,575.5	1,616.0
TRIP Holdings	890.8	901.2
	2,927.5	2,974.9
Deferred income	37.4	38.7
Deferred income taxes	465.5	434.7
Other liabilities	90.6	95.7
	4,125.9	4,172.7
Stockholders' equity:		
Preferred stock 1.5 shares authorized and unissued		
Common stock 200.0 shares authorized	81.7	81.7
Capital in excess of par value	633.7	626.5
Retained earnings	1,360.4	1,314.7
Accumulated other comprehensive loss	(131.0)	(134.0)
Treasury stock	(24.9)	(25.1)
	1,919.9	1,863.8
Noncontrolling interest	84.4	84.5

2,004.3	1,948.3
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\$ 6,130.2	\$ 6,121.0
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See accompanying notes to consolidated financial statements.

Table of Contents**Trinity Industries, Inc. and Subsidiaries****Consolidated Statements of Cash Flows****(unaudited)**

	Three Months Ended	
	March 31,	
	2012	2011
	(in millions)	
Operating activities:		
Net income	\$ 52.3	\$ 25.6
Adjustments to reconcile net income to net cash provided (required) by operating activities:		
Depreciation and amortization	49.1	47.6
Stock-based compensation expense	6.9	5.3
Excess tax benefits from stock-based compensation	(0.3)	
Provision for deferred income taxes	26.1	11.5
Net gains on sales of railcars owned more than one year at the time of sale	(3.7)	(1.1)
Gain on disposition of property, plant, equipment, and other assets	(3.8)	(0.8)
Other	2.3	2.3
Changes in assets and liabilities:		
(Increase) decrease in receivables	17.1	(75.6)
(Increase) decrease in income tax receivable	0.2	(0.6)
(Increase) decrease in inventories	(46.1)	(82.2)
(Increase) decrease in other assets	(3.3)	(1.6)
Increase (decrease) in accounts payable	13.5	47.0
Increase (decrease) in accrued liabilities	(33.4)	12.2
Increase (decrease) in other liabilities	(5.9)	4.8
Net cash provided (required) by operating activities	71.0	(5.6)
Investing activities:		
(Increase) decrease in short-term marketable securities		41.0
Proceeds from sales of railcars owned more than one year at the time of sale	26.5	10.0
Proceeds from disposition of property, plant, equipment, and other assets	12.9	2.9
Capital expenditures – leasing, net of sold railcars owned one year or less	(100.0)	(81.5)
Capital expenditures – manufacturing and other	(16.4)	(8.0)
Net cash required by investing activities	(77.0)	(35.6)
Financing activities:		
Proceeds from issuance of common stock, net	0.7	1.4
Excess tax benefits from stock-based compensation	0.3	
Payments to retire debt – other	(52.6)	(42.8)
Proceeds from issuance of debt	2.2	
Deferred loan issuance costs		(5.9)
(Increase) decrease in restricted cash	16.3	1.1
Dividends paid to common shareholders	(7.2)	(6.3)
Net cash required by financing activities	(40.3)	(52.5)
Net decrease in cash and cash equivalents	(46.3)	(93.7)
Cash and cash equivalents at beginning of period	351.1	354.0

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Cash and cash equivalents at end of period	\$ 304.8	\$ 260.3
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See accompanying notes to consolidated financial statements.

Table of Contents**Trinity Industries, Inc. and Subsidiaries****Consolidated Statement of Stockholders' Equity****(unaudited)**

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss (in millions)	Treasury Stock		Trinity Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount				Shares	Amount			
Balances at December 31, 2011	81.7	\$ 81.7	\$ 626.5	\$ 1,314.7	\$ (134.0)	(1.5)	\$ (25.1)	\$ 1,863.8	\$ 84.5	\$ 1,948.3
Net income				52.9				52.9	(0.6)	52.3
Other comprehensive income					3.0			3.0	0.5	3.5
Cash dividends on common stock				(7.2)				(7.2)		(7.2)
Restricted shares issued, net			6.2			0.0	0.0	6.2		6.2
Stock options exercised			0.5			0.1	0.2	0.7		0.7
Stock-based compensation expense			0.5					0.5		0.5
Balances at March 31, 2012	81.7	\$ 81.7	\$ 633.7	\$ 1,360.4	\$ (131.0)	(1.4)	\$ (24.9)	\$ 1,919.9	\$ 84.4	\$ 2,004.3

See accompanying notes to consolidated financial statements.

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Trinity Industries, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The foregoing consolidated financial statements are unaudited and have been prepared from the books and records of Trinity Industries, Inc. and its subsidiaries (Trinity , Company , we , or our) including its majority-owned subsidiary, TRIP Rail Holdings LLC (TRIP Holdings). In our opinion, all normal and recurring adjustments necessary for a fair presentation of the financial position of the Company as of March 31, 2012, and the results of operations and cash flows for the three month periods ended March 31, 2012 and 2011, have been made in conformity with generally accepted accounting principles. Because of seasonal and other factors, the results of operations for the three month period ended March 31, 2012 may not be indicative of expected results of operations for the year ending December 31, 2012. These interim financial statements and notes are condensed as permitted by the instructions to Form 10-Q and should be read in conjunction with the audited consolidated financial statements of the Company included in its Form 10-K for the year ended December 31, 2011.

Stockholders' Equity

In December 2010, the Company's Board of Directors authorized a \$200 million share repurchase program, effective January 1, 2011, which expires on December 31, 2012. No shares were repurchased under this program during the three months ended March 31, 2012.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-05, Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income, (ASU 2011-05) which amended current comprehensive income guidance. ASU 2011-05 became effective for public companies during the interim and annual periods beginning after Dec. 15, 2011 with early adoption permitted. Accordingly, the Company adopted this new standard on January 1, 2012 by including the consolidated statement of comprehensive income with its consolidated financial statements and revising Note 13 Accumulated Other Comprehensive Loss. The adoption of ASU 2011-05 did not have an impact on the Company's consolidated financial position, results of operations or cash flows as it only requires a change in reporting format with regard to components of other comprehensive income.

Reclassifications

Effective December 31, 2011, the Company adopted the emerging industry policy of recognizing revenue from the sales of railcars from the lease fleet on a gross basis in leasing revenues and cost of revenues if the railcar has been owned by the lease fleet for one year or less at the time of sale. Sales of railcars from the lease fleet which have been owned by the lease fleet for more than one year are recognized as a net gain or loss from the disposal of a long-term asset. Prior year reported balances have been reclassified to conform to this policy resulting in a decrease in revenue of \$10.0 million for the three months ended March 31, 2011.

Table of Contents**Note 2. Fair Value Accounting**

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurement as of March 31, 2012 (in millions)			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ 134.8	\$	\$	\$ 134.8
Restricted cash	224.0			224.0
Equity call agreement with TRIP Holdings equity investor ¹			0.7	0.7
Fuel derivative instruments ¹		0.1		0.1
Total assets	\$ 358.8	\$ 0.1	\$ 0.7	\$ 359.6
Liabilities:				
Interest rate hedges ²				
Wholly-owned subsidiary	\$	\$ 46.2	\$	\$ 46.2
TRIP Holdings		4.2		4.2
Equity put agreement with TRIP Holdings equity investor ³			2.6	2.6
Total liabilities	\$	\$ 50.4	\$ 2.6	\$ 53.0

	Fair Value Measurement as of December 31, 2011 (in millions)			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ 246.6	\$	\$	\$ 246.6
Restricted cash	240.3			240.3
Equity call agreement with TRIP Holdings equity investor ¹			0.7	0.7
Total assets	\$ 486.9	\$	\$ 0.7	\$ 487.6
Liabilities:				
Interest rate hedges ²				
Wholly-owned subsidiary	\$	\$ 48.9	\$	\$ 48.9
TRIP Holdings		4.8		4.8
Equity put agreement with TRIP Holdings equity investor ³			3.1	3.1
Fuel derivative instruments ²		0.1		0.1
Total liabilities	\$	\$ 53.8	\$ 3.1	\$ 56.9

¹ Included in other assets on the consolidated balance sheet.

² Included in accrued liabilities on the consolidated balance sheet.

³ Included in other liabilities on the consolidated balance sheet.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market to that asset or liability in an orderly transaction between market participants on the measurement date. An entity is required to establish a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair values are listed below:

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Level 1 This level is defined as quoted prices in active markets for identical assets or liabilities. The Company's cash equivalents and restricted cash are instruments of the United States Treasury or highly-rated money market mutual funds.

Level 2 This level is defined as observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's fuel derivative instruments, which are commodity options, are valued using energy and commodity market data. Interest rate hedges are valued at exit prices obtained from each counterparty. See Note 6 Derivative Instruments and Note 9 Debt.

Level 3 This level is defined as unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The equity put and call agreements with the TRIP equity investor are valued based on cash flow projections and certain assumptions regarding the likelihood of exercising the option under the related agreement. See Note 5 Investment in TRIP Holdings.

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The carrying amounts and estimated fair values of our long-term debt were as follows:

	March 31, 2012		December 31, 2011	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
(in millions)				
Recourse:				
Convertible subordinated notes	\$ 450.0	\$ 490.4	\$ 450.0	\$ 439.4
Less: unamortized discount	(96.8)		(99.8)	
	353.2		350.2	
Capital lease obligations	47.9	47.9	48.6	48.6
Term loan	54.0	54.6	54.7	55.7
Other	6.1	6.1	4.2	4.2
	461.2	599.0	457.7	547.9
Non-recourse:				
2006 secured railcar equipment notes	266.0	283.0	269.3	278.5
Promissory notes	459.3	443.1	465.5	448.6
2009 secured railcar equipment notes	216.2	240.3	218.4	228.6
2010 secured railcar equipment notes	351.3	354.2	354.3	333.1
TILC warehouse facility	282.7	282.7	308.5	308.5
TRIP Holdings senior secured notes	61.2	62.2	61.2	61.6
TRIP Master Funding secured railcar equipment notes	829.6	890.8	840.0	834.9
	2,466.3	2,556.3	2,517.2	2,493.8
Total	\$ 2,927.5	\$ 3,155.3	\$ 2,974.9	\$ 3,041.7

The estimated fair value of our convertible subordinated notes was based on a quoted market price as of March 31, 2012 and December 31, 2011, respectively (level 1 input). The estimated fair values of our 2006, 2009, and 2010 secured railcar equipment notes, promissory notes, TRIP Holdings senior secured notes, TRIP Master Funding secured railcar equipment notes, and term loan are based on our estimate of their fair value as of March 31, 2012 and December 31, 2011, respectively. These values were determined by discounting their future cash flows at the current market interest rate (level 3 inputs). The carrying value of our Trinity Industries Leasing Company (TILC) warehouse facility approximates fair value because the interest rate adjusts to the market interest rate and the Company's credit rating has not changed since the loan agreement was renewed in February 2011 (level 3 input). The fair values of all other financial instruments are estimated to approximate carrying value.

Note 3. Segment Information

The Company reports operating results in five principal business segments: (1) the Rail Group, which manufactures and sells railcars and related parts and components; (2) the Construction Products Group, which manufactures and sells highway products and concrete and aggregates; (3) the Inland Barge Group, which manufactures and sells barges and related products for inland waterway services; (4) the Energy Equipment Group, which manufactures and sells products for energy related businesses, including structural wind towers, tank containers and tank heads for pressure and non-pressure vessels, frac tanks, and utility, traffic, and lighting structures; and (5) the Railcar Leasing and Management Services Group (Leasing Group), which provides fleet management, maintenance, and leasing services. The segment All Other includes our captive insurance and transportation companies; legal, environmental, and maintenance costs associated with non-operating facilities; other peripheral businesses; and the change in market valuation related to ineffective commodity hedges. Gains and losses from the sale of property, plant, and equipment which are related to manufacturing and dedicated to the specific manufacturing operations of a particular segment are included in operating profit of that respective segment. Gains and losses from the sale of property, plant, and equipment that can be utilized by multiple segments are included in operating profit of the All Other segment.

Sales and related net profits from the Rail Group to the Leasing Group are recorded in the Rail Group and eliminated in consolidation. Sales between these groups are recorded at prices comparable to those charged to external customers taking into consideration quantity, features, and

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production demand. Amortization of deferred profit on railcars sold to the Leasing Group is included in the operating profits of the Leasing Group. Sales of railcars from the lease fleet are included in the Leasing Group.

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The financial information for these segments is shown in the tables below. We operate principally in North America.

Three Months Ended March 31, 2012

	Revenues			Operating Profit (Loss)
	External	Intersegment	Total	
	(in millions)			
Rail Group	\$ 341.2	\$ 125.9	\$ 467.1	\$ 40.1
Construction Products Group	149.6	5.4	155.0	10.8
Inland Barge Group	169.4		169.4	30.0
Energy Equipment Group	120.1	4.9	125.0	(3.8)
Railcar Leasing and Management				
Services Group	142.1	0.2	142.3	66.5
All Other	2.9	12.8	15.7	1.2
Corporate				(11.6)
Eliminations Lease subsidiary		(122.6)	(122.6)	(10.9)
Eliminations Other		(26.6)	(26.6)	0.1
Consolidated Total	\$ 925.3	\$	\$ 925.3	\$ 122.4

Three Months Ended March 31, 2011

	Revenues			Operating Profit (Loss)
	External	Intersegment	Total	
	(in millions)			
Rail Group	\$ 131.0	\$ 88.8	\$ 219.8	\$ 9.3
Construction Products Group	130.1	3.5	133.6	8.3
Inland Barge Group	137.9		137.9	21.7
Energy Equipment Group	113.2	5.5	118.7	10.5
Railcar Leasing and Management				
Services Group	119.8		119.8	54.7
All Other	2.2	10.9	13.1	(0.3)
Corporate				(10.7)
Eliminations Lease subsidiary		(85.4)	(85.4)	(8.1)
Eliminations Other		(23.3)	(23.3)	0.1
Consolidated Total	\$ 634.2	\$	\$ 634.2	\$ 85.5

Effective December 31, 2011, the Company adopted the emerging industry policy of recognizing revenue from the sales of railcars from the lease fleet on a gross basis in leasing revenues and cost of revenues if the railcar has been owned by the lease fleet for one year or less at the time of sale. Sales of railcars from the lease fleet which have been owned by the lease fleet for more than one year are recognized as a net gain or loss from the disposal of a long-term asset. Prior year reported balances have been reclassified to conform to this policy.

Table of Contents**Note 4. Railcar Leasing and Management Services Group**

The Railcar Leasing and Management Services Group provides fleet management, maintenance, and leasing services. Selected consolidating financial information for the Leasing Group is as follows:

	March 31, 2012			
	Leasing Group			
	Wholly- Owned Subsidiaries	TRIP Holdings (in millions, unaudited)	Manufacturing/ Corporate	Total
Cash and cash equivalents	\$ 3.7	\$	\$ 301.1	\$ 304.8
Property, plant, and equipment, net	\$ 3,108.6	\$ 1,142.7	\$ 500.4	\$ 4,751.7
Net deferred profit on railcars sold to the Leasing Group	(348.0)	(186.4)		(534.4)
	\$ 2,760.6	\$ 956.3	\$ 500.4	\$ 4,217.3
Restricted cash	\$ 164.8	\$ 59.2	\$	\$ 224.0
Debt:				
Recourse	\$ 101.9	\$	\$ 456.1	\$ 558.0
Less: unamortized discount			(96.8)	(96.8)
	101.9		359.3	461.2
Non-recourse	1,575.5	999.6		2,575.1
Less: non-recourse debt owned by Trinity		(108.8)		(108.8)
Total debt	\$ 1,677.4	\$ 890.8	\$ 359.3	\$ 2,927.5
Net deferred tax liabilities	\$ 557.9	\$ 4.6	\$ (97.0)	\$ 465.5

	December 31, 2011			
	Leasing Group			
	Wholly- Owned Subsidiaries	TRIP Holdings (in millions)	Manufacturing/ Corporate	Total
Cash and cash equivalents	\$ 3.2	\$	\$ 347.9	\$ 351.1
Property, plant, and equipment, net	\$ 3,066.0	\$ 1,135.0	\$ 510.0	\$ 4,711.0
Net deferred profit on railcars sold to the Leasing Group	(344.5)	(187.0)		(531.5)
	\$ 2,721.5	\$ 948.0	\$ 510.0	\$ 4,179.5
Restricted cash	\$ 165.7	\$ 74.6	\$	\$ 240.3
Debt:				
Recourse	\$ 103.3	\$	\$ 454.2	\$ 557.5
Less: unamortized discount			(99.8)	(99.8)
	103.3		354.4	457.7
Non-recourse	1,616.0	1,010.0		2,626.0
Less: non-recourse debt owned by Trinity		(108.8)		(108.8)
Total debt	\$ 1,719.3	\$ 901.2	\$ 354.4	\$ 2,974.9
Net deferred tax liabilities	\$ 582.4	\$ 4.7	\$ (152.4)	\$ 434.7

See Note 5 Investment in TRIP Holdings and Note 9 Debt for a further discussion regarding the Company's investment in TRIP Holdings and TRIP Holdings' debt.

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	Three Months Ended March 31,		
	2012	2011	Percent
	(\$ in millions)		Change
Revenues:			
Wholly owned subsidiaries:			
Leasing and management			