

TRINITY INDUSTRIES INC
Form 10-Q
May 01, 2013
Table of Contents

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, 2013
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 (I.R.S. Employer Identification No.)
Organization)

2525 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 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 April 15, 2013 the number of shares of common stock outstanding was 79,203,521.

Table of Contents

TRINITY INDUSTRIES, INC.
FORM 10-Q
TABLE OF CONTENTS

Caption	Page
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>41</u>
<u>Item 4. Controls and Procedures</u>	<u>41</u>
<u>PART II OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>42</u>
<u>Item 1A. Risk Factors</u>	<u>42</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>42</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>42</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>42</u>
<u>Item 5. Other Information</u>	<u>42</u>
<u>Item 6. Exhibits</u>	<u>43</u>
<u>SIGNATURES</u>	<u>44</u>
CERTIFICATIONS	

Table of Contents

PART I

Item 1. Financial Statements

Trinity Industries, Inc. and Subsidiaries

Consolidated Statements of Operations

(unaudited)

	Three Months Ended	
	March 31,	
	2013	2012
	(in millions, except per share amounts)	
Revenues:		
Manufacturing	\$798.5	\$754.1
Leasing	134.4	142.1
	932.9	896.2
Operating costs:		
Cost of revenues:		
Manufacturing	641.2	656.8
Leasing	69.9	73.4
	711.1	730.2
Selling, engineering, and administrative expenses:		
Manufacturing	42.7	33.3
Leasing	9.7	6.1
Other	16.6	11.3
	69.0	50.7
Gains (losses) on disposition of property, plant, and equipment:		
Net gains on railcar lease fleet sales	6.8	3.7
Other	(0.1)	) 3.7
	6.7	7.4
Total operating profit	159.5	122.7
Other (income) expense:		
Interest income	(0.4)	) (0.4)
Interest expense	49.2	47.9
Other, net	(2.7)	) (2.9)
	46.1	44.6
Income from continuing operations before income taxes	113.4	78.1
Provision for income taxes	41.2	25.7
Net income from continuing operations	72.2	52.4
Discontinued operations:		
Gain on sale of discontinued operations, net of provision for income taxes of \$5.4	7.0	—
Loss from discontinued operations, net of benefit for income taxes of \$(0.3) and \$(0.1)	(0.4)	) (0.1)
Net income	78.8	52.3
Net loss attributable to noncontrolling interest	(0.3)	) (0.6)
Net income attributable to Trinity Industries, Inc.	\$79.1	\$52.9
Net income attributable to Trinity Industries, Inc. per common share:		
Basic:		
Continuing operations	\$0.91	\$0.66
Discontinued operations	0.08	—

Edgar Filing: TRINITY INDUSTRIES INC - Form 10-Q

	\$0.99	\$0.66
Diluted:		
Continuing operations	\$0.91	\$0.66
Discontinued operations	0.08	—
	\$0.99	\$0.66
Weighted average number of shares outstanding:		
Basic	76.9	77.8
Diluted	77.0	78.1
Dividends declared per common share	\$0.11	\$0.09
See accompanying notes to consolidated financial statements.		

3

Table of Contents

Trinity Industries, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income
(unaudited)

	Three Months Ended	
	March 31,	
	2013	2012
	(in millions)	
Net income	\$78.8	\$52.3
Other comprehensive income (loss):		
Unrealized gain (loss) on derivative financial instruments:		
Unrealized gain (loss) arising during the period, net of tax expense of \$0.5 and \$1.1 (0.7		) 1.6
Reclassification adjustments for losses included in net income, net of tax expense	4.6	1.3
of \$2.8 and \$1.0		
Net actuarial gains (losses) of defined benefit plans:		
Amortization of net actuarial loss, net of tax expense of \$0.5 and \$0.3	0.7	0.6
	4.6	3.5
Comprehensive income	83.4	55.8
Less: comprehensive income (loss) attributable to noncontrolling interest	0.4	(0.1
Comprehensive income attributable to Trinity Industries, Inc.	\$83.0	\$55.9

See accompanying notes to consolidated financial statements.

Table of ContentsTrinity Industries, Inc. and Subsidiaries
Consolidated Balance Sheets

	March 31, 2013 (unaudited) (in millions)	December 31, 2012
ASSETS		
Cash and cash equivalents	\$360.5	\$573.0
Short-term marketable securities	59.9	—
Receivables, net of allowance	414.2	390.0
Inventories:		
Raw materials and supplies	417.1	405.3
Work in process	180.1	140.9
Finished goods	121.7	121.5
	718.9	667.7
Restricted cash, including partially-owned subsidiary of \$50.9 and \$50.3	215.3	223.2
Property, plant, and equipment, at cost, including partially-owned subsidiary of \$1,272.5 and \$1,272.4	5,854.6	5,642.0
Less accumulated depreciation, including partially-owned subsidiary of \$162.4 and \$153.8	(1,392.6	) (1,343.0
	4,462.0	4,299.0
Goodwill	244.5	240.4
Assets held for sale and discontinued operations	—	27.9
Other assets	248.4	248.7
	\$6,723.7	\$6,669.9
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$200.0	\$188.2
Accrued liabilities	606.8	583.1
Debt:		
Recourse, net of unamortized discount of \$84.2 and \$87.5	412.0	458.1
Non-recourse:		
Parent and wholly-owned subsidiaries	1,714.0	1,738.0
Partially-owned subsidiary	848.8	858.9
	2,974.8	3,055.0
Deferred income	43.5	44.5
Deferred income taxes	617.5	572.4
Liabilities held for sale and discontinued operations	—	3.7
Other liabilities	89.9	85.4
	4,532.5	4,532.3
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	661.7	652.6
Retained earnings	1,607.1	1,536.7
Accumulated other comprehensive loss	(148.7	) (150.1
Treasury stock	(63.3	) (67.9
	2,138.5	2,053.0
Noncontrolling interest	52.7	84.6
	2,191.2	2,137.6

\$6,723.7

\$6,669.9

See accompanying notes to consolidated financial statements.

5

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

	Three Months Ended	
	March 31,	2012
	2013	
	(in millions)	
Operating activities:		
Net income	\$78.8	\$52.3
Adjustments to reconcile net income to net cash provided by operating activities:		
(Income) loss from discontinued operations	(6.6)	) 0.1
Depreciation and amortization	50.0	47.6
Stock-based compensation expense	8.9	6.8
Excess tax benefits from stock-based compensation	(0.6)	) (0.3)
Provision for deferred income taxes	36.0	26.0
Net gains on sales of railcars owned more than one year at the time of sale	(6.8)	) (3.7)
Gains (losses) on disposition of property, plant, equipment, and other assets	0.1	(3.7)
Non-cash interest expense	8.1	7.3
Other	(2.4)	) (2.4)
Changes in assets and liabilities:		
(Increase) decrease in receivables	(22.9)	) 19.2
(Increase) decrease in inventories	(43.6)	) (46.4)
(Increase) decrease in other assets	(2.9)	) (5.6)
Increase (decrease) in accounts payable	10.9	13.6
Increase (decrease) in accrued liabilities	(8.2)	) (33.2)
Increase (decrease) in other liabilities	6.1	(5.8)
Net cash provided by operating activities - continuing operations	104.9	71.8
Net cash required by operating activities - discontinued operations	(3.1)	) (0.8)
Net cash provided by operating activities	101.8	71.0
Investing activities:		
(Increase) decrease in short-term marketable securities	(59.9)) —
Proceeds from sales of railcars owned more than one year at the time of sale	30.6	26.5
Proceeds from disposition of property, plant, equipment, and other assets	0.6	12.7
Capital expenditures – leasing, net of sold railcars owned one year or less	(166.8)	) (100.0)
Capital expenditures – manufacturing and other	(25.8)	) (14.0)
Acquisitions, net of cash acquired	(9.1)) —
Other	(0.8)) —
Net cash required by investing activities - continuing operations	(231.2)	) (74.8)
Net cash required by investing activities - discontinued operations	(0.4)	) (2.2)
Net cash required by investing activities	(231.6)	) (77.0)
Financing activities:		
Proceeds from issuance of common stock, net	1.4	0.7
Excess tax benefits from stock-based compensation	0.6	0.3
Payments to retire debt	(83.5)	) (52.4)
(Increase) decrease in restricted cash	7.9	16.3
Dividends paid to common shareholders	(8.7)	) (7.2)
Other	(0.1)) —
Net cash required by financing activities - continuing operations	(82.4)	) (42.3)
Net cash provided (required) by financing activities - discontinued operations	(0.3)	) 2.0

Edgar Filing: TRINITY INDUSTRIES INC - Form 10-Q

Net cash required by financing activities	(82.7	) (40.3)
Net decrease in cash and cash equivalents	(212.5	) (46.3)
Cash and cash equivalents at beginning of period	573.0	351.1	
Cash and cash equivalents at end of period	\$360.5	\$304.8	

See accompanying notes to consolidated financial statements.

6

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

	Common Stock	\$1 Par Value	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Shares	Amount	Trinity Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
(in millions, except par value)											
Balances at December 31, 2012	81.7	\$81.7	\$652.6	\$1,536.7	\$ (150.1)	(2.6)	—	\$(67.9)	\$ 2,053.0	\$ 84.6	\$ 2,137.6
Net income (loss)	—	—	—	79.1	—	—	—	—	79.1	(0.3)	78.8
Other comprehensive income	—	—	—	—	3.9	—	—	—	3.9	0.7	4.6
Cash dividends on common stock	—	—	—	(8.7)	—	—	—	—	(8.7)	—	(8.7)
Restricted shares, net	—	—	7.0	—	—	0.0	1.8	—	8.8	—	8.8
Stock options exercised	—	—	(1.4)	—	—	0.1	2.8	—	1.4	—	1.4
Excess tax benefits from stock-based compensation	—	—	0.6	—	—	—	—	—	0.6	—	0.6
Purchase of additional interest in partially-owned leasing subsidiary	—	—	2.9	—	(2.5)	—	—	—	0.4	(32.3)	(31.9)
Balances at March 31, 2013	81.7	\$81.7	\$661.7	\$1,607.1	\$ (148.7)	(2.5)	—	\$(63.3)	\$ 2,138.5	\$ 52.7	\$ 2,191.2

See accompanying notes to consolidated financial statements.

Table of Contents

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 subsidiary, TRIP Rail Holdings LLC (“TRIP Holdings”), 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 March 31, 2013, and the results of operations and cash flows for the three month periods ended March 31, 2013 and 2012, have been made in conformity with generally accepted accounting principles. All significant intercompany accounts and transactions have been eliminated. Certain amounts previously reported have been adjusted in the accompanying consolidated financial statements to remove the effects of discontinued operations. See Note 2 Acquisitions and Divestitures. Because of seasonal and other factors, the results of operations for the three month period ended March 31, 2013 may not be indicative of expected results of operations for the year ending December 31, 2013. 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, 2012.

Stockholders' Equity

In September 2012, the Company’s Board of Directors authorized a new \$200 million share repurchase program, effective October 1, 2012, which expires on December 31, 2014. No shares were repurchased under the 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 pre-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 by the lease fleet for one year or less at the time of sale. Sales of railcars from the lease fleet that have been owned by the lease fleet for more than one year are recognized as a net gain or loss from the disposal of a long-term asset. 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 it is not more likely than not that the Company will 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 collectability 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. At March 31, 2013, one customer's net receivable balance in our Energy Equipment Group, all within terms, accounted for 14% of the consolidated net receivables balance outstanding.

Table of Contents

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update No. 2013-02, "Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income," ("ASU 2013-02") which amended prior reporting requirements with respect to comprehensive income by requiring additional disclosures about the amounts reclassified out of accumulated other comprehensive loss by component. ASU 2013-02 became effective for public companies during interim and annual reporting periods beginning after December 15, 2012 with early adoption permitted. Accordingly, the Company adopted this new standard on January 1, 2013. The adoption of ASU 2013-02 did not have an impact on the Company's consolidated financial position, results of operations, or cash flows.

Reclassifications

Certain prior year balances have been reclassified in the Consolidated Statements of Operations, Consolidated Balance Sheets, and Consolidated Statements of Cash Flows to conform to the 2013 presentation.

Note 2. Acquisitions and Divestitures

For the three months ended March 31, 2013, the Company's acquisition and divestiture activity consisted of the sale of its remaining ready-mix concrete operations in exchange for certain aggregates operations in Texas, Colorado, and California. The aggregates operations acquired were recorded based on a preliminary valuation of the related assets and liabilities at their acquisition date fair value using level 3 inputs. Additionally, preliminary valuations of our acquisition completed in December 2012 are expected to be finalized in the next quarter. Such assets were not significant in relation to consolidated assets and liabilities. See Note 3 Fair Value for a discussion of inputs in determining fair value. This transaction, included in the Construction Products Group, is summarized below:

	Three Months Ended March 31,	
	2013	2012
	(in millions)	
Acquisition:		
Total cost	\$53.8	\$—
Net cash paid	\$9.1	\$—
Goodwill recorded	\$2.5	\$—
Divestiture:		
Proceeds	\$35.6	\$—
Gain recognized	\$12.4	\$—
Goodwill charged off	\$4.8	\$—

The divestiture of our ready-mix concrete operations has been accounted for and reported as a discontinued operation and, accordingly, historical amounts previously reported have been adjusted, where appropriate, to remove the effect of discontinued operations. Further, assets and liabilities related to the discontinued operations have been classified as Assets/Liabilities Held for Sale and Discontinued Operations in the accompanying consolidated balance sheets as follows:

	March 31,	December 31,
	2013	2012
	(in millions)	
Assets of Ready-Mix Concrete Operations:		

Edgar Filing: TRINITY INDUSTRIES INC - Form 10-Q

Inventories	\$—	\$4.5
Property, plant, and equipment, net	—	16.9
Goodwill	—	6.3
Other	—	0.2
	\$—	\$27.9
Liabilities of Ready-Mix Concrete Operations:		
Debt	\$—	\$3.7
	\$—	\$3.7

9

Table of Contents

Condensed results of operations for the ready-mix concrete operations for the three months ended March 31, 2013 and 2012 are as follows:

	Three Months Ended March 31,	
	2013	2012
	(in millions)	
Revenues	\$31.6	\$29.1
Loss from discontinued operations before income taxes	\$(0.7)	\$(0.2)
Income tax benefit	(0.3)	(0.1)
Net loss from discontinued operations	\$(0.4)	\$(0.1)

In April 2013, the Company completed the acquisition of a business with its principal operations in Mexico for approximately \$23.1 million plus the assumption of certain specific liabilities.

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, 2013 (in millions)			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$104.8	\$—	\$—	\$104.8
Restricted cash	215.3	—	—	215.3
Fuel derivative instruments ¹	—	0.1	—	0.1
Total assets	\$320.1	\$0.1	\$—	\$320.2
Liabilities:				
Interest rate hedges: ²				
Wholly-owned subsidiary	\$—	\$33.3	\$—	\$33.3
Partially-owned subsidiary	—	4.4	—	4.4
Total liabilities	\$—	\$37.7	\$—	\$37.7

	Fair Value Measurement as of December 31, 2012 (in millions)			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$246.6	\$155.0	\$—	\$401.6
Restricted cash	223.2	—	—	223.2
Equity call agreement with TRIP Holdings equity investor ¹	—	—	0.8	0.8
Fuel derivative instruments ¹	—	0.1	—	0.1
Total assets	\$469.8	\$155.1	\$0.8	\$625.7
Liabilities:				
Interest rate hedges: ²				
Wholly-owned subsidiary	\$—	\$37.6	\$—	\$37.6
Partially-owned subsidiary	—	5.2	—	5.2
Equity put agreement with TRIP Holdings equity investor ³	—	—	2.9	2.9
Fuel derivative instruments ²	—	0.0	—	0.0
Total liabilities	\$—	\$42.8	\$2.9	\$45.7

¹ Included in other assets on the consolidated balance sheet.

² Included in accrued liabilities on the consolidated balance sheet.

³ Included in other liabilities on the consolidated balance sheet.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market 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

Table of Contents

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. Cash equivalents include commercial paper valued using quoted prices in secondary markets. The Company’s fuel derivative instruments, which are commodity options, are valued using energy and commodity market data. Interest rate hedges are valued at exit prices obtained from each counterparty. See Note 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. The equity put and call agreements with the TRIP equity investor are valued based on cash flow projections and certain assumptions regarding the likelihood of exercising the option under the related agreement. See Note 6 Partially-Owned Leasing Subsidiary.

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

	March 31, 2013		December 31, 2012	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in millions)			
Recourse:				
Convertible subordinated notes	\$450.0	\$546.6	\$450.0	\$506.6
Less: unamortized discount	(84.2	)	(87.5)
	365.8		362.5	
Capital lease obligations	45.1	45.1	45.8	45.8
Term loan	—	—	48.6	53.3
Other	1.1	1.1	1.2	1.2
	412.0	592.8	458.1	606.9
Non-recourse:				
2006 secured railcar equipment notes	252.2	284.3	255.8	292.0
Promissory notes	418.2	409.3	424.1	414.6
2009 secured railcar equipment notes	206.7	253.3	209.2	260.4
2010 secured railcar equipment notes	337.9	376.9	341.5	387.2
2012 secured railcar equipment notes	331.1	326.1	333.8	321.7
TILC warehouse facility	167.9	167.9	173.6	173.6
TRIP Holdings senior secured notes	61.2	61.2	61.2	62.5
TRIP Master Funding secured railcar equipment notes	787.6	886.3	797.7	952.0
	2,562.8	2,765.3	2,596.9	2,864.0
Total	\$2,974.8	\$3,358.1	\$3,055.0	\$3,470.9

The estimated fair value of our convertible subordinated notes was based on a quoted market price in a market with relative inactivity as of March 31, 2013 and December 31, 2012, respectively (Level 2 input). The estimated fair values of our 2006, 2009, 2010, and 2012 secured railcar equipment notes, promissory notes, TRIP Holdings senior secured notes, TRIP Rail Master Funding LLC (“TRIP Master Funding”) secured railcar equipment notes, and term loan

are based on our estimate of their fair value as of March 31, 2013 and December 31, 2012, respectively. These values were determined by discounting their future cash flows at the current market interest rate (Level 3 inputs). The carrying value of our Trinity Industries Leasing Company (“TILC”) warehouse facility approximates fair value because the interest rate adjusts to the market interest rate and the Company’s credit rating has not changed since the loan agreement was renewed in February 2011 and extended in February 2013 (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.

Table of Contents

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 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, containers, and 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; other peripheral businesses; and the change in market valuation related to ineffective commodity hedges. Gains and losses from the sale of property, plant, and equipment 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.

As discussed in Note 2, Acquisitions and Divestitures, the Company sold its remaining ready-mix concrete operations that have historically been a component of the Construction Products Group. The divestiture of our ready-mix concrete operations has been accounted for and reported as a discontinued operation and, accordingly, historical segment information previously reported has been adjusted to exclude the discontinued operations from the Construction Products Group.

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

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, 2013

	Revenues External (in millions)	Intersegment	Total	Operating Profit (Loss)	
Rail Group	\$423.6	\$201.9	\$625.5	\$102.9	
Construction Products Group	98.0	5.8	103.8	7.7	
Inland Barge Group	147.4	—	147.4	24.3	
Energy Equipment Group	128.5	26.2	154.7	14.9	
Railcar Leasing and Management Services Group	134.4	—	134.4	61.6	
All Other	1.0	18.3	19.3	(2.6)
Corporate	—	—	—	(16.6)
Eliminations – Lease subsidiary	—	(198.0	) (198.0	) (32.4)
Eliminations – Other	—	(54.2	) (54.2	) (0.3)
Consolidated Total	\$932.9	\$—	\$932.9	\$159.5	

Three Months Ended March 31, 2012

Edgar Filing: TRINITY INDUSTRIES INC - Form 10-Q

	Revenues			Operating Profit (Loss)
	External (in millions)	Intersegment	Total	
Rail Group	\$341.2	\$125.9	\$467.1	\$40.1
Construction Products Group	120.5	5.4	125.9	11.1
Inland Barge Group	169.4	—	169.4	30.0
Energy Equipment Group	120.1	4.9	125.0	(3.8)
Railcar Leasing and Management Services Group	142.1	0.2	142.3	66.5
All Other	2.9	12.8	15.7	1.2
Corporate	—	—	—	(11.6)
Eliminations – Lease subsidiary	—	(122.6)	(122.6)	(10.9)
Eliminations – Other	—	(26.6)	(26.6)	0.1
Consolidated Total	\$896.2	\$—	\$896.2	\$122.7

12

Table of Contents

Note 5. Railcar Leasing and Management Services Group

The Railcar Leasing and Management Services Group owns and operates a fleet of railcars as well as provides third-party fleet management, maintenance, and leasing services. Selected consolidating financial information for the Leasing Group is as follows:

	March 31, 2013			
	Leasing Group			
	Wholly- Owned Subsidiaries (in millions)	Partially-Owned Subsidiary	Manufacturing/ Corporate	Total
Cash, cash equivalents, and short-term marketable securities	\$4.2	\$—	\$416.2	\$420.4
Property, plant, and equipment, net	\$3,348.8	\$1,110.1	\$590.5	\$5,049.4
Net deferred profit on railcars sold to the Leasing Group	(408.1	) (179.3	) —	(587.4
	\$2,940.7	\$930.8	\$590.5	\$4,462.0
Restricted cash	\$164.4	\$50.9	\$—	\$215.3
Debt:				
Recourse	\$45.1	\$—	\$451.1	\$496.2
Less: unamortized discount	—	—	(84.2	) (84.2
	45.1	—	366.9	412.0
Non-recourse	1,714.0	957.6	—	2,671.6
Less: non-recourse debt owned by Trinity	—	(108.8	) —	(108.8
Total debt	\$1,759.1	\$848.8	\$366.9	\$2,974.8
Net deferred tax liabilities	\$688.9	\$6.0	\$(95.1	) \$599.8
	December 31, 2012			
	Leasing Group			
	Wholly- Owned Subsidiaries (in millions)	Partially-Owned Subsidiary	Manufacturing/ Corporate	Total
Cash and cash equivalents	\$5.7	\$—	\$567.3	\$573.0
Property, plant, and equipment, net	\$3,203.8	\$1,118.6	\$539.3	\$4,861.7
Net deferred profit on railcars sold to the Leasing Group	(381.8	) (180.9	) —	(562.7
	\$2,822.0	\$937.7	\$539.3	\$4,299.0
Restricted cash	\$172.9	\$50.3	\$—	\$223.2
Debt:				
Recourse	\$94.4	\$—	\$451.2	\$545.6
Less: unamortized discount	—	—	(87.5	) (87.5
	94.4	—	363.7	458.1
Non-recourse	1,738.0	967.7	—	2,705.7
Less: non-recourse debt owned by Trinity	—	(108.8	) —	(108.8
Total debt	\$1,832.4	\$858.9	\$363.7	\$3,055.0
Net deferred tax liabilities	\$671.1	\$5.4	\$(120.7	) \$555.8

See Note 6 Partially-Owned Leasing Subsidiary and Note 11 Debt for a further discussion regarding the Company's investment in TRIP Holdings and TRIP Holdings' debt.

Table of Contents

	Three Months Ended March 31,		Percent	
	2013	2012	Change	
	(\$ in millions)			
Revenues:				
Wholly-owned subsidiaries:				
Leasing and management	\$104.8	\$98.3	6.6	%
Railcar sales	0.1	14.9	*	
	104.9	113.2	(7.3)
Partially-owned subsidiary:				
Leasing and management	29.5	29.1	1.4	
Railcar sales	—	—	—	
	29.5	29.1	1.4	
Total revenues	\$134.4	\$142.3	(5.6)
Operating profit (loss):				
Wholly-owned subsidiaries:				
Leasing and management	\$38.4	\$43.1		
Railcar sales:				
Railcars owned one year or less at the time of sale	0.0	2.9		
Railcars owned more than one year at the time of sale	6.9	4.1		
	45.3	50.1		
Partially-owned subsidiary:				
Leasing and management	16.4	16.8		
Railcar sales:				
Railcars owned one year or less at the time of sale	—	—		
Railcars owned more than one year at the time of sale	(0.1	) (0.4)	
	16.3	16.4		
Total operating profit	\$61.6	\$66.5	(7.4)
Operating profit margin:				
Leasing and management	40.8	% 47.0	%	
Railcar sales	*	*		
Total operating profit margin	45.8	46.7		
Selected expense information ⁽¹⁾ :				
Depreciation	\$31.0	\$29.3	5.8	
Maintenance	\$19.0	\$14.4	31.9	
Rent	\$13.4	\$12.7	5.5	
Interest:				
Wholly-owned subsidiaries	\$26.0	\$24.6		
Partially-owned subsidiary:				
External	14.9	15.2		
Intercompany	2.7	3.3		
	17.6	18.5		
Total interest expense	\$43.6	\$43.1	1.2	%
* Not meaningful				

(1) Depreciation, maintenance, and rent expense are components of operating profit. Interest expense is not a component of operating profit and includes the effect of hedges. Intercompany interest expense arises from Trinity's ownership of a portion of TRIP Holdings' Senior Secured Notes and is eliminated in consolidation. See Note 11 Debt.

Table of Contents

Equipment consists primarily of railcars leased by third parties. The Leasing Group purchases equipment manufactured predominantly by the Rail Group and enters into lease contracts with third parties with terms generally ranging between one and twenty years. The Leasing Group primarily enters into operating leases. Future contractual minimum rental revenues on leases are as follows:

	Remaining nine months of 2013 (in millions)	2014	2015	2016	2017	Thereafter	Total
Wholly-owned subsidiaries	\$228.6	\$252.7	\$207.1	\$160.7	\$116.5	\$246.1	\$1,211.7
Partially-owned subsidiary	74.4	77.4	64.5	53.1	38.8	48.8	357.0
	\$303.0	\$330.1	\$271.6	\$213.8	\$155.3	\$294.9	\$1,568.7

Debt. The Leasing Group's debt at March 31, 2013 consisted of both recourse and non-recourse debt. As of March 31, 2013, Trinity's wholly-owned subsidiaries included in the Leasing Group held equipment with a net book value of \$2,561.9 million that is pledged as collateral for Leasing Group debt held by those subsidiaries, including equipment with a net book value of \$49.2 million securing capital lease obligations. The net book value of unpledged equipment at March 31, 2013 was \$694.3 million. See Note 11 Debt for the form, maturities, and descriptions of Leasing Group debt.

TRIP Holdings. Debt owed by TRIP Holdings and its subsidiaries is nonrecourse to Trinity and TILC and is secured solely by the consolidated assets of TRIP Holdings and the equity interests of TRIP Holdings. In July 2011, TRIP Holdings and its newly-formed subsidiary, TRIP Master Funding, issued \$1,032.0 million in new debt and repaid all of the outstanding borrowings of the existing TRIP Warehouse Loan. TRIP Master Funding equipment with a net book value of \$1,110.1 million, excluding deferred profit resulting from the sale of railcars to TRIP Master Funding, is pledged as collateral for the TRIP Master Funding debt. See Note 6 Partially-Owned Leasing Subsidiary for a description of TRIP Holdings.

Off Balance Sheet Arrangements. In prior years, the Leasing Group completed a series of financing transactions whereby railcars were sold to one or more separate independent owner trusts ("Trusts"). Each of the Trusts financed the purchase of the railcars with a combination of debt and equity. In each transaction, the equity participant in the Trust is considered to be the primary beneficiary of the Trust and therefore, the debt related to the Trust is not included as part of the consolidated financial statements. The Leasing Group, through newly-formed, wholly-owned, qualified subsidiaries, leased railcars from the Trusts under operating leases with terms of 22 years, and subleased the railcars to independent third-party customers under shorter term operating rental agreements.

These Leasing Group subsidiaries had total assets as of March 31, 2013 of \$206.2 million, including cash of \$81.3 million and railcars of \$92.0 million. The right, title, and interest in each sublease, cash, and railcars are pledged to collateralize the lease obligations to the Trusts and are included in the consolidated financial statements of the Company. Trinity does not guarantee the performance of the subsidiaries' lease obligations. Certain ratios and cash deposits must be maintained by the Leasing Group's subsidiaries in order for excess cash flow, as defined in the agreements, from the lease to third parties to be available to Trinity. Future operating lease obligations of the Leasing Group's subsidiaries as well as future contractual minimum rental revenues related to these leases due to the Leasing Group are as follows:

	Remaining nine months of 2013 (in millions)	2014	2015	2016	2017	Thereafter	Total
	\$34.1	\$44.7	\$43.0	\$40.1	\$41.9	\$298.9	\$502.7

Future operating lease
obligations of Trusts'
railcars

Future contractual
minimum rental
revenues of Trusts'
railcars

\$44.5	\$46.2	\$36.0	\$26.1	\$17.0	\$34.7	\$204.5
--------	--------	--------	--------	--------	--------	---------

Table of Contents

Operating Lease Obligations. Future amounts due as well as future contractual minimum rental revenues related to operating leases other than leases with the Trusts are as follows:

	Remaining nine months of 2013 (in millions)	2014	2015	2016	2017	Thereafter	Total
Future operating lease obligations	\$9.7	\$12.8	\$12.8	\$12.7	\$12.1	\$50.3	\$110.4
Future contractual minimum rental revenues	\$12.4	\$16.0	\$12.3	\$11.4	\$8.8	\$14.2	\$75.1

Operating lease obligations totaling \$25.1 million are guaranteed by Trinity Industries, Inc. and certain subsidiaries. See Note 5 of the December 31, 2012 Consolidated Financial Statements filed on Form 10-K for a detailed explanation of these financing transactions.

Note 6. Partially-Owned Leasing Subsidiary

In 2007, the Company, through its wholly-owned subsidiary, and other third-party equity investors formed TRIP Holdings for the purpose of providing railcar leasing and management services in North America. TRIP Holdings, through its wholly-owned subsidiaries, purchased railcars from the Company's Rail and Leasing Groups funded by capital contributions from TRIP Holdings' equity investors and borrowings under the TRIP Holdings' credit facilities. As of March 31, 2013, TRIP Holdings' subsidiaries had purchased \$1,331.4 million of railcars from the Company. Railcars purchased from the Company by TRIP Holdings' subsidiaries are required to be purchased at prices comparable with the prices of all similar, new railcars sold contemporaneously by the Company and at prices based on third-party appraised values for used railcars. See Note 11 Debt regarding TRIP Holdings and its related debt. The assets of TRIP Holdings may only be used to satisfy the liabilities of TRIP Holdings, and the liabilities and indebtedness of TRIP Holdings have recourse only to TRIP Holdings' assets.

Effective March 2013, the Company purchased an additional 16% interest in TRIP Holdings from another equity investor for \$31.7 million resulting in a reduction in the carrying amount of noncontrolling interest by \$32.3 million. The transaction was cash settled in April 2013. Certain previous put/call agreements with the equity investor regarding their equity interest were terminated.

At March 31, 2013, the Company owned 73% of TRIP Holdings with the remainder owned by two third-party equity investors. The Company's noncontrolling interest represents the non-Trinity equity interest in TRIP Holdings. The Company receives distributions from TRIP Holdings as an equity investor, when allowed, in proportion to its 73% equity interest, and has an interest in the net assets of TRIP Holdings upon a liquidation event in the same proportion. The terms of the Company's equity investment are identical to the terms of each of the other equity investors. The manager of TRIP Holdings, TILC, may be removed without cause as a result of a majority vote of the third-party equity investors. Other than as described above, Trinity had no remaining equity commitment to TRIP Holdings as of March 31, 2013 and had no obligation to guarantee performance under any TRIP-related debt agreements, guarantee any railcar residual values, shield any parties from losses, or guarantee minimum yields.

The Company's carrying value of TILC's investment in TRIP Holdings, which is eliminated in consolidation, was \$128.3 million and \$95.6 million at March 31, 2013 and December 31, 2012, respectively.

Administrative fees paid to TILC by TRIP Holdings and subsidiaries for the three month periods ended March 31, 2013 and 2012 were \$1.3 million and \$1.3 million, respectively.

Table of Contents

Note 7. Derivative Instruments

We use derivative instruments to mitigate the impact of changes in interest rates, both in anticipation of future debt issuances and to offset interest rate variability of certain floating rate debt issuances outstanding. We also use derivative instruments to mitigate the impact of changes in natural gas and diesel fuel prices and changes in foreign currency exchange rates. Derivative instruments that are designated and qualify as cash flow hedges are accounted for in accordance with applicable accounting standards. See Note 3 Fair Value Accounting for discussion of how the Company valued its commodity hedges and interest rate swaps at March 31, 2013. See Note 11 Debt for a description of the Company's debt instruments.

Interest rate hedges

			Included in accompanying balance sheet at March 31, 2013		
	Notional Amount	Interest Rate ⁽¹⁾	Liability	AOCL – loss/ (income)	Noncontrolling Interest
	(in millions, except %)				
Expired hedges:					
2006 secured railcar equipment notes	\$200.0	4.87	% \$—	\$(1.9) \$—
Promissory notes	\$370.0	5.34	% \$—	\$6.4	\$—
TRIP Holdings warehouse loan	\$788.5	3.60	% \$—	\$24.1	\$8.7
Open hedges:					
TRIP Master Funding secured railcar equipment notes	\$75.6	2.62	% \$4.4	\$3.2	\$1.2
Promissory notes	\$435.7	4.13	% \$33.3	\$31.1	\$—
⁽¹⁾ Weighted average fixed interest rate					
			Effect on interest expense-increase/(decrease) Three Months Ended		
			March 31,		Expected effect
			2013	2012	during next twelve months ⁽¹⁾
			(in millions)		
Expired hedges:					
2006 secured railcar equipment notes			\$(0.1	) \$(0.1	) \$(0.3
Promissory notes			\$0.8	\$0.9	\$3.1
TRIP Holdings warehouse loan			\$2.0	\$1.5	\$5.3
Open hedges:					
TRIP Master Funding secured railcar equipment notes			\$0.5	\$0.5	\$1.7
Promissory notes			\$3.9	\$4.2	\$16.3

⁽¹⁾Based on the fair value of open hedges as of March 31, 2013

During 2005 and 2006, we entered into interest rate swap derivatives in anticipation of issuing our 2006 Secured Railcar Equipment Notes. These derivative instruments, with a notional amount of \$200.0 million, were settled in 2006 and fixed the interest rate on a portion of the related debt issuance. These derivative instrument transactions are being accounted for as cash flow hedges with changes in the fair value of the instruments of \$4.5 million in income recorded in AOCL through the date the related debt issuance closed in 2006. The balance is being amortized over the term of the related debt. The effect on interest expense is due to amortization of the AOCL balance.

During 2006 and 2007, we entered into interest rate swap derivatives in anticipation of issuing our Promissory Notes. These derivative instruments, with a notional amount of \$370.0 million, were settled in 2008 and fixed the interest rate on a portion of the related debt issuance. These derivative instrument transactions are being accounted for as cash flow hedges with changes in the fair value of the instruments of \$24.5 million recorded as a loss in AOCL through the date the related debt issuance closed in 2008. The balance is being amortized over the term of the related debt. The effect on interest expense is due to amortization of the AOCL balance.

In 2008, we entered into an interest rate swap derivative instrument, expiring in 2015, to fix the variable Libor component of the Promissory Notes. This derivative instrument transaction is being accounted for as a cash flow hedge. The effect on interest expense is primarily a result of monthly interest settlements.

Table of Contents

Between 2007 and 2009, TRIP Holdings, as required by the TRIP Warehouse Loan, entered into interest rate swap derivatives, all of which qualified as cash flow hedges, to reduce the effect of changes in variable interest rates in the TRIP Warehouse Loan. In July 2011, these interest rate hedges were terminated in connection with the refinancing of the TRIP Warehouse Loan. Balances included in AOCL at the date the hedges were terminated are being amortized over the expected life of the new debt with \$5.3 million of additional interest expense expected to be recognized during the twelve months following March 31, 2013. Also in July 2011, TRIP Holdings' wholly-owned subsidiary, TRIP Master Funding, entered into an interest rate swap derivative instrument, expiring in 2021, with an initial notional amount of \$94.1 million to reduce the effect of changes in variable interest rates associated with the Class A-1b notes of the TRIP Master Funding secured railcar equipment notes. The effect on interest expense is primarily a result of monthly interest settlements.

See Note 11 Debt regarding the related debt instruments.

Other Derivatives

	Effect on operating income - increase/(decrease)	
	Three Months Ended	
	March 31,	
	2013	2012
	(in millions)	
Fuel hedges ⁽¹⁾		
Effect of mark-to-market valuation	\$0.0	\$0.1
Settlements	0.0	0.1
	\$0.0	\$0.2
Foreign exchange hedges ⁽²⁾	\$—	\$(0.4)

⁽¹⁾ Included in cost of revenues in the accompanying consolidated statement of operations

⁽²⁾ Included in other, net in the accompanying consolidated statement of operations

Natural gas and diesel fuel

We maintain a program to mitigate the impact of fluctuations in the price of natural gas and diesel fuel purchases. The intent of the program is to protect our operating profit from adverse price changes by entering into derivative instruments. For those instruments that do not qualify for hedge accounting treatment, any changes in their valuation are recorded directly to the consolidated statement of operations. The amount recorded in the consolidated balance sheet as of March 31, 2013 for these instruments was not significant.

Foreign exchange hedge

We enter into foreign exchange hedges to mitigate the impact on operating profit of unfavorable fluctuations in foreign currency exchange rates. These instruments are short term with quarterly maturities and no remaining balance in AOCL as of March 31, 2013.

Table of Contents

Note 8. Property, Plant, and Equipment

The following table summarizes the components of property, plant, and equipment as of March 31, 2013 and December 31, 2012.

	March 31, 2013	December 31, 2012 (as reported)
	(in millions)	
Manufacturing/Corporate:		
Land	\$40.8	\$37.7
Buildings and improvements	436.5	431.0
Machinery and other	803.9	745.3
Construction in progress	47.4	46.1
	1,328.6	1,260.1
Less accumulated depreciation	(738.1)	(720.8)
	590.5	539.3
Leasing:		
Wholly-owned subsidiaries:		
Machinery and other	9.7	9.6
Equipment on lease	3,831.2	3,662.6
	3,840.9	3,672.2
Less accumulated depreciation	(492.1)	(468.4)
	3,348.8	3,203.8
Partially-owned subsidiary:		
Equipment on lease	1,272.5	1,272.4
Less accumulated depreciation	(162.4)	(153.8)
	1,110.1	1,118.6
Net deferred profit on railcars sold to the Leasing Group		
Sold to wholly-owned subsidiaries	(408.1)	(381.8)
Sold to partially-owned subsidiary	(179.3)	(180.9)
	\$4,462.0	\$4,299.0

Note 9. Goodwill

Goodwill by segment is as follows:

	March 31, 2013	December 31, 2012 (as reported)
	(in millions)	
Rail Group	\$122.5	\$122.5
Construction Products Group	109.3	105.2
Energy Equipment Group	10.9	10.9
Railcar Leasing and Management Services Group	1.8	1.8
	\$244.5	\$240.4

The net increase in the Construction Products Group goodwill as of March 31, 2013 is primarily due to acquisition and divestiture activity during the three months ended March 31, 2013. See Note 2 Acquisitions and Divestitures.

Table of Contents

Note 10. Warranties

The changes in the accruals for warranties for the three month periods ended March 31, 2013 and 2012 are as follows:

	Three Months Ended March 31,	
	2013	2012
	(in millions)	
Beginning balance	\$12.5	\$13.5
Warranty costs incurred	(1.5	) (2.4
Warranty originations and revisions	2.6	3.8
Warranty expirations	(1.0	) (0.4
Ending balance	\$12.6	\$14.5

Note 11. Debt

The following table summarizes the components of debt as of March 31, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
	(as reported)	
	(in millions)	
Manufacturing/Corporate – Recourse:		
Revolving credit facility	\$—	\$—
Convertible subordinated notes	450.0	450.0
Less: unamortized discount	(84.2	) (87.5
	365.8	362.5
Other	1.1	1.2
	366.9	363.7
Leasing – Recourse:		
Capital lease obligations	45.1	45.8
Term loan	—	48.6
	45.1	94.4
Total recourse debt	412.0	458.1
Leasing – Non-recourse:		
2006 secured railcar equipment notes	252.2	255.8
Promissory notes	418.2	424.1
2009 secured railcar equipment notes	206.7	209.2
2010 secured railcar equipment notes	337.9	341.5
2012 secured railcar equipment notes	331.1	333.8
TILC warehouse facility	167.9	173.6
TRIP Holdings senior secured notes:		
Total outstanding	170.0	170.0
Less: owned by Trinity	(108.8	) (108.8
	61.2	61.2
TRIP Master Funding secured railcar equipment notes	787.6	797.7
Total non–recourse debt	2,562.8	2,596.9
Total debt	\$2,974.8	\$3,055.0

We have a \$425.0 million unsecured revolving credit facility that matures on October 20, 2016. As of March 31, 2013, we had letters of credit issued under our revolving credit facility in an aggregate principal amount of \$70.1 million, leaving \$354.9 million available for borrowing. Other than these letters of credit, there were no borrowings under our revolving credit facility as of March 31, 2013, or for the three month period then ended. Of the outstanding letters of credit as of March 31, 2013, a total of \$1.7 million is expected to expire in 2013 and the remainder in 2014. The majority of our letters of credit obligations support the Company's various insurance programs and generally renew each year. Trinity's revolving credit facility requires the maintenance of ratios related to minimum interest coverage for the leasing and manufacturing operations and maximum leverage. Borrowings under the credit facility bear interest at Libor plus 1.50% or prime plus 0.50%. As of March 31, 2013, we were in compliance with all such financial covenants.

Table of Contents

The Company's 3 7/8% convertible subordinated notes are recorded net of unamortized discount to reflect their underlying economics by capturing the value of the conversion option as borrowing costs. As of March 31, 2013 and December 31, 2012, capital in excess of par value included \$92.8 million related to the estimated value of the Convertible Subordinated Notes' conversion options, in accordance with ASC 470-20. Debt discount recorded in the consolidated balance sheet is being amortized through June 1, 2018 to yield an effective annual interest rate of 8.42% based upon the estimated market interest rate for comparable non-convertible debt as of the issuance date of the Convertible Subordinated Notes. Total interest expense recognized on the Convertible Subordinated Notes for the three months ended March 31, 2013 and 2012 is as follows:

	Three Months Ended March 31,	
	2013	2012
	(in millions)	
Coupon rate interest	\$4.4	\$4.4
Amortized debt discount	3.3	3.0
	\$7.7	\$7.4

At March 31, 2013, the Convertible Subordinated Notes were convertible at a price of \$51.04 per share resulting in 8,816,614 issuable shares. As of March 31, 2013, if the Convertible Subordinated Notes had been converted, no shares would have been issued since the trading price of the Company's common stock was below the conversion price of the Convertible Subordinated Notes. The Company has not entered into any derivatives transactions associated with these notes.

The \$475.0 million TILC warehouse loan facility, established to finance railcars owned by TILC, had \$167.9 million outstanding and \$307.1 million available as of March 31, 2013. The warehouse loan is a non-recourse obligation secured by a portfolio of railcars and operating leases, certain cash reserves, and other assets acquired and owned by the warehouse loan facility. The principal and interest of this i