

TRINITY INDUSTRIES INC
Form 10-Q
July 24, 2015

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 JUNE 30, 2015

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

(State or Other Jurisdiction of Incorporation or
Organization)

75-0225040

(I.R.S. Employer Identification No.)

2525 N. Stemmons Freeway, Dallas, Texas

(Address of principal executive offices)

75207-2401

(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 ☒ 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.

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 ☒

At July 15, 2015 the number of shares of common stock outstanding was 154,454,497.

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PART I

Item 1. Financial Statements

Trinity Industries, Inc. and Subsidiaries

Consolidated Statements of Operations

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in millions, except per share amounts)			
Revenues:				
Manufacturing	\$1,445.4	\$1,259.9	\$2,827.9	\$2,278.2
Leasing	231.4	225.4	475.6	667.6
	1,676.8	1,485.3	3,303.5	2,945.8
Operating costs:				
Cost of revenues:				
Manufacturing	1,101.8	970.2	2,186.3	1,764.9
Leasing	117.8	128.1	244.4	407.4
	1,219.6	1,098.3	2,430.7	2,172.3
Selling, engineering, and administrative expenses:				
Manufacturing	69.4	56.0	130.7	105.5
Leasing	12.7	10.7	23.0	21.7
Other	32.3	29.7	59.0	52.8
	114.4	96.4	212.7	180.0
Gains on dispositions of property:				
Net gains on railcar lease fleet sales owned more than one year at the time of sale	30.1	9.7	45.0	87.2
Other	10.0	1.7	10.9	12.6
	40.1	11.4	55.9	99.8
Total operating profit	382.9	302.0	716.0	693.3
Other (income) expense:				
Interest income	(0.5)	(0.7)	(1.0)	(1.1)
Interest expense	50.6	46.9	102.1	93.2
Other, net	(0.7)	(1.2)	(3.0)	(1.3)
	49.4	45.0	98.1	90.8
Income before income taxes	333.5	257.0	617.9	602.5
Provision for income taxes	112.7	83.9	208.1	196.4
Net income	220.8	173.1	409.8	406.1
Net income attributable to noncontrolling interest	8.8	8.9	17.6	15.5
Net income attributable to Trinity Industries, Inc.	\$212.0	\$164.2	\$392.2	\$390.6
Net income attributable to Trinity Industries, Inc. per common share:				
Basic	\$1.36	\$1.05	\$2.52	\$2.51
Diluted	\$1.33	\$1.01	\$2.46	\$2.43
Weighted average number of shares outstanding:				
Basic	150.7	151.0	151.0	150.5
Diluted	154.2	157.4	154.3	155.6
Dividends declared per common share	\$0.110	\$0.100	\$0.210	\$0.175
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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in millions)			
Net income	\$220.8	\$173.1	\$409.8	\$406.1
Other comprehensive income (loss):				
Derivative financial instruments:				
Unrealized losses arising during the period, net of tax expense (benefit) of \$-, \$(0.1), \$0.2, and \$0.3	—	(0.6)	) (0.3	) (1.8
Reclassification adjustments for losses included in net income, net of tax benefit of \$1.0, \$1.9, \$3.1, and \$3.9	2.6	4.2	6.4	8.5
Currency translation adjustment	1.2	—	(2.6) —
Defined benefit plans:				
Amortization of net actuarial losses, net of tax benefit of \$0.5, \$0.1, \$1.0, and \$0.2	0.8	0.2	1.6	0.4
	4.6	3.8	5.1	7.1
Comprehensive income	225.4	176.9	414.9	413.2
Less: comprehensive income attributable to noncontrolling interest	9.7	9.5	19.1	16.8
Comprehensive income attributable to Trinity Industries, Inc. See accompanying notes to consolidated financial statements.	\$215.7	\$167.4	\$395.8	\$396.4

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Consolidated Balance Sheets

	June 30, 2015 (unaudited) (in millions)	December 31, 2014	
ASSETS			
Cash and cash equivalents	\$583.8	\$887.9	
Short-term marketable securities	—	75.0	
Receivables, net of allowance	557.5	405.3	
Income tax receivable	35.3	58.6	
Inventories:			
Raw materials and supplies	534.3	585.4	
Work in process	248.5	298.2	
Finished goods	207.1	184.8	
	989.9	1,068.4	
Restricted cash, including partially-owned subsidiaries of \$92.4 and \$91.9	197.3	234.7	
Property, plant, and equipment, at cost, including partially-owned subsidiaries of \$2,258.9 and \$2,261.2	6,955.4	6,586.0	
Less accumulated depreciation, including partially-owned subsidiaries of \$292.9 and \$261.3	(1,761.5)	(1,683.1))
	5,193.9	4,902.9	
Goodwill	754.2	773.2	
Other assets	320.3	327.8	
	\$8,632.2	\$8,733.8	
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accounts payable	\$273.4	\$295.4	
Accrued liabilities	529.5	709.6	
Debt:			
Recourse, net of unamortized discount of \$52.3 and \$60.0	835.4	829.3	
Non-recourse:			
Wholly-owned subsidiaries	1,024.0	1,207.8	
Partially-owned subsidiaries	1,480.9	1,515.9	
	3,340.3	3,553.0	
Deferred income	28.3	36.4	
Deferred income taxes	645.3	632.6	
Other liabilities	114.1	109.4	
	4,930.9	5,336.4	
Stockholders' equity:			
Preferred stock – 1.5 shares authorized and unissued	—	—	
Common stock – shares authorized – at June 30, 2015 – 400.0; at December 31, 2014 – 200.0	1.5	155.7	
Capital in excess of par value	558.8	463.2	
Retained earnings	2,849.6	2,489.9	
Accumulated other comprehensive loss	(108.3)	(111.9))
Treasury stock	(1.0)	(1.0))
	3,300.6	2,995.9	
Noncontrolling interest	400.7	401.5	
	3,701.3	3,397.4	

\$8,632.2

\$8,733.8

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2015	2014
	(in millions)	
Operating activities:		
Net income	\$409.8	\$406.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	130.4	111.0
Stock-based compensation expense	31.3	23.5
Excess tax benefits from stock-based compensation	(12.8)	) (23.6)
Benefit for deferred income taxes	(4.9)	) (19.6)
Net gains on railcar lease fleet sales owned more than one year at the time of sale	(45.0)	) (87.2)
Gains on dispositions of property	(10.9)	) (12.6)
Non-cash interest expense	16.1	15.0
Other	0.5	(2.1)
Changes in assets and liabilities:		
(Increase) decrease in receivables	(128.8)	) (136.5)
(Increase) decrease in inventories	81.7	(176.4)
(Increase) decrease in restricted cash	(9.4)	) 25.0
(Increase) decrease in other assets	(7.0)	) (19.0)
Increase (decrease) in accounts payable	(22.0)	) 73.7
Increase (decrease) in accrued liabilities	(150.7)	) (21.1)
Increase (decrease) in other liabilities	3.7	1.2
Net cash provided by operating activities	282.0	157.4
Investing activities:		
(Increase) decrease in short-term marketable securities	75.0	(68.8)
Proceeds from dispositions of property	4.8	21.0
Proceeds from railcar lease fleet sales owned more than one year at the time of sale	167.4	242.1
Capital expenditures – leasing, net of sold lease fleet railcars owned one year or less with a net cost of \$96.0 and \$257.6	(419.4)	) (49.5)
Capital expenditures – manufacturing and other	(100.7)	) (107.5)
Acquisitions, net of cash acquired	(46.2)	) (118.8)
Divestitures	51.3	—
Other	5.2	0.3
Net cash required by investing activities	(262.6)	) (81.2)
Financing activities:		
Proceeds from issuance of common stock, net	0.2	0.4
Excess tax benefits from stock-based compensation	12.8	23.6
Payments to retire debt	(471.0)	) (90.1)
Proceeds from issuance of debt	242.4	332.1
(Increase) decrease in restricted cash	46.8	(12.8)
Shares repurchased	(75.0)	) (17.5)
Dividends paid to common shareholders	(31.1)) (23.2)
Purchase of shares to satisfy employee tax on vested stock	(27.2)) (38.1)

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Contributions from noncontrolling interest	—	49.6	
Distributions to noncontrolling interest	(19.9)) (12.3)
Other	(1.5	) (1.1)
Net cash (required) provided by financing activities	(323.5	) 210.6	
Net (decrease) increase in cash and cash equivalents	(304.1	) 286.8	
Cash and cash equivalents at beginning of period	887.9	428.5	
Cash and cash equivalents at end of period	\$583.8	\$715.3	
See accompanying notes to consolidated financial statements.			

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

	Common Stock Shares	\$0.01 Par Value	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock Amount	Trinity Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
(in millions, except par value)										
Balances at December 31, 2014	155.7	\$155.7	\$463.2	\$2,489.9	\$ (111.9)	(0.1)	\$(1.0)	\$2,995.9	\$ 401.5	\$3,397.4
Net income	—	—	—	392.2	—	—	—	392.2	17.6	409.8
Other comprehensive income	—	—	—	—	3.6	—	—	3.6	1.5	5.1
Cash dividends on common stock	—	—	—	(32.5)	—	—	—	(32.5)	—	(32.5)
Restricted shares, net	2.1	—	32.8	—	—	(0.9)	(28.7)	4.1	—	4.1
Shares repurchased	—	—	—	—	—	(2.4)	(75.0)	(75.0)	—	(75.0)
Stock options exercised	—	—	0.2	—	—	—	—	0.2	—	0.2
Excess tax benefits from stock-based compensation	—	—	12.1	—	—	—	—	12.1	—	12.1
Distributions to noncontrolling interest	—	—	—	—	—	—	—	—	(19.9)	(19.9)
Retirement of treasury stock	(3.3)	—	(103.7)	—	—	3.3	103.7	—	—	—
Change in par value of common stock	—	(154.2)	154.2	—	—	—	—	—	—	—
Balances at June 30, 2015	154.5	\$1.5	\$558.8	\$2,849.6	\$ (108.3)	(0.1)	\$(1.0)	\$3,300.6	\$ 400.7	\$3,701.3

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 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 a controlling interest. In our opinion, all normal and recurring adjustments necessary for a fair presentation of the financial position of the Company as of June 30, 2015, and the results of operations for the three and six months ended June 30, 2015 and 2014, and cash flows for the six months ended June 30, 2015 and 2014, 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 six months ended June 30, 2015 may not be indicative of expected results of operations for the year ending December 31, 2015. 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, 2014.

Stockholders' Equity

In March 2014, the Company's Board of Directors authorized a \$250 million share repurchase program that expires on December 31, 2015. Under the program, 1,669,764 shares and 2,390,804 shares, respectively, were repurchased during the three and six months ended June 30, 2015, at a cost of approximately \$50.0 million and \$75.0 million, respectively. During the three and six months ended June 30, 2014, the Company repurchased 63,600 shares and 340,146 shares, respectively, at a cost of approximately \$2.5 million and \$12.5 million, respectively.

In May 2015, the Company's stockholders approved amendments to the Company's Certificate of Incorporation increasing the number of authorized shares of common stock from 200 million to 400 million and reducing the par value of the Company's common stock to \$0.01 per share from \$1.00 per share.

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

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are considered to be representative of their respective fair values. At June 30, 2015, one customer's net receivable balance in our Rail Group accounted for 11% of the consolidated net receivables balance outstanding.

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03") which changes the presentation of debt issuance costs in financial statements to present such costs as a direct deduction from the related debt liability rather than as an asset. ASU 2015-03 will become effective for public companies during interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. We do not expect the adoption of ASU 2015-03 will have a material impact on our consolidated financial statements.

In February 2015, the FASB issued Accounting Standards Update No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis" ("ASU 2015-02") which updates the considerations on whether an entity should consolidate certain legal entities. The update removes the indefinite deferral of specialized guidance for certain investment funds and changes the way that entities evaluate limited partnerships and fees paid to service providers in the consolidation determination. ASU 2015-02 will become effective for public companies during interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. We do not expect the adoption of ASU 2015-02 will have a material impact on our consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers," ("ASU 2014-09") providing common revenue recognition guidance for U.S. GAAP. Under ASU 2014-09, an entity recognizes revenue when it transfers promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. It also requires additional detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 will become effective for public companies during interim and annual reporting periods beginning after December 15, 2017. We are currently evaluating the impact this standard will have on our consolidated financial statements.

Reclassifications

Certain prior year balances have been reclassified in the consolidated statements of operations and cash flows to conform to the 2015 presentation.

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Note 2. Acquisitions and Divestitures

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

	Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
	2014		2014	
	(in millions)			
Acquisitions:				
Purchase price	\$—	\$7.7	\$46.2	\$125.3
Net cash paid	\$—	\$6.2	\$46.2	\$118.8
Goodwill recorded	\$—	\$5.1	\$—	\$87.2
Divestitures:				
Proceeds	\$51.3	\$—	\$51.3	\$—
Gain recognized	\$7.8	\$—	\$7.8	\$—
Goodwill charged off	\$17.3	\$—	\$17.3	\$—

In March 2015, we completed the acquisition of the assets of a lightweight aggregates business in our Construction Products Group with facilities located in Louisiana, Alabama, and Arkansas. As of June 30, 2015, the acquisition was recorded based on a preliminary valuation of the acquired 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.

In June 2015, we sold the assets of our galvanizing business which included six facilities in Texas, Mississippi, and Louisiana, recognizing a gain of \$7.8 million which is included in gains on other dispositions of property in the accompanying consolidated statements of operations. The assets and results of operations for this divestiture were included in the Construction Products Group.

With regard to the acquisition of the assets of Meyer Steel Structures (“Meyer”) in August 2014, the purchase price allocation continues to be preliminary as of June 30, 2015 due to the size and complexity of Meyer. We expect to complete our purchase price allocation as soon as reasonably possible not to exceed one year from the acquisition date. The following table represents our preliminary purchase price allocation as of June 30, 2015:

	June 30, 2015 (in millions)
Accounts receivable	\$29.4
Inventories	36.1
Property, plant, and equipment	70.5
Goodwill	409.1
Other assets	76.0
Accounts payable	(15.4)
Accrued liabilities	(10.1)
Total net assets acquired	\$595.6

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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 June 30, 2015 (in millions)				
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$338.9	\$—	\$—	\$338.9
Restricted cash	197.3	—	—	197.3
Total assets	\$536.2	\$—	\$—	\$536.2
Liabilities:				
Interest rate hedge: ⁽¹⁾				
Partially-owned subsidiaries	\$—	\$1.9	\$—	\$1.9
Fuel derivative instruments ⁽¹⁾	—	0.6	—	0.6
Total liabilities	\$—	\$2.5	\$—	\$2.5

Fair Value Measurement as of December 31, 2014 (in millions)				
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$415.2	\$—	\$—	\$415.2
Restricted cash	234.7	—	—	234.7
Total assets	\$649.9	\$—	\$—	\$649.9
Liabilities:				
Interest rate hedges: ⁽¹⁾				
Wholly-owned subsidiaries	\$—	\$6.4		