TRINITY INDUSTRIES INC
Form 10-Q
April 30, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 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 1-6903
Trinity Industries, Inc.
(Exact name of registrant as specified in its charter)

Delaware	75-0225040
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2525 N. Stemmons Freeway, Dallas, Texas	75207-2401
(Address of principal executive offices)	(Zip Code)

(214) 631-4420
(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 þ 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 þ 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.

Large accelerated filer þ 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 þ

At April 15, 2014 the number of shares of common stock outstanding was 77,458,282.

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PART I
Item 1. Financial Statements

Trinity Industries, Inc. and Subsidiaries
Consolidated Statements of Operations
(unaudited)

	Three Months Ended March 31, 2014	2013
	(in millions, except per share amounts)	
Revenues:		
Manufacturing	$1,018.3	$798.5
Leasing	442.2	134.4
	1,460.5	932.9
Operating costs:		
Cost of revenues:		
Manufacturing	794.7	641.2
Leasing	279.3	69.9
	1,074.0	711.1
Selling, engineering, and administrative expenses:		
Manufacturing	49.5	42.7
Leasing	11.0	9.7
Other	23.1	16.6
	83.6	69.0
Gains (losses) on disposition of property, plant, and equipment:		
Net gains on railcar lease fleet sales owned more than one year at the time of sale	77.5	6.8
Other	10.9	(0.1)
	88.4	6.7
Total operating profit	391.3	159.5
Other (income) expense:		
Interest income	(0.4)	(0.4)
Interest expense	46.3	49.2
Other, net	(0.4)	(2.7)
	45.5	46.1
Income from continuing operations before income taxes	345.8	113.4
Provision for income taxes	112.5	41.2
Net income from continuing operations	233.3	72.2
Discontinued operations:		
Gain on sale of discontinued operations, net of provision for income taxes of $- and $5.4	—	7.0
Loss from discontinued operations, net of benefit for income taxes of $0.2 and $0.3	(0.3)	(0.4)
Net income	233.0	78.8
Net income (loss) attributable to noncontrolling interest	6.6	(0.3)
Net income attributable to Trinity Industries, Inc.	$226.4	$79.1
Net income attributable to Trinity Industries, Inc. per common share:		
Basic:		
Continuing operations	$2.91	$0.91

Discontinued operations	—	0.08
	$2.91	$0.99
Diluted:		
Continuing operations	$2.85	$0.91
Discontinued operations	—	0.08
	$2.85	$0.99
Weighted average number of shares outstanding:		
Basic	75.1	76.9
Diluted	77.0	77.0
Dividends declared per common share	$0.15	$0.11

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Net income	$233.0	$78.8
Other comprehensive income (loss):		
Derivative financial instruments:		
Unrealized losses arising during the period, net of tax benefit of $0.4 and $0.5	(1.2)	(0.7)
Reclassification adjustments for losses included in net income, net of tax benefit of $2.0 and $2.8	4.3	4.6
Defined benefit plans:		
Amortization of net actuarial losses, net of tax benefit of $0.1 and $0.5	0.2	0.7
	3.3	4.6
Comprehensive income	236.3	83.4
Less: comprehensive income attributable to noncontrolling interest	7.3	0.4
Comprehensive income attributable to Trinity Industries, Inc.	$229.0	$83.0

See accompanying notes to consolidated financial statements.

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Trinity Industries, Inc. and Subsidiaries
Consolidated Balance Sheets

	March 31, 2014 (unaudited) (in millions)	December 31, 2013
ASSETS		
Cash and cash equivalents	$532.2	$428.5
Short-term marketable securities	256.4	149.7
Receivables, net of allowance	421.4	372.7
Inventories:		
Raw materials and supplies	493.9	477.0
Work in process	273.2	201.4
Finished goods	136.9	136.3
	904.0	814.7
Restricted cash, including partially-owned subsidiaries of $76.7 and $77.1	231.4	260.7
Property, plant, and equipment, at cost, including partially-owned subsidiaries of $1,889.1 and $1,887.2	6,145.5	6,275.8
Less accumulated depreciation, including partially-owned subsidiaries of $215.3 and $202.1	(1,524.9)	(1,505.2)
	4,620.6	4,770.6
Goodwill	360.3	278.2
Other assets	253.9	238.3
	$7,580.2	$7,313.4
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$257.8	$216.3
Accrued liabilities	614.7	567.4
Debt:		
Recourse, net of unamortized discount of $70.6 and $74.1	421.7	419.0
Non-recourse:		
Wholly-owned subsidiaries	1,279.2	1,314.7
Partially-owned subsidiaries	1,239.3	1,256.1
	2,940.2	2,989.8
Deferred income	39.8	40.8
Deferred income taxes	654.6	650.7
Other liabilities	103.2	99.3
	4,610.3	4,564.3
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	696.4	686.6
Retained earnings	2,084.8	1,870.0
Accumulated other comprehensive loss	(75.6)	(78.2)
Treasury stock	(166.4)	(158.0)
	2,620.9	2,402.1
Noncontrolling interest	349.0	347.0
	2,969.9	2,749.1
	$7,580.2	$7,313.4

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Operating activities:		
Net income	$233.0	$78.8
Adjustments to reconcile net income to net cash provided by operating activities:		
(Income) loss from discontinued operations	0.3	(6.6)
Depreciation and amortization	55.3	50.0
Stock-based compensation expense	10.9	8.9
Excess tax benefits from stock-based compensation	(0.4)	(0.6)
Provision for deferred income taxes	1.0	36.0
Net gains on railcar lease fleet sales owned more than one year at the time of sale	(77.5)	(6.8)
Gains (losses) on disposition of property, plant, equipment, and other assets	(10.9)	0.1
Non-cash interest expense	7.8	8.1
Other	(0.7)	(2.4)
Changes in assets and liabilities:		
(Increase) decrease in receivables	(43.3)	(22.9)
(Increase) decrease in inventories	(57.9)	(26.3)
(Increase) decrease in restricted cash	25.0	—
(Increase) decrease in other assets	(10.6)	(20.2)
Increase (decrease) in accounts payable	38.4	10.9
Increase (decrease) in accrued liabilities	30.8	(8.2)
Increase (decrease) in other liabilities	3.9	6.1
Net cash provided by operating activities - continuing operations	205.1	104.9
Net cash provided (required) by operating activities - discontinued operations	0.2	(3.1)
Net cash provided by operating activities	205.3	101.8
Investing activities:		
(Increase) decrease in short-term marketable securities	(106.7)	(59.9)
Proceeds from railcar lease fleet sales owned more than one year at the time of sale	224.3	30.6
Proceeds from disposition of property, plant, equipment, and other assets	17.2	0.6
Capital expenditures – leasing, net of sold lease fleet railcars owned one year or less with a net cost of $204.0 and $0.1	0.4	(166.8)
Capital expenditures – manufacturing and other	(49.1)	(25.8)
Acquisitions, net of cash acquired	(112.6)	(9.1)
Other	3.0	(0.8)
Net cash required by investing activities - continuing operations	(23.5)	(231.2)
Net cash required by investing activities - discontinued operations	(0.1)	(0.4)
Net cash required by investing activities	(23.6)	(231.6)
Financing activities:		
Proceeds from issuance of common stock, net	0.3	1.4
Excess tax benefits from stock-based compensation	0.4	0.6
Payments to retire debt	(53.1)	(83.5)
(Increase) decrease in restricted cash	4.3	7.9

Shares repurchased	(12.5)	—
Dividends paid to common shareholders	(11.6)	(8.7)
Distributions to noncontrolling interest	(5.4)	—
Other	(0.1)	(0.1)
Net cash required by financing activities - continuing operations	(77.7)	(82.4)
Net cash required by financing activities - discontinued operations	(0.3)	(0.3)
Net cash required by financing activities	(78.0)	(82.7)
Net increase (decrease) in cash and cash equivalents	103.7	(212.5)
Cash and cash equivalents at beginning of period	428.5	573.0
Cash and cash equivalents at end of period	$532.2	$360.5

See accompanying notes to consolidated financial statements.

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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	Treasury Stock		Trinity Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
	Shares	$1 Par Value				Shares	Amount			
	(in millions, except par value)									
Balances at December 31, 2013	81.7	$81.7	$ 686.6	$1,870.0	$ (78.2)	(4.3)	$(158.0)	$ 2,402.1	$ 347.0	$ 2,749.1
Net income	—	—	—	226.4	—	—	—	226.4	6.6	233.0
Other comprehensive income	—	—	—	—	2.6	—	—	2.6	0.7	3.3
Cash dividends on common stock	—	—	—	(11.6)	—	—	—	(11.6)	—	(11.6)
Restricted shares, net	—	—	9.5	—	—	0.1	1.3	10.8	—	10.8
Shares repurchased	—	—	—	—	—	(0.1)	(10.0)	(10.0)	—	(10.0)
Stock options exercised	—	—	(0.1)	—	—	—	0.4	0.3	—	0.3
Excess tax benefits from stock-based compensation	—	—	0.4	—	—	—	—	0.4	—	0.4
Distributions to noncontrolling interest	—	—	—	—	—	—	—	—	(5.4)	(5.4)
Other	—	—	—	—	—	—	(0.1)	(0.1)	0.1	—
Balances at March 31, 2014	81.7	$81.7	$ 696.4	$2,084.8	$ (75.6)	(4.3)	$(166.4)	$ 2,620.9	$ 349.0	$ 2,969.9

See accompanying notes to consolidated financial statements.

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Trinity Industries, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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 consolidated subsidiaries (“Trinity”, “Company”, “we”, or “our”) including the accounts of its wholly-owned subsidiaries and its partially-owned subsidiaries, TRIP Rail Holdings LLC (“TRIP Holdings”) and RIV 2013 Rail Holdings LLC ("RIV 2013"), in which the Company has controlling interest. In our opinion, all normal and recurring adjustments necessary for a fair presentation of the financial position of the Company as of March 31, 2014, and the results of operations and cash flows for the three months ended March 31, 2014 and 2013, have been made in conformity with generally accepted accounting principles. All significant intercompany accounts and transactions have been eliminated. Because of seasonal and other factors, the results of operations for the three months ended March 31, 2014 may not be indicative of expected results of operations for the year ending December 31, 2014. 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, 2013.

Stockholders' Equity

In March 2014, the Company’s Board of Directors authorized a new $250 million share repurchase program, effective March 7, 2014, that will expire on December 31, 2015. The new program replaced the Company's previously authorized $200 million share repurchase program. Under the new program, 138,273 shares were repurchased during the three months ended March 31, 2014, at a cost of approximately $10.0 million. Certain shares of stock repurchased during March 2014, totaling $2.5 million, were cash settled in April 2014 in accordance with normal settlement practices. No shares were repurchased under the prior program during the three months ended March 31, 2013.

Revenue Recognition

Revenues for contracts providing for a large number of units and few deliveries are recorded as the individual units are produced, inspected, and accepted by the customer as the risk of loss passes to the customer upon delivery acceptance on these contracts. This occurs primarily in the Rail and Inland Barge Groups. Revenue from rentals and operating leases, including contracts which contain non-level fixed rental payments, is recognized monthly on a straight-line basis. Revenue is recognized 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 for one year or less at the time of sale. Sales of railcars from the lease fleet that have been owned for more than one year are recognized as a net gain or loss from the disposal of a long-term asset. Fees for shipping and handling are recorded as revenue. For all other products, we recognize revenue when products are shipped or services are provided.

Financial Instruments

The Company considers all highly liquid debt instruments to be either cash and cash equivalents if purchased with a maturity of three months or less, or short-term marketable securities if purchased with a maturity of more than three months and less than one year. The Company intends to hold its short-term marketable securities until they are redeemed at their maturity date and believes that under the "more likely than not" criteria, the Company will not be required to sell the securities before recovery of their amortized cost bases, which may be maturity.

Financial instruments that potentially subject the Company to a concentration of credit risk are primarily cash investments including restricted cash, short-term marketable securities, and receivables. The Company places its cash investments and short-term marketable securities in bank deposits and investment grade, short-term debt instruments and limits the amount of credit exposure to any one commercial issuer. Concentrations of credit risk with respect to receivables are limited due to control procedures that monitor the credit worthiness of customers, the large number of customers in the Company's customer base, and their dispersion across different industries and geographic areas. As receivables are generally unsecured, the Company maintains an allowance for doubtful accounts based upon the expected collectibility of all receivables. Receivable balances determined to be uncollectible are charged against the allowance. The carrying values of cash, short-term marketable securities, receivables, and accounts payable are considered to be representative of their respective fair values.

Reclassifications

Certain prior year balances have been reclassified in the consolidated statements of cash flows to conform to the 2014 presentation.

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Note 2. Acquisitions and Divestitures

The Company's acquisition and divestiture activities are summarized below:

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Acquisitions:		
Purchase price	$117.6	$53.8
Net cash paid	$112.6	$9.1
Goodwill recorded	$82.1	$2.5
Divestitures:		
Proceeds	$—	$35.6
Gain recognized	$—	$12.4
Goodwill charged off	$—	$4.8

During the three months ended March 31, 2014, we completed the acquisition of three businesses in our Energy Equipment Group located in the U.S. and Canada. The acquisitions were recorded based on preliminary valuations of the related assets and liabilities at their acquisition date fair value using level three inputs. Such assets and liabilities were not significant in relation to assets and liabilities at the consolidated or segment level. See Note 3 Fair Value Accounting for a discussion of inputs in determining fair value.

During the three months ended March 31, 2013, the Company sold its ready-mix concrete operations in exchange for certain aggregates operations. The divestiture has been accounted for and reported as a discontinued operation. Condensed results of operations for the ready-mix concrete operations for the three months ended March 31, 2014 and 2013 are as follows:

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Revenues	$—	$31.6
Loss from discontinued operations before income taxes	$(0.5)	$(0.7)
Income tax benefit	(0.2)	(0.3)
Net loss from discontinued operations	$(0.3)	$(0.4)

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Note 3. Fair Value Accounting

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

	Fair Value Measurement as of March 31, 2014 (in millions)			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	$159.7	$—	$—	$159.7
Restricted cash	231.4	—	—	231.4
Total assets	$391.1	$—	$—	$391.1
Liabilities:				
Interest rate hedges:(1)				
Wholly-owned subsidiaries	$—	$18.0	$—	$18.0
Partially-owned subsidiaries	—	2.1	—	2.1
Total liabilities	$—	$20.1	$—	$20.1

	Fair Value Measurement as of December 31, 2013 (in millions)			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	$230.6	$—	$—	$230.6
Restricted cash	260.7	—	—	260.7
Total assets	$491.3	$—	$—	$491.3
Liabilities:				
Interest rate hedges:(1)				
Wholly-owned subsidiaries	$—	$21.7	$—	$21.7
Partially-owned subsidiaries	—	2.1	—	2.1
Total liabilities	$—	$23.8	$—	$23.8

(1) Included in accrued 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 for 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:

Level 1 – This level is defined as quoted prices in active markets for identical assets or liabilities. The Company’s cash equivalents, excluding commercial paper, and restricted cash are instruments of the U.S. 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. Interest rate hedges are valued at exit prices obtained from each counterparty. See Note 7 Derivative Instruments and Note 11 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.

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

	March 31, 2014		December 31, 2013	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in millions)			
Recourse:				
Convertible subordinated notes	$450.0	$707.0	$450.0	$593.4
Less: unamortized discount	(70.6)		(74.1)	
	379.4		375.9	
Capital lease obligations	41.4	41.4	42.2	42.2
Other	0.9	0.9	0.9	0.9
	421.7	749.3	419.0	636.5
Non-recourse:				
2006 secured railcar equipment notes	236.8	257.3	240.7	259.2
Promissory notes	389.1	383.3	396.1	389.6
2009 secured railcar equipment notes	196.6	230.3	199.0	229.5
2010 secured railcar equipment notes	323.5	345.4	326.9	342.7
TILC warehouse facility	133.2	133.2	152.0	152.0
TRL 2012 secured railcar equipment notes - RIV 2013	493.0	479.2	499.3	483.4
TRIP Master Funding secured railcar equipment notes	746.3	811.4	756.8	819.8
	2,518.5	2,640.1	2,570.8	2,676.2
Total	$2,940.2	$3,389.4	$2,989.8	$3,312.7

The estimated fair value of our convertible subordinated notes was based on a quoted market price in a market with little activity as of March 31, 2014 and December 31, 2013, respectively (Level 2 input). The estimated fair values of our 2006, 2009, 2010, and 2012 secured railcar equipment notes, promissory notes, and TRIP Rail Master Funding LLC (“TRIP Master Funding”) secured railcar equipment notes are based on our estimate of their fair value as of March 31, 2014 and December 31, 2013, 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 (Level 3 input). The fair values of all other financial instruments are estimated to approximate carrying value. See Note 11 Debt for a description of the Company's long-term debt.

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Note 4. 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 other steel products for infrastructure-related projects, and produces and sells 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, storage containers, tank heads for pressure and non-pressure vessels, and utility, traffic, and lighting structures; and (5) the Railcar Leasing and Management Services Group ("Leasing Group"), which owns and operates a fleet of railcars as well as provides third-party 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; and other peripheral businesses. Gains and losses from the sale of property, plant, and equipment that 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 production demand. Intersegment sales and net profit ("deferred profit") are eliminated in consolidation and reflected in the "Eliminations – Lease subsidiary" line in the table below. Amortization of deferred profit on railcars sold to the Leasing Group is included in the operating profits of the Leasing Group, resulting in the recognition of depreciation expense based on the Company's original manufacturing cost of the railcars. Sales of railcars from the lease fleet are included in the Leasing Group, with related gains and losses computed based on the net book value of the original manufacturing cost of the railcars.

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

Three Months Ended March 31, 2014