

TRIMAS CORP
Form 10-Q
October 28, 2014
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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 September 30, 2014

Or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Transition Period from _____ to _____ .

Commission file number 001-10716

TRIMAS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 38-2687639
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

39400 Woodward Avenue, Suite 130

Bloomfield Hills, Michigan 48304

(Address of principal executive offices, including zip code)

(248) 631-5450

(Registrant's telephone number, including area code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a
smaller reporting company)

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

As of October 22, 2014, the number of outstanding shares of the Registrant's common stock, \$0.01 par value, was 45,267,649 shares.

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Forward-Looking Statements

This report contains forward-looking statements (as that term is defined by the federal securities laws) about our financial condition, results of operations and business. You can find many of these statements by looking for words such as "may," "will," "expect," "anticipate," "believe," "estimate" and similar words used in this report.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties. Because the statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by the forward-looking statements. We caution readers not to place undue reliance on the statements, which speak only as of the date of this report.

The cautionary statements set forth above should be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue. We do not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statement to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

You should carefully consider the factors discussed in Part I, Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2013, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deemed to be immaterial also may materially adversely affect our business, financial position and results of operations or cash flows.

We disclose important factors that could cause our actual results to differ materially from our expectations under Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this report. These cautionary statements qualify all forward-looking statements attributed to us or persons acting on our behalf. When we indicate that an event, condition or circumstance could or would have an adverse effect on us, we mean to include effects upon our business, financial and other conditions, results of operations, prospects and ability to service our debt.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

TriMas Corporation

Consolidated Balance Sheet

(Unaudited—dollars in thousands)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$30,070	\$27,000
Receivables, net of reserves of approximately \$4.8 million and \$3.6 million as of September 30, 2014 and December 31, 2013, respectively	222,140	180,210
Inventories	262,810	270,690
Deferred income taxes	18,340	18,340
Prepaid expenses and other current assets	18,830	18,770
Total current assets	552,190	515,010
Property and equipment, net	214,550	206,150
Goodwill	321,550	309,660
Other intangibles, net	207,590	219,530
Other assets	45,370	50,430
Total assets	\$1,341,250	\$1,300,780
Liabilities, Redeemable Noncontrolling Interests and Shareholders' Equity		
Current liabilities:		
Current maturities, long-term debt	\$11,430	\$10,290
Accounts payable	166,200	166,090
Accrued liabilities	85,880	85,130
Total current liabilities	263,510	261,510
Long-term debt	329,690	295,450
Deferred income taxes	52,930	64,940
Other long-term liabilities	94,410	99,990
Total liabilities	740,540	721,890
Redeemable noncontrolling interests	—	29,480
Preferred stock, \$0.01 par: Authorized 100,000,000 shares; Issued and outstanding: None	—	—
Common stock, \$0.01 par: Authorized 400,000,000 shares; Issued and outstanding: 45,267,649 shares at September 30, 2014 and 45,003,214 shares at December 31, 2013	450	450
Paid-in capital	805,950	816,450
Accumulated deficit	(228,320	) (295,320
Accumulated other comprehensive income	22,630	27,830
Total shareholders' equity	600,710	549,410
Total liabilities, redeemable noncontrolling interests and shareholders' equity	\$1,341,250	\$1,300,780

The accompanying notes are an integral part of these financial statements.

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TriMas Corporation

Consolidated Statement of Income

(Unaudited—dollars in thousands, except for per share amounts)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net sales	\$380,120	\$354,910	\$1,148,510	\$1,068,410
Cost of sales	(282,070)	(260,800)	(845,100)	(788,120)
Gross profit	98,050	94,110	303,410	280,290
Selling, general and administrative expenses	(65,540)	(60,890)	(193,970)	(181,490)
Net gain (loss) on dispositions of property and equipment	(240)	10,360	(490)	10,350
Operating profit	32,270	43,580	108,950	109,150
Other expense, net:				
Interest expense	(3,360)	(5,570)	(10,270)	(16,320)
Other income (expense), net	(2,370)	2,480	(5,220)	560
Other expense, net	(5,730)	(3,090)	(15,490)	(15,760)
Income from continuing operations before income tax expense	26,540	40,490	93,460	93,390
Income tax expense	(8,150)	(10,240)	(29,410)	(21,880)
Income from continuing operations	18,390	30,250	64,050	71,510
Income (loss) from discontinued operations, net of income tax expense	3,840	(300)	3,760	280
Net income	22,230	29,950	67,810	71,790
Less: Net income attributable to noncontrolling interests	—	1,320	810	3,090
Net income attributable to TriMas Corporation	\$22,230	\$28,630	\$67,000	\$68,700
Basic earnings per share attributable to TriMas Corporation:				
Continuing operations	\$0.41	\$0.72	\$1.41	\$1.72
Discontinued operations	0.08	(0.01)	0.08	0.01
Net income per share	\$0.49	\$0.71	\$1.49	\$1.73
Weighted average common shares—basic	44,919,340	40,345,828	44,863,008	39,668,693
Diluted earnings per share attributable to TriMas Corporation:				
Continuing operations	\$0.41	\$0.71	\$1.40	\$1.71
Discontinued operations	0.08	(0.01)	0.08	0.01
Net income per share	\$0.49	\$0.70	\$1.48	\$1.72
Weighted average common shares—diluted	45,276,199	40,746,503	45,231,058	40,029,425

The accompanying notes are an integral part of these financial statements.

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TriMas Corporation
Consolidated Statement of Comprehensive Income
(Unaudited—dollars in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income	\$ 22,230	\$ 29,950	\$ 67,810	\$ 71,790
Other comprehensive income:				
Amortization of defined benefit plan deferred losses (net of tax of \$0.1 million for the three months ended September 30, 2014 and 2013, and \$0.2 million and \$0.3 million for the nine months ended September 30, 2014 and 2013, respectively) (Note 17)	180	210	530	600
Foreign currency translation	(10,620	) (1,930	) (5,760	) (12,540
Net changes in unrealized gain (loss) on derivative instruments (net of tax of \$0.1 million and (\$0.5) million, and \$0.2 million and \$2.5 million for the three and nine months ended September 30, 2014 and 2013, respectively) (Note 12)	250	(800	) 30	3,950
Total other comprehensive income (loss)	(10,190	) (2,520	) (5,200	) (7,990
Total comprehensive income	12,040	27,430	62,610	63,800
Less: Net income attributable to noncontrolling interests	—	1,320	810	3,090
Total comprehensive income attributable to TriMas Corporation	\$ 12,040	\$ 26,110	\$ 61,800	\$ 60,710

The accompanying notes are an integral part of these financial statements.

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TriMas Corporation

Consolidated Statement of Cash Flows

(Unaudited—dollars in thousands)

	Nine months ended September 30,	
	2014	2013
Cash Flows from Operating Activities:		
Net income	\$ 67,810	\$ 71,790
Adjustments to reconcile net income to net cash provided by operating activities, net of acquisition impact:		
Gain on dispositions of assets	(6,320	) (10,350
Bargain purchase gain	—	) (2,880
Depreciation	24,190	22,190
Amortization of intangible assets	16,630	14,420
Amortization of debt issue costs	1,430	1,310
Deferred income taxes	(6,910	) (3,180
Non-cash compensation expense	6,690	7,110
Excess tax benefits from stock based compensation	(1,100	) (1,280
Increase in receivables	(43,520	) (48,560
Decrease in inventories	7,380	1,800
(Increase) decrease in prepaid expenses and other assets	2,320	(7,100
Decrease in accounts payable and accrued liabilities	(3,460	) (4,280
Other, net	(240	) 290
Net cash provided by operating activities, net of acquisition impact	64,900	41,280
Cash Flows from Investing Activities:		
Capital expenditures	(27,770	) (35,150
Acquisition of businesses, net of cash acquired	(27,510	) (56,000
Net proceeds from disposition of assets	6,990	10,720
Net cash used for investing activities	(48,290	) (80,430
Cash Flows from Financing Activities:		
Proceeds from sale of common stock in connection with the Company's equity offering, net of issuance costs	—	174,720
Proceeds from borrowings on term loan facilities	134,080	150,090
Repayments of borrowings on term loan facilities	(139,800	) (151,710
Proceeds from borrowings on revolving credit and accounts receivable facilities	732,480	632,740
Repayments of borrowings on revolving credit and accounts receivable facilities	(687,520	) (575,730
Distributions to noncontrolling interests	(580	) (1,910
Payment for noncontrolling interests	(51,000) —
Proceeds from contingent consideration related to disposition of businesses	—	1,030
Shares surrendered upon vesting of options and restricted stock awards to cover tax obligations	(2,780	) (3,930
Proceeds from exercise of stock options	480	1,340
Excess tax benefits from stock based compensation	1,100	1,280
Net cash provided by (used for) financing activities	(13,540	) 227,920
Cash and Cash Equivalents:		
Increase for the period	3,070	188,770
At beginning of period	27,000	20,580
At end of period	\$ 30,070	\$ 209,350

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Supplemental disclosure of cash flow information:

Cash paid for interest	\$7,960	\$12,610
Cash paid for taxes	\$25,610	\$29,880

The accompanying notes are an integral part of these financial statements.

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TriMas Corporation
Consolidated Statement of Shareholders' Equity
Nine Months Ended September 30, 2014
(Unaudited—dollars in thousands)

	Common Stock	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balances, December 31, 2013	\$450	\$816,450	\$(295,320)	\$27,830	\$549,410
Net income attributable to TriMas Corporation	—	—	67,000	—	67,000
Other comprehensive loss	—	—	—	(5,200)	(5,200)
Shares surrendered upon vesting of options and restricted stock awards to cover tax obligations	—	(2,780)	—	—	(2,780)
Stock option exercises and restricted stock vestings	—	480	—	—	480
Excess tax benefits from stock based compensation	—	1,100	—	—	1,100
Non-cash compensation expense	—	6,690	—	—	6,690
Acquisition of remaining 30% interest in Arminak & Associates, LLC (net of tax of \$8.4 million) (Note 7)	—	(15,990)	—	—	(15,990)
Balances, September 30, 2014	\$450	\$805,950	\$(228,320)	\$22,630	\$600,710

The accompanying notes are an integral part of these financial statements.

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TRIMAS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

TriMas Corporation ("TriMas" or the "Company"), and its consolidated subsidiaries, is a global manufacturer and distributor of products for commercial, industrial and consumer markets. The Company is principally engaged in the following reportable segments with diverse products and market channels: Packaging, Energy, Aerospace, Engineered Components, Cequent Asia Pacific Europe Africa ("Cequent APEA") and Cequent Americas. The Company renamed its former "Aerospace & Defense" reportable segment "Aerospace" effective in the third quarter of 2014 following the cessation of operations of NI Industries. See Note 5, "Discontinued Operations," for further information. See Note 14, "Segment Information," for further information on each of the Company's reportable segments.

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries and, in the opinion of management, contain all adjustments, including adjustments of a normal and recurring nature, necessary for a fair presentation of financial position and results of operations. Results of operations for interim periods are not necessarily indicative of results for the full year. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the Company's 2013 Annual Report on Form 10-K.

2. New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-9, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-9"). ASU 2014-9 requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-9 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, with early adoption prohibited. The Company is in the process of assessing the impact of the adoption of ASU 2014-09 on its consolidated financial statements.

In April 2014, the FASB issued ASU 2014-8, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" ("ASU 2014-8"). ASU 2014-8 changes the criteria for reporting discontinued operations and requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income and expenses of discontinued operations. ASU 2014-8 is effective for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods, and interim periods within those years, beginning on or after December 15, 2014, with early adoption permitted for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The Company expects to adopt ASU 2014-08 upon its required effective date.

3. Equity Offering

In September 2013, the Company issued 5,175,000 shares of its common stock via a public offering at a price of \$35.40 per share. Net proceeds from the offering, after deducting underwriting discounts, commissions and offering expenses of approximately \$8.5 million, totaled approximately \$174.7 million. The Company used the net offering proceeds for general corporate purposes, including retirement of debt in connection with the Company's October 2013 refinancing, acquisitions, capital expenditures and working capital requirements.

4. Facility Closures and Sale of Business

Facility Closures

Goshen, Indiana facility

In November 2012, the Company announced plans to close its manufacturing facility in Goshen, Indiana, moving production from Goshen to lower-cost manufacturing facilities during 2013. The Company completed the move and ceased operations in Goshen during the fourth quarter of 2013. During 2013, the Company recorded charges, primarily for severance benefits for its approximately 350 union hourly workers to be involuntarily terminated, of approximately \$4.0 million, of which \$3.8 million was recorded in the three months ended March 31, 2013 and is

included in cost of sales in the accompanying consolidated statement of income. Additionally, during 2012, the Company recorded charges of approximately \$1.2 million, primarily for severance benefits for salaried employees to be involuntarily terminated as part of the closure. As of September 30, 2014, the hourly and salaried severance benefits have been fully paid.

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TRIMAS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

In addition, during the three and nine months ended September 30, 2013, the Company incurred approximately \$0.5 million and \$1.2 million, respectively, of pre-tax non-cash charges related to accelerated depreciation expense as a result of shortening the expected lives on certain machinery, equipment and leasehold improvement assets that the Company no longer utilizes following the facility closure.

São Paulo, Brazil facility

In June 2014, the Company announced the restructuring of its Brazilian business within the Energy reportable segment, including plans to close its manufacturing facility in São Paulo, Brazil by the end of 2014. In connection with this action, the Company recorded charges of approximately \$0.5 million, primarily related to severance benefits, which is included in cost of sales in the accompanying consolidated statement of income, for its approximately 60 employees to be involuntarily terminated as a result of this closure.

The Company's manufacturing facility in São Paulo is subject to a lease agreement expiring in 2022. The Company is currently assessing the potential recoverability of its future lease obligations for this facility, and will record an estimate of any future unrecoverable lease obligations upon the cease-use date of the facility.

Sale of Business

On August 5, 2013, the Company announced the sale of its business in Italy within the Packaging reportable segment for cash of approximately \$10.3 million. As a result, the Company recorded a pre-tax gain of approximately \$10.5 million, of which \$7.9 million related to the release of historical currency translation adjustments into income.

5. Discontinued Operations

During the third quarter of 2014, the Company ceased operations of its NI Industries business. NI Industries manufactured cartridge cases for the defense industry and was party to a U.S. Government facility maintenance contract. The Company received approximately \$6.7 million for the sale of certain intellectual property and related inventory and tooling. This amount is included in the income from discontinued operations in the accompanying consolidated statement of income.

During the fourth quarter of 2011, the Company sold its precision tool cutting and specialty fittings lines of business, both of which were part of the Engineered Components reportable segment. The purchase agreement included up to \$2.5 million of contingent consideration based on achievement of certain levels of financial performance in 2012 and 2013. During the second quarter of 2013, the Company was paid approximately \$1.0 million of a possible \$1.3 million as payout for the 2012 financial performance criteria. This amount is included in the income from discontinued operations in the accompanying consolidated statement of income. No payout was received in 2014, as the 2013 financial performance criteria were not met.

The results of the aforementioned businesses are reported as discontinued operations for all periods presented. Results of discontinued operations are summarized as follows:

	Three months ended September 30, 2014		Nine months ended September 30, 2014	
	2013		2013	
	(dollars in thousands)			
Net Sales	\$80	\$710	\$3,410	\$3,020
Income (loss) from discontinued operations before income tax expense	\$6,040	\$(480)	) \$5,910	\$320
Income tax benefit (expense)	(2,200)	) 180	(2,150)	) (40)
Income (loss) from discontinued operations, net of income tax expense	\$3,840	\$(300)	) \$3,760	\$280

6. Acquisitions

In July 2014, the Company completed the acquisition of Lion Holdings PVT. Ltd. ("Lion Holdings") within the Company's Packaging reportable segment for the amount of approximately \$28 million, net of cash acquired. Located

in both India and

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TRIMAS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Vietnam, Lion Holdings specializes in the manufacture of highly engineered dispensing solutions and generated approximately \$10 million in revenue for the twelve months ended June 30, 2014.

During the first nine months of 2013, the Company completed acquisitions for an aggregate amount of approximately \$56 million, net of cash acquired. Of these acquisitions, the most significant are as follows:

Martinic Engineering, Inc. ("Martinic") within the Company's Aerospace reportable segment is a manufacturer of highly-engineered, precision machined, complex parts for commercial and military aerospace applications, including auxiliary power units, as well as electrical, hydraulic and pneumatic systems located in the United States and generated approximately \$13 million in revenue for the twelve months ended December 31, 2012.

Wulfrun Specialised Fasteners Limited ("Wulfrun") within the Company's Energy reportable segment is a manufacturer and distributor of specialty bolting and CNC machined components for use in critical oil and gas, pipeline and power generation applications located in the United Kingdom and generated approximately \$10 million in revenue for the twelve months ended December 31, 2012.

C.P. Witter Limited ("Witter"), within the Company's Cequent APEA reportable segment, is a manufacturer of highly-engineered towbars and accessories which are distributed through a wide network of commercial dealers located in the United Kingdom, and generated approximately \$20 million in revenue for the twelve months ended March 31, 2013.

The towing technology and business assets of AL-KO GmbH ("AL-KO"), located in both Germany and Finland, and also within the Company's Cequent APEA reportable segment. The acquired assets generated approximately \$16 million of revenue for the twelve months ended June 30, 2013. The fair value of the AL-KO net assets exceeded the purchase price, resulting in a bargain purchase gain of approximately \$2.9 million, which is included in other income (expense), net in the accompanying consolidated statement of income for the three and nine months ended September 30, 2013.

The results of operations of the aforementioned acquisitions are not significant compared to the overall results of operations of the Company.

7. Arminak & Associates

During the first quarter of 2012, the Company acquired 70% of the membership interests of Arminak & Associates, LLC ("Arminak") for the purchase price of approximately \$67.7 million, which is included in the Company's Packaging reportable segment. The original purchase agreement provided the Company an option to purchase, and Arminak's previous owners an option to sell, the remaining 30% noncontrolling interest at specified dates in the future based on a multiple of future earnings, as defined in the purchase agreement. The put and call options become exercisable during the first quarters of 2014, 2015 and 2016, and the original combination of a noncontrolling interest and a redemption feature resulted in a redeemable noncontrolling interest, which was classified outside of permanent equity on the accompanying consolidated balance sheet.

On March 11, 2014, in lieu of the put and call options in the original purchase agreement, the Company entered into a new agreement to purchase the entire 30% noncontrolling interest in Arminak for a cash purchase price of \$51.0 million. The purchase agreement also includes additional contingent consideration of up to \$7.0 million, with the amount to be earned based on the achievement of certain levels of 2015 financial performance. In order to estimate the fair value of the contingent consideration, the Company utilized the Monte Carlo valuation method, using variations of expected future payouts given certain significant assumptions including expected revenue and earnings growth, volatility and risk. As these assumptions are not observable in the market, the calculation represents a Level 3 fair value measurement. As of September 30, 2014, the estimated liability for the payout of contingent consideration is \$3.1 million. The final contingent consideration is expected to be paid, if earned, in the second quarter of 2016.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

As part of purchasing the remaining membership interest, the Company finalized the calculation of the redeemable noncontrolling interest as of March 11, 2014. Changes in the carrying amount of redeemable noncontrolling interest are summarized as follows:

	Noncontrolling interest (dollars in thousands)
Beginning balance, December 31, 2013	\$29,480
Distributions to noncontrolling interests	(580)
Net income attributable to noncontrolling interests	810
Ending balance, March 11, 2014	\$29,710

The difference between the cash purchase price and final redeemable noncontrolling interest as of March 11, 2014 was recorded as a reduction in paid in capital, net of tax, as included in the accompanying consolidated statement of shareholders' equity.

8. Goodwill and Other Intangible Assets

During the third quarter of 2014, based on a few consecutive quarters of revenue and earnings declines compared to historical levels within the Company's Energy reporting unit, the Company determined that there were indicators of a decline in fair value of the Energy reporting unit, which also may indicate a potential impairment of the recorded goodwill. As such, the Company conducted a Step 1 quantitative goodwill impairment analysis as required by the authoritative accounting literature. The Company utilized both income and market-based approaches, placing a 75% and 25% weighting on each, respectively. Significant management assumptions used under the income approach were a weighted average cost of capital of 13% and an estimated residual growth rate of 3%. In considering the weighted average cost of capital for the reporting unit, management considered the level of risk inherent in the cash flow projections based on historical attainment of its projections and current market conditions. Upon completion of the goodwill impairment test, the Company determined that the fair value of the Energy reporting unit exceeded the carrying value by more than 20%, and thus there was no goodwill impairment. In addition, a 1% reduction in residual growth rate combined with a 1% increase in the weighted average cost of capital would not have changed the conclusions reached under the Step I impairment test.

Changes in the carrying amount of goodwill for the nine months ended September 30, 2014 are summarized as follows:

	Packaging	Energy	Aerospace	Engineered Components	Cequent APEA	Cequent Americas	Total
	(dollars in thousands)						
Balance, December 31, 2013	\$ 158,060	\$ 75,920	\$ 61,080	\$ 7,420	\$ —	\$ 7,180	\$ 309,660
Goodwill from acquisitions	15,270	—	—	—	—	—	15,270
Foreign currency translation and other	(2,440)	(1,020)	110	—	—	(30)	(3,380)
Balance, September 30, 2014	\$ 170,890	\$ 74,900	\$ 61,190	\$ 7,420	\$ —	\$ 7,150	\$ 321,550

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TRIMAS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The gross carrying amounts and accumulated amortization of the Company's other intangibles as of September 30, 2014 and December 31, 2013 are summarized below. The Company amortizes these assets over periods ranging from 1 to 30 years.

Intangible Category by Useful Life	As of September 30, 2014		As of December 31, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(dollars in thousands)			
Finite-lived intangible assets:				
Customer relationships, 5 – 12 years	\$ 110,170	\$(42,260)	) \$ 105,090	\$(36,260)
Customer relationships, 15 – 25 years	154,610	(100,370)	) 154,610	(94,200)
Total customer relationships	264,780	(142,630)	) 259,700	(130,460)
Technology and other, 1 – 15 years	38,930	(31,110)	) 38,980	(28,940)
Technology and other, 17 – 30 years	44,110	(27,000)	) 43,990	(25,310)
Total technology and other	83,040	(58,110)	) 82,970	(54,250)
Indefinite-lived intangible assets:				
Trademark/Trade names	60,510	—	) 61,570	—
Total other intangible assets	\$408,330	\$(200,740)	) \$404,240	\$(184,710)

Amortization expense related to intangible assets as included in the accompanying consolidated statement of income is summarized as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(dollars in thousands)			
Technology and other, included in cost of sales	\$ 1,210	\$ 1,200	\$ 3,620	\$ 3,610
Customer relationships, included in selling, general and administrative expenses	4,430	3,000	13,010	10,810
Total amortization expense	\$ 5,640	\$ 4,200	\$ 16,630	\$ 14,420

9. Inventories

Inventories consist of the following components:

	September 30, 2014	December 31, 2013
	(dollars in thousands)	
Finished goods	\$ 162,130	\$ 173,140
Work in process	30,200	31,880
Raw materials	70,480	65,670
Total inventories	\$ 262,810	\$ 270,690

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10. Property and Equipment, Net

Property and equipment consists of the following components:

	September 30, 2014	December 31, 2013
	(dollars in thousands)	
Land and land improvements	\$6,410	\$5,520
Buildings	64,190	61,960
Machinery and equipment	376,810	351,960
	447,410	419,440
Less: Accumulated depreciation	232,860	213,290
Property and equipment, net	\$214,550	\$206,150

Depreciation expense as included in the accompanying consolidated statement of income is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(dollars in thousands)			
Depreciation expense, included in cost of sales	\$6,760	\$6,440	\$20,480	\$18,910
Depreciation expense, included in selling, general and administrative expense	1,110	1,190	3,700	3,270
Total depreciation expense	\$7,870	\$7,630	\$24,180	\$22,180

11. Long-term Debt

The Company's long-term debt consists of the following:

	September 30, 2014	December 31, 2013
	(dollars in thousands)	
Credit Agreement	\$271,430	\$246,130
Receivables facility and other	69,690	59,610
	341,120	305,740
Less: Current maturities, long-term debt	11,430	10,290
Long-term debt	\$329,690	\$295,450

The Company is a party to a credit agreement consisting of a \$575.0 million senior secured revolving credit facility, which matures in October 2018 and is subject to interest at London Interbank Offered Rates ("LIBOR") plus 1.50%, and a \$175.0 million senior secured term loan A facility, which matures in October 2018 and is subject to interest at LIBOR plus 1.50% (collectively, the "Credit Agreement"). The interest rate spread is based upon the leverage ratio, as defined, as of the most recent determination date. Per the Credit Agreement, the senior secured revolving credit facility permits borrowings denominated in specific foreign currency ("Foreign Currency Loans"), subject to a \$75.0 million sub limit.

The Credit Agreement also provides incremental term loan and/or revolving credit facility commitments in an amount not to exceed the greater of \$300.0 million and an amount such that, after giving effect to such incremental commitments and the incurrence of any other indebtedness substantially simultaneously with the making of such commitments, the senior secured net leverage ratio, as defined, is no greater than 2.50 to 1.00. The terms and conditions of any incremental term loan and/or revolving credit facility commitments must be no more favorable than the existing credit facility.

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Beginning with the fiscal year ending December 31, 2014 (payable in 2015), the Company may be required to prepay a portion of its term loan A facility in an amount equal to a percentage of the Company's excess cash flow, as defined, with such percentage based on the Company's leverage ratio, as defined.

The Company is also able to issue letters of credit, not to exceed \$75.0 million in aggregate, against its revolving credit facility commitments. At September 30, 2014 and December 31, 2013, the Company had letters of credit of approximately \$21.9 million and \$24.1 million, respectively, issued and outstanding.

At September 30, 2014, the Company had \$103.0 million outstanding under its revolving credit facility and had \$452.1 million potentially available after giving effect to approximately \$21.9 million of letters of credit issued and outstanding. At December 31, 2013, the Company had \$71.1 million outstanding under its revolving credit facility and had \$479.8 million potentially available after giving effect to approximately \$24.1 million of letters of credit issued and outstanding. However, including availability under its accounts receivable facility and after consideration of leverage restrictions contained in the Credit Agreement, the Company had \$366.7 million and \$360.3 million at September 30, 2014 and December 31, 2013, respectively, of borrowing capacity available for general corporate purposes.

The debt under the Credit Agreement is an obligation of the Company and certain of its domestic subsidiaries and is secured by substantially all of the assets of such parties. Borrowings under the \$75.0 million foreign currency sub limit of the \$575.0 million senior secured revolving credit facility are secured by a pledge of the assets of the foreign subsidiary borrowers that are a party to the agreement. The Credit Agreement also contains various negative and affirmative covenants and other requirements affecting the Company and its subsidiaries, including restrictions on incurrence of debt, liens, mergers, investments, loans, advances, guarantee obligations, acquisitions, assets dispositions, sale-leaseback transactions, hedging agreements, dividends and other restricted payments, transactions with affiliates, restrictive agreements and amendments to charters, bylaws, and other material documents. The terms of the Credit Agreement also require the Company and its subsidiaries to meet certain restrictive financial covenants and ratios computed quarterly, including a maximum leverage ratio (total consolidated indebtedness plus outstanding amounts under the accounts receivable securitization facility over consolidated EBITDA, as defined) and a minimum interest expense coverage ratio (consolidated EBITDA, as defined, over cash interest expense, as defined). At September 30, 2014, the Company was in compliance with its financial and other covenants contained in the Credit Agreement.

As of September 30, 2014 and December 31, 2013, the Company's Credit Agreement traded at approximately 99.2% and 99.8% of par value, respectively. The valuations of the Credit Agreement were determined based on Level 2 inputs under the fair value hierarchy, as defined.

Receivables Facility

The Company is a party to an accounts receivable facility through TSPC, Inc. ("TSPC"), a wholly-owned subsidiary, to sell trade accounts receivable of substantially all of the Company's domestic business operations. During the second quarter of 2014, the Company amended this \$105.0 million facility, reducing the usage fee on amounts outstanding previously ranging from 1.20% or 1.35%, depending on the amounts drawn under the facility, to 1.15%. The amendment also reduced the cost of the unused portion of the facility from 0.40% to 0.35% and extended the maturity date from October 12, 2017 to October 16, 2018.

Under this facility, TSPC, from time to time, may sell an undivided fractional ownership interest in the pool of receivables up to approximately \$105.0 million to a third party multi-seller receivables funding company. The net amount financed under the facility is less than the face amount of accounts receivable by an amount that approximates the purchaser's financing costs. The cost of funds under this facility consisted of a 3-month LIBOR-based rate plus a usage fee of 1.15% and 1.20% as of September 30, 2014 and 2013, respectively, and a fee on the unused portion of the facility of 0.35% and 0.40% as of September 30, 2014 and 2013, respectively.

The Company had \$66.3 million and \$57.0 million outstanding under the facility as of September 30, 2014 and December 31, 2013, respectively, and \$27.1 million and \$20.2 million, respectively, available but not utilized. Aggregate costs incurred under the facility were \$0.3 million and \$0.4 million for the three months ended September 30, 2014 and 2013, respectively, and \$1.0 million and \$1.1 million for the nine months ended September 30, 2014 and 2013, respectively, and are included in interest expense in the accompanying consolidated statement of income. The facility expires on October 16, 2018.

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The cost of funds fees incurred are determined by calculating the estimated present value of the receivables sold compared to their carrying amount. The estimated present value factor is based on historical collection experience and a discount rate based on a 3-month LIBOR-based rate plus the usage fee discussed above and is computed in accordance with the terms of the securitization agreement. As of September 30, 2014, the cost of funds under the facility was based on an average liquidation period of the portfolio of approximately 1.7 months and an average discount rate of 1.8%.

Other Bank Debt

The Company's Australian subsidiary is party to a debt agreement which matures on October 31, 2014 and is secured by substantially all the assets of the subsidiary. At September 30, 2014 and December 31, 2013, the balance outstanding under this agreement was approximately \$2.2 million and \$0.7 million, respectively, at an average interest rate of 4.6% at each of the periods then ended.

In the second quarter of 2014, the Company's Dutch subsidiary entered into a credit agreement consisting of a \$12.5 million uncommitted working capital facility agreement which matures on May 29, 2015, is subject to interest at LIBOR plus 2.75% per annum and is guaranteed by TriMas. In addition, this Dutch subsidiary is subject to an overdraft facility in conjunction with the uncommitted working capital facility up to \$1.0 million, subject to interest at U.S. dollar prime rate plus 0.75%. No amounts were outstanding on this facility as of September 30, 2014.

12. Derivative Instruments**Foreign Currency Exchange Rate Risk**

As of September 30, 2014, the Company was party to forward contracts to hedge changes in foreign currency exchange rates with notional amounts of approximately \$11.0 million. The Company uses foreign currency forward contracts to mitigate the risk associated with fluctuations in currency rates impacting cash flows related to certain payments for contract manufacturing in its lower-cost manufacturing facilities. The foreign currency forward contracts hedge currency exposure between the Mexican peso and the U.S. dollar and the Thai baht and the Australian dollar and mature at specified monthly settlement dates through March 2015. At inception, the Company designated the foreign currency forward contracts as cash flow hedges.

Interest Rate Risk

In December 2012, the Company entered into an interest rate swap agreement to fix the LIBOR-based variable portion of the interest rates on its term loan A facility. The term loan A swap agreement fixes the LIBOR-based variable portion of the interest rate, beginning February 2013, on a total of \$175.0 million notional amount at 0.74% and expires on October 11, 2017. At inception, the Company designated the swap agreement as a cash flow hedge.

Financial Statement Presentation

As of September 30, 2014 and December 31, 2013, the fair value carrying amount of the Company's derivatives designated as hedging instruments are recorded as follows:

	Balance Sheet Caption	Asset / (Liability) Derivatives	
		September 30, 2014	December 31, 2013
		(dollars in thousands)	
Derivatives designated as hedging instruments			
Interest rate swap	Other assets	\$ 1,890	\$ 2,080
Interest rate swap	Accrued liabilities	(260)	(360)
Foreign currency forward contracts	Other assets	190	—
Total derivatives designated as hedging instruments		\$ 1,820	\$ 1,720

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The following tables summarize the income (loss) recognized in accumulated other comprehensive income ("AOCI"), the amounts reclassified from AOCI into earnings and the amounts recognized directly into earnings for the three and nine months ended September 30, 2014 and 2013:

	Amount of Income Recognized in AOCI on Derivative (Effective Portion, net of tax)		Location of Income (Loss) Reclassified from AOCI into Earnings (Effective Portion)	Amount of Income (Loss) Reclassified from AOCI into Earnings			
	As of September 30, 2014	As of December 31, 2013		Three months ended September 30,		Nine months ended September 30,	
				2014	2013	2014	2013
	(dollars in thousands)			(dollars in thousands)			
Derivatives designated as hedging instruments							
Interest rate swap	\$ 1,010	\$ 1,060	Interest expense	\$(240)	\$(240)	\$(730)	\$(560)
Foreign currency forward contracts	\$ 80	\$—	Cost of sales	\$ 150	\$—	\$ 370	\$—

Over the next 12 months, the Company expects to reclassify approximately \$0.3 million of pre-tax deferred losses from AOCI to interest expense as the related interest payments for the designated interest rate swap are funded and approximately \$0.1 million of pre-tax deferred gains from AOCI to cost of sales as the intercompany inventory purchases are settled.

	Location of Loss Recognized in Earnings on Derivatives	Amount of Loss Recognized in Earnings on Derivatives			
		Three months ended September 30,		Nine months ended September 30,	
		2014	2013	2014	2013
		(dollars in thousands)			
Derivatives not designated as hedging instruments					
Interest rate swap	Interest expense	\$—	\$(140)	\$—	\$(410)

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Fair Value Measurements

The fair value of the Company's derivatives are estimated using an income approach based on valuation techniques to convert future amounts to a single, discounted amount. Estimates of the fair value of the Company's interest rate swap and foreign currency forward contracts use observable inputs such as interest rate yield curves and forward currency exchange rates. Fair value measurements and the fair value hierarchy level for the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013 are shown below.

	Frequency	Asset / (Liability)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(dollars in thousands)					
September 30, 2014					
Interest rate swap	Recurring	\$1,630	\$—	\$1,630	\$—
Foreign currency forward contracts	Recurring	\$190	\$—	\$190	\$—
December 31, 2013					
Interest rate swap	Recurring	\$1,720	\$—	\$1,720	\$—

13. Commitments and Contingencies

Asbestos

As of September 30, 2014, the Company was a party to 1,105 pending cases involving an aggregate of 8,001 claimants alleging personal injury from exposure to asbestos containing materials formerly used in gaskets (both encapsulated and otherwise) manufactured or distributed by certain of the Company's subsidiaries for use primarily in the petrochemical refining and exploration industries. The following chart summarizes the number of claimants, number of claims filed, number of claims dismissed, number of claims settled, the average settlement amount per claim and the total defense costs, exclusive of amounts reimbursed under the Company's primary insurance, at the applicable date and for the applicable periods:

	Claims pending at beginning of period	Claims filed during period	Claims dismissed during period	Claims settled during period	Average settlement amount per claim during period	Total defense costs during period
Fiscal Year Ended December 31, 2013	7,880	360	226	39	\$8,294	\$2,620,000
Nine Months Ended September 30, 2014	7,975	151	103	22	\$8,973	\$1,987,000

In addition, the Company acquired various companies to distribute its products that had distributed gaskets of other manufacturers prior to acquisition. The Company believes that many of its pending cases relate to locations at which none of its gaskets were distributed or used.

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The Company may be subjected to significant additional asbestos-related claims in the future, the cost of settling cases in which product identification can be made may increase, and the Company may be subjected to further claims in respect of the former activities of its acquired gasket distributors. The Company is unable to make a meaningful statement concerning the monetary claims made in the asbestos cases given that, among other things, claims may be initially made in some jurisdictions without specifying the amount sought or by simply stating the requisite or maximum permissible monetary relief, and may be amended to alter the amount sought. The large majority of claims do not specify the amount sought. Of the 8,001 claims pending at September 30, 2014, 102 set forth specific amounts of damages (other than those stating the statutory minimum or maximum). Below is a breakdown of the amount sought for those claims seeking specific amounts:

Range of damages sought (in millions)	Compensatory & Punitive			Compensatory Only			Punitive Only		
	\$0.0 to \$5.0	\$5.0 to \$10.0	\$10.0+	\$0.0 to \$0.6	\$0.6 to \$5.0	\$5.0+	\$0.0 to \$2.5	\$2.5 to \$5.0	\$5.0+
Number of claims	76	13	13	26	57	19	94	7	1

In addition, relatively few of the claims have reached the discovery stage and even fewer claims have gone past the discovery stage.

Total settlement costs (exclusive of defense costs) for all asbestos-related cases, some of which were filed over 20 years ago, have been approximately \$6.8 million. All relief sought in the asbestos cases is monetary in nature. To date, approximately 40% of the Company's costs related to settlement and defense of asbestos litigation have been covered by its primary insurance. Effective February 14, 2006, the Company entered into a coverage-in-place agreement with its first level excess carriers regarding the coverage to be provided to the Company for asbestos-related claims when the primary insurance is exhausted. The coverage-in-place agreement makes asbestos defense costs and indemnity coverage available to the Company that might otherwise be disputed by the carriers and provides a methodology for the administration of such expenses. Nonetheless, the Company believes it is likely there will be a period within the next one or two years, prior to the commencement of coverage under this agreement and following exhaustion of the Company's primary insurance coverage, during which the Company will be solely responsible for defense costs and indemnity payments, the duration of which would be subject to the scope of damage awards and settlements paid.

Based on the settlements made to date and the number of claims dismissed or withdrawn for lack of product identification, the Company believes that the relief sought (when specified) does not bear a reasonable relationship to its potential liability. Based upon the Company's experience to date, including the trend in annual defense and settlement costs incurred to date, and other available information (including the availability of excess insurance), the Company does not believe these cases will have a material adverse effect on its financial position and results of operations or cash flows.

Ordinary Course Claims

The Company is subject to other claims and litigation in the ordinary course of business, but does not believe that any such claim or litigation will have a material adverse effect on its financial position and results of operations or cash flows.

14. Segment Information

TriMas groups its operating segments into reportable segments that provide similar products and services. Each operating segment has discrete financial information evaluated regularly by the Company's chief operating decision maker in determining resource allocation and assessing performance. Within these reportable segments, there are no individual products or product families for which reported net sales accounted for more than 10% of the Company's consolidated net sales. See below for more information regarding the types of products and services provided within each reportable segment:

Packaging – Highly engineered closure and dispensing systems for a range of end markets, including steel and plastic industrial and consumer packaging applications.

Energy – Metallic and non-metallic industrial sealant products and fasteners for the petroleum refining, petrochemical and other industrial markets.

Aerospace – Permanent blind bolts, temporary fasteners, highly engineered specialty fasteners and other precision machined parts used in the commercial, business and military aerospace industries.

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Engineered Components – High-pressure and low-pressure cylinders for the transportation, storage and dispensing of compressed gases, and natural gas engines, compressors, gas production equipment and chemical pumps engineered at well sites for the oil and gas industry.

Cequent APEA & Cequent Americas – Custom-engineered towing, trailering and electrical products including trailer couplers, winches, jacks, trailer brakes and brake control solutions, lighting accessories and roof racks for the recreational vehicle, agricultural/utility, marine, automotive and commercial trailer markets, functional vehicle accessories and cargo management solutions including vehicle hitches and receivers, sway controls, weight distribution and fifth-wheel hitches, hitch-mounted accessories and other accessory components.

Segment activity is as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(dollars in thousands)			
Net Sales				
Packaging	\$89,320	\$82,010	\$257,000	\$235,000
Energy	50,290	47,680	155,390	161,420
Aerospace	27,410	25,830	86,420	68,230
Engineered Components	55,310	47,540	165,060	143,830
Cequent APEA	44,290	40,950	127,560	111,330
Cequent Americas	113,500	110,900	357,080	348,600
Total	\$380,120	\$354,910	\$1,148,510	\$1,068,410
Operating Profit (Loss)				
Packaging	\$20,770	\$31,320	\$59,670	\$65,550
Energy	(1,100)	) 1,450	870	12,530
Aerospace	3,870	6,350	14,390	15,810
Engineered Components	8,090	2,860	24,920	14,450
Cequent APEA	3,210	3,570	7,930	9,300
Cequent Americas	8,660	7,440	31,310	21,030
Corporate expenses	(11,230)	) (9,410)	) (30,140)	) (29,520)
Total	\$32,270			