

TRIMAS CORP  
Form 10-Q  
May 15, 2006

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

## FORM 10-Q

(MARK ONE)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended March 31, 2006

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 333-100351

## TRIMAS CORPORATION

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**38-2687639**  
(IRS Employer  
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 is a large accelerated filer, an accelerated filer, or non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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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 May 15, 2006, the number of outstanding shares of the Registrant's common stock, \$.01 par value, was 20,010,000 shares.

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TriMas Corporation

Index

**Part I. Financial Information**

	<u>Forward-Looking Statements</u>	
<u>Item 1.</u>	<u>Consolidated Financial Statements</u>	3
	<u>Consolidated Balance Sheet March 31, 2006 and December 31, 2005</u>	3
	<u>Consolidated Statement of Operations for the Three Months Ended March 31, 2006 and 2005</u>	4
	<u>Consolidated Statement of Cash Flows for the Three Months Ended March 31, 2006 and 2005</u>	5
	<u>Consolidated Statement of Shareholders' Equity for the Three Months Ended March 31, 2006</u>	6
	<u>Notes to Unaudited Consolidated Financial Statements</u>	7
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosure about Market Risk</u>	37
<u>Item 4.</u>	<u>Controls and Procedures</u>	37

**Part II. Other Information and Signature**

<u>Item 1.</u>	<u>Legal Proceedings</u>	39
<u>Item 1A.</u>	<u>Risk Factors</u>	40
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	40
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	40
<u>Item 5.</u>	<u>Other Information</u>	40
<u>Item 6.</u>	<u>Exhibits and Reports on Form 8-K</u>	40
<u>Signatures</u>		44

## 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, 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.

Risks and uncertainties that could cause actual results to vary materially from those anticipated in the forward-looking statements included in this report include general economic conditions in the markets in which we operate and industry-related and other factors such as:

- Our businesses depend upon general economic conditions and we serve some customers in highly cyclical industries. As a result, we are subject to the loss of sales and margin due to an economic downturn or recession, which could negatively affect us;
- Many of the markets we serve are highly competitive, which could limit the volume of products that we sell and reduce our operating margins. We also face the risk of lower cost foreign manufacturers located in China and elsewhere in Southeast Asia competing in the markets for our products, and we may be adversely impacted;
- Increases in our raw material or energy costs or the loss of a substantial number of our suppliers could adversely affect our profitability and other financial results;
- Historically, we have grown primarily through acquisitions. If we are unable to identify attractive acquisition candidates, successfully integrate acquired operations or realize the intended benefits of our acquisitions, we may be adversely affected;
- We may be unable to successfully implement our growth strategies. Our ability to realize our growth opportunities, apart from acquisitions and related cost savings, may be limited;
- Our products are typically highly engineered or customer-driven and, as such, we are subject to risks associated with changing technology and manufacturing techniques, which could place us at a competitive disadvantage;
- We may be unable to protect our intellectual property;
- We may incur material losses and costs as a result of product liability, recall and warranty claims that may be brought against us;
- Our business may be materially and adversely affected by compliance obligations and liabilities under environmental and other laws and regulations;
- We have substantial debt and interest payment requirements that may restrict our future operations and impair our ability to meet our obligations;



- Restrictions in our debt instruments and accounts receivable facility limit our ability to take certain actions and breaches thereof could impair our liquidity;
- We have significant operating lease obligations. Failure to meet those obligations could adversely affect our financial condition;
- We have significant goodwill and intangible assets. Future impairment of our goodwill and intangible assets could have a material negative impact on our financial results;
- We may be subject to work stoppages and further unionization at our facilities or our customers or suppliers may be subjected to work stoppages, which could seriously impact the profitability of our business;
- Our healthcare costs for active employees and retirees may exceed our projections and may negatively affect our financial results;
- A growing portion of our sales may be derived from international sources, which exposes us to certain risks which may adversely affect our financial results and impact our ability to service debt; and
- We have not yet completed implementing our current plans to improve internal controls over financial reporting and may be unable to remedy certain internal control weaknesses identified by our management and take other actions to meet our 2007 compliance deadline for Section 404 of the Sarbanes-Oxley Act of 2002.

We disclose important factors that could cause our actual results to differ materially from our expectations under 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 condition, results of operations, prospects and ability to service our debt.

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**Part I. Financial Information****Item 1. Financial Statements**
**TriMas Corporation**  
**Consolidated Balance Sheet**  
**(Unaudited dollars in thousands)**

	March 31, 2006	December 31, 2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,710	\$ 3,730
Receivables, net	95,000	89,960
Inventories	162,020	149,210
Deferred income taxes	20,120	20,120
Prepaid expenses and other current assets	7,450	7,050
Assets of discontinued operations held for sale	47,000	45,590
Total current assets	333,300	315,660
Property and equipment, net	163,180	164,630
Goodwill	645,530	644,780
Other intangibles, net	252,060	255,220
Other assets	46,700	48,220
Total assets	\$ 1,440,770	\$ 1,428,510
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Current maturities, long-term debt	\$ 8,560	\$ 13,820
Accounts payable	125,790	111,250
Accrued liabilities	65,830	62,800
Due to Metaldyne	4,840	4,850
Liabilities of discontinued operations	37,270	38,410
Total current liabilities	242,290	231,130
Long-term debt	710,780	713,860
Deferred income taxes	95,820	95,980
Other long-term liabilities	34,230	34,760
Due to Metaldyne	3,480	3,480
Total liabilities	1,086,600	1,079,210
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:		
20,010,000 shares	200	200
Paid-in capital	397,400	396,980
Retained deficit	(82,330)	(86,310)
Accumulated other comprehensive income	38,900	38,430
Total shareholders' equity	354,170	349,300
Total liabilities and shareholders' equity	\$ 1,440,770	\$ 1,428,510

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

**TriMas Corporation**  
**Consolidated Statement of Operations**  
(Unaudited dollars in thousands, except for per share amounts)

	<b>For the Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>
Net sales	\$ 275,280	\$ 262,370
Cost of sales	(201,790 )	(197,270 )
Gross profit	73,490	65,100
Selling, general and administrative expenses	(44,050 )	(40,290 )
Gain (loss) on dispositions of property and equipment	(180 )	170
Operating profit	29,260	24,980
Other expense, net:		
Interest expense	(19,920 )	(18,240 )
Other, net	(780 )	(1,090 )
Other expense, net	(20,700 )	(19,330 )
Income from continuing operations before income tax expense	8,560	5,650
Income tax expense	(3,250 )	(2,080 )
Income from continuing operations	5,310	3,570
Loss from discontinued operations, net of income tax benefit	(1,330 )	(1,060 )
Net income	\$ 3,980	\$ 2,510
<b>Earnings (loss) per share basic:</b>		
Continuing operations	\$ 0.27	\$ 0.18
Discontinued operations, net of income tax benefit	(0.07 )	(0.05 )
Net income per share	\$ 0.20	\$ 0.13
Weighted average common shares basic	20,010,000	20,010,000
<b>Earnings (loss) per share diluted:</b>		
Continuing operations	\$ 0.26	\$ 0.17
Discontinued operations, net of income tax benefit	(0.07 )	(0.05 )
Net income per share	\$ 0.19	\$ 0.12
Weighted average common shares diluted	20,760,000	20,760,000

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



**TriMas Corporation**  
**Consolidated Statement of Cash Flows**  
(Unaudited dollars in thousands)

	<b>For the Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 3,980	\$ 2,510
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
(Gain) loss on dispositions of property and equipment	100	(240 )
Depreciation and amortization	9,300	10,510
Amortization of debt issue costs	1,360	1,230
Non-cash compensation expense	420	80
Net proceeds from sale of receivables and receivables securitization	25,120	26,560
Increase in receivables	(29,630 )	(60,540 )
(Increase) decrease in inventories	(14,490 )	3,440
Decrease in prepaid expenses and other assets	200	860
Increase in accounts payable and accrued liabilities	14,330	3,820
Other, net	320	420
Net cash provided by (used for) operating activities	11,010	(11,350 )
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	(5,290 )	(4,550 )
Proceeds from sales of fixed assets	640	940
Net cash used for investing activities	(4,650 )	(3,610 )
<b>Cash Flows from Financing Activities:</b>		
Repayments of borrowings on term loan facilities	(700 )	(720 )
Proceeds from borrowings on revolving credit facilities	167,710	286,810
Repayments of borrowings on revolving credit facilities	(175,390 )	(270,200 )
Payments on notes payable		(100 )
Net cash provided by (used for) financing activities	(8,380 )	15,790
<b>Cash and Cash Equivalents:</b>		
Increase (decrease) for the period	(2,020 )	830
At beginning of period	3,730	3,090
At end of period	\$ 1,710	\$ 3,920
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 5,280	\$ 5,780
Cash paid for taxes	\$ 4,930	\$ 3,600

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

**TriMas Corporation**  
**Consolidated Statement of Shareholders' Equity**  
**For the Three Months Ended March 31, 2006**  
(Unaudited - dollars in thousands)

	<b>Common Stock</b>	<b>Paid-in Capital</b>	<b>Retained Deficit</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Total</b>
Balances, December 31, 2005	\$ 200	\$ 396,980	\$ (86,310 )	\$ 38,430	\$ 349,300
Comprehensive income:					
Net income			3,980		3,980
Foreign currency translation				470	470
Total comprehensive income					4,450
Non-cash compensation expense		420			420
Balances, March 31, 2006	\$ 200	\$ 397,400	\$ (82,330 )	\$ 38,900	\$ 354,170

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

**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 of products for commercial, industrial and consumer markets. During the first quarter of 2006, the Company re-aligned its operating segments and management structure to better focus its various businesses' product line offerings by industry, end customer markets and related channels of distribution. Prior period segment information has been revised to conform to the current structure and presentation. The Company is principally engaged in five business segments with diverse products and market channels. Packaging Systems is a manufacturer and distributor of steel and plastic closure caps, drum enclosures, rings and levers, dispensing systems for industrial and consumer markets, as well as specialty laminates, jacketings and insulation tapes used with fiberglass insulation as vapor barriers in commercial, industrial, and residential construction applications. Transportation Accessories manufactures towing products, 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 which are distributed through independent installers and retail outlets. RV & Trailer Products is a manufacturer and distributor of custom-engineered trailer products, brake control solutions, lighting accessories and roof racks for the recreational vehicle, agricultural/industrial, marine, automotive and commercial trailer markets. Energy Products is a manufacturer and distributor of a variety of engines and engine replacement parts for the oil and gas industry as well as metallic and non-metallic industrial gaskets and fasteners for the petroleum refining, petrochemical and other industrial markets. Industrial Specialties designs and manufactures a diverse range of industrial products for use in niche markets within the aerospace, industrial, automotive, defense, and medical equipment markets. These products include highly engineered specialty fasteners for the aerospace industry, high-pressure and low-pressure cylinders for the transportation, storage and dispensing of compressed gases, specialty fasteners for the automotive industry, specialty precision tools such as center drills, cutters, end mills, reamers, master gears, gages and punches, and specialty ordnance components and steel cartridge cases.

During the fourth quarter of 2005, the Company committed to a plan to sell our industrial fastening business. The industrial fastening business was a part of our former Fastening Systems segment and consists of three locations: Wood Dale, Illinois, Frankfort, Indiana and Lakewood, Ohio. Our industrial fasteners business is presented as discontinued operations and assets held for sale. See Note 2, *Discontinued Operations and Assets Held for Sale*.

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 2005 Annual Report on Form 10-K.

**2. Discontinued Operations and Assets Held for Sale**

In the fourth quarter of 2005, the Board of Directors authorized management to move forward with its plan to sell the Company's industrial fasteners business. Accordingly, our industrial fasteners business is reported as discontinued operations.

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Results of discontinued operations are summarized as follows:

(in thousands)	For the Three Months Ended March 31,	
	2006	2005
Net Sales	\$ 23,470	\$ 30,380
Loss from discontinued operations before income tax benefit	\$ (2,170 )	\$ (1,730 )
Income tax benefit	840	670
Loss from discontinued operations, net of income tax benefit	\$ (1,330 )	\$ (1,060 )

Assets and liabilities of the discontinued operations are summarized as follows:

(in thousands)	March 31,	December 31,
	2006	2005
Receivables, net	\$ 13,960	\$ 14,500
Inventories	23,610	21,930
Prepaid expenses and other assets	2,010	1,990
Property and equipment, net	7,420	7,170
Total assets	\$ 47,000	\$ 45,590
Accounts payable	\$ 12,060	\$ 14,080
Accrued liabilities and other	25,210	24,330
Total liabilities	\$ 37,270	\$ 38,410

### 3. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the three months ended March 31, 2006 are as follows:

(in thousands)	Packaging Systems	Transportation Accessories	RV & Trailer Products	Energy Products	Industrial Specialties Group	Total
Balance, December 31, 2005	\$ 179,350	\$ 153,790	\$ 203,720	\$ 45,200	\$ 62,720	\$ 644,780
Foreign currency translation	940	(130 )	(40 )	(20 )		750
Balance, March 31, 2006	\$ 180,290	\$ 153,660	\$ 203,680	\$ 45,180	\$ 62,720	\$ 645,530

The gross carrying amounts and accumulated amortization of the Company's other intangibles as of March 31, 2006 and December 31, 2005 are summarized below. The Company amortizes these assets over periods ranging from 1 to 40 years.

Intangible Category by Useful Life (in thousands)	As of March 31, 2006		As of December 31, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Customer relationships:</b>				
6 - 12 years	\$ 26,500	\$ (13,990 )	\$ 26,500	\$ (13,330 )
15 - 25 years	104,320	(24,020 )	104,360	(22,660 )
40 years	67,580	(9,030 )	67,580	(8,600 )
Total customer relationships	198,400	(47,040 )	198,440	(44,590 )
<b>Technology and other:</b>				
1 - 15 years	25,900	(14,350 )	25,900	(13,790 )
17 - 30 years	39,590	(9,320 )	39,300	(8,950 )
Total technology and other	65,490	(23,670 )	65,200	(22,740 )
Trademarks/Trade names (indefinite life)	63,320	(4,440 )	63,350	(4,440 )
	\$ 327,210	\$ (75,150 )	\$ 326,990	\$ (71,770 )



Amortization expense related to technology and other intangibles was \$1.0 million and \$1.2 million for the three months ended March 31, 2006 and 2005, respectively. These amounts are included in cost of sales in the accompanying consolidated statement of operations. Amortization expense related to customer intangibles was \$2.4 million and \$2.5 million for the three months ended March 31, 2006 and 2005, respectively. These amounts are included in selling, general and administrative expenses in the accompanying consolidated statement of operations.

#### 4. Accounts Receivable Securitization

As part of the June 2002 financing transactions, TriMas established a receivables securitization facility and organized TSPC, Inc. ( TSPC ), a wholly-owned subsidiary, to sell trade accounts receivable of substantially all domestic business operations.

TSPC from time to time may sell an undivided fractional ownership interest in the pool of receivables up to approximately \$125.0 million to a third party multi-seller receivables funding company. The net proceeds of sales are less than the face amount of accounts receivable sold by an amount that approximates the purchaser's financing costs, which amounted to a total of \$0.9 million and \$0.6 million for the three months ended March 31, 2006 and 2005, respectively. As of March 31, 2006 and December 31, 2005, the Company's funding under the facility was approximately \$59.6 million and \$37.3 million, respectively, with an additional \$4.7 million and \$16.1 million, respectively, available but not utilized. When the Company sells receivables under this arrangement, the Company retains a subordinated interest in the receivables sold. The retained interest in receivables sold is included in receivables in the accompanying balance sheet and approximated \$68.6 million and \$65.3 million at March 31, 2006 and December 31, 2005, respectively. The usage fee under the facility is 1.35%. In addition, the Company is required to pay a fee of 0.5% on the unused portion of the facility. This facility expires on December 31, 2007.

The financing costs 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 representing a spread over LIBOR as prescribed under the terms of the securitization agreement. As of March 31, 2006 and 2005, the financing costs were based on an average liquidation period of the portfolio of approximately 1.3 months and 1.6 months, respectively, and an average discount rate of 3.2% and 3.4%, respectively.

In the three months ended March 31, 2006 the Company sold an undivided interest in approximately \$2.8 million of accounts receivable under a factoring arrangement at three of its European subsidiaries. These transactions were accounted for as a sale and the receivables were sold at a discount from face value approximating 1.6%. Costs associated with these transactions were approximately \$0 million and are included in other, net in the accompanying statement of operations.

In addition, in the first quarter of 2005, the Company sold an undivided interest in approximately \$17.0 million of accounts receivable of one of its businesses to a third party. The transaction was accounted for as a sale and the receivables were sold at a discount from face value approximating 1.25%. Costs associated with the transaction were approximately \$0.3 million and are included in other, net in the accompanying consolidated statement of operations.

## 5. Inventories

Inventories consist of the following components:

(in thousands)	March 31, 2006	December 31, 2005
Finished goods	\$ 76,620	\$ 69,650
Work in process	22,100	19,350
Raw materials	63,300	60,210
Total inventories	\$ 162,020	\$ 149,210

## 6. Property and Equipment, Net

Property and equipment consists of the following components:

(in thousands)	March 31, 2006	December 31, 2005
Land and land improvements	\$ 3,350	\$ 3,610
Buildings	43,790	44,440
Machinery and equipment	211,290	206,540
	258,430	254,590
Less: Accumulated depreciation	95,250	89,960
Property and equipment, net	\$ 163,180	\$ 164,630

Depreciation expense was approximately \$5.9 million and \$5.8 million for the three months ended March 31, 2006 and 2005, respectively.

## 7. Long-term Debt

The Company's long-term debt consists of the following at March 31, 2006 and December 31, 2005:

(in thousands)	March 31, 2006	December 31, 2005
Bank debt	\$ 257,610	\$ 260,350
Non-U.S. bank debt	25,320	30,960
97% subordinated notes, due June 2012	436,410	436,370
	719,340	727,680
Less: Current maturities, long-term debt	8,560	13,820
Long-term debt	\$ 710,780	\$ 713,860

### Bank Debt

The Company is a party to a credit facility (Credit Facility) with a group of banks consisting of a \$335.0 million term loan which matures December 31, 2009. In addition to the term loan, the Credit Facility includes an uncommitted incremental term loan of \$125.0 million and a senior revolving credit facility of up to \$150.0 million, including up to \$100.0 million for one or more permitted acquisitions, which matures December 31, 2007. As of March 31, 2006 and December 31, 2005, \$257.6 million and \$260.4 million, respectively, were outstanding. The Credit Facility allows the Company to issue letters of credit, not to exceed \$45.0 million in aggregate, against revolving credit facility commitments. At March 31, 2006 and December 31, 2005, the Company had letters of credit of approximately \$44.4 million and \$43.7 million, respectively, issued and outstanding. The effective interest rate on Credit Facility borrowings was 8.39% and 8.03% at March 31, 2006 and December 31, 2005, respectively.





The bank debt is an obligation of subsidiaries of the Company. Although the Credit Facility does not restrict the Company's subsidiaries from making distributions to it in respect of its 97/8% senior subordinated notes, it does contain certain other limitations on the distribution of funds from TriMas Company LLC, the principal subsidiary, to the Company. The restricted net assets of the guarantor subsidiaries, of approximately \$787.7 million and \$757.5 million at March 31, 2006 and December 31, 2005, respectively, are presented in the financial information in Note 14. The Credit Facility contains negative and affirmative covenants and other requirements affecting the Company and its subsidiaries, including among others: restrictions on incurrence of debt, except for permitted acquisitions and subordinated indebtedness, liens, mergers, investments, loans, advances, guarantee obligations, acquisitions, asset dispositions, sale-leaseback transactions greater than \$90.0 million if sold at fair market value, hedging agreements, dividends and other restricted junior payments, stock repurchases, transactions with affiliates, restrictive agreements and amendments to charters, by-laws, and other material documents. The Credit Facility also requires the Company and its subsidiaries to meet certain restrictive financial covenants and ratios computed quarterly, including a leverage ratio (total consolidated indebtedness plus outstanding amounts under the accounts receivable securitization facility over consolidated EBITDA, as defined), interest expense ratio (consolidated EBITDA, as defined, over cash interest expense, as defined) and a capital expenditures covenant. The Company was in compliance with its covenants at March 31, 2006.

*Non-U.S. bank debt*

In the United Kingdom, a Company subsidiary is party to a revolving debt agreement which expires October 31, 2006 and is secured by a letter of credit under the Credit Facility. At March 31, 2006, the balance outstanding under this arrangement was \$3.0 million at an interest rate of 5.7%.

In Italy, a Company subsidiary is party to a loan agreement for a term of seven years, at a rate 0.75% above EURIBOR (Euro Interbank Offered Rate), and is secured by land and buildings of the subsidiary. At March 31, 2006, the balance outstanding under this agreement was \$5.9 million at a rate of 3.24%.

In Australia, a Company subsidiary is party to a debt agreement in the amount of \$20 million which matures December 31, 2010 and is secured by substantially all the assets of the subsidiary. At March 31, 2006, the balance outstanding under this agreement was \$16.5 million at a weighted average interest rate of 5.94%.

*Notes*

The 97/8% senior subordinated notes due 2012 ( Notes ) indenture contains negative and affirmative covenants and other requirements that are comparable to those contained in the Credit Facility. At March 31, 2006, the Company was in compliance with all such covenant requirements.

Principal payments required on the Credit Facility term loan are: \$0.6 million due each calendar quarter ending through June 30, 2009, \$120.1 million due on September 30, 2009 and \$127.1 million due on December 31, 2009.

## 8. Commitments and Contingencies

A civil suit was filed in the United States District Court for the Central District of California in December 1988 by the United States of America and the State of California against more than 180 defendants, including us, for alleged release into the environment of hazardous substances disposed of at the Operating Industries, Inc. site in California. This site served for many years as a depository for municipal and industrial waste. The plaintiffs have requested, among other things, that the defendants clean up the contamination at that site. Consent decrees have been entered into by the plaintiffs and a group of the defendants, including us, providing that the consenting parties perform certain remedial work at the site and reimburse the plaintiffs for certain past costs incurred by the plaintiffs at the site. We

estimate that our share of the clean-up costs will not exceed \$500,000, for which we have insurance proceeds. Plaintiffs had sought other relief such as damages arising out of claims for negligence, trespass, public and private nuisance, and other causes of action, but the consent decree governs the remedy. While, based upon our present knowledge and subject to future legal and factual developments, we do not believe that this matter will have a material adverse effect on our financial position, results of operations or cash flow, future legal and factual developments may result in materially adverse expenditures.

As of March 31, 2006, we were a party to approximately 1,620 pending cases involving an aggregate of approximately 19,022 claimants alleging personal injury from exposure to asbestos containing materials formerly used in gaskets (both encapsulated and otherwise) manufactured or distributed by certain of our subsidiaries for use in the petrochemical refining and exploration industries. In addition, we acquired various companies to distribute our products that had distributed gaskets of other manufacturers prior to acquisition. We believe that many of our pending cases relate to locations at which none of our gaskets were distributed or used. Total settlement costs for all such cases (exclusive of defense costs), some of which were filed over 13 years ago, have been approximately \$3.4 million. All relief sought in the asbestos cases is monetary in nature. To date, approximately 50% of our costs related to settlement and defense of asbestos litigation have been covered by our primary insurance. Effective February 14, 2006, we entered into a coverage-in-place agreement with our first level excess carriers regarding the coverage to be provided to us for asbestos-related claims when the primary insurance is exhausted. The coverage in place agreement makes coverage available that might otherwise be disputed by the carriers and provides a methodology for the administration of asbestos-related defense and indemnity payments. The coverage in place agreement allocates payment responsibility among the primary carrier, excess carriers, and the Company's subsidiary.

We may be subjected to significant additional claims in the future, the cost of settling cases in which product identification can be made may increase, and we may be subjected to further claims in respect of the former activities of our acquired gasket distributors. We note that we are 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. In addition, relatively few of the claims have reached the discovery stage and even fewer claims have gone past the discovery stage. 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 the Company's potential liability. Based upon our experience to date and other available information (including the availability of excess insurance), we do not believe that these cases will have a material adverse effect on our financial condition or future results of operations.

The Company has provided reserves based upon its present knowledge and, subject to future legal and factual developments, does not believe that the ultimate outcome of any of the aforementioned litigations will have a material adverse effect on its consolidated financial position and future results of operations and cash flows. However, there can be no assurance that future legal and factual developments will not result in a material adverse impact on our financial condition and future results of operations.

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 the Company's financial position or future results of operations.

## 9. Related Parties

### *Metaldyne Corporation*

In connection with the June 2002 common stock issuance and related financing transactions, TriMas assumed approximately \$37.0 million of liabilities and obligations of Metaldyne, mainly comprised of contractual obligations to former TriMas employees, tax-related matters, benefit plan liabilities and reimbursements to Metaldyne for normal course payments to be made on TriMas' behalf. During the three months ended March 31, 2006, there were no payments made with respect to these obligations. The remaining assumed liabilities of approximately \$8.3 million are payable at various dates in the future and are reported as Due to Metaldyne in the accompanying consolidated balance sheet at March 31, 2006.

### *Heartland Industrial Partners*

The Company is party to an advisory services agreement with Heartland Industrial Partners (Heartland) at an annual fee of \$4.0 million plus expenses. Heartland was paid \$1.0 million and \$1.1 million for the three months ended March 31, 2006 and 2005, respectively, for such fees and expenses under this agreement. Such amounts are included in selling, general and administrative expense in the accompanying consolidated statement of operations.

### *Related Party Sales*

The Company sold fastener products to Metaldyne in the amount of approximately \$0.1 million in each of the three months ended March 31, 2006 and 2005. The Company also sold fastener products to affiliates of a shareholder in the amount of approximately \$2.0 million and \$1.8 million in the three months ended March 31, 2006 and 2005, respectively. These amounts are included in net sales in the accompanying consolidated statement of operations.

### *Collins & Aikman*

In May 2005, Collins & Aikman filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. As of March 31, 2006, Collins & Aikman owed the Company approximately \$1.5 million, of which \$1.3 million was outstanding at the time Collins & Aikman filed for bankruptcy and is fully reserved, and included in assets of discontinued operations held for sale.

## 10. Segment Information

TriMas' reportable operating segments are business units that provide unique products and services. Each operating segment is separately managed, requires different technology and marketing strategies and has separate financial information evaluated regularly by the Company's chief operating decision maker in determining resource allocation and assessing performance. During the first quarter of 2006, the Company re-aligned its operating segments and management structure to better focus its various businesses' product line offerings by industry, end customer markets, and related channels of distribution. Prior period segment information has been revised to conform to the current structure and presentation. TriMas has five operating segments involved in the manufacture and sale of products described below. Within these operating segments, there are no individual products or product families for which reported revenues accounted for more than 10% of the Company's consolidated revenues.

**Packaging Systems** Steel and plastic closure caps, drum enclosures, rings and levers, and dispensing systems for industrial and consumer markets, as well as flame-retardant facings, jacketings and insulation tapes used with fiberglass insulation as vapor barriers in commercial, industrial, and residential construction applications.

**Transportation Accessories** Towing products, 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.

**RV & Trailer Products** Custom-engineered trailer 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.

**Energy Products** Engines and engine replacement parts for the oil and gas industry as well as metallic and non-metallic industrial gaskets and fasteners for the petroleum refining, petrochemical and other industrial markets.

**Industrial Specialties** A diverse range of industrial products for use in niche markets within the aerospace, industrial, automotive, defense, and medical equipment markets. Its products include highly engineered specialty fasteners for the aerospace industry, high-pressure and low-pressure cylinders for the transportation, storage and dispensing of compressed gases, specialty fasteners for the automotive industry, specialty precision tools such as center drills, cutters, end mills, reamers, master gears, gages and punches, and specialty ordnance components and steel cartridge cases.

The Company's management uses Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ( Adjusted EBITDA ) as a primary indicator of financial operating performance and as a measure of cash generating capability. Adjusted EBITDA is defined as net income (loss) before interest, taxes, depreciation, amortization, non-cash asset and goodwill impairment write-offs, non-cash losses on sale-leaseback of property and equipment and legacy restricted stock award expense. For the periods presented, there were no adjustments between EBITDA and Adjusted EBITDA.

Segment activity is as follows:

(in thousands)	For the Three Months Ended March 31,	
	2006	2005
<b>Net Sales</b>		
Packaging Systems	\$ 53,350	\$ 49,600
Transportation Accessories	81,680	84,810
RV & Trailer Products	55,860	55,840
Energy Products	39,950	33,590
Industrial Specialties	44,440	38,530
Total	\$ 275,280	\$ 262,370
<b>Operating Profit</b>		
Packaging Systems	\$ 8,500	\$ 7,390
Transportation Accessories	4,410	3,800
RV & Trailer Products	8,280	8,480
Energy Products	5,920	5,030
Industrial Specialties	8,410	5,910
Corporate expenses and management fees	(6,260 )	(5,630 )
Total	\$ 29,260	\$ 24,980
<b>Adjusted EBITDA</b>		
Packaging Systems	\$ 11,720	\$ 10,090
Transportation Accessories	6,870	6,480
RV & Trailer Products	10,090	10,400
Energy Products	6,540	5,660
Industrial Specialties	9,810	7,170
Corporate expenses and management fees	(7,250 )	(6,350 )
Total	\$ 37,780	\$ 33,450

## 11. Stock Options and Awards

In September 2003, the Company's Board of Directors approved the TriMas Corporation 2002 Long Term Equity Incentive Plan (the "Plan"), which provides for the issuance of equity-based incentives in various forms. A total of 2,222,000 stock options have been approved for issuance under this Plan. As of March 31, 2006, the Company has 1,944,956 stock options outstanding, each of which may be used to purchase one share of the Company's common stock. The options have a 10-year life and the exercise prices range from \$20 to \$23. Eighty percent of the options vest ratably over three years from the date of grant, while the remaining twenty percent vest after seven years from the date of grant or on an accelerated basis over three years based upon achievement of specified performance targets, as defined in the Plan. The options become exercisable upon the later of: (1) the normal vesting schedule as described above, or (2) upon the occurrence of a qualified public equity offering as defined in the Plan, one half of the vested options become exercisable 180 days following such public equity offering, and the other one half of vested options become exercisable on the first anniversary following consummation of such public offering.

The Company has adopted Statement of Financial Accounting Standards No. 123R (SFAS No. 123R), *Share-Based Payment*, using the Modified Prospective Application (MPA) method, which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The MPA method requires the Company to record expense for unvested stock options that were valued at fair value and awarded prior to January 1, 2006, and does not require restatement of prior-year information. Prior to adoption of SFAS No. 123R, the Company

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accounted for stock-based employee compensation using the intrinsic value method under Accounting Principles Board No. 25, Accounting for Stock Issued to Employees.

In the first quarter of 2006, the Company recognized stock-based compensation expense of \$0.4 million before income taxes. The stock-based compensation expense is included in selling, general and administrative expenses in the accompanying statements of operations. The total fair value of stock options that vested during the three-months ended March 31, 2006 and 2005 was \$0.3 million and \$0, respectively. As of March 31, 2006, the Company had \$2.4 million of unrecognized compensation cost related to stock options that is expected to be recorded over a weighted average period of 1.6 years.

The fair value of options granted in 2005 under the Plan were estimated using the Black-Scholes option pricing model using the following weighted average assumptions: expected life of 6 years, risk-free interest rate of 4%, and expected volatility of 30%. During the first three months of 2006, no options were issued by the Company. The weighted average fair value of stock options at the date of grant during the three month period ended March 31, 2005 was \$5.75.

Information related to stock options at March 31, 2006, is as follows:

	Number of Options	Weighted Average Option Price	Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2006	1,946,123	20.81		
Granted				
Exercised				
Cancelled	(1,167 )	20.00		
Outstanding at March 31, 2006	1,944,956	20.81	7.5	
Exercisable at March 31, 2006				

The following table illustrates the pro forma effect of adopting the fair value recognition provisions of SFAS No. 123R on income from continuing operations and earnings per share for the three months ended March 31, 2005:

(in thousands, except per share amounts)	For the Three Months Ended March 31, 2005
Income from continuing operations as reported	\$ 3,570
Plus: Stock-based compensation expense included in reported net income, net of related tax effects	50
Less: Fair value of all stock based compensation expense under SFAS No. 123R, net of related tax effects	(90)
Pro forma net income	\$ 3,530
Net income per share basic:	
Continuing operations, as reported	\$ 0.18
Weighted average shares	20,010
Net income per share diluted:	
Continuing operations, as reported	\$ 0.17
Weighted average shares	20,760

## 12. Earnings per Share

The Company reports earnings per share in accordance with FASB Statement of Financial Standards No. 128 (SFAS No. 128), *Earnings per Share*. Basic and diluted earnings per share amounts were computed using weighted average shares outstanding for the three months ended March 31, 2006 and 2005, respectively, and considers an outstanding warrant to purchase 750,000 shares of common stock at par value of \$.01 per share. At March 31, 2006, this warrant has not been exercised. Options to purchase approximately 1,944,956 and 1,885,572 shares of common stock were outstanding at March 31, 2006 and 2005, respectively, but were excluded from the computation of net income per share because to do so would have been anti-dilutive for the periods presented.

## 13. Defined Benefit Plans

Net periodic pension and postretirement benefit costs for TriMas defined benefit pension plans and postretirement benefit plans, covering foreign employees, union hourly employees and certain salaried employees include the following components for the three months ended March 31, 2006 and 2005:

(in thousands)	For the Three Months Ended			
	March 31,		Postretirement Benefit	
	Pension Benefit	2005	2006	2005
Service costs	\$ 160	\$ 150	\$ 20	\$ 20
Interest costs	400	420	130	90
Expected return on plan assets	(460 )	(460 )		
Amortization of net loss	130	90	30	20
Net periodic benefit cost	\$ 230	\$ 200	\$ 180	\$ 130

The Company expects to contribute approximately \$2.3 million to its defined benefit pension plans in 2006. Through the first quarter, approximately \$0.5 million has been contributed.

## 14. Supplemental Guarantor Condensed Consolidating Financial Information

Under an indenture dated June 6, 2002, TriMas Corporation, the parent company ( Parent ), issued 97% Senior Subordinated Notes due 2012 in a total principal amount of \$437.8 million (face value). These Notes are guaranteed by substantially all of the Company's domestic subsidiaries ( Guarantor Subsidiaries ). All of the Guarantor Subsidiaries are 100% owned by the Parent and their guarantee is full, unconditional, joint and several. The Company's non-domestic subsidiaries and TSPC, Inc. have not guaranteed the Notes ( Non-Guarantor Subsidiaries ). The Guarantor Subsidiaries have also guaranteed amounts outstanding under the Company's Credit Facility.

The accompanying supplemental guarantor condensed, consolidating financial information is presented using the equity method of accounting for all periods presented. Under this method, investments in subsidiaries are recorded at cost and adjusted for the Company's share in the subsidiaries' cumulative results of operations, capital contributions and distributions and other changes in equity. Elimination entries relate primarily to the elimination of investments in subsidiaries and associated intercompany balances and transactions.

**Supplemental Guarantor  
Condensed Financial Statements  
Consolidating Balance Sheet  
(in thousands)**

	As of March 31, 2006				Consolidated
	Parent	Guarantor	Non-Guarantor	Eliminations	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$	\$ (1,000 )	\$ 2,710	\$	\$ 1,710
Trade receivables, net		73,820	21,180		95,000
Receivables, intercompany			80	(80 )	
Inventories		144,120	17,900		162,020
Deferred income taxes		19,610	510		20,120
Prepaid expenses and other current assets		6,310	1,140		7,450
Assets of discontinued operations held for sale		47,000			47,000
Total current assets		289,860	43,520	(80 )	333,300
Investments in subsidiaries	787,830	157,440		(945,270 )	
Property and equipment, net		112,490	50,690		163,180
Goodwill		538,160	107,370		645,530
Intangibles and other assets	15,490	266,800	19,770	(3,300 )	298,760
Total assets	\$ 803,320	\$ 1,364,750	\$ 221,350	\$ (948,650 )	\$ 1,440,770
<b>Liabilities and Shareholders Equity</b>					
Current liabilities:					
Current maturities, long-term debt	\$	\$ 6,410	\$ 2,150	\$	\$ 8,560
Accounts payable, trade		107,270	18,520		125,790
Accounts payable, intercompany		80		(80 )	
Accrued liabilities	12,730	48,080	5,020		65,830
Due to Metaldyne		4,840			4,840
Liabilities of discontinued operations		37,270			37,270
Total current liabilities	12,730	203,950	25,690	(80 )	242,290
Long-term debt	436,410	251,200	23,170		710,780
Deferred income taxes		84,090	15,020	(3,290 )	95,820
Other long-term liabilities		34,200	30		34,230
Due to Metaldyne		3,480			3,480
Total liabilities	449,140	576,920	63,910	(3,370 )	1,086,600
Total shareholders equity	354,180	787,830	157,440	(945,280 )	354,170
Total liabilities and shareholders equity	\$ 803,320	\$ 1,364,750	\$ 221,350	\$ (948,650 )	\$ 1,440,770



**Supplemental Guarantor  
Condensed Financial Statements  
Consolidating Balance Sheet  
(in thousands)**

	As of December 31, 2005				Consolidated Total
	Parent	Guarantor	Non- Guarantor	Eliminations	
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$	\$ 250	\$ 3,480	\$	\$ 3,730
Trade receivables, net		77,000	12,960		89,960
Receivables, intercompany			510	(510 )	
Inventories, net		131,840	17,370		149,210
Deferred income taxes		19,710	410		20,120
Prepaid expenses and other current assets		6,160	890		7,050
Assets of discontinued operations held for sale		45,590			45,590
Total current assets		280,550	35,620	(510 )	315,660
Investments in subsidiaries	757,450	133,230		(890,680 )	
Property and equipment, net		113,560	51,070		164,630
Goodwill		538,160	106,620		644,780
Intangibles and other assets	30,140	270,770	19,990	(17,460 )	303,440
Total assets	\$ 787,590	\$ 1,336,270	\$ 213,300	\$ (908,650 )	\$ 1,428,510
<b>Liabilities and Shareholders Equity</b>					
Current liabilities:					
Current maturities, long-term debt	\$	\$ 2,590	\$ 11,230	\$	\$ 13,820
Accounts payable, trade		85,040	26,210		111,250
Accounts payable, intercompany		510		(510 )	
Accrued liabilities	1,920	52,960	7,920		62,800
Due to Metaldyne		4,850			4,850
Liabilities of discontinued operations		38,410			38,410
Total current liabilities	1,920	184,360	45,360	(510 )	231,130
Long-term debt	436,370	257,770	19,720		713,860
Deferred income taxes		98,490	14,950	(17,460 )	95,980
Other long-term liabilities		34,720	40		34,760
Due to Metaldyne		3,480			3,480
Total liabilities	438,290	578,820	80,070	(17,970 )	1,079,210
Total shareholders equity	349,300	757,450	133,230	(890,680 )	349,300
Total liabilities and shareholders equity	\$ 787,590	\$ 1,336,270	\$ 213,300	\$ (908,650 )	\$ 1,428,510

**Supplemental Guarantor  
Condensed Financial Statements  
Consolidating Statement of Operations  
(in thousands)**

	For the Three Months Ended March 31, 2006				Total
	Parent	Guarantor	Non-Guarantor	Eliminations	
Net sales	\$	\$ 244,220	\$ 44,240	\$ (13,180 )	\$ 275,280
Cost of sales		(179,940 )			