TRINITY INDUSTRIES INC
Form 10-K
February 20, 2014

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

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

For the fiscal year ended December 31, 2013

OR

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

Commission File Number 1-6903
Trinity Industries, Inc.
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code: (214) 631-4420
Securities Registered Pursuant to Section 12(b) of the Act

Title of each class	Name of each exchange on which registered
Common Stock ($1.00 par value)	New York Stock Exchange, Inc.

Securities registered Pursuant to Section 12(g) of the Act: None
Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

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

(Do not check if a smaller reporting company)

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

The aggregate market value of voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the Registrant's most recently completed second fiscal quarter (June 28, 2013) was $2,982.4 million.

At January 31, 2014 the number of shares of common stock outstanding was 77,485,876.

The information required by Part III of this report, to the extent not set forth herein, is incorporated by reference from the Registrant's definitive 2014 Proxy Statement.

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PART I
Item 1. Business.

General Development of Business. Trinity Industries, Inc. and its consolidated subsidiaries, ("Trinity", "Company", "we", or "our") headquartered in Dallas, Texas, is a diversified industrial company that owns a variety of market-leading businesses providing products and services to the energy, transportation, chemical, and construction sectors. Trinity was incorporated in 1933.

Trinity became a Delaware corporation in 1987. Our principal executive offices are located at 2525 N. Stemmons Freeway, Dallas, Texas 75207-2401, our telephone number is 214-631-4420, and our Internet website address is www.trin.net.

Financial Information About Industry Segments. Financial information about our industry segments for the years ended December 31, 2013, 2012, and 2011 is presented in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Narrative Description of Business. As a diversified industrial company, we manufacture and sell a variety of products and services principally including:

- railcars and railcar parts;
- the leasing of railcars;
- inland barges;
- structural wind towers;
- highway products;
- aggregates;
- storage containers; and
- parts and steel components.

We serve our customers through the following five business groups:

Rail Group. Through wholly-owned subsidiaries with manufacturing facilities in the U.S. and Mexico, our Rail Group is a leading manufacturer of freight and tank railcars in North America used for transporting a wide variety of liquids, gases, and dry cargo ("Trinity Rail Group" or "Rail Group").

Trinity Rail Group offers a complete array of railcar solutions to our customers. We manufacture a full line of railcars, including:

Auto Carrier Cars - Auto carrier railcars transport automobiles and a variety of other vehicles.

Box Cars - Box railcars transport cargo such as food products, auto parts, wood products, and paper.

Gondola Cars - Rotary gondola railcars are primarily used for coal service. Top-loading gondola railcars transport a variety of other heavy bulk commodities such as scrap metals and steel products.

Hopper Cars - Covered hopper railcars carry cargo such as grain, distillers dried grain, dry fertilizer, plastic, cement, and sand. Open-top hoppers are most often used to haul coal and aggregates.

Intermodal Cars - Intermodal railcars transport intermodal containers and trailers, which are generally interchangeable among railcars, trucks, and ships.

Specialty Cars - Specialty railcars are designed to address the special needs of a particular industry or customer, such as waste-hauling gondolas, side dump railcars, flatcars, and pressure differential railcars used to haul fine grain food products such as starch and flour.

Tank Cars - Tank railcars transport products such as liquefied petroleum products including crude oil; alcohol and renewable fuels; liquid fertilizer; and food and grain products such as vegetable oil and corn syrup.

Our Rail Group manufactures a diversified railcar product line, allowing us to capitalize on changing industry trends and developing market opportunities, including the oil, gas, and chemical markets. We also manufacture and sell a variety of railcar parts and components used in manufacturing and repairing railcars including couplers, axles, and other equipment. We have plants in Mexico and the U.S. that manufacture parts and components, primarily for the North American market. We provide railcar maintenance services at four facilities in the U.S.

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Our customers include railroads, leasing companies, and industrial shippers of products, such as utilities, petrochemical companies, grain shippers, agricultural product companies, and major construction and industrial companies. We compete in the North American market against five major railcar manufacturers.

For the year ended December 31, 2013 we shipped 24,335 railcars, or 44% of total North American railcar shipments. As of December 31, 2013, our Rail Group backlog consisted of 39,895 railcars valued at $5.0 billion. This amount included approximately $827.0 million in orders from our Railcar Leasing and Management Services Group (“Leasing Group”). The total amount of orders in our backlog from the Leasing Group was supported by lease commitments with external customers. The final amount dedicated to the Leasing Group may vary by the time of delivery.

We hold patents of varying duration for use in our manufacture of railcars and components. We believe patents offer a marketing advantage in certain circumstances. No material revenues are received from the licensing of these patents.

Railcar Leasing and Management Services Group. Our Railcar Leasing and Management Services Group is a leading provider in North America of comprehensive rail industry services. Through wholly-owned subsidiaries, primarily Trinity Industries Leasing Company ("TILC"), and partially-owned subsidiaries, TRIP Rail Holdings LLC (“TRIP Holdings”) and RIV 2013 Rail Holdings LLC ("RIV 2013"), we offer operating leases for tank and freight railcars. TILC also offers management, maintenance, and administrative services. By providing leasing and management, maintenance, and administrative services, in addition to management services for investor-owned funds, our Leasing Group is an important strategic resource that further links our Rail Group with our customers. Trinity's Rail Group and TILC coordinate sales and marketing activities under the registered trade name TrinityRail®, thereby providing a single point of contact for railroads and shippers seeking rail equipment and services.

The railcars in our lease fleet are leased to industrial shippers and railroads. These companies operate in the chemical, agricultural, and energy industries, among others. Substantially all of the railcars in our lease fleet were manufactured by our Rail Group. The terms of our railcar leases generally vary from one to twenty years and provide for fixed monthly rentals. A small percentage of our fleet is leased on a per diem basis. As of December 31, 2013, the lease fleet of our subsidiaries included 75,685 owned or leased railcars that were 99.5% utilized. Of this total, 63,255 railcars were owned by TILC or its affiliates and 12,430 railcars were financed in sale-leaseback transactions.

We also manage railcar fleets on behalf of third parties. We believe our railcar fleet management services complement our leasing business by generating stable fee income, strengthening customer relationships, and enhancing the view of Trinity as a leading provider of railcar products and services.

Our railcar leasing businesses compete against a number of well-established entities that are also in the business of leasing railcars.

Construction Products Group. Through wholly-owned subsidiaries, our Construction Products Group manufactures highway products as well as other steel products for infrastructure-related projects; mines and produces aggregates; and provides galvanizing services. Many of these lines of business are seasonal and revenues are impacted by weather conditions and fluctuations in government spending levels.

Our highway products businesses are leading U.S. manufacturers of guardrail, crash cushions, and other protective barriers. The Federal Highway Administration, which determines product eligibility for cost reimbursement using federal funds, has approved many of our products as eligible for cost reimbursement based on requirements set forth by the National Cooperative Highway Research Program. Our crash cushion, protective barrier, and guardrail products include multiple proprietary products manufactured under license from certain public and private research organizations and inventors and Company-held patents. We sell highway products in Canada, Mexico, and throughout the U.S and we export highway products, including proprietary products to more than 60 countries. We compete

against several national and regional guardrail manufacturers.

We are a leading producer and distributor of lightweight and natural aggregates, including expanded shale and clay; crushed stone; sand and gravel; asphalt rock; and various other products in the western and southwestern U.S. Our aggregates customers are concrete producers; commercial, residential, and highway contractors; manufacturers of masonry products; and state and local municipalities. We compete with lightweight aggregates producers nationwide and natural aggregates producers located in the regions where we operate.

We provide hot-dip galvanizing services to manufacturers of fabricated steel materials from our service facilities in Texas, Louisiana, and Mississippi and manufacture a line of trench shields and shoring products for the construction industry and a line of construction equipment for the mining industry.

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Energy Equipment Group. Through wholly-owned subsidiaries, our Energy Equipment Group manufactures structural wind towers; utility, traffic, and lighting structures; storage containers; and tank heads for pressure and non-pressure vessels.

Our structural wind towers business is a leading manufacturer in North America of structural wind towers used in the wind energy market. These towers are manufactured in the U.S. and Mexico to customer specifications and installed by our customers. Our customers are generally wind turbine producers. Our structural wind towers backlog as of December 31, 2013 was approximately $553.9 million.

We are a leading manufacturer in North America of storage containers and tank heads for pressure and non-pressure vessels. We manufacture these products in the U.S. and Mexico. We market a portion of our products in Mexico under the brand name of TATSA®.

We manufacture storage containers that support the oil, gas, and chemical industries and are used by industrial plants, utilities, residences, and small businesses in suburban and rural areas. Additionally, we manufacture fertilizer storage containers for bulk storage, farm storage, and the application and distribution of anhydrous ammonia. We also manufacture cryogenic tanks for the distribution of industrial gases and liquefied natural gas. Our storage container products range from nine-gallon containers for motor fuel use to 1.8 million-gallon bulk storage spheres. We sell our storage containers to dealers and large industrial users. In the U.S. we generally deliver storage containers to our customers who install and fill the containers. Our competitors include large and small manufacturers of storage containers.

We manufacture tank heads, which are pressed metal components used in the manufacturing of many of our finished products, both pressure rated and non-pressure rated, depending on their intended use. We use a significant portion of the tank heads we manufacture in the production of our railcars and storage containers. We also sell our tank heads to a broad range of other manufacturers. There is strong competition in the tank heads business.

We manufacture utility, traffic, and lighting structures, which are used principally by municipalities and other local and state governmental entities as well as by public and private utilities. These structures are manufactured in the U.S. and Mexico to customer specifications and installed by our customers.

There are a number of well-established entities that actively compete with us in the business of manufacturing energy equipment including several domestic and foreign manufacturers of structural wind towers for the North American market.

Inland Barge Group. Through wholly-owned subsidiaries, our Inland Barge Group is a leading U.S. manufacturer of inland barges and fiberglass barge covers. We manufacture a variety of dry cargo barges, such as deck barges, and open or covered hopper barges that transport various commodities, such as grain, coal, and aggregates. We also manufacture tank barges used to transport liquids such as crude oil, chemicals and a variety of petroleum products. Our fiberglass reinforced lift covers are used primarily for grain barges. Our four barge manufacturing facilities are located along the U.S. inland river systems, allowing for rapid delivery to our customers. Our Inland Barge Group backlog as of December 31, 2013 was approximately $429.6 million.

Our primary Inland Barge customers are commercial marine transportation companies. Many companies have the capability to enter into, and from time to time do enter into, the inland barge manufacturing business. We strive to compete through operational efficiency, timely delivery, and quality products. We have a number of competitors for our products in this industry.

All Other. All Other includes our captive insurance and transportation companies; legal, environmental, and maintenance costs associated with non-operating facilities; and other peripheral businesses.

Foreign Operations. Trinity's foreign operations are primarily located in Mexico. Continuing operations included sales to foreign customers, primarily in Mexico, which represented 11.7%, 10.0%, and 10.6% of our consolidated revenues for the years ended December 31, 2013, 2012, and 2011, respectively. As of December 31, 2013 and 2012, we had 3.5% and 3.1%, respectively, of our long-lived assets not held for sale located outside the U.S. We manufacture railcars, storage containers, tank heads, structural wind towers, utility structures, parts and steel components, and other products at our Mexico facilities for local consumption as well as for export to the U.S. and other countries.

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Backlog. As of December 31, 2013 and 2012, our backlog of firm and noncancellable orders was as follows:

	December 31, 2013	December 31, 2012
	(in millions)	
Rail Group		
External Customers	$4,189.6	$2,867.5
Leasing Group	827.0	834.7
	$5,016.6	$3,702.2
Inland Barge	$429.6	$564.1
Structural wind towers		
Not subject to ongoing litigation	$553.9	$267.8
Subject to ongoing litigation	—	412.5
	$553.9	$680.3

For the twelve months ended December 31, 2013, our rail manufacturing businesses received orders for 32,240 railcars. The increase in backlog as of December 31, 2013 reflects the value of orders taken during the year. The orders in our backlog from the Leasing Group are supported by lease commitments with external customers. The final amount dedicated to the Leasing Group may vary by the time of delivery. Approximately 60% of our railcar backlog is expected to be delivered in the twelve months ending December 31, 2014 with the remainder to be delivered from 2015 through 2016. All of our Inland Barge backlog is expected to be delivered in the twelve months ending December 31, 2014. Deliveries for multi-year barge agreements are included in the backlog when specific production quantities for future years have been determined. Approximately $412.5 million included in our structural wind towers backlog at December 31, 2012 is the subject of ongoing litigation with one of the Company's customers leaving a remainder of $267.8 million not subject to litigation. The Company has removed the amount subject to litigation from its wind tower backlog at December 31, 2013 due to the expectation that the purchases will not be made as contracted. The litigation, in which Trinity seeks damages for lost profits under the contract, is pending and is discussed in Note 18 of the Notes to the Consolidated Financial Statements under "Other Matters".

Marketing. We sell substantially all of our products and services through our own sales personnel operating from offices in multiple locations in the U.S. as well as Canada, Mexico, the United Kingdom, Singapore, and Sweden. We also use independent sales representatives on a limited basis.

Raw Materials and Suppliers.

Railcar Specialty Components and Steel. Products manufactured at our railcar manufacturing facilities require a significant supply of raw materials such as steel, as well as numerous specialty components such as brakes, wheels, axles, side frames, bolsters, and bearings. Although the number of alternative suppliers of specialty components has declined in recent years, at least two suppliers continue to produce most components.

The principal material used in our manufacturing segments is steel. During 2013, the supply of steel was sufficient to support our manufacturing requirements. Market steel prices continue to exhibit short periods of volatility with 2013 prices averaging lower than 2012. Steel prices may continue to be volatile in part as a result of scrap surcharges assessed by steel mills and other market factors. We often use contract-specific purchasing practices, existing supplier commitments, contractual price escalation provisions, and other arrangements with our customers, to mitigate the effect of steel price volatility on our operating profits for the year. In general, we believe there is enough capacity in the supply industry to meet current production levels and that our existing contracts and other relationships we have in place will meet our current production forecasts.

Aggregates. Natural and lightweight aggregates can be found throughout the U.S., and many producers exist nationwide. Shipments of natural aggregates from an individual quarry are generally limited in geographic scope because the cost of transporting processed aggregates to customers is high in relation to the value of the product itself. Lightweight aggregates have a much wider, multi-state distribution area due to their higher value relative to their distribution costs. We operate 16 mining facilities strategically located in Texas, Arkansas, Louisiana, Colorado, and California.

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Employees. The following table presents the approximate headcount breakdown of employees by business group:

Business Group	December 31, 2013
Rail Group	9,600
Construction Products Group	1,610
Inland Barge Group	1,960
Energy Equipment Group	4,470
Railcar Leasing and Management Services Group	140
All Other	380
Corporate	300
	18,460

As of December 31, 2013, approximately 9,910 employees were employed in the U.S. and approximately 8,550 employees were employed in Mexico.

Acquisitions and Divestitures. See Note 2 of the Notes to Consolidated Financial Statements.

Environmental Matters. We are subject to comprehensive federal, state, local, and foreign environmental laws and regulations relating to the release or discharge of materials into the environment; the management, use, processing, handling, storage, transport, and disposal of hazardous and non-hazardous waste and materials; and other activities relating to the protection of human health and the environment.

Environmental operating permits are, or may be, required for our operations under these laws and regulations. These operating permits are subject to modification, renewal, and revocation. We regularly monitor and review our operations, procedures, and policies for compliance with our operating permits and related laws and regulations. We believe that our operations and facilities, whether owned, managed, or leased, are in substantial compliance with applicable environmental laws and regulations and that any non-compliance is not likely to have a material adverse effect on our operations or financial condition.

Governmental Regulation.

Railcar Industry. The primary regulatory and industry authorities involved in the regulation of the railcar industry are the U.S. Environmental Protection Agency; the Research and Special Programs Administration, the Federal Railroad Administration ("FRA"), and the Pipeline and Hazardous Materials Safety Administration ("PHMSA"), all divisions of the U.S. Department of Transportation ("USDOT"); and the Association of American Railroads ("AAR"). These organizations establish rules and regulations for the railcar industry, rail infrastructure, and rail interchange, including product specifications and standards for the design and manufacture of railcars and railcar parts; mechanical, maintenance, and related standards for railcars; safety of railroad equipment, tracks, and operations; and packaging and transportation of hazardous or toxic materials. We believe that our product designs and operations are in compliance with these specifications, standards and regulations.

Recent derailments in North America of trains transporting crude oil have caused various regulatory agencies and industry organizations, including but not limited to the USDOT; FRA; PHMSA; AAR and the AAR Tank Car Committee ("AARTCC"); American Petroleum Institute ("API"); and Railcar Supply Institute ("RSI"), as well as community governments, to focus attention on transportation by rail of flammable materials. In September 2013, PHMSA published an Advance Notice of Proposed Rulemaking seeking interested party comments on potential regulatory initiatives pertaining to the transportation of flammable materials by rail. While the regulatory process itself and the scope of any potential regulatory change is uncertain, the Company is assessing its position under a variety of potentially diverse, final rule scenarios. Any final rule may or may not materially impact the rail industry as

a whole; railroad operations; older and newer tank railcars that meet or exceed currently mandated FRA standards; future tank railcar specifications; and the capability of the nation's railcar manufacturing, repair and maintenance infrastructure to implement mandated retrofit configurations or new construction. The Company cannot assure that costs incurred to comply with standards and regulations emerging from PHMSA's rulemaking process will not be material to the Company's financial position or results of operations.

Inland Barge Industry. The primary regulatory and industry authorities involved in the regulation of the inland barge industry are the U.S. Coast Guard; the U.S. National Transportation Safety Board; the U.S. Customs Service; the Maritime Administration of the U.S. Department of Transportation; and private industry organizations such as the American Bureau of Shipping. These organizations establish safety criteria, investigate vessel accidents, and recommend improved safety standards. Violations of these laws and related regulations can result in substantial civil and criminal penalties as well as injunctions curtailing operations. We believe that our product specifications and operations are in compliance with applicable laws and regulations.

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Highway Products. The primary regulatory and industry authorities involved in the regulation of highway products manufacturers are the U.S. Department of Transportation, the Federal Highway Administration, and various state highway departments. These organizations establish certain standards, specifications, and product testing criteria related to the manufacture of our highway products. If our products were found not to be in compliance with these standards, specifications, or testing criteria we would be required to re-qualify our products for installation on state and national highways. We believe that our highway products are in compliance with all applicable standards and specifications.

Occupational Safety and Health Administration and Similar Regulations. Our operations are subject to regulation of health and safety matters by the U.S. Occupational Safety and Health Administration and the U.S. Mine Safety and Health Administration. We believe that we employ appropriate precautions to protect our employees and others from workplace injuries and harmful exposure to materials handled and managed at our facilities. However, claims that may be asserted against us for work-related illnesses or injury and the further adoption of occupational and mine safety and health regulations in the U.S. or in foreign jurisdictions in which we operate could increase our operating costs. While we do not anticipate having to make material expenditures in order to remain in substantial compliance with health and safety laws and regulations, we are unable to predict the ultimate cost of compliance.

See Item 1A for further discussion of risk factors with regard to environmental, governmental, and other matters.

Executive Officers and Other Corporate Officers of the Company.

The following table sets forth the names and ages of all of our executive officers and other corporate officers, their positions and offices presently held by them, and the year each person first became an officer. All officer terms expire in May 2014.

Name	Age	Office	Officer Since
Timothy R. Wallace*	60	Chairman, Chief Executive Officer, and President	1985
James E. Perry*	42	Senior Vice President and Chief Financial Officer	2005
William A. McWhirter II*	49	Senior Vice President and Group President	2005
D. Stephen Menzies*	58	Senior Vice President and Group President	