

TRINITY INDUSTRIES INC

Form 10-Q

July 29, 2010

**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 JUNE 30, 2010**  
**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**  
**Commission File Number 1-6903**  
**Trinity Industries, Inc.**  
(Exact name of registrant as specified in its charter)

**Delaware**  
(State of Incorporation)

**75-0225040**  
(I.R.S. Employer Identification No.)

**2525 Stemmons Freeway**  
**Dallas, Texas**  
(Address of principal executive offices)

**75207-2401**  
(Zip Code)

Registrant's telephone number, including area code **(214) 631-4420**

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 and (2) has been subject to such filing requirements for the past 90 days. Yes  No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

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

(Do not check if a smaller reporting company)

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

At July 23, 2010 there were 79,747,430 shares of the Registrant's common stock outstanding.



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

| <b>Caption</b>   | <b>Page</b> |
|--|-------------|
| <b><u>PART I FINANCIAL INFORMATION</u></b>   |             |
| <u>Item 1. Financial Statements</u>  | 2           |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 27          |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>                            | 36          |
| <u>Item 4. Controls and Procedures</u>   | 36          |
| <b><u>PART II OTHER INFORMATION</u></b>  |             |
| <u>Item 1. Legal Proceedings</u>   | 37          |
| <u>Item 1A. Risk Factors</u>   | 37          |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 37          |
| <u>Item 3. Defaults Upon Senior Securities</u>   | 37          |
| <u>Item 5. Other Information</u>   | 37          |
| <u>Item 6. Exhibits</u>  | 38          |
| <b><u>SIGNATURES</u></b>   | 39          |
| <u>EX-4.1</u>  |             |
| <u>EX-31.1</u>   |             |
| <u>EX-31.2</u>   |             |
| <u>EX-32.1</u>   |             |
| <u>EX-32.2</u>   |             |
| <u>EX-101 INSTANCE DOCUMENT</u>  |             |
| <u>EX-101 SCHEMA DOCUMENT</u>  |             |
| <u>EX-101 CALCULATION LINKBASE DOCUMENT</u>  |             |
| <u>EX-101 LABELS LINKBASE DOCUMENT</u>   |             |
| <u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>   |             |
| <u>EX-101 DEFINITION LINKBASE DOCUMENT</u>   |             |

**CERTIFICATIONS**

Due to the adoption of an accounting pronouncement which became effective January 1, 2010, the Consolidated Balance Sheet as of June 30, 2010, the Consolidated Statements of Operations for the three and six months ended June 30, 2010, and the Consolidated Statement of Cash Flows for the six months ended June 30, 2010, include the financial position and results of operations of TRIP Rail Holdings LLC and its subsidiary. See Notes 1 and 6 to the Consolidated Financial Statements for an explanation of the effect of this pronouncement.

Table of Contents**PART I****Item 1. Financial Statements****Trinity Industries, Inc. and Subsidiaries  
Consolidated Statements of Operations  
(unaudited)**

|  | <b>Three Months<br/>Ended<br/>June 30,</b>     |             | <b>Six Months Ended<br/>June 30,</b> |             |
|--|--|-------------|--------------------------------------|-------------|
|  | <b>2010</b>                                    | <b>2009</b> | <b>2010</b>                          | <b>2009</b> |
|  | <b>(in millions, except per share amounts)</b> |             |                                      |             |
| Revenues:  |  |             |                                      |             |
| Manufacturing  | \$ <b>423.5</b>                                | \$ 582.6    | \$ <b>756.3</b>                      | \$ 1,153.7  |
| Leasing  | <b>119.6</b>                                   | 133.5       | <b>240.8</b>                         | 355.9       |
|  | <b>543.1</b>                                   | 716.1       | <b>997.1</b>                         | 1,509.6     |
| Operating costs:   |  |             |                                      |             |
| Cost of revenues:  |  |             |                                      |             |
| Manufacturing  | <b>350.7</b>                                   | 478.2       | <b>631.6</b>                         | 961.5       |
| Leasing  | <b>65.9</b>                                    | 95.8        | <b>134.5</b>                         | 261.3       |
| Other  | <b>2.1</b>                                     | 10.1        | <b>6.2</b>                           | 20.0        |
|  | <b>418.7</b>                                   | 584.1       | <b>772.3</b>                         | 1,242.8     |
| Selling, engineering, and administrative expenses:           |  |             |                                      |             |
| Manufacturing  | <b>34.4</b>                                    | 36.8        | <b>65.9</b>                          | 73.9        |
| Leasing  | <b>4.5</b>                                     | 2.5         | <b>8.9</b>                           | 6.7         |
| Other  | <b>6.6</b>                                     | 8.0         | <b>19.1</b>                          | 15.6        |
|  | <b>45.5</b>                                    | 47.3        | <b>93.9</b>                          | 96.2        |
| Goodwill impairment  |  | 325.0       |                                      | 325.0       |
| Total operating profit (loss)                                | <b>78.9</b>                                    | (240.3)     | <b>130.9</b>                         | (154.4)     |
| Other (income) expense:                                      |  |             |                                      |             |
| Interest income  | <b>(0.3)</b>                                   | (0.3)       | <b>(0.7)</b>                         | (0.6)       |
| Interest expense   | <b>45.3</b>                                    | 28.8        | <b>91.0</b>                          | 57.8        |
| Other, net   | <b>(0.9)</b>                                   | (2.5)       | <b>0.9</b>                           | (0.5)       |
|  | <b>44.1</b>                                    | 26.0        | <b>91.2</b>                          | 56.7        |
| Income (loss) from continuing operations before income taxes | <b>34.8</b>                                    | (266.3)     | <b>39.7</b>                          | (211.1)     |
| Provision (benefit) for income taxes                         | <b>13.7</b>                                    | (56.9)      | <b>14.3</b>                          | (35.7)      |
| Income (loss) from continuing operations                     | <b>21.1</b>                                    | (209.4)     | <b>25.4</b>                          | (175.4)     |
| Discontinued operations:                                     |  |             |                                      |             |

Edgar Filing: TRINITY INDUSTRIES INC - Form 10-Q

|  |                |            |                |            |
|--|----------------|------------|----------------|------------|
| Loss from discontinued operations  | <b>(0.0)</b>   | (0.0)      | <b>(0.0)</b>   | (0.1)      |
| Net income (loss)  | <b>21.1</b>    | (209.4)    | <b>25.4</b>    | (175.5)    |
| Net income attributable to noncontrolling interest                           | <b>2.7</b>     |            | <b>5.0</b>     |            |
| Net income (loss) attributable to Trinity Industries, Inc.                   | <b>\$ 18.4</b> | \$ (209.4) | <b>\$ 20.4</b> | \$ (175.5) |
| Net income (loss) attributable to Trinity Industries, Inc. per common share: |                |            |                |            |
| Basic:   |                |            |                |            |
| Continuing operations  | <b>\$ 0.23</b> | \$ (2.75)  | <b>\$ 0.26</b> | \$ (2.30)  |
| Discontinued operations  | <b>(0.00)</b>  | (0.00)     | <b>(0.00)</b>  | (0.00)     |
|  | <b>\$ 0.23</b> | \$ (2.75)  | <b>\$ 0.26</b> | \$ (2.30)  |
| Diluted:   |                |            |                |            |
| Continuing operations  | <b>\$ 0.23</b> | \$ (2.75)  | <b>\$ 0.26</b> | \$ (2.30)  |
| Discontinued operations  | <b>(0.00)</b>  | (0.00)     | <b>(0.00)</b>  | (0.00)     |
|  | <b>\$ 0.23</b> | \$ (2.75)  | <b>\$ 0.26</b> | \$ (2.30)  |
| Weighted average number of shares outstanding:                               |                |            |                |            |
| Basic  | <b>76.7</b>    | 76.2       | <b>76.6</b>    | 76.4       |
| Diluted  | <b>76.9</b>    | 76.2       | <b>76.7</b>    | 76.4       |
| Dividends declared per common share  | <b>\$ 0.08</b> | \$ 0.08    | <b>\$ 0.16</b> | \$ 0.16    |
| See accompanying notes to consolidated financial statements.                 |                |            |                |            |

**Table of Contents****Trinity Industries, Inc. and Subsidiaries  
Consolidated Balance Sheets**

|  | <b>June 30,<br/>2010<br/>(unaudited)</b> | <b>December<br/>31,<br/>2009</b> |
|--|--|----------------------------------|
|  | <b>(in millions)</b>                     |                                  |
| <b>Assets</b>  |  |                                  |
| Cash and cash equivalents  | <b>\$ 210.3</b>                          | \$ 611.8                         |
| Short-term marketable securities   | <b>225.0</b>                             | 70.0                             |
| Receivables, net of allowance  | <b>245.6</b>                             | 159.8                            |
| Income tax receivable  | <b>12.4</b>                              | 11.2                             |
| Inventories:   |  |                                  |
| Raw materials and supplies   | <b>156.0</b>                             | 97.1                             |
| Work in process  | <b>56.2</b>                              | 46.5                             |
| Finished goods   | <b>86.9</b>                              | 87.9                             |
|  | <b>299.1</b>                             | 231.5                            |
| Property, plant, and equipment, at cost, including TRIP Holdings of \$1,082.5 at June 30, 2010 | <b>5,166.6</b>                           | 3,973.3                          |
| Less accumulated depreciation, including TRIP Holdings of \$72.9 at June 30, 2010              | <b>(1,073.3)</b>                         | (935.1)                          |
|  | <b>4,093.3</b>                           | 3,038.2                          |
| Goodwill   | <b>211.4</b>                             | 180.8                            |
| Restricted cash, including TRIP Holdings of \$50.2 at June 30, 2010                            | <b>189.4</b>                             | 138.6                            |
| Other assets   | <b>168.3</b>                             | 214.5                            |
|  | <b>\$ 5,654.8</b>                        | \$ 4,656.4                       |
| <b>Liabilities and Stockholders Equity</b>   |  |                                  |
| Accounts payable   | <b>\$ 118.9</b>                          | \$ 76.8                          |
| Accrued liabilities  | <b>415.6</b>                             | 374.5                            |
| Debt:  |  |                                  |
| Recourse, net of unamortized discount of \$116.5 and \$121.6                                   | <b>648.4</b>                             | 646.0                            |
| Non-recourse:  |  |                                  |

Edgar Filing: TRINITY INDUSTRIES INC - Form 10-Q

|  |                   |            |
|--|-------------------|------------|
| Parent and wholly owned subsidiaries               | <b>1,169.7</b>    | 1,199.1    |
| TRIP Holdings                                      | <b>1,033.9</b>    |            |
|  | <b>2,852.0</b>    | 1,845.1    |
| Deferred income                                    | <b>34.8</b>       | 77.7       |
| Deferred income taxes                              | <b>332.9</b>      | 397.9      |
| Other liabilities                                  | <b>79.2</b>       | 78.1       |
|  | <b>3,833.4</b>    | 2,850.1    |
| Stockholders' equity:                              |                   |            |
| Preferred stock 1.5 shares authorized and unissued |                   |            |
| Common stock 200.0 shares authorized               | <b>81.7</b>       | 81.7       |
| Capital in excess of par value                     | <b>589.4</b>      | 598.4      |
| Retained earnings                                  | <b>1,166.2</b>    | 1,263.9    |
| Accumulated other comprehensive loss               | <b>(112.8)</b>    | (98.0)     |
| Treasury stock                                     | <b>(28.0)</b>     | (39.7)     |
|  | <b>1,696.5</b>    | 1,806.3    |
| Noncontrolling interest                            | <b>124.9</b>      |            |
|  | <b>1,821.4</b>    | 1,806.3    |
|  | <b>\$ 5,654.8</b> | \$ 4,656.4 |

See accompanying notes to consolidated financial statements.



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

|  | <b>Six Months Ended<br/>June 30,<br/>2010          2009<br/>(in millions)</b> |            |
|--|---|------------|
| Operating activities:  |   |            |
| Net income (loss)  | <b>\$ 25.4</b>  | \$ (175.5) |
| Adjustments to reconcile net income (loss) to net cash (required) provided by continuing operating activities: |   |            |
| Loss from discontinued operations  |   | 0.1        |
| Goodwill impairment  |   | 325.0      |
| Depreciation and amortization  | <b>96.0</b>   | 80.7       |
| Stock-based compensation expense   | <b>7.0</b>  | 7.5        |
| Excess tax benefits from stock-base compensation   | <b>0.1</b>  |            |
| Provision (benefit) for deferred income taxes  | <b>15.6</b>   | (47.5)     |
| Gain on disposition of railcars from our lease fleet   | <b>(2.2)</b>  | (20.3)     |
| Gain on disposition of property, plant, equipment, and other assets  | <b>(3.3)</b>  | (4.6)      |
| Other  | <b>1.6</b>  | 5.3        |
| Changes in assets and liabilities:   |   |            |
| (Increase) decrease in receivables   | <b>(75.7)</b>   | 36.1       |
| (Increase) decrease in income tax receivable   | <b>(1.2)</b>  | 80.6       |
| (Increase) decrease in inventories   | <b>(53.9)</b>   | 242.3      |
| (Increase) decrease in restricted cash   | <b>(7.7)</b>  | (1.0)      |
| (Increase) decrease in other assets  | <b>17.5</b>   | (19.5)     |
| Increase (decrease) in accounts payable  | <b>39.5</b>   | (106.2)    |
| Increase (decrease) in accrued liabilities   | <b>(48.2)</b>   | (56.7)     |
| Increase (decrease) in other liabilities   | <b>(12.4)</b>   | 0.7        |
| Net cash (required) provided by operating activities   | <b>(1.9)</b>  | 347.0      |
| Investing activities:  |   |            |
| Investment in short-term marketable securities   | <b>(155.0)</b>  |            |
| Proceeds from sales of railcars from our lease fleet   | <b>12.5</b>   | 190.3      |
| Proceeds from sales of railcars from our lease fleet sale and leaseback  |   | 60.9       |
| Proceeds from disposition of property, plant, equipment, and other assets                                      | <b>4.0</b>  | 10.0       |
| Capital expenditures leasing   | <b>(103.0)</b>  | (243.8)    |
| Capital expenditures manufacturing and other   | <b>(15.3)</b>   | (31.6)     |
| Acquisitions, net of cash acquired   | <b>(46.9)</b>   |            |
| Net cash required by investing activities  | <b>(303.7)</b>  | (14.2)     |
| Financing activities:  |   |            |
| Proceeds from issuance of common stock, net  | <b>1.1</b>  |            |
| Excess tax benefits from stock-base compensation   | <b>(0.1)</b>  |            |

Edgar Filing: TRINITY INDUSTRIES INC - Form 10-Q

|  |                 |          |
|--|-----------------|----------|
| Payments to retire debt assumed debt of Quixote      | <b>(40.0)</b>   |          |
| Payments to retire debt other                        | <b>(44.2)</b>   | (96.1)   |
| Proceeds from issuance of debt                       |                 | 61.4     |
| Stock repurchases                                    |                 | (6.3)    |
| Dividends paid to common shareholders                | <b>(12.7)</b>   | (12.7)   |
| Net cash required by financing activities            | <b>(95.9)</b>   | (53.7)   |
| Net (decrease) increase in cash and cash equivalents | <b>(401.5)</b>  | 279.1    |
| Cash and cash equivalents at beginning of period     | <b>611.8</b>    | 161.8    |
| Cash and cash equivalents at end of period           | <b>\$ 210.3</b> | \$ 440.9 |

Noncash investing and financing activity:

During the six months ended June 30, 2009, the Company acquired \$39.0 million of equipment on lease through the assumption of capital lease obligations.

See accompanying notes to consolidated financial statements.

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

|  | Common<br>Stock<br>Shares | Amount  | Capital<br>in<br>Excess<br>of<br>Par<br>Value | Accumulated          |                                |       | Treasury<br>Stock<br>Shares | Amount     | Trinity<br>Stockholders'<br>Equity | Noncontrol-<br>ling<br>Interest | Total<br>Stockholders'<br>Equity |
|--|---------------------------|---------|---|----------------------|--------------------------------|-------|-----------------------------|------------|------------------------------------|---------------------------------|----------------------------------|
|  |                           |         |   | Retained<br>Earnings | Other<br>Comprehensive<br>Loss | Loss  |                             |            |                                    |                                 |                                  |
| Balances at<br>December 31,<br>2009  | 81.7                      | \$ 81.7 | \$ 598.4                                      | \$ 1,263.9           | \$ (98.0)                      | (2.5) | \$ (39.7)                   | \$ 1,806.3 | \$                                 | \$ 1,806.3                      |                                  |
| Cumulative effect<br>of consolidating<br>TRIP Holdings<br>(see Notes 1 and<br>6)         |                           |         |   | (105.4)              |                                |       |                             | (105.4)    | 129.9                              | 24.5                            |                                  |
| Balances at<br>December 31,<br>2009 as adjusted  | 81.7                      | 81.7    | 598.4   | 1,158.5              | (98.0)                         | (2.5) | (39.7)                      | 1,700.9    | 129.9                              | 1,830.8                         |                                  |
| Net income   |                           |         |   | 20.4                 |                                |       |                             | 20.4       | 5.0                                | 25.4                            |                                  |
| Other<br>comprehensive<br>income (loss):   |                           |         |   |                      |                                |       |                             |            |                                    |                                 |                                  |
| Change in<br>unrealized loss on<br>derivative<br>financial<br>instruments, net<br>of tax |                           |         |   |                      | (15.9)                         |       |                             | (15.9)     | (10.0)                             | (25.9)                          |                                  |
| Other changes,<br>net of tax   |                           |         |   |                      | 1.1                            |       |                             | 1.1        |                                    | 1.1                             |                                  |
| Comprehensive<br>net income (loss)   |                           |         |   |                      |                                |       |                             | 5.6        | (5.0)                              | 0.6                             |                                  |
| Cash dividends on<br>common stock  |                           |         |   | (12.7)               |                                |       |                             | (12.7)     |                                    | (12.7)                          |                                  |
| Restricted shares<br>issued, net   |                           |         | (7.6)   |                      |                                | 0.5   | 10.1                        | 2.5        |                                    | 2.5                             |                                  |
| Stock options<br>exercised   |                           |         | (0.5)   |                      |                                | 0.1   | 1.6                         | 1.1        |                                    | 1.1                             |                                  |
| Stock-based<br>compensation<br>expense   |                           |         | (0.9)   |                      |                                |       |                             | (0.9)      |                                    | (0.9)                           |                                  |

Balances at  
June 30, 2010      **81.7**   **\$ 81.7**   **\$ 589.4**   **\$ 1,166.2**   **\$ (112.8)**   **(1.9)**   **\$ (28.0)**   **\$ 1,696.5**   **\$ 124.9**   **\$ 1,821.4**

See accompanying notes to consolidated financial statements.

5

---

**Table of Contents****Trinity Industries, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(unaudited)****Note 1. Summary of Significant Accounting Policies****Basis of Presentation**

The foregoing consolidated financial statements are unaudited and have been prepared from the books and records of Trinity Industries, Inc. and its subsidiaries and variable interest entities for which it is the primary beneficiary ( Trinity , Company , we , or our ). In our opinion, all normal and recurring adjustments necessary for a fair presentation of the financial position of the Company as of June 30, 2010, the results of operations for the three and six month periods ended June 30, 2010 and 2009, and cash flows for the six month periods ended June 30, 2010 and 2009 have been made in conformity with generally accepted accounting principles. Because of seasonal and other factors, the results of operations for the six month period ended June 30, 2010 may not be indicative of expected results of operations for the year ending December 31, 2010. 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, 2009. Certain prior year balances have been reclassified in the consolidated financial statements to conform to the 2010 presentations.

On January 1, 2010, the Company adopted the provisions of a new accounting standard requiring the inclusion of the consolidated financial statements of TRIP Rail Holdings LLC ( TRIP Holdings ) and subsidiary in the consolidated financial statements of the Company as of January 1, 2010. Prior to January 1, 2010, the Company s investment in TRIP Holdings was accounted for using the equity method. Accordingly, the consolidated balance sheet of the Company as of June 30, 2010, the consolidated statements of operations for the three and six months ended June 30, 2010, and the consolidated statements of cash flows and stockholders equity for the six months ended June 30, 2010 include the accounts of TRIP Holdings and all majority owned subsidiaries. Prior periods were not restated. As a result of adopting this pronouncement, we determined the effects on Trinity s consolidated financial statements as if TRIP Holdings had been included in the Company s consolidated financial statements from TRIP Holdings inception and recorded a charge to retained earnings of \$105.4 million, net of \$57.7 million of tax benefit, and a noncontrolling interest of \$129.9 million as of January 1, 2010. All significant intercompany accounts and transactions have been eliminated including the deferral of profits on sales of railcars from the Rail or Leasing Group to TRIP Holdings. These deferred profits will be amortized over the life of the related equipment. Additionally, any future profits on the sale of railcars to TRIP Holdings will be deferred and amortized over the life of the related equipment. The noncontrolling interest represents the non-Trinity equity interest in TRIP Holdings. See Note 6 Investment in TRIP Holdings for further discussion.

**Stockholders Equity**

On December 8, 2009, the Company s Board of Directors authorized an extension of its stock repurchase program. This extension allows for the repurchase of the Company s common stock through December 31, 2010. The repurchase program commenced in 2007 when \$200 million of shares were authorized for repurchase. No shares were repurchased under this program for the three and six months ended June 30, 2010. Since the inception of this program through June 30, 2010, the Company has repurchased a total of 3,532,728 shares at a cost of approximately \$67.5 million.

**Recent Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board ( FASB ) issued a new accounting standard (Accounting Standards Codification Subtopic 810-10) that amends the previous accounting rules for consolidation of variable interest entities. The new standard replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly affect its economic performance and the obligation to absorb losses of the entity or the right to receive benefits from the entity. Additionally, the new standard provides more timely and useful information about an enterprise s involvement with a variable interest entity. This standard was effective for annual reporting periods beginning after November 15, 2009. Accordingly, the Company adopted this new standard on January 1, 2010. See Note 6 Investment in TRIP Holdings

for a further explanation of the effects of implementing this pronouncement as it applies to our investment in TRIP Holdings.

**Note 2. Acquisitions**

In February 2010, pursuant to a tender offer, the Company acquired the outstanding stock of Quixote Corporation ( Quixote ) at a total cost of \$58.1 million, including \$17.1 million in cash balances and \$1.1 million consisting of the Company's pre-acquisition investment in Quixote. In addition, the Company assumed \$40.0 million in debt that was subsequently retired in the first quarter of 2010. Quixote is a leading manufacturer of energy-absorbing highway crash

**Table of Contents**

cushions, truck-mounted attenuators, and other transportation products. In connection with the acquisition, Trinity recorded goodwill of \$22.0 million based on its preliminary valuation of the net assets acquired. As a result of the acquisition, the Company recorded transaction-related expenses of \$4.6 million including a \$1.5 million write-down of its pre-acquisition investment in Quixote classified as other selling, engineering, and administrative costs. In addition to the transaction-related expenses listed above, there was a \$1.8 million reclassification of previously-recognized charges from Accumulated Other Comprehensive Loss ( AOCL ) to earnings representing the decline in fair value of the Company's pre-acquisition investment in Quixote, included in other, net in the consolidated statement of operations. See Note 12 Other, Net and Note 15 Accumulated Other Comprehensive Loss.

During the second quarter of 2010, we acquired, at a cost of \$7.4 million, a business included in our Energy Equipment Group which manufactures and sells electrical transmission and distribution structures, resulting in an increase in goodwill of \$6.6 million. The cost of the acquisition consisted of \$5 million cash with the remainder consisting of liabilities arising from the acquisition.

During the second quarter, the Company paid \$2 million in additional purchase price for the 2007 acquisition of Armor Materials pursuant to an earn-out provision in the purchase agreement.

**Note 3. Fair Value Accounting**

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

|  | Fair Value Measurement as of June 30, 2010 |          |         |          |
|--|--|----------|---------|----------|
|  | (in millions)                              |          |         |          |
|  | Level 1                                    | Level 2  | Level 3 | Total    |
| Assets:                                    |  |          |         |          |
| Cash equivalents                           | \$ 168.5                                   | \$       | \$      | \$ 168.5 |
| Short-term marketable securities           | 225.0                                      |          |         | 225.0    |
| Restricted cash                            | 189.4                                      |          |         | 189.4    |
| Total assets                               | \$ 582.9                                   | \$       | \$      | \$ 582.9 |
| Liabilities:                               |  |          |         |          |
| Fuel derivative instruments <sup>(1)</sup> | \$   | \$ 0.0   | \$      | \$ 0.0   |
| Interest rate hedges <sup>(1)</sup>        |  |          |         |          |
| Parent and wholly owned subsidiaries       |  | 50.7     |         | 50.7     |
| TRIP Holdings                              |  | 58.3     |         | 58.3     |
| Total liabilities                          | \$   | \$ 109.0 | \$      | \$ 109.0 |

(1) Included in accrued liabilities on the consolidated balance sheet.

The carrying amounts and estimated fair values of our long-term debt at June 30, 2010 were as follows:

|                                | Carrying Value | Estimated Fair Value |
|--------------------------------|----------------|----------------------|
|                                | (in millions)  |                      |
| Recourse:                      |                |                      |
| Convertible subordinated notes | \$ 333.5       | \$ 360.0             |

Edgar Filing: TRINITY INDUSTRIES INC - Form 10-Q

|                                      |            |            |
|--------------------------------------|------------|------------|
| Senior notes                         | 201.5      | 205.9      |
| Term loan                            | 58.6       | 57.1       |
| Capital lease obligations            | 52.4       | 52.4       |
| Other                                | 2.4        | 2.4        |
|                                      | 648.4      | 677.8      |
| Non-recourse:                        |            |            |
| 2006 secured railcar equipment notes | 294.3      | 308.8      |
| TILC warehouse facility              | 137.3      | 137.3      |
| Promissory notes                     | 504.5      | 483.8      |
| 2009 secured railcar equipment notes | 233.6      | 246.0      |
| TRIP Holdings warehouse loan         | 1,033.9    | 1,012.9    |
|                                      | 2,203.6    | 2,188.8    |
| Total                                | \$ 2,852.0 | \$ 2,866.6 |

The estimated fair values of our convertible subordinated notes and senior notes are based on quoted market prices as of June 30, 2010. The estimated fair values of our 2006 and 2009 secured railcar equipment notes, promissory notes, TRIP Holdings warehouse loan, and term loan are based on our estimate of their fair value as of June 30, 2010 determined by discounting their future cash flows at a current market interest rate. The carrying value of our TILC warehouse facility



**Table of Contents**

approximates fair value because the interest rate adjusts to the market interest rate and there has been no change in the Company's credit rating since the loan agreement was renewed in 2009. The fair values of all other financial instruments are estimated to approximate carrying value.

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 to 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 which maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair values are listed below:

**Level 1** This level is defined as quoted prices in active markets for identical assets or liabilities. The Company's cash equivalents, short-term marketable securities, and restricted cash are instruments of the United States Treasury, United States government agencies, fully-insured certificates of deposit 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. 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.

**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.

**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, concrete and aggregates, and asphalt; (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, tank containers and tank heads for pressure and non-pressure vessels, and propane tanks; and (5) the Railcar Leasing and Management Services Group ( Leasing Group ), which provides fleet management, maintenance, and leasing services. The category All Other includes our captive insurance and transportation companies; legal, environmental, and upkeep 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 which are related to manufacturing and dedicated to the specific manufacturing operations of a particular segment are recorded in the cost of revenues of that respective segment. Gains and losses from the sale of property, plant, and equipment which can be utilized by multiple segments are recorded in the cost of revenues of the All Other segment.

Sales and related net profits from the Rail Group to the Leasing Group are recorded in the Rail Group and eliminated in consolidation. Sales between these groups are recorded at prices comparable to those charged to external customers giving consideration for 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. Revenues and operating profits of the Leasing Group for the three and six months ended June 30, 2010 include the operating results of TRIP Holdings. Total assets of the Leasing Group, including the assets of TRIP Holdings, amounted to \$4,408.3 million as of June 30, 2010. See Note 1 Summary of Significant Accounting Policies Basis of Presentation for further discussion.

**Table of Contents**

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

**Three Months Ended June 30, 2010**

|   | External        | Revenues<br>Intersegment | Total           | Operating<br>Profit<br>(Loss) |
|---|-----------------|--------------------------|-----------------|-------------------------------|
|   |                 | (in millions)            |                 |                               |
| Rail Group                                    | \$ 42.1         | \$ 70.8                  | \$ 112.9        | \$ (2.7)                      |
| Construction Products Group                   | 165.7           | 5.2                      | 170.9           | 17.7                          |
| Inland Barge Group                            | 99.5            |                          | 99.5            | 12.0                          |
| Energy Equipment Group                        | 112.7           | 2.6                      | 115.3           | 13.5                          |
| Railcar Leasing and Management Services Group | 119.6           |                          | 119.6           | 49.2                          |
| All Other                                     | 3.5             | 8.9                      | 12.4            | (2.1)                         |
| Corporate                                     |                 |                          |                 | (6.5)                         |
| Eliminations Lease subsidiary                 |                 | (65.9)                   | (65.9)          | (1.9)                         |
| Eliminations Other                            |                 | (21.6)                   | (21.6)          | (0.3)                         |
| <b>Consolidated Total</b>                     | <b>\$ 543.1</b> | <b>\$</b>                | <b>\$ 543.1</b> | <b>\$ 78.9</b>                |

**Three Months Ended June 30, 2009**

|   | External        | Revenues<br>Intersegment | Total           | Operating<br>Profit<br>(Loss) |
|---|-----------------|--------------------------|-----------------|-------------------------------|
|   |                 | (in millions)            |                 |                               |
| Rail Group                                    | \$ 159.4        | \$ 143.9                 | \$ 303.3        | \$ (328.7)                    |
| Construction Products Group                   | 152.2           | 1.1                      | 153.3           | 15.7                          |
| Inland Barge Group                            | 136.7           |                          | 136.7           | 30.3                          |
| Energy Equipment Group                        | 132.6           | 1.8                      | 134.4           | 25.2                          |
| Railcar Leasing and Management Services Group | 133.5           |                          | 133.5           | 35.2                          |
| All Other                                     | 1.7             | 8.7                      | 10.4            | 0.1                           |
| Corporate                                     |                 |                          |                 | (7.8)                         |
| Eliminations Lease subsidiary                 |                 | (138.8)                  | (138.8)         | (8.8)                         |
| Eliminations Other                            |                 | (16.7)                   | (16.7)          | (1.5)                         |
| <b>Consolidated Total</b>                     | <b>\$ 716.1</b> | <b>\$</b>                | <b>\$ 716.1</b> | <b>\$ (240.3)</b>             |

**Six Months Ended June 30, 2010**

|   | External | Revenues<br>Intersegment | Total    | Operating<br>Profit<br>(Loss) |
|---|----------|--------------------------|----------|-------------------------------|
|   |          | (in millions)            |          |                               |
| Rail Group                                    | \$ 74.3  | \$ 112.2                 | \$ 186.5 | \$ (10.6)                     |
| Construction Products Group                   | 277.3    | 12.0                     | 289.3    | 20.4                          |
| Inland Barge Group                            | 196.9    |                          | 196.9    | 29.8                          |
| Energy Equipment Group                        | 201.8    | 3.6                      | 205.4    | 23.9                          |
| Railcar Leasing and Management Services Group | 240.8    |                          | 240.8    | 97.4                          |

|                           |                         |                 |           |                |           |                |           |               |
|---------------------------|-------------------------|-----------------|-----------|----------------|-----------|----------------|-----------|---------------|
| <b>All Other</b>          |                         | <b>6.0</b>      |           | <b>16.1</b>    |           | <b>22.1</b>    |           | <b>(4.7)</b>  |
| <b>Corporate</b>          |                         |                 |           |                |           |                |           | <b>(19.0)</b> |
| <b>Eliminations</b>       | <b>Lease subsidiary</b> |                 |           | <b>(103.9)</b> |           | <b>(103.9)</b> |           | <b>(5.5)</b>  |
| <b>Eliminations</b>       | <b>Other</b>            |                 |           | <b>(40.0)</b>  |           | <b>(40.0)</b>  |           | <b>(0.8)</b>  |
| <b>Consolidated Total</b> |                         | <b>\$ 997.1</b> | <b>\$</b> |                | <b>\$</b> | <b>997.1</b>   | <b>\$</b> | <b>130.9</b>  |

**Table of Contents****Six Months Ended June 30, 2009**

|   | <b>External</b> | <b>Revenues<br/>Intersegment<br/>(in millions)</b> | <b>Total</b> | <b>Operating<br/>Profit<br/>(Loss)</b> |
|---|-----------------|--|--------------|--|
| Rail Group                                    | \$ 322.1        | \$ 265.1   | \$ 587.2     | \$ (334.5)                             |
| Construction Products Group                   | 273.2           | 3.6  | 276.8        | 14.0                                   |
| Inland Barge Group                            | 293.7           |  | 293.7        | 69.2                                   |
| Energy Equipment Group                        | 259.3           | 3.6  | 262.9        | 43.5                                   |
| Railcar Leasing and Management Services Group | 355.9           |  | 355.9        | 87.9                                   |
| All Other                                     | 5.4             | 19.4   | 24.8         | 1.1                                    |
| Corporate                                     |                 |  |              | (15.4)                                 |
| Eliminations Lease subsidiary                 |                 | (255.3)  | (255.3)      | (17.7)                                 |
| Eliminations Other                            |                 | (36.4)   | (36.4)       | (2.5)                                  |
| Consolidated Total                            | \$ 1,509.6      | \$   | \$ 1,509.6   | \$ (154.4)                             |

**Note 5. Railcar Leasing and Management Services Group**

The Railcar Leasing and Management Services Group provides fleet management, maintenance, and leasing services. Selected consolidating financial information follows:

|  | <b>June 30, 2010</b>                     |                          |                                     |              |
|--|--|--------------------------|-------------------------------------|--------------|
|  | <b>Leasing Group</b>                     |                          |                                     |              |
|  | <b>Wholly<br/>Owned<br/>Subsidiaries</b> | <b>TRIP<br/>Holdings</b> | <b>Manufacturing/<br/>Corporate</b> | <b>Total</b> |
|  | <b>(in millions, unaudited)</b>          |                          |                                     |              |
| Cash, cash equivalents, and short-term marketable securities | \$ 5.1                                   | \$                       | \$ 430.2                            | \$ 435.3     |
| Property, plant, and equipment, net                          | \$ 2,899.9                               | \$ 1,209.0               | \$ 510.4                            | \$ 4,619.3   |
| Net deferred profit on railcars sold to the Leasing Group    | (326.6)                                  | (199.4)                  |                                     | (526.0)      |
|  | \$ 2,573.3                               | \$ 1,009.6               | \$ 510.4                            | \$ 4,093.3   |
| Restricted cash  | \$ 139.2                                 | \$ 50.2                  | \$                                  | \$ 189.4     |
| Debt:  |  |                          |                                     |              |
| Recourse   | \$ 111.0                                 | \$                       | \$ 653.9                            | \$ 764.9     |
| Less: unamortized discount                                   |  |                          | (116.5)                             | (116.5)      |
|  | 111.0                                    |                          | 537.4                               | 648.4        |
| Non-recourse   | 1,169.7                                  | 1,033.9                  |                                     | 2,203.6      |
| Total debt   | \$ 1,280.7                               | \$ 1,033.9               | \$ 537.4                            | \$ 2,852.0   |

**December 31, 2009**

|  | <b>Leasing Group</b>    |             |                       |
|--|-------------------------|-------------|-----------------------|
|  | <b>Wholly<br/>Owned</b> | <b>TRIP</b> | <b>Manufacturing/</b> |

Edgar Filing: TRINITY INDUSTRIES INC - Form 10-Q

|  | Subsidiaries             | Holdings | Corporate | Total      |
|--|--------------------------|----------|-----------|------------|
|  | (in millions, unaudited) |          |           |            |
| Cash, cash equivalents, and short-term marketable securities | \$ 6.7                   | \$       | \$ 675.1  | \$ 681.8   |
| Property, plant, and equipment, net                          | \$ 2,850.1               | \$       | \$ 517.1  | \$ 3,367.2 |
| Net deferred profit on railcars sold to the Leasing Group    | (329.0)                  |          |           | (329.0)    |
|  | \$ 2,521.1               | \$       | \$ 517.1  | \$ 3,038.2 |
| Restricted cash  | \$ 138.6                 | \$       | \$        | \$ 138.6   |
| Debt:  |                          |          |           |            |
| Recourse   | \$ 113.4                 | \$       | \$ 654.2  | \$ 767.6   |
| Less: unamortized discount                                   |                          |          | (121.6)   | (121.6)    |
|  | 113.4                    |          | 532.6     | 646.0      |
| Non-recourse   | 1,199.1                  |          |           | 1,199.1    |
| Total debt   | \$ 1,312.5               | \$       | \$ 532.6  | \$ 1,845.1 |

For the three and six months ended June 30, 2009, revenues of \$51.7 million and operating profit of \$4.1 million and revenues of \$183.8 million and operating profit of \$22.7 million, respectively, were related to sales of railcars from the lease fleet to TRIP Holdings. There were no sales to TRIP Holdings during the three and six months ended June 30, 2010. See Note 6 Investment in TRIP Holdings.

The Leasing Group's interest expense, which is not a component of operating profit and includes the effects of hedges related to the Leasing Group's debt, was \$34.4 million and \$69.2 million for the three and six months ended June 30, 2010, respectively, including \$11.8 million and \$23.6 million of TRIP Holdings' interest expense for the three and six months

**Table of Contents**

ended June 30, 2010, respectively. Interest expense including the effects of hedges was \$18.2 million and \$36.5 million, respectively, for the same periods last year. Rent expense, which is a component of operating profit, was \$12.2 million and \$24.3 million for the three and six months ended June 30, 2010, respectively, and \$11.4 million and \$22.9 million, respectively, for the same periods last year.

Equipment consists primarily of railcars leased by third parties. The Leasing Group purchases equipment manufactured 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:

|                           | <b>Remaining<br/>six<br/>months<br/>of</b> |             |             |             |             |                   |              |
|---------------------------|--|-------------|-------------|-------------|-------------|-------------------|--------------|
|                           | <b>2010</b>                                | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>Thereafter</b> | <b>Total</b> |
|                           | <b>(in millions)</b>                       |             |             |             |             |                   |              |
| Wholly owned subsidiaries | \$ 171.1                                   | \$ 187.6    | \$ 151.7    | \$ 113.3    | \$ 83.9     | \$ 205.7          | \$ 913.3     |
| TRIP Holdings             | 79.7                                       | 95.8        | 72.4        | 50.2        | 34.7        | 113.8             | 446.6        |
|                           | \$ 250.8                                   | \$ 283.4    | \$ 224.1    | \$ 163.5    | \$ 118.6    | \$ 319.5          | \$ 1,359.9   |

**Debt.** The Leasing Group's debt at June 30, 2010 consists of both recourse and non-recourse debt including debt owed by TRIP Holdings which is secured solely by the assets of TRIP Holdings. See Note 11 Debt for the form, maturities, and descriptions of the debt. As of June 30, 2010, Trinity's wholly owned subsidiaries included in the Leasing Group held equipment with a net book value of approximately \$1,838.7 million that is pledged as collateral for Leasing Group debt held by those subsidiaries, including equipment with a net book value of \$53.1 million securing capital lease obligations. TRIP Holdings equipment with a net book value of \$1,209.0 million, excluding deferred profit on railcars sold to TRIP Holdings, is pledged as collateral for the TRIP Holdings warehouse loan. Certain wholly owned subsidiaries of the Company, including Trinity Industries Leasing Company ( TILC ), are guarantors of the Company's senior debt and certain operating leases. See Note 6 Investment in TRIP Holdings and Note 19 Financial Statements for Guarantors of the Senior Debt for further discussion.

**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 Trust 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 Trusts and therefore, the debt related to the Trusts 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 June 30, 2010 of \$229.0 million, including cash of \$86.7 million and railcars of \$103.7 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**

|   | <b>six<br/>months<br/>of 2010</b> | <b>2011</b> | <b>2012</b>          | <b>2013</b> | <b>2014</b> | <b>Thereafter</b> | <b>Total</b> |
|---|-----------------------------------|-------------|----------------------|-------------|-------------|-------------------|--------------|
|   |                                   |             | <b>(in millions)</b> |             |             |                   |              |
| Future operating lease obligations of Trusts railcars         | \$19.7                            | \$41.3      | \$44.6               | \$45.8      | \$44.9      | \$425.6           | \$621.9      |
| Future contractual minimum rental revenues of Trusts railcars | \$42.5                            | \$48.3      | \$38.9               | \$26.5      | \$18.1      | \$ 55.1           | \$229.4      |

11

**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:

|  | <b>Remaining<br/>six<br/>months<br/>of 2010</b> | <b>2011</b> | <b>2012</b>          | <b>2013</b> | <b>2014</b> | <b>Thereafter</b> | <b>Total</b> |
|--|---|-------------|----------------------|-------------|-------------|-------------------|--------------|
|  |   |             | <b>(in millions)</b> |             |             |                   |              |
| Future operating lease obligations         | \$ 3.1  | \$5.0       | \$4.4                | \$4.4       | \$4.4       | \$15.8            | \$37.1       |
| Future contractual minimum rental revenues | \$ 3.8  | \$4.3       | \$3.6                | \$3.3       | \$3.0       | \$ 8.7            | \$26.7       |

See Note 5 of the December 31, 2009 Consolidated Financial Statements filed on Form 10-K for a detailed explanation of these financing transactions.

**Note 6. Investment in TRIP Holdings**

In 2007, the Company and five other equity investors unrelated to the Company or its subsidiaries formed TRIP Holdings for the purpose of providing railcar leasing and management services in North America. TRIP Holdings, through its wholly-owned subsidiary, TRIP Rail Leasing LLC ( TRIP Leasing ), purchased railcars from the Company's Rail and Leasing Groups funded by capital contributions from TRIP Holdings' equity investors and third-party debt from 2007 through June 2009. The Company provided 20% of the total of all capital contributions required by TRIP Holdings in exchange for 20% of the equity in TRIP Holdings. In 2009, the Company acquired an additional 8.16% equity ownership in TRIP Holdings for approximately \$16.2 million from another equity investor increasing the Company's equity investment to \$63.5 million. The Company receives 28.16% of the distributions made from TRIP Holdings to equity investors and has a 28.16% interest in the net assets of TRIP Holdings upon a liquidation event. The terms of the Company's equity investment are identical to the terms of each of the other four equity investors. Railcars purchased from the Company by TRIP Leasing are required to be purchased at prices comparable with the prices of all similar railcars sold by the Company during the same period for new railcars and at prices based on third party appraised values for used railcars. The manager of TRIP Holdings, TILC, may be removed without cause as a result of a majority vote of the non-Company equity members.

In 2008 and 2007, the Company contributed \$14.6 million and \$21.3 million, respectively, in capital to TRIP Holdings equal to its 20% pro rata share of total capital received during those years by TRIP Holdings from the equity investors of TRIP Holdings. In 2009, Trinity contributed \$11.4 million to TRIP Holdings pursuant to Trinity's equity ownership obligation, totaling a \$63.5 million investment in TRIP Holdings as of December 31, 2009 after considering equity interests purchased by Trinity from another equity owner. No contributions were made by Trinity to TRIP Holdings during the three and six months ended June 30, 2010 and Trinity has no remaining equity commitment to TRIP Holdings as of June 30, 2010. In 2007, the Company also paid \$13.8 million in structuring and placement fees to the principal underwriter in conjunction with the formation of TRIP Holdings that were expensed on a pro rata basis as railcars were purchased from the Company. The balance was fully amortized as of December 31, 2009. Such expense was treated as sales commissions included in operating costs in the Company's consolidated statement of operations. As of June 30, 2010, TRIP Leasing had purchased \$1,284.7 million of railcars from the Company. Under TRIP Leasing's debt agreement, the lenders' availability period to finance additional railcar purchases ended in June 2009. The Company has no obligation to guarantee performance under the debt agreement, guarantee any railcar residual values, shield any parties from losses, or guarantee minimum yields. The Company's carrying value of its investment in TRIP Holdings is as follows:

|                       | <b>June<br/>30,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> |
|-----------------------|------------------------------|----------------------------------|
|                       | <b>(in millions)</b>         |                                  |
| Capital contributions | \$ 47.3                      | \$ 47.3                          |



Edgar Filing: TRINITY INDUSTRIES INC - Form 10-Q

|   |                |         |
|---|----------------|---------|
| Equity purchased from another investor                          | <b>16.2</b>    | 16.2    |
|   | <b>63.5</b>    | 63.5    |
| Equity in earnings  | <b>5.0</b>     | 3.0     |
| Equity in unrealized losses on derivative financial instruments | <b>(7.1)</b>   | (3.2)   |
| Distributions   | <b>(6.0)</b>   | (6.0)   |
| Deferred broker fees  | <b>(0.9)</b>   | (1.0)   |
|   | <b>\$ 54.5</b> | \$ 56.3 |

On January 1, 2010, the Company adopted the provisions of a new accounting pronouncement which amended the rules regarding the consolidation of variable interest entities. Under this new standard, which changed the criteria for determining which enterprise has a controlling financial interest, the Company was determined to be the primary beneficiary of TRIP Holdings because of its combined role as both equity member and manager/servicer of TRIP Holdings. Accordingly, the consolidated balance sheet of the Company as of June 30, 2010, the consolidated statements of operations for the three and

**Table of Contents**

six months ended June 30, 2010, and the consolidated statements of cash flows and stockholders' equity for the six months ended June 30, 2010 include the accounts of TRIP Holdings. Prior periods were not restated. As a result of adopting this pronouncement, we determined the effects on Trinity's consolidated financial statements as if TRIP Holdings had been included in the Company's consolidated financial statements from TRIP Holdings' inception and recorded a charge to retained earnings of \$105.4 million, net of \$57.7 million in tax benefit, and a noncontrolling interest of \$129.9 million as of January 1, 2010. All significant intercompany accounts and transactions have been eliminated including the deferral of profits on sales of railcars from the Rail or Leasing Group to TRIP Holdings. These deferred profits will be amortized over the life of the related equipment. Additionally, any future profits on the sale of railcars to TRIP Holdings will be deferred and amortized over the life of the related equipment. The noncontrolling interest represents the non-Trinity equity interest in TRIP Holdings. The assets of TRIP Holdings may only be used to satisfy liabilities of TRIP Holdings and the liabilities of TRIP Holdings have recourse only to TRIP Holdings' assets.

Prior to January 1, 2010, profit on equipment sales to TRIP Leasing was recognized at the time of sale to the extent of the non-Trinity interests in TRIP Holdings. The deferred profit on the sale of equipment to TRIP Leasing pertaining to TILC's interest in TRIP Holdings was being amortized over the depreciable life of the related equipment. All other fee income to TILC earned from services provided to TRIP Holdings was recognized by TILC to the extent of the non-Trinity interests in TRIP Holdings. Effective January 1, 2010, amortization of the deferred profit on the sale of equipment is recorded as if the entire profit on equipment sales to TRIP Leasing was deferred at the time of the sale and amortized over the depreciable life of the related equipment. All fee income to TILC earned from services provided to TRIP Holdings has been eliminated for the three and six months ended June 30, 2010.

Sales of railcars to TRIP Leasing and related gains for the three and six month periods ended June 30, 2010 and 2009 are as follows:

|  | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|--|--|-------------|--------------------------------------|-------------|
|  | <b>2010</b>                            | <b>2009</b> | <b>2010</b>                          | <b>2009</b> |
|  | <b>(in millions)</b>                   |             |                                      |             |
| <b>Rail Group:</b>   |  |             |                                      |             |
| Sales of railcars to TRIP Leasing  | \$                                     | \$75.0      | \$                                   | \$113.0     |
| Gain on sales of railcars to TRIP Leasing  | \$                                     | \$ 6.2      | \$                                   | \$ 11.2     |
| Deferral of gain on sales of railcars to TRIP Leasing based on Trinity's equity interest | \$                                     | \$ 1.6      | \$                                   | \$ 2.8      |
| <b>TILC:</b>   |  |             |                                      |             |
| Sales of railcars to TRIP Leasing  | \$                                     | \$51.7      | \$                                   | \$183.8     |
| Recognition of previously deferred gain on sales of railcars to TRIP Leasing             | \$                                     | \$ 5.5      | \$                                   | \$ 30.3     |
| Deferral of gain on sales of railcars to TRIP Leasing based on Trinity's equity interest | \$                                     | \$ 1.4      | \$                                   | \$ 7.6      |

Administrative fees paid to TILC by TRIP Holdings and TRIP Leasing for the three and six month periods ended June 30, 2010, were \$1.0 million and \$1.9 million, respectively, and \$1.3 million and \$2.7 million, respectively, for the same periods last year.

On October 15, 2009, TILC loaned TRIP Holdings \$14.5 million to resolve a collateral deficiency. The note was repayable monthly from TRIP Holdings' excess cash flow plus accrued interest at 11% and was repaid in full in May, 2010.

See Note 6 of the December 31, 2009 Consolidated Financial Statements filed on Form 10-K for additional information.

**Note 7. Derivative Instruments**

We use derivative instruments to mitigate the impact of changes in interest rates and zinc, natural gas, and diesel fuel prices, as well as to convert a portion of our variable-rate debt to fixed-rate debt. Additionally, we use derivative instruments to mitigate the impact of unfavorable fluctuations in foreign currency exchange rates. We also use derivatives to lock in fixed interest rates in anticipation of future debt issuances. Derivative instruments that are designated and qualify as cash flow hedges are accounted for in accordance with accounting standards issued by the FASB. See Note 3 Fair Value Accounting to the consolidated financial statements for discussion of how the Company valued its commodity hedges and interest rate swaps at June 30, 2010.

**Table of Contents***Interest rate hedges*

In anticipation of a future debt issuance, we entered into interest rate swap transactions during the fourth quarter of 2006 and during 2007. These instruments, with a notional amount of \$370 million, hedged the interest rate on a portion of a future debt issuance associated with an anticipated railcar leasing transaction, which closed in May 2008. These instruments settled during the second quarter of 2008. The weighted average fixed interest rate under these instruments was 5.34%. These interest rate swaps were 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 May 2008. The balance is being amortized over the term of the related debt. On June 30, 2010, the balance remaining in AOCL was \$16.0 million. The effect on interest expense for the three and six month periods ended June 30, 2010 was an increase of \$0.9 million and \$1.9 million, respectively, due to amortization of the AOCL balance. The effect on interest expense for the three and six month periods ended June 30, 2009 was an increase of \$1.0 million and \$2.0 million, respectively, due to amortization of the AOCL balance. It is expected that \$3.7 million in interest expense will be recognized during the next twelve months from amortization of the AOCL balance.

In May 2008, we entered into an interest rate swap transaction that is being used to fix the LIBOR component of the debt issuance which closed in May 2008. The fixed interest rate under this instrument is 4.126%. The amount recorded for this instrument as of June 30, 2010 in the consolidated balance sheet was a liability of \$49.5 million, with \$46.9 million of expense in AOCL. The effect on interest expense for the three and six months ended June 30, 2010 was an increase of \$5.5 million and \$10.7 million, respectively, which relate to the monthly settlement of interest. The effect on interest expense for the three and six months ended June 30, 2009 was an increase of \$5.0 million and \$10.0 million, respectively, which related to the monthly settlement of interest. See Note 11 Debt. Based on the fair value of the interest rate hedge as of June 30, 2010, it is expected that \$18.0 million will be included in interest expense during the next twelve months.

During 2008, we entered into interest rate swap transactions, with a notional amount of \$200 million, which are being used to counter our exposure to changes in the variable interest rate associated with our warehouse facility. The weighted average fixed interest rate under these instruments at June 30, 2010 was 1.798%. The amount recorded for these instruments as of June 30, 2010 in the consolidated balance sheet was a liability of \$1.2 million. The effect on interest expense for the six months ended June 30, 2010 was an increase of \$0.4 million which included the mark to market valuation on the interest rate swap transactions and the monthly settlement of interest. The effect on interest expense for the three months ended June 30, 2010 was not significant. The effect on the same periods in the prior year was an increase of \$0.3 million and \$1.4 million, respectively, which included the mark to market valuation on the interest rate swap transactions and the monthly settlement of interest. Based on the fair value of the interest rate hedges as of June 30, 2010, it is expected that \$1.2 million in interest expense will be recognized in 2010. These interest rate hedges are due to expire during the fourth quarter of 2010.

During 2005 and 2006, we entered into interest rate swap transactions in anticipation of a future debt issuance. These instruments, with a notional amount of \$200 million, fixed the interest rate on a portion of a future debt issuance associated with a railcar leasing transaction in 2006 and settled at maturity in the first quarter of 2006. The weighted average fixed interest rate under these instruments was 4.87%. These interest rate swaps were 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 May 2006. The balance is being amortized over the term of the related debt. At June 30, 2010, the balance remaining in AOCL was \$2.8 million. The effect of the amortization on interest expense for three and six month periods ended June 30, 2010 was a decrease of \$0.1 million and \$0.2 million, respectively. The effect on the same periods in the prior year was a decrease of \$0.1 million and \$0.2 million, respectively. It is expected that \$0.4 million in earnings will be recognized during the next twelve months from amortization of the AOCL balance.

Between 2007 and 2009, TRIP Holdings entered into interest rate swap transactions, all of which qualify as cash flow hedges. As of June 30, 2010, maturities for cash flow hedges ranged from 2011-2023. The total notional value of cash flow hedges outstanding at June 30, 2010 was \$863.1 million, with a weighted average interest rate of 3.66%. The amount recorded in the consolidated balance sheet for these instruments was a liability of \$58.3 million as of June 30, 2010, with \$10.8 million of expense recorded in accumulated other comprehensive loss and \$44.8 million

recorded in noncontrolling interest. The effect of the TRIP Holdings' interest rate swaps on interest expense for the three and six month periods ended June 30, 2010 was an increase of \$7.3 million and \$14.8 million, respectively. Based on the fair value of interest rate hedges as of June 30, 2010, it is expected that \$25.8 million will be included in interest expense during the next twelve months.

*Natural gas and diesel fuel*

We continue 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 for these instruments in the consolidated balance

**Table of Contents**

sheet as of June 30, 2010 was not significant. The effect on the consolidated statement of operations for the six month period ended June 30, 2010 was an increase in cost of revenues of \$0.1 million which includes the mark to market valuation resulting in losses of \$0.1 million for the six months ended June 30, 2010. The effect on the consolidated statement of operations for the three month period ended June 30, 2010 was not significant. The effect of both derivatives on the consolidated statement of operations for the three and six month periods ended June 30, 2009 was a decrease in cost of revenues of \$0.3 million and an increase in cost of revenues of \$1.5 million, respectively, which includes the mark to market valuation resulting in a gain of \$0.2 million and a loss \$0.2 million, for the three and six months ended June 30, 2009, respectively.

*Foreign Exchange Hedge*

During the first and second quarters of 2010 and 2009, we entered 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 June 30, 2010. The effect on the consolidated statement of operations for the three and six months ended June 30, 2010 was income of \$0.3 million and net expense of \$0.3 million, respectively, included in other, net on the consolidated statement of operations. The effect on the same periods in the prior year was expense of \$0.8 million and \$1.0 million, respectively, included in other, net on the consolidated statement of operations.

*Zinc*

We maintain a program to mitigate the impact of fluctuations in the price of zinc purchases. The intent of this program is to protect our operating profit from adverse price changes by entering into derivative instruments. The effect of these derivative instruments on the consolidated financial statements for the three and six months ended June 30, 2010 was not significant.

**Note 8. Property, Plant, and Equipment**

The following table summarizes the components of property, plant, and equipment as of June 30, 2010 and December 31, 2009:

|                               | <b>June 30,<br/>2010</b> | <b>December<br/>31,<br/>2009</b><br>(as reported) |
|-------------------------------|--------------------------|---|
|                               | (in millions)            |   |
| Manufacturing/Corporate:      |                          |   |
| Land                          | \$ 40.1                  | \$ 39.1   |
| Buildings and improvements    | 423.9                    | 405.9   |
| Machinery and other           | 705.9                    | 708.1   |
| Construction in progress      | 10.5                     | 12.2  |
|                               | <b>1,180.4</b>           | 1,165.3   |
| Less accumulated depreciation | <b>(670.0)</b>           | (648.2)   |
|                               | <b>510.4</b>             | 517.1   |
| Leasing:                      |                          |   |
| Wholly owned subsidiaries:    |                          |   |
| Machinery and other           | 38.1                     | 38.1  |
| Equipment on lease            | 3,192.2                  | 3,098.9   |
|                               | <b>3,230.3</b>           | 3,137.0   |
| Less accumulated depreciation | <b>(330.4)</b>           | (286.9)   |

|   |                   |            |
|---|-------------------|------------|
|   | <b>2,899.9</b>    | 2,850.1    |
| TRIP Holdings:  |                   |            |
| Equipment on lease  | <b>1,281.9</b>    |            |
| Less accumulated depreciation                             | <b>(72.9)</b>     |            |
|   | <b>1,209.0</b>    |            |
| Net deferred profit on railcars sold to the Leasing Group |                   |            |
| Sold to wholly owned subsidiaries                         | <b>(326.6)</b>    | (329.0)    |
| Sold to TRIP Holdings                                     | <b>(199.4)</b>    |            |
|   | <b>\$ 4,093.3</b> | \$ 3,038.2 |

**Note 9. Goodwill**

During the second quarter of 2009, there was a significant decline in new orders for railcars and continued weakening demand for products in the Rail Group as well as a change in the average estimated railcar deliveries from independent third party research firms. Additionally, the significant number of idled railcars in the North American fleet resulted in the creation of new internal sales estimates by railcar type. Based on this information, we concluded that indications of

**Table of Contents**

impairment existed with respect to the Rail Group which required an interim goodwill impairment analysis and, accordingly, we performed such a test as of June 30, 2009. The result of our impairment analysis indicated that the remaining implied goodwill amounted to \$122.5 million for our Rail Group as of June 30, 2009 and, consequently, we recorded an impairment charge of \$325.0 million during the second quarter of 2009. As of December 31, 2009, the Company's annual impairment test of goodwill was completed at the reporting unit level and no additional impairment charges were determined to be necessary.

Goodwill remaining by segment is as follows:

|   | <b>June<br/>30,<br/>2010</b> | <b>December<br/>31,<br/>2009</b><br><b>(as reported)</b><br><b>(in millions)</b> |
|---|------------------------------|--|
| Rail Group                                    | <b>\$ 122.5</b>              | \$ 122.5   |
| Construction Products Group                   | <b>76.2</b>                  | 52.2   |
| Energy Equipment Group                        | <b>10.9</b>                  | 4.3  |
| Railcar Leasing and Management Services Group | <b>1.8</b>                   | 1.8  |
|   | <b>\$ 211.4</b>              | \$ 180.8   |

**Note 10. Warranties**

The Company provides warranties against manufacturing defects generally ranging from one to five years depending on the product. The warranty costs are estimated using a two-step approach. First, an engineering estimate is made for the cost of all claims that have been filed by a customer. Second, based on historical claims experience, a cost is accrued for all products still within a warranty period for which no claims have been filed. The Company provides for the estimated cost of product warranties at the time revenue is recognized related to products covered by warranties and assesses the adequacy of the resulting reserves on a quarterly basis. The changes in the accruals for warranties for the three and six month periods ended June 30, 2010 and 2009 are as follows:

|                                     | <b>Three Months<br/>Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|-------------------------------------|--|-------------|--------------------------------------|-------------|
|                                     | <b>2010</b>                                | <b>2009</b> | <b>2010</b>                          | <b>2009</b> |
|                                     | <b>(in millions)</b>                       |             |                                      |             |
| Beginning balance                   | <b>\$ 19.6</b>                             | \$ 22.6     | <b>\$ 19.6</b>                       | \$ 25.7     |
| Warranty costs incurred             | <b>(1.3)</b>                               | (2.7)       | <b>(2.2)</b>                         | (4.9)       |
| Warranty originations and revisions | <b>1.3</b>                                 | 1.1         | <b>2.9</b>                           | 2.6         |
| Warranty expirations                | <b>(1.0)</b>                               | (2.5)       | <b>(1.7)</b>                         | (4.9)       |
| Ending balance                      | <b>\$ 18.6</b>                             | \$ 18.5     | <b>\$ 18.6</b>                       | \$ 18.5     |



**Table of Contents****Note 11. Debt**

The following table summarizes the components of debt as of June 30, 2010 and December 31, 2009:

|                                      | <b>June 30,<br/>2010</b> | <b>December<br/>31,<br/>2009<br/>(as reported)<br/>(in millions)</b> |
|--------------------------------------|--------------------------|--|
| Manufacturing/Corporate Recourse:    |                          |  |
| Revolving commitment                 | \$                       | \$   |
| Convertible subordinated notes       | <b>450.0</b>             | 450.0  |
| Less: unamortized discount           | <b>(116.5)</b>           | (121.6)  |
|                                      | <b>333.5</b>             | 328.4  |
| Senior notes                         | <b>201.5</b>             | 201.5  |
| Other                                | <b>2.4</b>               | 2.7  |
|                                      | <b>537.4</b>             | 532.6  |
| Leasing Recourse:                    |                          |  |
| Capital lease obligations            | <b>52.4</b>              | 53.6   |
| Term loan                            | <b>58.6</b>              | 59.8   |
|                                      | <b>648.4</b>             | 646.0  |
| Leasing Non-recourse:                |                          |  |
| 2006 secured railcar equipment notes | <b>294.3</b>             | 304.7  |
| 2009 secured railcar equipment notes | <b>233.6</b>             | 237.6  |
| TILC warehouse facility              | <b>137.3</b>             | 141.4  |
| Promissory notes                     | <b>504.5</b>             | 515.4  |
| TRIP Holdings warehouse loan         | <b>1,033.9</b>           |  |
|                                      | <b>2,203.6</b>           | 1,199.1  |
| Total debt                           | <b>\$ 2,852.0</b>        | \$ 1,845.1   |

On January 1, 2009, we adopted the provisions of a new accounting pronouncement that is applicable to the Company's 3 7/8% Convertible Subordinated Notes issued June 2006. The pronouncement requires that the accounting for these types of instruments reflect their underlying economics by capturing the value of the conversion option as borrowing costs and recognizing their potential dilutive effects on earnings per share. This pronouncement required retrospective application to all periods presented and did not grandfather existing instruments.

As of June 30, 2010 and December 31, 2009, capital in excess of par value included \$92.8 million related to the estimated value of the Convertible Subordinated Notes' conversion options. 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 and six months ended June 30, 2010 and 2009 is as follows:

|                         | <b>Three Months<br/>Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|-------------------------|--|-------------|--------------------------------------|-------------|
|                         | <b>2010</b>                                | <b>2009</b> | <b>2010</b>                          | <b>2009</b> |
|                         | <b>(in millions)</b>                       |             |                                      |             |
| Coupon rate interest    | \$ 4.3                                     | \$ 4.3      | \$ 8.7                               | \$ 8.7      |
| Amortized debt discount | 2.6  | 2.4         | 5.1                                  | 4.7         |
|                         | \$ 6.9                                     | \$ 6.7      | \$ 13.8                              | \$ 13.4     |

At June 30, 2010, the Convertible Subordinated Notes were convertible at a price of \$51.68 per share resulting in 8,707,430 issuable shares. As of June 30, 2010, 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.

Trinity's revolving credit facility requires maintenance of ratios related to interest coverage for the leasing and manufacturing operations, leverage, and minimum net worth. Interest on the revolving credit facility is calculated at prime or LIBOR plus 75 basis points. At June 30, 2010, there were no borrowings under our \$425 million revolving credit facility maturing on October 19, 2012. After \$85.7 million was considered for letters of credit, \$339.3 million was available under the revolving credit facility.

**Table of Contents**

In May 2009, TILC renewed its railcar leasing warehouse facility through February 2011. Unless renewed, this facility will be payable in three installments in August 2011, February 2012, and August 2012. Advances under this facility bear interest at a defined index rate plus a margin, for an all-in interest rate of 2.91% at June 30, 2010. At June 30, 2010, \$137.3 million was outstanding and \$337.7 million was available under this facility.

In June 2007, TRIP Leasing entered into a \$1.19 billion Warehouse Loan Agreement which contains a floating rate revolving facility (the TRIP Warehouse Loan). The TRIP Warehouse Loan had a two year revolving availability period which ended in June 2009. From June 2010 through June 2011, all excess cash flow, as defined by the Warehouse Loan Agreement, must be applied to reductions in principal in lieu of dividends to equity members of TRIP Holdings. Commencing June 2011, the outstanding balance is due in four quarterly installments ending March 2012. The availability period and quarterly installment due dates are subject to extension by written agreement between TRIP Leasing and its lenders. No extensions to the availability period were issued as of June 30, 2010. The TRIP Warehouse Loan is a limited recourse obligation, secured by a portfolio of railcars and operating leases, certain cash reserves, and other assets acquired and owned by TRIP Leasing. The TRIP Warehouse Loan consists of Tranche A bearing an interest rate of the one month USD Libor plus 1.00% and Tranche B bearing an interest rate of the one month USD Libor plus 2.25%.

Terms and conditions of other debt, including recourse and non-recourse provisions, are described in Note 11 of the December 31, 2009 Consolidated Financial Statements filed on Form 10-K.

The remaining principal payments under existing debt agreements as of June 30, 2010 are as follows:

|   | <b>Remaining<br/>six<br/>months<br/>of</b> |             |             |             |             |                   |
|---|--|-------------|-------------|-------------|-------------|-------------------|
|   | <b>2010</b>                                | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>Thereafter</b> |
|   | <b>(in millions)</b>                       |             |             |             |             |                   |
| Recourse:   |  |             |             |             |             |                   |
| Manufacturing/Corporate Leasing term loan (Note 5)                              | \$ 0.4                                     | \$ 0.5      | \$ 0.4      | \$ 0.2      | \$ 201.7    | \$ 450.7          |
| Leasing capital leases (Note 5)   | 1.3  | 2.6         | 2.8         | 3.0         | 3.3         | 45.6              |
| Non-recourse leasing (Note 5):  | 1.2  | 2.6         | 2.8         | 2.9         | 3.1         | 39.8              |
| 2006 secured railcar equipment notes  | 8.2  | 14.8        | 13.6        | 15.3        | 17.1        | 225.3             |
| 2009 secured railcar equipment notes  | 4.3  | 10.2        | 9.2         | 10.2        | 9.9         | 189.8             |
| TILC warehouse facility   | 2.2  | 7.0         | 4.0         |             |             |                   |
| Promissory notes  | 13.5                                       | 28.2        | 30.0        | 28.0        | 26.5        | 378.3             |
| TRIP Holdings warehouse loan  | 17.4                                       | 745.5       | 271.0       |             |             |                   |
| Total principal payments excluding termination of TILC warehouse trust facility | 48.5                                       | 811.4       | 333.8       | 59.6        | 261.6       | 1,329.5           |
| TILC warehouse trust facility termination payments                              |  | 41.8        | 82.3        |             |             |                   |
| Total principal payments  | \$ 48.5                                    | \$ 853.2    | \$ 416.1    | \$ 59.6     | \$ 261.6    | \$ 1,329.5        |

**Note 12. Other, Net**

Other, net (income) expense consists of the following items:

|  | <b>Three Months<br/>Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|--|--|-------------|--------------------------------------|-------------|
|  | <b>2010</b>                                | <b>2009</b> | <b>2010</b>                          | <b>2009</b> |
|  | <b>(in millions)</b>                       |             |                                      |             |
| Foreign currency exchange transactions | \$ (0.5)                                   | \$ (1.1)    | \$ (0.2)                             | \$ 1.6      |
| Loss (gain) on equity investments      |  | (0.8)       | 1.7                                  | (1.4)       |
| Other                                  | (0.4)                                      | (0.6)       | (0.6)                                | (0.7)       |
| Other, net                             | \$ (0.9)                                   | \$ (2.5)    | \$ 0.9                               | \$ (0.5)    |

Other, net for the six months ended June 30, 2010 includes a \$1.8 million loss on the write-down of the Company's pre-acquisition investment in Quixote Corporation. See Note 2 Acquisitions.

**Table of Contents****Note 13. Income Taxes**

The change in unrecognized tax benefits for the six months ended June 30, 2010 and 2009 was as follows:

|   | <b>Six Months Ended<br/>June 30,</b> |             |
|---|--------------------------------------|-------------|
|   | <b>2010</b>                          | <b>2009</b> |
|   | <b>(in millions)</b>                 |             |
| Beginning balance                                       | <b>\$ 40.1</b>                       | \$ 32.9     |
| Additions for tax positions related to the current year | <b>1.7</b>                           | 1.5         |
| Additions for tax positions of prior years              | <b>5.8</b>                           | 0.2         |
| Reductions for tax positions of prior years             | <b>(5.2)</b>                         | (3.3)       |
| Settlements   | <b>(1.1)</b>                         |             |
| Expiration of statute of limitations                    | <b>(0.4)</b>                         |             |
| Ending balance  | <b>\$ 40.9</b>                       | \$ 31.3     |

The additions for the six months ended June 30, 2010 and 2009, were amounts provided for tax positions previously taken in foreign jurisdictions and tax positions taken for federal and state income tax purposes as well as deferred tax liabilities that have been reclassified to uncertain tax positions.

The increase in tax positions related to prior years is primarily related to a Federal tax position that was taken on a previously filed tax return. This position was submitted to the Internal Revenue Service ( IRS ) and we anticipate making a payment related to this position when the current examination cycle closes. In addition, we have also reflected additional income tax reserves of \$1.6 million related to our recent acquisition of Quixote Corporation.

The reduction in tax positions of prior years was primarily related to state taxes. During the six months ended June 30, 2010, we received additional facts on certain state tax positions that led us to change the measurement of certain state tax benefits previously recorded. This reduction in state positions was accompanied by a reduction in related deferred tax assets. For the six months ended June 30, 2009, the reduction in tax positions was primarily due to the completion of state audits in which the Company's tax position was not challenged by the state and for which the positions are now effectively settled and to a federal tax position that we believed would be sustained upon audit and therefore was no longer at risk.

Settlements during the six months ended June 30, 2010 related to a first quarter tax settlement of the 2002 Mexico tax return of one of our subsidiaries. We paid \$2.1 million in taxes, penalties, and interest related to this settlement. The excess of the amount reserved over the settlement amount is reflected as a \$1.8 million benefit in income taxes.

The total amount of unrecognized tax benefits including interest and penalties at June 30, 2010 that would affect the Company's effective tax rate if recognized was \$17.7 million. There is a reasonable possibility that unrecognized federal and state tax benefits will decrease by June 30, 2011 due to a lapse in the statute of limitations for assessing tax. Amounts subject to a lapse in statute by June 30, 2011 total \$0.3 million. Further, there is a reasonable possibility that the unrecognized Federal tax benefits will decrease by June 30, 2011 due to settlements with taxing authorities. Amounts expected to settle by June 30, 2011 total \$7.1 million.

Trinity accounts for interest expense and penalties related to income tax issues as income tax expense. Accordingly, interest expense and penalties associated with an uncertain tax position are included in the income tax provision. The total amount of accrued interest and penalties as of June 30, 2010 and December 31, 2009 was \$13.7 million and \$16.0 million, respectively. Income tax expense for the three and six months ended June 30, 2010 included an increase in income tax expense of \$1.2 million and a reduction in income tax expense of \$2.3 million, respectively, in interest expense and penalties related to uncertain tax positions. Income tax expense for the three and six months ended June 30, 2009 included a reduction in income tax expense of \$0.8 million and an increase in income tax expense of \$0.4 million, respectively, in interest expense and penalties related to uncertain tax positions.

We are currently under three separate IRS examination cycles. These include the tax years ended 1998 through 2002; 2004 through 2005; and 2006 through 2008. Our statute remains open from the year ended March 31, 1998,

forward. We have agreed upon all issues related to the 1998-2002 exam cycle and are currently waiting for the final Revenue Agent Report and tax assessment. We are currently unable to determine when the IRS will issue their final closing letter and have been working with them to close out this cycle. We are fully reserved for these issues and have made a preliminary tax payment to stop the accrual of additional interest. We have also concluded the field work for the 2004-2005 exam cycle and have been issued a Revenue Agent Report, or 30-Day Letter. Certain issues have been agreed upon by us and the IRS and certain issues remain unresolved. Accordingly, we have appealed those unresolved issues to the Appeals Division of the IRS. Due to the uncertainty of the length of the appeals process and possible post-appeals litigation on any issues, the statute related to the 2004-2005 exam cycle will remain open for an indeterminable period of time. Likewise, as the 2006-2008 cycle is still in the examination level, we are unable to determine how long these periods will remain open.

**Table of Contents**

As previously mentioned, during the first quarter ended March 31, 2010, we closed our audit with one of our Mexican subsidiaries. The 2003 tax year is still under review and is expected to be completed within the calendar year. On July 1, 2010 we were notified that the Swiss authorities intend to audit one of our Swiss subsidiaries for the 2006-2009 cycle. We do not anticipate any material adjustments from this audit. Our various other European subsidiaries, including subsidiaries that were sold in 2006, are impacted by various statutes of limitations which are generally open from 2003 forward. An exception to this is our discontinued operations in Romania, which have been audited through 2004. Generally, states' statutes in the United States are open from 2002 forward.

During the second quarter of 2009, the Company received income tax refunds of \$85.8 million. Also, during the second quarter of 2009, the Company evaluated its ability to utilize its foreign tax credit carryforwards. We evaluated both positive and negative evidence in determining whether we believe that we have a more-likely-than-not chance of fully utilizing the foreign tax credits prior to their expiration. Due to the drop in demand for railcars and the timing of the expected recovery, the impairment of goodwill within the Rail Group, and the relative short remaining carryforward period of some of our older foreign tax credits, we established a valuation allowance of \$6.3 million against tax credits generated prior to 2007.

The provision for income taxes from continuing operations results in effective tax rates different from the statutory rates. The following is a reconciliation between the statutory United States federal income tax rate and the Company's effective income tax rate:

|                                 | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|---------------------------------|---------------------------|-------------|-------------------------|-------------|
|                                 | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|                                 | <b>2010</b>               | <b>2009</b> | <b>2010</b>             | <b>2009</b> |
| Statutory rate                  | <b>35.0%</b>              | 35.0%       | <b>35.0%</b>            | 35.0%       |
| State taxes                     | <b>3.3</b>                | 0.5         | <b>3.1</b>              | (0.2)       |
| Impairment of goodwill          |                           | (13.5)      |                         | (17.0)      |
| Changes in valuation allowances |                           | (2.4)       |                         | (3.0)       |
| Tax settlements                 | <b>(5.3)</b>              |             | <b>0.6</b>              |             |
| Changes in tax reserves         | <b>2.1</b>                | 0.5         | <b>(7.7)</b>            | 0.3         |
| Foreign tax adjustments         | <b>2.1</b>                | 0.8         | <b>2.4</b>              | (0.3)       |
| Other, net                      | <b>2.2</b>                | 0.5         | <b>2.6</b>              | 2.1         |
| Effective rate                  | <b>39.4%</b>              | 21.4%       | <b>36.0%</b>            | 16.9%       |

**Note 14. Employee Retirement Plans**

The following table summarizes the components of net retirement cost for the Company.

|                                | <b>Three Months</b>  |             | <b>Six Months Ended</b> |             |
|--------------------------------|----------------------|-------------|-------------------------|-------------|
|                                | <b>Ended</b>         |             | <b>June 30,</b>         |             |
|                                | <b>June 30,</b>      |             | <b>June 30,</b>         |             |
|                                | <b>2010</b>          | <b>2009</b> | <b>2010</b>             | <b>2009</b> |
|                                | <b>(in millions)</b> |             |                         |             |
| Service cost                   | <b>\$ 0.3</b>        | \$ 0.3      | <b>\$ 0.5</b>           | \$ 2.5      |
| Interest                       | <b>4.9</b>           | 4.7         | <b>9.8</b>              | 10.2        |
| Expected return on plan assets | <b>(5.0)</b>         | (3.9)       | <b>(10.0)</b>           | (7.9)       |
| Actuarial loss                 | <b>0.6</b>           | 0.8         | <b>1.2</b>              | 2.7         |
| Curtailement                   |                      |             |                         | (0.3)       |
| Profit sharing                 | <b>2.2</b>           | 2.2         | <b>4.3</b>              | 5.2         |
| Net expense                    | <b>\$ 3.0</b>        | \$ 4.1      | <b>\$ 5.8</b>           | \$ 12.4     |

During the first quarter of 2009, the Company amended its Supplemental Retirement Plan (the Supplemental Plan ) to reduce future retirement plan costs. This amendment provides that all benefit accruals under the Supplemental Plan cease effective March 31, 2009, and the Supplemental Plan was frozen as of that date. In addition, the Company amended the Trinity Industries, Inc. Standard Pension Plan (the Pension Plan ). This amendment was designed to reduce future pension costs and provides that, effective March 31, 2009, all future benefit accruals under the Pension Plan automatically ceased for all participants, and the accrued benefits under the Pension Plan were determined and frozen as of that date. Accordingly, as a result of these amendments, the accrued pension liability was reduced by \$44.1 million with an offsetting reduction in funded status of pension liability included in AOCL.

Trinity contributed \$3.4 million and \$6.8 million to the Company s defined benefit pension plans for the three and six month periods ended June 30, 2010, respectively. Trinity contributed \$4.2 million and \$12.7 million to the Company s defined benefit pension plans for the three and six month periods ended June 30, 2009, respectively. Total contributions to the Company s pension plans in 2010 are expected to be approximately \$12.9 million.



**Table of Contents****Note 15. Accumulated Other Comprehensive Loss**

Comprehensive net income (loss) is as follows:

|   | <b>Three Months<br/>Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|---|--|-------------|--------------------------------------|-------------|
|   | <b>2010</b>                                | <b>2009</b> | <b>2010</b>                          | <b>2009</b> |
|   | <b>(in millions)</b>                       |             |                                      |             |
| Net income (loss) attributable to Trinity   | <b>\$ 18.4</b>                             | \$ (209.4)  | <b>\$ 20.4</b>                       | \$ (175.5)  |
| Other comprehensive income (loss):  |  |             |                                      |             |
| Currency translation adjustments, net of tax expense of \$0.0, \$0.0, \$0.0, and \$0.0  | <b>0.0</b>                                 | 0.0         | 0.0                                  | 0.0         |
| Change in funded status of pension liability from curtailment, net of tax expense of \$ , \$ , \$ , and \$16.4                      |  |             |                                      | 27.7        |
| Change in unrealized loss on derivative financial instruments, net of tax expense (benefit) of \$(5.0), \$10.9, \$(7.3), and \$13.6 | <b>(11.9)</b>                              | 19.0        | <b>(15.9)</b>                        | 23.5        |
| Other changes, net of tax expense (benefit) of \$ , \$(0.1), \$0.7, and \$(0.6)   |  | (0.1)       | <b>1.1</b>                           | (0.9)       |
| Comprehensive net income (loss) attributable to Trinity   | <b>\$ 6.5</b>                              | \$ (190.5)  | <b>\$ 5.6</b>                        | \$ (125.2)  |

The components of accumulated other comprehensive loss are as follows:

|  | <b>June<br/>30,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> |
|--|------------------------------|----------------------------------|
|  | <b>(in millions)</b>         |                                  |
| Currency translation adjustments, net of tax benefit of \$(0.2) and \$(0.2)                      | <b>\$ (17.1)</b>             | \$ (17.1)                        |
| Unrealized loss on derivative financial instruments, net of tax benefit of \$(26.1) and \$(18.8) | <b>(44.9)</b>                | (29.0)                           |
| Funded status of pension liability, net of tax benefit of \$(30.0) and \$(30.0)                  | <b>(50.8)</b>                | (50.8)                           |
| Other changes, net of tax benefit of \$ and \$(0.7)  |                              | (1.1)                            |
|  | <b>\$ (112.8)</b>            | \$ (98.0)                        |

**Note 16. Stock-Based Compensation**

Stock-based compensation totaled approximately \$3.5 million and \$7.0 million for the three and six months ended June 30, 2010, respectively. Stock-based compensation totaled approximately \$3.6 million and \$7.5 million for the three and six months ended June 30, 2009, respectively.

**Note 17. Net Income Per Common Share**

On January 1, 2009, we adopted the provisions of the new FASB accounting pronouncement requiring that unvested share-based payment awards containing non-forfeitable rights to dividends be considered participating securities and included in the computation of earnings per share pursuant to the two-class method.

Basic net income attributable to Trinity per common share is computed by dividing net income attributable to Trinity remaining after allocation to unvested restricted shares by the weighted average number of common shares outstanding for the period. Except when the effect would be antidilutive, the calculation of diluted net income attributable to Trinity per common share includes the net impact of unvested restricted shares and shares that could be

issued under outstanding stock options. Total weighted average restricted shares and stock options having an antidilutive effect on diluted earnings per share were 2.8 million shares and 2.7 million shares for the three and six month periods ended June 30, 2010, respectively. Total weighted average restricted shares and stock options having an antidilutive effect on diluted earnings per share were 4.0 million shares and 3.9 million shares for the three and six month periods ended June 30, 2009, respectively.

**Table of Contents**

The computation of basic and diluted net income (loss) attributable to controlling interest is as follows:

|   | Three Months Ended<br>June 30, 2010     |                   |           | Three Months Ended<br>June 30, 2009 |                   |           |
|---|---|-------------------|-----------|-------------------------------------|-------------------|-----------|
|   | (in millions, except per share amounts) |                   |           |                                     |                   |           |
|   | Income<br>(Loss)                        | Average<br>Shares | EPS       | Income<br>(Loss)                    | Average<br>Shares | EPS       |
| Income (loss) from continuing operations  | \$ 21.1                                 |                   |           | \$ (209.4)                          |                   |           |
| Less: income from continuing operations attributable to noncontrolling interest | 2.7                                     |                   |           |                                     |                   |           |
| Income (loss) from continuing operations attributable to Trinity                | 18.4                                    |                   |           | (209.4)                             |                   |           |
| Unvested restricted share participation   | (0.6)                                   |                   |           | (0.4)                               |                   |           |
| Income (loss) from continuing operations attributable to Trinity basic          | 17.8                                    | 76.7              | \$ 0.23   | (209.8)                             | 76.2              | \$ (2.75) |
| Effect of dilutive securities:  |   |                   |           |                                     |                   |           |
| Stock options   |   | 0.2               |           |                                     | 0.0               |           |
| Income (loss) from continuing operations attributable to Trinity diluted        | \$ 17.8                                 | 76.9              | \$ 0.23   | \$ (209.8)                          | 76.2              | \$ (2.75) |
| Loss from discontinued operations, net of taxes                                 | \$ (0.0)                                |                   |           | \$ 0.0                              |                   |           |
| Unvested restricted share participation   |   |                   |           |                                     |                   |           |
| Loss from discontinued operations, net of taxes basic                           | \$ (0.0)                                | 76.7              | \$ (0.00) | \$ 0.0                              | 76.2              | \$ 0.00   |
| Effect of dilutive securities:  |   |                   |           |                                     |                   |           |
| Stock options   |   | 0.2               |           |                                     | 0.0               |           |
| Loss from discontinued operations, net of taxes diluted                         | \$ (0.0)                                | 76.9              | \$ (0.00) | \$ 0.0                              | 76.2              | \$ 0.00   |

|   | Six Months Ended<br>June 30, 2010       |                   |     | Six Months Ended<br>June 30, 2009 |                   |     |
|---|---|-------------------|-----|-----------------------------------|-------------------|-----|
|   | (in millions, except per share amounts) |                   |     |                                   |                   |     |
|   | Income<br>(Loss)                        | Average<br>Shares | EPS | Income<br>(Loss)                  | Average<br>Shares | EPS |
| Income (loss) from continuing operations  | \$ 25.4                                 |                   |     | \$ (175.4)                        |                   |     |
| Less: income from continuing operations attributable to noncontrolling interest | 5.0                                     |                   |     |                                   |                   |     |
| Income (loss) from continuing operations attributable to Trinity                | 20.4                                    |                   |     | (175.4)                           |                   |     |

Edgar Filing: TRINITY INDUSTRIES INC - Form 10-Q

|   |                 |             |                  |            |      |           |
|---|-----------------|-------------|------------------|------------|------|-----------|
| Unvested restricted share participation   | <b>(0.7)</b>    |             |                  | (0.6)      |      |           |
| Income (loss) from continuing operations attributable to Trinity basic                  | <b>19.7</b>     | <b>76.6</b> | <b>\$ 0.26</b>   | (176.0)    | 76.4 | \$ (2.30) |
| Effect of dilutive securities:  |                 |             |                  |            |      |           |
| Stock options   |                 | <b>0.1</b>  |                  |            | 0.0  |           |
| Income (loss) from continuing operations attributable to Trinity diluted                | <b>\$ 19.7</b>  | <b>76.7</b> | <b>\$ 0.26</b>   | \$ (176.0) | 76.4 | \$ (2.30) |
| Loss from discontinued operations, net of taxes Unvested restricted share participation | <b>\$ (0.0)</b> |             |                  | \$ (0.1)   |      |           |
| Loss from discontinued operations, net of taxes basic                                   | <b>\$ (0.0)</b> | <b>76.6</b> | <b>\$ (0.00)</b> | \$ (0.1)   | 76.4 | \$ 0.00   |
| Effect of dilutive securities:  |                 |             |                  |            |      |           |
| Stock options   |                 | <b>0.1</b>  |                  |            | 0.0  |           |
| Loss from discontinued operations, net of taxes diluted                                 | <b>\$ (0.0)</b> | <b>76.7</b> | <b>\$ (0.00)</b> | \$ (0.1)   | 76.4 | \$ 0.00   |

**Table of Contents****Note 18. Contingencies**

The Company is involved in other claims and lawsuits incidental to our business. Based on information currently available, it is management's opinion that the ultimate outcome of all current litigation and other claims, including settlements, in the aggregate will not have a material adverse effect on the Company's overall financial condition for purposes of financial reporting. However, resolution of certain claims or lawsuits by settlement or otherwise could impact the operating results of the reporting period in which such resolution occurs.

Trinity is subject to Federal, state, local, and foreign laws and regulations relating to the environment and the workplace. The Company has reserved \$7.0 million to cover our probable and estimable liabilities with respect to the investigations, assessments, and remedial responses to such matters, taking into account currently available information and our contractual rights to indemnification and recourse to third parties. However, estimates of liability arising from future proceedings, assessments, or remediation are inherently imprecise. Accordingly, there can be no assurance that we will not become involved in future litigation or other proceedings involving the environment and the workplace or, if we are found to be responsible or liable in any such litigation or proceeding, that such costs would not be material to the Company. Other than with respect to the foregoing, we believe that we are currently in substantial compliance with environmental and workplace laws and regulations.

**Note 19. Financial Statements for Guarantors of the Senior Debt**

The Company's senior debt and certain operating leases are fully and unconditionally and jointly and severally guaranteed by certain of Trinity's wholly owned subsidiaries: Transit Mix Concrete & Materials Company, Trinity Industries Leasing Company, Trinity Marine Products, Inc., Trinity Rail Group, LLC, Trinity North American Freight Car, Inc., Trinity Tank Car, Inc., Trinity Parts & Components, LLC, and Trinity Structural Towers, Inc. ( Combined Guarantor Entities ). The senior debt is not guaranteed by any remaining wholly owned subsidiary of the Company nor by TRIP Holdings or TRIP Leasing ( Combined Non-Guarantor Entities ). Effective January 1, 2010, Trinity Structural Towers Inc. was included as an additional guarantor of the Senior debt. As of June 30, 2010, assets held by the non-guarantor subsidiaries and variable interest entities for which the Company is the primary beneficiary included \$189.4 million of restricted cash that was not available for distribution to Trinity Industries, Inc. ( Parent ), \$2,956.5 million of equipment securing certain debt including \$1,209.0 million in equipment owned by TRIP Holdings, \$103.7 million of equipment securing certain lease obligations held by the non-guarantor subsidiaries, and \$213.5 million of assets located in foreign locations. As of December 31, 2009, assets held by the non-guarantor subsidiaries included \$138.6 million of restricted cash that was not available for distribution to the Parent, \$1,776.3 million of equipment securing certain debt, \$105.3 million of equipment securing certain lease obligations held by the non-guarantor subsidiaries, and \$213.9 million of assets located in foreign locations.

**Statement of Operations****For the Three Months Ended June 30, 2010**

|  | Parent | Combined<br>Guarantor<br>Entities | Combined<br>Non-<br>Guarantor<br>Entities<br>(in millions) | Eliminations | Consolidated |
|--|--------|-----------------------------------|--|--------------|--------------|
| Revenues   | \$ 0.1 | \$ 273.8                          | \$ 309.1   | \$ (39.9)    | \$ 543.1     |
| Cost of revenues                                     | 2.5    | 218.6                             | 237.5  | (39.9)       | 418.7        |
| Selling, engineering, and<br>administrative expenses | 6.5    | 19.3                              | 19.7   |              | 45.5         |
|  | 9.0    | 237.9                             | 257.2  | (39.9)       | 464.2        |
| Operating profit (loss)                              | (8.9)  | 35.9                              | 51.9   |              | 78.9         |
| Other (income) expense                               | (26.7) | 6.8                               | 33.3   | 30.7         | 44.1         |

|  |                |                |               |                  |                |
|--|----------------|----------------|---------------|------------------|----------------|
| <b>Income (loss) from continuing operations before income taxes</b>                | <b>17.8</b>    | <b>29.1</b>    | <b>18.6</b>   | <b>(30.7)</b>    | <b>34.8</b>    |
| <b>Provision (benefit) for income taxes</b>  | <b>(3.3)</b>   | <b>8.0</b>     | <b>9.0</b>    |                  | <b>13.7</b>    |
| <b>Income (loss) from continuing operations</b>                                    | <b>21.1</b>    | <b>21.1</b>    | <b>9.6</b>    | <b>(30.7)</b>    | <b>21.1</b>    |
| <b>Loss from discontinued operations, net of benefit for income taxes of \$0.0</b> |                |                |               |                  |                |
| <b>Net income (loss)</b>   | <b>\$ 21.1</b> | <b>\$ 21.1</b> | <b>\$ 9.6</b> | <b>\$ (30.7)</b> | <b>\$ 21.1</b> |

**Table of Contents****Statement of Operations  
For the Six Months Ended June 30, 2010**

|   | Parent  | Combined<br>Guarantor<br>Entities | Combined<br>Non-<br>Guarantor<br>Entities<br>(in millions) | Eliminations | Consolidated |
|---|---------|-----------------------------------|--|--------------|--------------|
| Revenues  | \$      | \$ 508.9                          | \$ 559.9   | \$ (71.7)    | \$ 997.1     |
| Cost of revenues  | 7.2     | 399.2                             | 437.6  | (71.7)       | 772.3        |
| Selling, engineering, and<br>administrative expenses                              | 18.9    | 37.6                              | 37.4   |              | 93.9         |
|   | 26.1    | 436.8                             | 475.0  | (71.7)       | 866.2        |
| Operating profit (loss)   | (26.1)  | 72.1                              | 84.9   |              | 130.9        |
| Other (income) expense  | (41.5)  | 17.3                              | 67.2   | 48.2         | 91.2         |
| Income (loss) from continuing<br>operations before income taxes                   | 15.4    | 54.8                              | 17.7   | (48.2)       | 39.7         |
| Provision (benefit) for income taxes  | (10.0)  | 18.3                              | 6.0  |              | 14.3         |
| Income (loss) from continuing<br>operations                                       | 25.4    | 36.5                              | 11.7   | (48.2)       | 25.4         |
| Loss from discontinued operations,<br>net of benefit for income taxes of<br>\$0.0 |         |                                   |  |              |              |
| Net income (loss)   | \$ 25.4 | \$ 36.5                           | \$ 11.7  | \$ (48.2)    | \$ 25.4      |

**Statement of Operations  
For the Three Months Ended June 30, 2009**

|  | Parent | Combined<br>Guarantor<br>Entities | Combined<br>Non-<br>Guarantor<br>Entities<br>(in millions) | Eliminations | Consolidated |
|--|--------|-----------------------------------|--|--------------|--------------|
| Revenues   | \$     | \$ 403.7                          | \$ 359.0   | \$ (46.6)    | \$ 716.1     |
| Cost of revenues                                     | 10.8   | 286.5                             | 333.4  | (46.6)       | 584.1        |
| Selling, engineering, and<br>administrative expenses | 7.9    | 22.8                              | 16.6   |              | 47.3         |
| Goodwill impairment                                  |        | 325.0                             |  |              | 325.0        |
|  | 18.7   | 634.3                             | 350.0  | (46.6)       | 956.4        |
| Operating profit (loss)                              | (18.7) | (230.6)                           | 9.0  |              | (240.3)      |
| Other (income) expense                               | 195.5  | 3.9                               | 15.9   | (189.3)      | 26.0         |

Edgar Filing: TRINITY INDUSTRIES INC - Form 10-Q

|   |            |            |           |          |            |
|---|------------|------------|-----------|----------|------------|
| Income (loss) from continuing operations before income taxes                | (214.2)    | (234.5)    | (6.9)     | 189.3    | (266.3)    |
| Provision (benefit) for income taxes  | (4.8)      | (65.1)     | 13.0      |          | (56.9)     |
| Income (loss) from continuing operations                                    | (209.4)    | (169.4)    | (19.9)    | 189.3    | (209.4)    |
| Loss from discontinued operations, net of benefit for income taxes of \$0.0 |            |            |           |          |            |
| Net income (loss)   | \$ (209.4) | \$ (169.4) | \$ (19.9) | \$ 189.3 | \$ (209.4) |

**Statement of Operations**  
**For the Six Months Ended June 30, 2009**

|   | Parent     | Combined Guarantor Entities | Combined Non-Guarantor Entities (in millions) | Eliminations | Consolidated |
|---|------------|-----------------------------|---|--------------|--------------|
| Revenues  | \$         | \$ 928.7                    | \$ 702.4                                      | \$ (121.5)   | \$ 1,509.6   |
| Cost of revenues  | 20.5       | 725.2                       | 618.6   | (121.5)      | 1,242.8      |
| Selling, engineering, and administrative expenses                           | 15.4       | 45.8                        | 35.0  |              | 96.2         |
| Goodwill impairment   |            | 325.0                       |   |              | 325.0        |
|   | 35.9       | 1,096.0                     | 653.6   | (121.5)      | 1,664.0      |
| Operating profit (loss)   | (35.9)     | (167.3)                     | 48.8  |              | (154.4)      |
| Other (income) expense  | 150.9      | 2.6                         | 36.0  | (132.8)      | 56.7         |
| Income (loss) from continuing operations before income taxes                | (186.8)    | (169.9)                     | 12.8  | 132.8        | (211.1)      |
| Provision (benefit) for income taxes  | (11.3)     | (45.2)                      | 20.8  |              | (35.7)       |
| Income (loss) from continuing operations                                    | (175.5)    | (124.7)                     | (8.0)   | 132.8        | (175.4)      |
| Loss from discontinued operations, net of benefit for income taxes of \$0.0 |            |                             | (0.1)   |              | (0.1)        |
| Net income (loss)   | \$ (175.5) | \$ (124.7)                  | \$ (8.1)                                      | \$ 132.8     | \$ (175.5)   |



**Table of Contents****Balance Sheet  
June 30, 2010**

|  | Parent     | Combined<br>Guarantor<br>Entities | Combined<br>Non-<br>Guarantor<br>Entities<br>(in millions) | Eliminations | Consolidated |
|--|------------|-----------------------------------|--|--------------|--------------|
| <b>Assets:</b>   |            |                                   |  |              |              |
| Cash and cash equivalents  | \$ 195.3   | \$ 2.4                            | \$ 12.6  | \$           | \$ 210.3     |
| Short-term marketable securities   | 225.0      |                                   |  |              | 225.0        |
| Receivables, net of allowance  | 0.2        | 122.6                             | 122.8  |              | 245.6        |
| Income tax receivable  | 12.4       |                                   |  |              | 12.4         |
| Inventory  |            | 158.1                             | 141.0  |              | 299.1        |
| Property, plant, and equipment, net                                      | 18.5       | 765.0                             | 3,309.8  |              | 4,093.3      |
| Investments in<br>subsidiaries/intercompany<br>receivable (payable), net | 1,967.6    | 868.5                             | 460.9  | (3,297.0)    |              |
| Restricted cash  |            |                                   | 189.4  |              | 189.4        |
| Goodwill and other assets  | 209.2      | 127.1                             | 221.9  | (178.5)      | 379.7        |
|  | \$ 2,628.2 | \$ 2,043.7                        | \$ 4,458.4   | \$ (3,475.5) | \$ 5,654.8   |
| <b>Liabilities:</b>  |            |                                   |  |              |              |
| Accounts payable   | \$ 7.7     | \$ 52.8                           | \$ 58.4  | \$           | \$ 118.9     |
| Accrued liabilities  | 161.2      | 57.2                              | 197.2  |              | 415.6        |
| Debt   | 535.4      | 113.1                             | 2,203.5  |              | 2,852.0      |
| Deferred income  | 30.6       | 1.4                               | 2.8  |              | 34.8         |
| Deferred income taxes  |            | 501.8                             | 9.6  | (178.5)      | 332.9        |
| Other liabilities  | 71.9       | 0.9                               | 6.4  |              | 79.2         |
| Total stockholders' equity   | 1,821.4    | 1,316.5                           | 1,980.5  | (3,297.0)    | 1,821.4      |
|  | \$ 2,628.2 | \$ 2,043.7                        | \$ 4,458.4   | \$ (3,475.5) | \$ 5,654.8   |

**Balance Sheet  
December 31, 2009**

|                                     | Parent   | Combined<br>Guarantor<br>Entities | Combined<br>Non-<br>Guarantor<br>Entities<br>(in millions) | Eliminations | Consolidated |
|-------------------------------------|----------|-----------------------------------|--|--------------|--------------|
| <b>Assets:</b>                      |          |                                   |  |              |              |
| Cash and cash equivalents           | \$ 596.3 | \$ 2.6                            | \$ 12.9  | \$           | \$ 611.8     |
| Short-term marketable securities    | 70.0     |                                   |  |              | 70.0         |
| Receivables, net of allowance       |          | 41.5                              | 118.3  |              | 159.8        |
| Income tax receivable               | 11.2     |                                   |  |              | 11.2         |
| Inventory                           |          | 94.4                              | 137.1  |              | 231.5        |
| Property, plant, and equipment, net | 19.4     | 849.5                             | 2,169.3  |              | 3,038.2      |

|   |                   |                   |                   |                     |                   |
|---|-------------------|-------------------|-------------------|---------------------|-------------------|
| <b>Investments in subsidiaries/intercompany receivable (payable), net</b> | <b>1,808.4</b>    | <b>891.3</b>      | <b>618.2</b>      | <b>(3,317.9)</b>    |                   |
| <b>Restricted cash</b>  |                   |                   | <b>138.6</b>      |                     | <b>138.6</b>      |
| <b>Goodwill and other assets</b>  | <b>175.3</b>      | <b>193.8</b>      | <b>140.3</b>      | <b>(114.1)</b>      | <b>395.3</b>      |
|   | <b>\$ 2,680.6</b> | <b>\$ 2,073.1</b> | <b>\$ 3,334.7</b> | <b>\$ (3,432.0)</b> | <b>\$ 4,656.4</b> |
| <b>Liabilities:</b>   |                   |                   |                   |                     |                   |
| <b>Accounts payable</b>   | <b>\$ 5.5</b>     | <b>\$ 29.8</b>    | <b>\$ 41.5</b>    | <b>\$</b>           | <b>\$ 76.8</b>    |
| <b>Accrued liabilities</b>  | <b>194.6</b>      | <b>49.0</b>       | <b>130.9</b>      |                     | <b>374.5</b>      |
| <b>Debt</b>   | <b>530.4</b>      | <b>115.7</b>      | <b>1,199.0</b>    |                     | <b>1,845.1</b>    |
| <b>Deferred income</b>  | <b>70.0</b>       | <b>4.2</b>        | <b>3.5</b>        |                     | <b>77.7</b>       |
| <b>Deferred income taxes</b>  |                   | <b>500.6</b>      | <b>11.4</b>       | <b>(114.1)</b>      | <b>397.9</b>      |
| <b>Other liabilities</b>  | <b>73.8</b>       | <b>1.0</b>        | <b>3.3</b>        |                     | <b>78.1</b>       |
| <b>Total stockholders equity</b>  | <b>1,806.3</b>    | <b>1,372.8</b>    | <b>1,945.1</b>    | <b>(3,317.9)</b>    | <b>1,806.3</b>    |
|   | <b>\$ 2,680.6</b> | <b>\$ 2,073.1</b> | <b>\$ 3,334.7</b> | <b>\$ (3,432.0)</b> | <b>\$ 4,656.4</b> |

**Table of Contents****Statement of Cash Flows  
For the Six Months Ended June 30, 2010**

|  | <b>Parent</b> | <b>Combined<br/>Guarantor<br/>Entities</b> | <b>Combined<br/>Non-<br/>Guarantor<br/>Entities<br/>(in millions)</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|---------------|--|---|---------------------|---------------------|
| Net cash provided (required) by operating activities | \$ (186.4)    | \$ 97.8                                    | \$ 86.7   | \$                  | \$ (1.9)            |
| Net cash provided (required) by investing activities | (202.8)       | (95.4)                                     | (5.5)   |                     | (303.7)             |
| Net cash provided (required) by financing activities | (11.8)        | (2.6)                                      | (81.5)  |                     | (95.9)              |
| Net increase (decrease) in cash and cash equivalents | (401.0)       | (0.2)                                      | (0.3)   |                     | (401.5)             |
| Cash and cash equivalents at beginning of period     | 596.3         | 2.6  | 12.9  |                     | 611.8               |
| Cash and cash equivalents at end of period           | \$ 195.3      | \$ 2.4                                     | \$ 12.6   | \$                  | \$ 210.3            |

**Statement of Cash Flows  
For the Six Months Ended June 30, 2009**

|  | <b>Parent</b> | <b>Combined<br/>Guarantor<br/>Entities</b> | <b>Combined<br/>Non-<br/>Guarantor<br/>Entities<br/>(in millions)</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|---------------|--|---|---------------------|---------------------|
| Net cash provided (required) by operating activities | \$ 290.0      | \$ (23.7)                                  | \$ 80.7   | \$                  | \$ 347.0            |
| Net cash provided (required) by investing activities | 4.3           | 27.7                                       | (46.2)  |                     | (14.2)              |
| Net cash provided (required) by financing activities | (19.0)        | (0.4)                                      | (34.3)  |                     | (53.7)              |
| Net increase (decrease) in cash and cash equivalents | 275.3         | 3.6  | 0.2   |                     | 279.1               |
| Cash and cash equivalents at beginning of period     | 139.7         | 2.1  | 20.0  |                     | 161.8               |
| Cash and cash equivalents at end of period           | \$ 415.0      | \$ 5.7                                     | \$ 20.2   | \$                  | \$ 440.9            |

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**General**

The following discussion should be read in conjunction with the unaudited consolidated financial statements of Trinity Industries, Inc. and subsidiaries (Trinity, Company, we, or our) and related notes thereto appearing elsewhere in this document.

In 2007, the Company purchased 20% of the equity in newly-formed TRIP Rail Holdings LLC (TRIP Holdings). TRIP Holdings and its subsidiary, TRIP Rail Leasing LLC (TRIP Leasing), provide railcar leasing and management services in North America. Railcars are purchased from the Rail and Railcar Leasing and Management Services groups of Trinity by TRIP Leasing. In 2009, the Company acquired an additional 8.16% equity ownership in TRIP Holdings for approximately \$16.2 million from another equity investor. As a result, the Company now owns a 28.16% equity ownership in TRIP Holdings, increasing the Company's total investment to \$63.5 million. Trinity has no remaining equity commitment to TRIP Holdings as of June 30, 2010.

Trinity's carrying value of its investment in TRIP Holdings follows:

|   | <b>June<br/>30,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> |
|---|------------------------------|----------------------------------|
|   | (in millions)                |                                  |
| Capital contributions   | \$ 47.3                      | \$ 47.3                          |
| Equity purchased from another investor                          | 16.2                         | 16.2                             |
|   | <b>63.5</b>                  | 63.5                             |
| Equity in earnings  | 5.0                          | 3.0                              |
| Equity in unrealized losses on derivative financial instruments | (7.1)                        | (3.2)                            |
| Distributions   | (6.0)                        | (6.0)                            |
| Deferred broker fees  | (0.9)                        | (1.0)                            |
|   | <b>\$ 54.5</b>               | \$ 56.3                          |

On January 1, 2010, the Company adopted the provisions of a new accounting pronouncement which amended the rules regarding the consolidation of variable interest entities. Under this new standard, which changed the criteria for determining which enterprise has a controlling financial interest, the Company was determined to be the primary beneficiary of TRIP Holdings because of its combined role as both equity member and manager/servicer of TRIP Holdings. Accordingly, the consolidated balance sheet of the Company as of June 30, 2010, the consolidated statements of operations for the three and six months ended June 30, 2010, and the consolidated statements of cash flows and stockholders' equity for the six months ended June 30, 2010 include the accounts of TRIP Holdings. Prior periods were not restated. As a result of adopting this pronouncement, we determined the effects on Trinity's consolidated financial statements as if TRIP Holdings had been included in the Company's consolidated financial statements from TRIP Holdings' inception and recorded a charge to retained earnings of \$105.4 million, net of \$57.7 million of tax benefit, and a noncontrolling interest of \$129.9 million as of January 1, 2010. All significant intercompany accounts and transactions have been eliminated including the deferral of profits on sales of railcars from the Rail or Leasing Group to TRIP Holdings. These deferred profits will be amortized over the life of the related equipment. Additionally, any future profits on the sale of railcars to TRIP Holdings will be deferred and amortized over the life of the related equipment. The noncontrolling interest represents the non-Trinity equity interest in TRIP Holdings. See further discussion in Note 1 Summary of Significant Accounting Policies Basis of Presentation and Note 6 Investment in TRIP Holdings in the consolidated financial statements. The assets of TRIP Holdings may only be used to satisfy liabilities of TRIP Holdings and the liabilities of TRIP Holdings have recourse only to TRIP Holdings' assets.

On December 8, 2009, the Company's Board of Directors authorized an extension of its stock repurchase program. This extension allows for the repurchase of the Company's common stock through December 31, 2010. The repurchase program commenced in 2007 when \$200 million of shares were authorized for repurchase. No shares were repurchased under this program for the three and six months ended June 30, 2010. Since the inception of this program through June 30, 2010, the Company has repurchased a total of 3,532,728 shares at a cost of approximately \$67.5 million.

In February 2010, pursuant to a tender offer, the Company acquired the outstanding stock of Quixote Corporation ( Quixote ) at a total cost of \$58.1 million, including \$17.1 million in cash balances and \$1.1 million consisting of the Company's pre-acquisition investment in Quixote. In addition, the Company assumed \$40.0 million in debt that was subsequently retired in the first quarter of 2010. Quixote is a leading manufacturer of energy-absorbing highway crash cushions, truck-mounted attenuators, and other transportation products. In connection with the acquisition, Trinity recorded goodwill of \$22.0 million based on its preliminary valuation of the net assets acquired. As a result of the acquisition, the Company recorded transaction-related expenses of \$4.6 million including a \$1.5 million write-down of its pre-acquisition

**Table of Contents**

investment in Quixote classified as other selling, engineering, and administrative costs. In addition to the transaction-related expenses listed above, there was a \$1.8 million reclassification of previously-recognized charges from Accumulated Other Comprehensive Loss ( AOCL ) to earnings representing the decline in fair value of its pre-acquisition investment in Quixote, included in other, net in the consolidated statement of operations. See Note 2 Acquisition, Note 12 Other, Net and Note 15 Accumulated Other Comprehensive Loss in the consolidated financial statements.

*Overall Summary for Continuing Operations*Revenues

|                                   | Three Months Ended June 30,<br>2010 |              |          | Three Months Ended June 30,<br>2009 |              |          | Percent<br>Change |
|-----------------------------------|-------------------------------------|--------------|----------|-------------------------------------|--------------|----------|-------------------|
|                                   | External                            | Intersegment | Total    | External                            | Intersegment | Total    |                   |
|                                   | (\$ in millions)                    |              |          |                                     |              |          |                   |
| Rail Group                        | \$ 42.1                             | \$ 70.8      | \$ 112.9 | \$ 159.4                            | \$ 143.9     | \$ 303.3 | (62.8)%           |
| Construction                      |                                     |              |          |                                     |              |          |                   |
| Products Group                    | 165.7                               | 5.2          | 170.9    | 152.2                               | 1.1          | 153.3    | 11.5              |
| Inland Barge Group                | 99.5                                |              | 99.5     | 136.7                               |              | 136.7    | (27.2)            |
| Energy Equipment<br>Group         | 112.7                               | 2.6          | 115.3    | 132.6                               | 1.8          | 134.4    | (14.2)            |
| Railcar Leasing and<br>Management |                                     |              |          |                                     |              |          |                   |
| Services Group                    | 119.6                               |              | 119.6    | 133.5                               |              | 133.5    | (10.4)            |
| All Other                         | 3.5                                 | 8.9          | 12.4     | 1.7                                 | 8.7          | 10.4     | 19.2              |
| Eliminations lease<br>subsidiary  |                                     | (65.9)       | (65.9)   |                                     | (138.8)      | (138.8)  |                   |
| Eliminations other                |                                     | (21.6)       | (21.6)   |                                     | (16.7)       | (16.7)   |                   |
| Consolidated Total                | \$ 543.1                            | \$           | \$ 543.1 | \$ 716.1                            | \$           | \$ 716.1 | (24.2)            |

|                                   | Six Months Ended June 30, 2010 |              |          | Six Months Ended June 30, 2009 |              |          | Percent<br>Change |
|-----------------------------------|--------------------------------|--------------|----------|--------------------------------|--------------|----------|-------------------|
|                                   | External                       | Intersegment | Total    | External                       | Intersegment | Total    |                   |
|                                   | (\$ in millions)               |              |          |                                |              |          |                   |
| Rail Group                        | \$ 74.3                        | \$ 112.2     | \$ 186.5 | \$ 322.1                       | \$ 265.1     | \$ 587.2 | (68.2)%           |
| Construction                      |                                |              |          |                                |              |          |                   |
| Products Group                    | 277.3                          | 12.0         | 289.3    | 273.2                          | 3.6          | 276.8    | 4.5               |
| Inland Barge Group                | 196.9                          |              | 196.9    | 293.7                          |              | 293.7    | (33.0)            |
| Energy Equipment<br>Group         | 201.8                          | 3.6          | 205.4    | 259.3                          | 3.6          | 262.9    | (21.9)            |
| Railcar Leasing and<br>Management |                                |              |          |                                |              |          |                   |
| Services Group                    | 240.8                          |              | 240.8    | 355.9                          |              | 355.9    | (32.3)            |
| All Other                         | 6.0                            | 16.1         | 22.1     | 5.4                            | 19.4         | 24.8     | (10.9)            |
| Eliminations lease<br>subsidiary  |                                | (103.9)      | (103.9)  |                                | (255.3)      | (255.3)  |                   |
| Eliminations other                |                                | (40.0)       | (40.0)   |                                | (36.4)       | (36.4)   |                   |

Edgar Filing: TRINITY INDUSTRIES INC - Form 10-Q

Consolidated Total      **\$ 997.1**      \$                      **\$ 997.1**      \$ 1,509.6      \$                      \$ 1,509.6      **(33.9)**

Our revenues for the three and six month periods ended June 30, 2010 decreased primarily due to the impact of the economic downturn on the markets we serve, especially the new railcar market, partially offset by the inclusion of the operating results of TRIP Holdings in the consolidated statements of operations for the three and six months ended June 30, 2010. See discussion below regarding the Railcar Leasing and Management Services Group.

Operating Profit (Loss)

|   | <b>Three Months</b>  |                   | <b>Six Months Ended</b> |                   |
|---|----------------------|-------------------|-------------------------|-------------------|
|   | <b>Ended</b>         |                   | <b>June 30,</b>         |                   |
|   | <b>June 30,</b>      |                   | <b>June 30,</b>         |                   |
|   | <b>2010</b>          | <b>2009</b>       | <b>2010</b>             | <b>2009</b>       |
|   | <b>(in millions)</b> |                   |                         |                   |
| Rail Group                                    | \$ (2.7)             | \$ (328.7)        | \$ (10.6)               | \$ (334.5)        |
| Construction Products Group                   | 17.7                 | 15.7              | 20.4                    | 14.0              |
| Inland Barge Group                            | 12.0                 | 30.3              | 29.8                    | 69.2              |
| Energy Equipment Group                        | 13.5                 | 25.2              | 23.9                    | 43.5              |
| Railcar Leasing and Management Services Group | 49.2                 | 35.2              | 97.4                    | 87.9              |
| All Other                                     | (2.1)                | 0.1               | (4.7)                   | 1.1               |
| Corporate                                     | (6.5)                | (7.8)             | (19.0)                  | (15.4)            |
| Eliminations lease subsidiary                 | (1.9)                | (8.8)             | (5.5)                   | (17.7)            |
| Eliminations other                            | (0.3)                | (1.5)             | (0.8)                   | (2.5)             |
| Consolidated Total                            | <b>\$ 78.9</b>       | <b>\$ (240.3)</b> | <b>\$ 130.9</b>         | <b>\$ (154.4)</b> |

Excluding the goodwill impairment charge of \$325 million recorded during the three months ended June 30, 2009, operating profit for the three and six month periods ended June 30, 2010 decreased as a result of lower revenues amid highly competitive markets.

*Other Income and Expense.* Interest expense, net of interest income, was \$45.0 million and \$90.3 million, respectively, for the three and six month periods ended June 30, 2010 compared to \$28.5 million and \$57.2 million, respectively, for the same periods last year. Interest income was unchanged from the same quarter last year and increased \$0.1 million over the same six month period last year. Interest expense increased \$16.5 million and \$33.2 million, respectively, over the same

**Table of Contents**

periods last year due to the inclusion of TRIP Holdings interest expense of \$11.8 million and \$23.6 million, respectively, in 2010 and an increase in debt levels, including \$238.3 million of secured railcar equipment notes for the Leasing Group entered into in November 2009. The decrease in Other, net expense for the three month period ended June 30, 2010 was primarily due to lower foreign currency translation gains and lower gains on equity investments. The decrease in Other, net expense for the six month period ended June 30, 2010 was primarily due to lower foreign currency translation losses partially offset by the recorded decline in fair value of the Company's pre-acquisition investment in Quixote Corporation.

*Income Taxes.* The effective tax rates for continuing operations for the three and six month periods ended June 30, 2010 was 39.4% and 36.0%, respectively. For the six month period ended June 30, 2010 the effective tax rate varied from the federal statutory rate of 35.0% due primarily to the release of income tax reserves in Mexico in excess of the amounts settled, state income taxes and discrete adjustments related to foreign and state taxes during the six months ended June 30, 2010. For the three month period ended June 30, 2010 the effective tax rate varied from the statutory rate primarily due to current state income taxes and the receipt of a state refund claim. The prior year effective tax rates for continuing operations for the three and six month periods ended June 30, 2009 was 21.4% and 16.9%, respectively, and varied from the federal statutory rate of 35.0% due primarily to the goodwill impairment charge not being fully deductible for income tax purposes, the recording of a \$6.3 million valuation reserve related to the utilization of foreign tax credits, state income taxes and discrete adjustments related to foreign and state taxes.

**Rail Group**

|                                   | Three Months Ended June 30, |            |                   | Six Months Ended June 30, |            |                   |
|-----------------------------------|-----------------------------|------------|-------------------|---------------------------|------------|-------------------|
|                                   | 2010<br>(\$ in millions)    | 2009       | Percent<br>Change | 2010<br>(\$ in millions)  | 2009       | Percent<br>Change |
| Revenues:                         |                             |            |                   |                           |            |                   |
| Rail                              | \$ 80.7                     | \$ 271.1   | (70.2)%           | \$ 126.1                  | \$ 521.9   | (75.8)%           |
| Components                        | 32.2                        | 32.2       | 0.0               | 60.4                      | 65.3       | (7.5)             |
| Total revenues                    | \$ 112.9                    | \$ 303.3   | (62.8)            | \$ 186.5                  | \$ 587.2   | (68.2)            |
| Operating profit (loss)           | \$ (2.7)                    | \$ (328.7) |                   | \$ (10.6)                 | \$ (334.5) |                   |
| Operating profit<br>(loss) margin | (2.4)%                      | (108.4)%   |                   | (5.7)%                    | (57.0)%    |                   |

Railcar shipments decreased 71% to approximately 890 railcars and 77% to approximately 1,385 railcars during the three and six month periods ended June 30, 2010, compared to the same periods in 2009. As of June 30, 2010, our Rail Group backlog consisted of approximately 3,990 railcars as compared to approximately 3,780 railcars as of June 30, 2009. The railcar backlog dollar value as of June 30, 2010 and June 30, 2009 was as follows:

|                    | As of June 30, |          |
|--------------------|----------------|----------|
|                    | 2010           | 2009     |
|                    | (in millions)  |          |
| External Customers | \$ 170.7       | \$ 162.1 |
| Leasing Group      | 130.2          | 163.8    |
| Total              | \$ 300.9       | \$ 325.9 |

The total amount of the backlog dedicated to the Leasing Group was supported by lease agreements with external customers. The final amount dedicated to the Leasing Group may vary by the time of delivery.

The operating loss for the Rail Group decreased \$326.0 million and \$323.9 million, respectively, for the three and six month periods ended June 30, 2010 compared to the same periods last year. This decrease was primarily due to a \$325 million goodwill impairment charge during the quarter ended June 30, 2009. The effect on operating profit from



significantly reduced railcar deliveries during 2010 was offset by a reduction in operating expenses.

In the three months ended June 30, 2010, railcar shipments included sales to the Leasing Group of \$65.9 million compared to \$138.8 million in the comparable period in 2009 with a deferred profit of \$1.9 million compared to \$8.8 million for the same period in 2009. In the six months ended June 30, 2010, railcar shipments included sales to the Leasing Group of \$103.9 million compared to \$255.3 million in the comparable period in 2009 with a deferred profit of \$5.5 million compared to \$17.7 million for the same period in 2009. Sales to the Leasing Group and related profits are included in the operating results of the Rail Group but are eliminated in consolidation. There were no railcar sales to TRIP Leasing during the three and six month periods ended June 30, 2010. Results for the three and six month periods ended June 30, 2009 included \$75.0 million and \$113.0 million, respectively, in railcars sold to TRIP Leasing, that resulted in a gain of \$6.2 million and \$11.2 million, respectively, of which \$1.6 million and \$2.8 million, respectively, in profit was deferred based on our equity interest. See Note 6 Investment in TRIP Holdings of the consolidated financial statements for information about TRIP Leasing.

**Table of Contents****Construction Products Group**

|                         | Three Months Ended June 30, |          |                   | Six Months Ended June 30, |          |                   |
|-------------------------|-----------------------------|----------|-------------------|---------------------------|----------|-------------------|
|                         | 2010<br>(\$ in millions)    | 2009     | Percent<br>Change | 2010<br>(\$ in millions)  | 2009     | Percent<br>Change |
| Revenues:               |                             |          |                   |                           |          |                   |
| Concrete and Aggregates | \$ 76.3                     | \$ 85.9  | (11.2)%           | \$ 130.6                  | \$ 163.8 | (20.3)%           |
| Highway Products        | 93.2                        | 64.9     | 43.6              | 156.2                     | 108.0    | 44.6              |
| Other                   | 1.4                         | 2.5      | (44.0)            | 2.5                       | 5.0      | (50.0)            |
| Total revenues          | \$ 170.9                    | \$ 153.3 | 11.5              | \$ 289.3                  | \$ 276.8 | 4.5               |
| Operating profit        | \$ 17.7                     | \$ 15.7  |                   | \$ 20.4                   | \$ 14.0  |                   |
| Operating profit margin | 10.4%                       | 10.2%    |                   | 7.1%                      | 5.1%     |                   |

The increase in revenues for the three and six month periods ended June 30, 2010 compared to the same periods in 2009 was attributable to revenues from the acquisition of Quixote Corporation and an overall increase in volumes shipped by our Highway Products business partially offset by a decline in the economic conditions related to the markets served by our Concrete and Aggregates operations. See Note 2 Acquisitions in the consolidated financial statements. Operating profit for the three and six months ended June 30, 2010 compared to the same periods in 2009 increased as a result of the higher Highway Products volume. Additionally, operating profit for the three and six months ended June 30, 2009 included a \$1.1 million and \$2.8 million, respectively, write down of inventory to market value.

**Inland Barge Group**

|                         | Three Months Ended June 30, |          |                   | Six Months Ended June 30, |          |                   |
|-------------------------|-----------------------------|----------|-------------------|---------------------------|----------|-------------------|
|                         | 2010<br>(\$ in millions)    | 2009     | Percent<br>Change | 2010<br>(\$ in millions)  | 2009     | Percent<br>Change |
| Revenues                | \$99.5                      | \$ 136.7 | (27.2)%           | \$196.9                   | \$ 293.7 | (33.0)%           |
| Operating profit        | \$ 12.0                     | \$ 30.3  |                   | \$ 29.8                   | \$ 69.2  |                   |
| Operating profit margin | 12.1%                       | 22.2%    |                   | 15.1%                     | 23.6%    |                   |

Revenues and operating profit decreased for the three and six month periods ended June 30, 2010 compared to the same periods in the prior year due to a change in the mix of tank barge types and more competitive hopper barge prices overall. Additionally, in the second quarter of 2010, our barge manufacturing operations in Tennessee incurred approximately \$3.4 million in costs, net of insurance advances, related to damages and lost productivity resulting from a flood. Operating profit for the three and six months ended June 30, 2009 included the refund of \$0.7 million and \$1.6 million, respectively, in unclaimed settlement funds related to a legal settlement. No refunds were received during the three and six months ended June 30, 2010 for the same settlement. As of June 30, 2010, the backlog for the Inland Barge Group was approximately \$348.1 million compared to approximately \$349.5 million as of June 30, 2009.

**Energy Equipment Group**

|                        | Three Months Ended June 30, |          |                   | Six Months Ended June 30, |          |                   |
|------------------------|-----------------------------|----------|-------------------|---------------------------|----------|-------------------|
|                        | 2010<br>(\$ in millions)    | 2009     | Percent<br>Change | 2010<br>(\$ in millions)  | 2009     | Percent<br>Change |
| Revenues:              |                             |          |                   |                           |          |                   |
| Structural wind towers | \$ 78.0                     | \$ 100.3 | (22.2)%           | \$ 133.0                  | \$ 192.1 | (30.8)%           |
| Other                  | 37.3                        | 34.1     | 9.4               | 72.4                      | 70.8     | 2.3               |

Edgar Filing: TRINITY INDUSTRIES INC - Form 10-Q

|                         |                 |          |               |                 |          |               |
|-------------------------|-----------------|----------|---------------|-----------------|----------|---------------|
| Total revenues          | <b>\$ 115.3</b> | \$ 134.4 | <b>(14.2)</b> | <b>\$ 205.4</b> | \$ 262.9 | <b>(21.9)</b> |
| Operating profit        | <b>\$ 13.5</b>  | \$ 25.2  |               | <b>\$ 23.9</b>  | \$ 43.5  |               |
| Operating profit margin | <b>11.7%</b>    | 18.8%    |               | <b>11.6%</b>    | 16.5%    |               |

Revenues and operating profit decreased for the three and six month periods ended June 30, 2010 compared to the same periods in 2009 due to lower structural wind tower shipments. As of June 30, 2010, the backlog for structural wind towers was approximately \$1.1 billion compared to approximately \$1.2 billion as of June 30, 2009.

**Table of Contents****Railcar Leasing and Management Services Group**

|                                    | Three Months Ended June 30, |          |         | Six Months Ended June 30, |          |         |
|------------------------------------|-----------------------------|----------|---------|---------------------------|----------|---------|
|                                    | 2010                        | 2009     | Percent | 2010                      | 2009     | Percent |
|                                    | (\$ in millions)            |          |         | (\$ in millions)          |          |         |
|                                    |                             |          | Change  |                           |          | Change  |
| Revenues:                          |                             |          |         |                           |          |         |
| Wholly owned subsidiaries:         |                             |          |         |                           |          |         |
| Leasing and management             | \$ 86.0                     | \$ 79.9  | 7.6%    | \$ 170.1                  | \$ 165.6 | 2.7%    |
| Sales of cars from the lease fleet | 3.7                         | 53.6     | (93.1)  | 11.6                      | 190.3    | (93.9)  |
|                                    | 89.7                        | 133.5    |         | 181.7                     | 355.9    |         |
| TRIP Holdings:                     |                             |          |         |                           |          |         |
| Leasing and management             | 29.2                        |          |         | 58.2                      |          |         |
| Sales of cars from the lease fleet | 0.7                         |          |         | 0.9                       |          |         |
|                                    | 29.9                        |          |         | 59.1                      |          |         |
| Total revenues                     | \$ 119.6                    | \$ 133.5 | (10.4)  | \$ 240.8                  | \$ 355.9 | (32.3)  |
| Operating Profit:                  |                             |          |         |                           |          |         |
| Wholly owned subsidiaries:         |                             |          |         |                           |          |         |
| Leasing and management             | \$ 31.4                     | \$ 31.8  |         | \$ 60.6                   | \$ 67.6  |         |
| Sales of cars from the lease fleet | 0.3                         | 3.4      |         | 2.2                       | 20.3     |         |
|                                    | 31.7                        | 35.2     |         | 62.8                      | 87.9     |         |
| TRIP Holdings:                     |                             |          |         |                           |          |         |
| Leasing and management             | 17.5                        |          |         | 34.6                      |          |         |
| Sales of cars from the lease fleet |                             |          |         |                           |          |         |
|                                    | 17.5                        |          |         | 34.6                      |          |         |
| Total operating profit             | \$ 49.2                     | \$ 35.2  |         | \$ 97.4                   | \$ 87.9  |         |
| Operating profit margin:           |                             |          |         |                           |          |         |
| Leasing and management             | 42.4%                       | 39.8%    |         | 41.7%                     | 40.8%    |         |
| Sales of cars from the lease fleet | 6.8                         | 6.3      |         | 17.6                      | 10.7     |         |
| Total operating profit margin      | 41.1                        | 26.4     |         | 40.4                      | 24.7     |         |
| Fleet utilization:                 |                             |          |         |                           |          |         |
| Wholly owned subsidiaries          | 98.7%                       | 96.4%    |         | 98.7%                     | 96.4%    |         |
| TRIP Holdings                      | 99.5%                       |          |         | 99.5%                     |          |         |

Total revenues decreased for the three and six month periods ended June 30, 2010 compared to the same periods last year due to decreased sales from the lease fleet including \$51.7 million and \$183.8 million, respectively, in sales to TRIP Leasing for the three and six months ended June 30, 2009. Higher fleet utilization related to our wholly owned subsidiaries resulted in higher revenues. Additionally, due to the adoption of an accounting pronouncement, the Leasing Group's results of operations for the three and six months ended June 30, 2010 include TRIP Holdings and its subsidiary, TRIP Leasing. See Note 1 Summary of Significant Accounting Policies - Basis of Presentation and Note 6 Investment in TRIP Holdings in the consolidated financial statements for further discussion.

Operating profit for the three and six month periods ended June 30, 2010 increased compared to the same periods in 2009 due to the inclusion of TRIP Holdings in the Leasing Group's results of operations partially offset by lower profit from lease fleet sales, higher maintenance expenses, and lower rental rates for the three and six months ended June 30, 2010. Results for the three and six months ended June 30, 2009 included \$51.7 million and \$183.8 million,

respectively, in sales of railcars to TRIP Leasing that resulted in the recognition of previously deferred gains of \$5.5 million and \$30.3 million, respectively, of which \$1.4 million and \$7.6 million, respectively, were deferred based on our equity interest. There were no sales to TRIP Leasing during the three and six months ended June 30, 2010. For the three and six months ended June 30, 2009, operating profit included \$0.6 million and \$2.3 million, respectively, in structuring and placement fees related to TRIP Holdings that were expensed. There were no structuring and placement fees expensed during the three and six months ended June 30, 2010.

To fund the continued expansion of its lease fleet to meet market demand, the Leasing Group generally uses its non-recourse \$475 million warehouse facility or excess cash to provide initial financing for a portion of the purchase price of the railcars. After initial financing, the Leasing Group generally obtains long-term financing for the railcars in the lease fleet through long-term recourse debt such as equipment trust certificates, long-term non-recourse operating leases pursuant to sales/leaseback transactions, non-recourse asset-backed securities, or recourse convertible subordinated notes. See *Financing Activities*.

As of June 30, 2010, information regarding the Leasing Group's lease fleet follows:

|                           | No. of cars | Average<br>age | Average<br>remaining<br>lease term |
|---------------------------|-------------|----------------|------------------------------------|
| Wholly owned subsidiaries | 50,970      | 5.6            | 3.6                                |
| TRIP Holdings             | 14,700      | 2.8            | 4.0                                |

Table of Contents**All Other**

|                         | Three Months Ended June 30, |        |         | Six Months Ended June 30, |        |         |
|-------------------------|-----------------------------|--------|---------|---------------------------|--------|---------|
|                         | 2010                        | 2009   | Percent | 2010                      | 2009   | Percent |
|                         | (\$ in millions)            |        |         | (\$ in millions)          |        |         |
|                         |                             |        | Change  |                           |        | Change  |
| Revenues                | \$12.4                      | \$10.4 | 19.2%   | \$22.1                    | \$24.8 | (10.9)% |
| Operating profit (loss) | \$ (2.1)                    | \$ 0.1 |         | \$ (4.7)                  | \$ 1.1 |         |

The increase in revenues for the three month period ended June 30, 2010 over the same period last year was primarily due to an increase in external sales by our transportation company while the decrease in revenues for the six month period ended June 30, 2010 when compared to 2009 was primarily due to a decrease in intersegment sales by our transportation company. Operating profit decreased for the three and six month periods ended June 30, 2010 over the same period last year due to gains on property dispositions in 2009.

**Liquidity and Capital Resources****Cash Flows**

*Operating Activities.* Net cash required by operating activities of continuing operations for the six months ended June 30, 2010 was \$1.9 million compared to \$347.0 million of net cash provided by operating activities of continuing operations for the same period in 2009. Excluding the goodwill impairment charge of \$325 million recorded during the three months ended June 30, 2009, cash flow from operating activities was lower due to lower operating profits in 2010 compared with 2009 and an overall reduction in accounts receivable and inventories in 2009 offset by a reduction in accounts payable and accrued liabilities.

Accounts receivables at June 30, 2010 as compared to the accounts receivables balance at December 31, 2009 increased by \$75.7 million or approximately 47.4% due primarily to higher receivables from the Energy Equipment Group. Raw materials inventory at June 30, 2010 increased by \$55.9 million or approximately 57.6% since December 31, 2009 primarily attributable to higher levels in our Rail and Construction Products groups. Finished goods inventory decreased by \$11.7 million since December 31, 2009 primarily due to lower inventory levels in our Rail group. Accounts payable increased by \$39.5 million from December 31, 2009 primarily due to slightly higher production levels in the business groups mentioned. Accrued liabilities decreased by \$48.2 million from December 31, 2009 primarily due to the settlement of year-end liabilities during the first half of 2010. We continually review reserves related to bad debt as well as the adequacy of lower of cost or market valuations related to accounts receivable and inventory.

*Investing Activities.* Net cash required by investing activities for the six months ended June 30, 2010 was \$303.7 million compared to \$14.2 million of cash required by investing activities for the same period last year. Investments in short-term marketable securities increased by \$155.0 million during the six months ended June 30, 2010. Capital expenditures for the six months ended June 30, 2010 were \$118.3 million, of which \$103.0 million were for additions to the lease fleet. This compares to \$275.4 million of capital expenditures for the same period last year, of which \$243.8 million were for additions to the lease fleet. Proceeds from the sale of property, plant, and equipment and other assets were \$16.5 million for the six months ended June 30, 2010 composed primarily of railcar sales from the lease fleet. This compares to \$261.2 million for the same period in 2009 composed primarily of railcar sales from the lease fleet, which included \$183.8 million to TRIP Leasing, and the sale of non-operating assets. Cash required related to acquisitions amounted to \$46.9 million, excluding \$17.1 million in cash balances acquired from Quixote.

*Financing Activities.* Net cash required by financing activities during the six months ended June 30, 2010 was \$95.9 million compared to \$53.7 million of cash required by financing activities for the same period in 2009. During the six months ended June 30, 2010 we retired \$84.2 million in debt including \$40.0 million in debt assumed as a result of the Quixote acquisition. We intend to use our cash and credit facilities to fund the operations, expansions, and growth initiatives of the Company.

At June 30, 2010, there were no borrowings under our \$425 million revolving credit facility that matures on October 19, 2012. Interest on the revolving credit facility is calculated at prime or LIBOR plus 75 basis points. After \$85.7 million was considered for letters of credit, \$339.3 million was available under the revolving credit facility as of June 30, 2010.

In May 2009, TILC renewed its railcar leasing warehouse facility through February 2011. Unless renewed, this facility will be payable in three installments in August 2011, February 2012, and August 2012. Advances under this facility bear interest at a defined index rate plus a margin, for an all-in interest rate of 2.91% at June 30, 2010. At June 30, 2010, \$137.3 million was outstanding and \$337.7 million was available under this facility.

On December 8, 2009, the Company's Board of Directors authorized an extension of its stock repurchase program. This

**Table of Contents**

extension allows for the repurchase of the Company's common stock through December 31, 2010. The repurchase program commenced in 2007 when \$200 million of shares were authorized for repurchase. No shares were repurchased under this program for the three and six months ended June 30, 2010. Since the inception of this program through June 30, 2010, the Company has repurchased a total of 3,532,728 shares at a cost of approximately \$67.5 million.

The economic and financial crisis experienced by the United States economy since 2008 has impacted our businesses. New orders for railcars and barges dropped significantly in 2009 as the transportation industry saw a significant decline in the shipment of freight. Weakness in the transportation industry experienced throughout 2009 and in the first half of 2010 is expected to continue for the remainder of 2010. Orders for structural wind towers have been slow since mid-2008 when green energy companies experienced tightened credit markets coupled with lower prices for electricity and natural gas sales. The slowdown in the residential and commercial construction markets impacted our Construction Products Group as well. We continually assess our manufacturing capacity and take steps to align our production capacity with demand for our products. As a result of our assessment, we have adapted to the rapid decline in market conditions by reducing our production footprint and staffing levels and causing certain facilities to be on non-operating status, but to the extent that demand increases, these facilities on non-operating status would be available for future operations.

***Equity Investment***

See Note 6 of the Consolidated Financial Statements for information about the investment in TRIP Holdings.

***Future Operating Requirements***

We expect to finance future operating requirements with cash flows from operations, and depending on market conditions, short-term and long-term debt, and equity. Debt instruments that the Company has utilized include its revolving credit facility, the warehouse facility, senior notes, convertible subordinated notes, asset-backed securities, and sale/leaseback transactions. The Company has also issued equity at various times. As of June 30, 2010, the Company had \$339.3 million available under its revolving credit facility and \$337.7 million available under its warehouse facility. Despite the volatile conditions in both the credit and stock markets, the Company believes it has access to adequate capital resources to fund operating requirements and is active in the credit markets.

***Off Balance Sheet Arrangements***

See Note 5 of the Consolidated Financial Statements for information about off balance sheet arrangements.

***Derivative Instruments***

We use derivative instruments to mitigate the impact of changes in interest rates and zinc, natural gas, and diesel fuel prices, as well as to convert a portion of our variable-rate debt to fixed-rate debt. Additionally, we use derivative instruments to mitigate the impact of unfavorable fluctuations in foreign currency exchange rates. We also use derivatives to lock in fixed interest rates in anticipation of future debt issuances. Derivative instruments that are designated and qualify as cash flow hedges are accounted for in accordance with accounting standards issued by the FASB. See Note 3 Fair Value Accounting to the consolidated financial statements for discussion of how the Company valued its commodity hedges and interest rate swaps at June 30, 2010.

***Interest rate hedges***

In anticipation of a future debt issuance, we entered into interest rate swap transactions during the fourth quarter of 2006 and during 2007. These instruments, with a notional amount of \$370 million, hedged the interest rate on a portion of a future debt issuance associated with an anticipated railcar leasing transaction, which closed in May 2008. These instruments settled during the second quarter of 2008. The weighted average fixed interest rate under these instruments was 5.34%. These interest rate swaps were 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 May 2008. The balance is being amortized over the term of the related debt. On June 30, 2010, the balance remaining in AOCL was \$16.0 million. The effect on interest expense for the three and six month periods ended June 30, 2010 was an increase of \$0.9 million and \$1.9 million, respectively, due to amortization of the AOCL balance. The effect on interest expense for the three and six month periods ended June 30, 2009 was an increase of \$1.0 million and \$2.0 million, respectively, due to amortization of the AOCL balance. It is expected that \$3.7 million in interest expense will be recognized during the next twelve months from amortization of the AOCL balance.



In May 2008, we entered into an interest rate swap transaction that is being used to fix the LIBOR component of the debt issuance which closed in May 2008. The fixed interest rate under this instrument is 4.126%. The amount recorded for this instrument as of June 30, 2010 in the consolidated balance sheet was a liability of \$49.5 million, with \$46.9 million of expense in AOCL. The effect on interest expense for the three and six months ended June 30, 2010 was an increase of \$5.5

**Table of Contents**

million and \$10.7 million, respectively, which relate to the monthly settlement of interest. The effect on interest expense for the three and six months ended June 30, 2009 was an increase of \$5.0 million and \$10.0 million, respectively, which related to the monthly settlement of interest. See Note 11 Debt. Based on the fair value of the interest rate hedge as of June 30, 2010, it is expected that \$18.0 million will be included in interest expense during the next twelve months.

During 2008, we entered into interest rate swap transactions, with a notional amount of \$200 million, which are being used to counter our exposure to changes in the variable interest rate associated with our warehouse facility. The weighted average fixed interest rate under these instruments at June 30, 2010 was 1.798%. The amount recorded for these instruments as of June 30, 2010 in the consolidated balance sheet was a liability of \$1.2 million. The effect on interest expense for the six months ended June 30, 2010 was an increase of \$0.4 million which included the mark to market valuation on the interest rate swap transactions and the monthly settlement of interest. The effect on interest expense for the three months ended June 30, 2010 was not significant. The effect on the same periods in the prior year was an increase of \$0.3 million and \$1.4 million, respectively, which included the mark to market valuation on the interest rate swap transactions and the monthly settlement of interest. Based on the fair value of the interest rate hedges as of June 30, 2010, it is expected that \$1.2 million in interest expense will be recognized in 2010. These interest rate hedges are due to expire during the fourth quarter of 2010.

During 2005 and 2006, we entered into interest rate swap transactions in anticipation of a future debt issuance. These instruments, with a notional amount of \$200 million, fixed the interest rate on a portion of a future debt issuance associated with a railcar leasing transaction in 2006 and settled at maturity in the first quarter of 2006. The weighted average fixed interest rate under these instruments was 4.87%. These interest rate swaps were 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 May 2006. The balance is being amortized over the term of the related debt. At June 30, 2010, the balance remaining in AOCL was \$2.8 million. The effect of the amortization on interest expense for three and six month periods ended June 30, 2010 was a decrease of \$0.1 million and \$0.2 million, respectively. The effect on the same periods in the prior year was a decrease of \$0.1 million and \$0.2 million, respectively. It is expected that \$0.4 million in earnings will be recognized during the next twelve months from amortization of the AOCL balance.

Between 2007 and 2009, TRIP Holdings entered into interest rate swap transactions, all of which qualify as cash flow hedges. As of June 30, 2010, maturities for cash flow hedges ranged from 2011-2023. The total notional value of cash flow hedges outstanding at June 30, 2010 was \$863.1 million, with a weighted average interest rate of 3.66%. The amount recorded in the consolidated balance sheet for these instruments was a liability of \$58.3 million as of June 30, 2010, with \$10.8 million of expense recorded in accumulated other comprehensive loss and \$44.8 million recorded in noncontrolling interest. The effect of the TRIP Holdings interest rate swaps on interest expense for the three and six month periods ended June 30, 2010 was an increase of \$7.3 million and \$14.8 million, respectively. Based on the fair value of interest rate hedges as of June 30, 2010, it is expected that \$25.8 million will be included in interest expense during the next twelve months.

*Natural gas and diesel fuel*

We continue 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 for these instruments in the consolidated balance sheet as of June 30, 2010 was not significant. The effect on the consolidated statement of operations for the six month period ended June 30, 2010 was an increase in cost of revenues of \$0.1 million which includes the mark to market valuation resulting in losses of \$0.1 million for the six months ended June 30, 2010. The effect on the consolidated statement of operations for the three month period ended June 30, 2010 was not significant. The effect of both derivatives on the consolidated statement of operations for the three and six month periods ended June 30, 2009 was a decrease in cost of revenues of \$0.3 million and an increase in cost of revenues of \$1.5 million, respectively, which includes the mark to market valuation resulting in a gain of \$0.2 million and a loss \$0.2 million, for the three and six months ended June 30, 2009, respectively.

*Foreign Exchange Hedge*

During the first and second quarters of 2010 and 2009, we entered 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 June 30, 2010. The effect on the consolidated statement of operations for the three and six months ended June 30, 2010 was income of \$0.3 million and net expense of \$0.3 million, respectively, included in other, net on the consolidated statement of operations. The effect on the same periods in the prior year was expense of \$0.8 million and \$1.0 million, respectively, included in other, net on the consolidated statement of operations.

**Table of Contents**

*Zinc*

We maintain a program to mitigate the impact of fluctuations in the price of zinc purchases. The intent of this program is to protect our operating profit from adverse price changes by entering into derivative instruments. The effect of these derivative instruments on the consolidated financial statements for the three and six months ended June 30, 2010 was not significant.

**Contractual Obligation and Commercial Commitments**

As of June 30, 2010, other commercial commitments related to letters of credit decreased slightly to \$85.7 million from \$89.6 million as of December 31, 2009. Refer to Note 11 of the Consolidated Financial Statements for changes to our outstanding debt and maturities. Other commercial commitments that relate to operating leases including sale/leaseback transactions were basically unchanged as of June 30, 2010.

**Recent Accounting Pronouncements**

See Note 1 of the Consolidated Financial Statements for information about recent accounting pronouncements.

**Forward-Looking Statements**

This quarterly report on Form 10-Q (or statements otherwise made by the Company or on the Company's behalf from time to time in other reports, filings with the Securities and Exchange Commission (SEC), news releases, conferences, World Wide Web postings or otherwise) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements contained herein that are not historical facts are forward-looking statements and involve risks and uncertainties. These forward-looking statements include expectations, beliefs, plans, objectives, future financial performances, estimates, projections, goals, and forecasts. Trinity uses the words anticipates, believes, estimates, expects, intends, forecasts, may, will, should, expressions to identify these forward-looking statements. Potential factors, which could cause our actual results of operations to differ materially from those in the forward-looking statements include, among others:

- market conditions and demand for our business products and services;
- the cyclical nature of industries in which we compete;
- variations in weather in areas where our construction products are sold, used, or installed;
- disruption of manufacturing capacity due to weather-related events;
- the timing of introduction of new products;
- the timing and delivery of customer orders or a breach of customer contracts;
- the credit worthiness of customers and their access to capital;
- product price changes;
- changes in mix of products sold;
- the extent of utilization of manufacturing capacity;
- availability and costs of steel, component parts, supplies, and other raw materials;
- competition and other competitive factors;
- changing technologies;
- surcharges and other fees added to fixed pricing agreements for raw materials, parts, components, and supplies;

interest rates and capital costs;

counter-party risks for financial instruments;

long-term funding of our operations;

taxes;

the stability of the governments and political and business conditions in certain foreign countries, particularly Mexico;

changes in import and export quotas and regulations;

business conditions in emerging economies;

costs and results of litigation; and

legal, regulatory, and environmental issues.

Any forward-looking statement speaks only as of the date on which such statement is made. Trinity undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

**Table of Contents**

**Item 3. *Quantitative and Qualitative Disclosures About Market Risk***

There has been no material change in our market risks since December 31, 2009 as set forth in Item 7A of our 2009 Form 10-K. Refer to Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, for a discussion of debt-related activity and the impact of hedging activity for the three and six months ended June 30, 2010.

**Item 4. *Controls and Procedures***

**Disclosure Controls and Procedures**

The Company maintains controls and procedures designed to ensure that it is able to collect the information it is required to disclose in the reports it files with the SEC, and to process, summarize, and disclose this information within the time periods specified in the rules of the SEC. The Company's Chief Executive and Chief Financial Officers are responsible for establishing and maintaining these procedures and, as required by the rules of the SEC, evaluating their effectiveness. Based on their evaluation of the Company's disclosure controls and procedures which took place as of the end of the period covered by this report, the Chief Executive and Chief Financial Officers believe that these procedures are effective to ensure that the Company is able to collect, process, and disclose the information it is required to disclose in the reports it files with the SEC within the required time periods.

**Internal Controls**

The Company maintains a system of internal controls designed to provide reasonable assurance that: transactions are executed in accordance with management's general or specific authorization; transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles, and (2) to maintain accountability for assets; access to assets is permitted only in accordance with management's general or specific authorization; and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

During the period covered by this report, there have been no changes in the Company's internal controls over financial reporting that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

**Table of Contents****PART II****Item 1. *Legal Proceedings***

The information provided in Note 18 of the Consolidated Financial Statements is hereby incorporated into this Part II, Item 1 by reference.

**Item 1A. *Risk Factors***

There have been no material changes from the risk factors previously disclosed in Item 1A of our 2009 Form 10-K.

**Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds***

This table provides information with respect to purchases by the Company of shares of its Common Stock during the quarter ended June 30, 2010:

| <b>Period</b>                        | <b>Number of<br/>Shares<br/>Purchased<sup>(1)</sup></b> | <b>Average<br/>Price<br/>Paid per<br/>Share<sup>(1)</sup></b> | <b>Total<br/>Number<br/>of<br/>Shares<br/>(or<br/>Units)<br/>Purchased<br/>as<br/>Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs<sup>(2)</sup></b> | <b>Maximum<br/>Number (or<br/>Approximate<br/>Dollar Value)<br/>of<br/>Shares (or<br/>Units)<br/>that May Yet<br/>Be<br/>Purchased<br/>Under the<br/>Plans<br/>or Programs<sup>(2)</sup></b> |
|--------------------------------------|---|---|--|--|
| April 1, 2010 through April 30, 2010 | 1,154   | \$25.93   |  | \$132,536,481  |
| May 1, 2010 through May 31, 2010     | 124,929   | \$23.47   |  | \$132,536,481  |
| June 1, 2010 through June 30, 2010   | 1,591   | \$20.79   |  | \$132,536,481  |
| Total                                | 127,674   | \$23.46   |  | \$132,536,481  |

(1) These columns include the following transactions during the three months ended June 30, 2010: (i) the surrender to the Company of 126,140 shares of Common Stock to satisfy tax withholding obligations in connection with the vesting of

restricted stock issued to employees and (ii) the purchase of 1,534 shares of common stock by the Trustee for assets held in a non-qualified employee profit sharing plan trust.

- (2) On December 8, 2009, the Company's Board of Directors authorized an extension of its stock repurchase program. This extension allows for the repurchase of the Company's common stock through December 31, 2010. The repurchase program commenced in 2007 when \$200 million of shares were authorized for repurchase. No shares were purchased under this program for the three months ended June 30, 2010. Since the inception of this program through June 30, 2010, the Company has repurchased a



total of  
3,532,728  
shares at a cost  
of  
approximately  
\$67.5 million.

**Item 3. *Defaults Upon Senior Securities***

None.

**Item 5. *Other Information***

None.

**Table of Contents****Item 6. Exhibits**

| Exhibit Number | Description   |
|----------------|---|
| 4.1            | First Supplemental Indenture dated as of May 26, 2010 by and among Trinity Industries, Inc., Trinity Structural Towers, Inc. and Wells Fargo Bank, National Association, as Trustee (filed herewith). |
| 10.1           | Amended and Restated Trinity Industries, Inc. 2004 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.1 to our Form 8-K filed on May 4, 2010).                                  |
| 31.1           | Rule 13a-15(e) and 15d-15(e) Certification of Chief Executive Officer (filed herewith).   |
| 31.2           | Rule 13a-15(e) and 15d-15(e) Certification of Chief Financial Officer (filed herewith).   |
| 32.1           | Certification pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).   |
| 32.2           | Certification pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).   |
| 101.INS        | XBRL Instance Document (filed electronically herewith)*   |
| 101.SCH        | XBRL Taxonomy Extension Schema Document (filed electronically herewith)*  |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document (filed electronically herewith)*  |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Document (filed electronically herewith)*  |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document (filed electronically herewith)*   |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document (filed electronically herewith)*   |

\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRINITY INDUSTRIES, INC.  
Registrant

By /s/ JAMES E. PERRY

James E. Perry  
Vice President and  
Chief Financial Officer  
July 29, 2010

39

---

**Table of Contents**

**INDEX TO EXHIBITS**

| Exhibit Number | Description   |
|----------------|---|
| 4.1            | First Supplemental Indenture dated as of May 26, 2010 by and among Trinity Industries, Inc., Trinity Structural Towers, Inc. and Wells Fargo Bank, National Association, as Trustee (filed herewith). |
| 10.1           | Amended and Restated Trinity Industries, Inc. 2004 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.1 to our Form 8-K filed on May 4, 2010).                                  |
| 31.1           | Rule 13a-15(e) and 15d-15(e) Certification of Chief Executive Officer (filed herewith).   |
| 31.2           | Rule 13a-15(e) and 15d-15(e) Certification of Chief Financial Officer (filed herewith).   |
| 32.1           | Certification pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).   |
| 32.2           | Certification pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).   |
| 101.INS        | XBRL Instance Document (filed electronically herewith)*   |
| 101.SCH        | XBRL Taxonomy Extension Schema Document (filed electronically herewith)*  |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document (filed electronically herewith)*  |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Document (filed electronically herewith)*  |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document (filed electronically herewith)*   |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document (filed electronically herewith)*   |

\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.