

TRINITY INDUSTRIES INC
Form 10-Q
October 27, 2016

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 SEPTEMBER 30, 2016

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

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

75-0225040

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

2525 N. Stemmons Freeway, Dallas, Texas

(Address of principal executive offices)

75207-2401

(Zip Code)

(214) 631-4420

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

At October 14, 2016 the number of shares of common stock outstanding was 152,256,733.

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PART I

Item 1. Financial Statements

Trinity Industries, Inc. and Subsidiaries

Consolidated Statements of Operations

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in millions, except per share amounts)			
Revenues:				
Manufacturing	\$938.5	\$1,295.6	\$2,837.4	\$4,123.5
Leasing	173.2	246.6	647.1	722.2
	1,111.7	1,542.2	3,484.5	4,845.7
Operating costs:				
Cost of revenues:				
Manufacturing	745.4	976.0	2,258.4	3,162.3
Leasing	81.9	133.4	356.5	377.8
	827.3	1,109.4	2,614.9	3,540.1
Selling, engineering, and administrative expenses:				
Manufacturing	54.9	71.5	176.6	202.2
Leasing	11.8	15.4	33.9	38.4
Other	35.6	39.7	95.0	98.7
	102.3	126.6	305.5	339.3
Gains on dispositions of property:				
Net gains on railcar lease fleet sales owned more than one year at the time of sale	—	57.8	13.5	102.8
Other	1.5	0.9	1.0	11.8
	1.5	58.7	14.5	114.6
Total operating profit	183.6	364.9	578.6	1,080.9
Other (income) expense:				
Interest income	(1.4)	(0.6)	(3.9)	(1.6)
Interest expense	45.3	46.7	136.7	148.8
Other, net	0.2	(1.0)	(5.4)	(4.0)
	44.1	45.1	127.4	143.2
Income before income taxes	139.5	319.8	451.2	937.7
Provision for income taxes	49.9	107.6	160.7	315.7
Net income	89.6	212.2	290.5	622.0
Net income attributable to noncontrolling interest	5.4	7.9	14.5	25.5
Net income attributable to Trinity Industries, Inc.	\$84.2	\$204.3	\$276.0	\$596.5
Net income attributable to Trinity Industries, Inc. per common share:				
Basic	\$0.55	\$1.32	\$1.81	\$3.84
Diluted	\$0.55	\$1.31	\$1.81	\$3.78
Weighted average number of shares outstanding:				
Basic	148.7	150.0	148.3	150.6
Diluted	148.7	150.9	148.3	153.1
Dividends declared per common share	\$0.11	\$0.11	\$0.33	\$0.32
See accompanying notes to consolidated financial statements.				

Table of ContentsTrinity Industries, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
(unaudited)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	2015	2015	2015	2015
	(in millions)			
Net income	\$89.6	\$212.2	\$290.5	\$622.0
Other comprehensive income (loss):				
Derivative financial instruments:				
Unrealized losses arising during the period, net of tax expense (benefit) of \$0.1, \$(0.2), \$(0.1), and \$(0.4)	—	(0.5)	(0.7)	(0.8)
Reclassification adjustments for losses included in net income, net of tax benefit of \$0.1, \$0.2, \$0.6, and \$3.3	1.2	1.2	3.4	7.6
Currency translation adjustment	(0.4)	(2.6)	1.4	(5.2)
Defined benefit plans:				
Amortization of net actuarial losses, net of tax benefit of \$0.4, \$0.5, \$1.4, and \$1.5	0.8	0.8	2.4	2.4
	1.6	(1.1)	6.5	4.0
Comprehensive income	91.2	211.1	297.0	626.0
Less: comprehensive income attributable to noncontrolling interest	6.2	8.4	16.5	27.5
Comprehensive income attributable to Trinity Industries, Inc.	\$85.0	\$202.7	\$280.5	\$598.5
See accompanying notes to consolidated financial statements.				

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

	September 30, 2016 (unaudited) (in millions)	December 31, 2015
ASSETS		
Cash and cash equivalents	\$ 557.8	\$ 786.0
Short-term marketable securities	284.7	84.9
Receivables, net of allowance	372.2	369.9
Income tax receivable	54.9	94.9
Inventories:		
Raw materials and supplies	406.1	478.6
Work in process	265.1	222.8
Finished goods	198.4	241.7
	869.6	943.1
Restricted cash, including partially-owned subsidiaries of \$81.7 and \$89.9	183.9	195.8
Property, plant, and equipment, at cost, including partially-owned subsidiaries of \$1,978.6 and \$1,980.1	7,713.9	7,145.4
Less accumulated depreciation, including partially-owned subsidiaries of \$351.9 and \$313.7	(1,950.7)	(1,797.4)
	5,763.2	5,348.0
Goodwill	754.5	753.8
Other assets	294.8	309.5
	\$9,135.6	\$ 8,885.9
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$211.0	\$ 216.8
Accrued liabilities	477.7	529.6
Debt:		
Recourse, net of unamortized discount of \$31.5 and \$44.2	847.4	836.7
Non-recourse:		
Wholly-owned subsidiaries	880.7	928.7
Partially-owned subsidiaries	1,379.0	1,430.0
	3,107.1	3,195.4
Deferred income	24.2	27.1
Deferred income taxes	936.0	752.2
Other liabilities	125.2	116.1
	4,881.2	4,837.2
Stockholders' equity:		
Preferred stock – 1.5 shares authorized and unissued	—	—
Common stock – 400.0 shares authorized	1.5	1.5
Capital in excess of par value	528.9	548.5
Retained earnings	3,446.4	3,220.3
Accumulated other comprehensive loss	(110.9)	(115.4)
Treasury stock	(4.4)	(1.0)
	3,861.5	3,653.9
Noncontrolling interest	392.9	394.8
	4,254.4	4,048.7
	\$9,135.6	\$ 8,885.9

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2016 2015 (in millions)	
Operating activities:		
Net income	\$290.5	\$622.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	210.6	197.9
Stock-based compensation expense	33.2	46.3
Excess tax benefits from stock-based compensation	(0.8)	(13.1)
Provision for deferred income taxes	158.1	13.8
Net gains on railcar lease fleet sales owned more than one year at the time of sale	(13.5)	(102.8)
Gains on dispositions of property and other assets	(1.0)	(11.8)
Non-cash interest expense	21.3	23.0
Other	(3.1)	(1.1)
Changes in assets and liabilities:		
(Increase) decrease in receivables	37.7	(43.9)
(Increase) decrease in inventories	73.5	50.7
(Increase) decrease in restricted cash	—	(9.4)
(Increase) decrease in other assets	8.5	(16.1)
Increase (decrease) in accounts payable	(5.8)	(0.8)
Increase (decrease) in accrued liabilities	(26.4)	(128.7)
Increase (decrease) in other liabilities	9.3	4.3
Net cash provided by operating activities	792.1	630.3
Investing activities:		
(Increase) decrease in short-term marketable securities	(199.8)	75.0
Proceeds from dispositions of property and other assets	8.9	6.1
Proceeds from railcar lease fleet sales owned more than one year at the time of sale	37.7	313.4
Capital expenditures – leasing, net of sold lease fleet railcars owned one year or less with a net cost of \$92.0 and \$150.0	(555.2)	(642.2)
Capital expenditures – manufacturing and other	(101.1)	(145.1)
Acquisitions, net of cash acquired	—	(46.2)
Divestitures	—	51.3
Other	4.0	4.8
Net cash required by investing activities	(805.5)	(382.9)
Financing activities:		
Proceeds from issuance of common stock, net	—	0.2
Excess tax benefits from stock-based compensation	0.8	13.1
Payments to retire debt	(106.0)	(530.8)
Proceeds from issuance of debt	—	242.4
Decrease in restricted cash	11.9	32.3
Shares repurchased	(34.7)	(107.5)
Dividends paid to common shareholders	(50.0)	(48.0)

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Purchase of shares to satisfy employee tax on vested stock	(16.4)	(27.4)
Distributions to noncontrolling interest	(18.4)	(30.4)
Other	(2.0)	(1.4)
Net cash required by financing activities	(214.8)	(457.5)
Net decrease in cash and cash equivalents	(228.2)	(210.1)
Cash and cash equivalents at beginning of period	786.0	887.9
Cash and cash equivalents at end of period	\$557.8	\$677.8
See accompanying notes to consolidated financial statements.		

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

	Common Stock Shares	\$0.01 Par Value	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Trinity Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity	
(in millions, except par value)										
Balances at December 31, 2015	152.9	\$ 1.5	\$ 548.5	\$ 3,220.3	\$ (115.4)	(0.1)	\$(1.0)	\$ 3,653.9	\$ 394.8	\$ 4,048.7
Net income	—	—	—	276.0	—	—	276.0	14.5	290.5	
Other comprehensive income	—	—	—	—	4.5	—	4.5	2.0	6.5	
Cash dividends on common stock	—	—	—	(49.9)	—	—	(49.9)	—	(49.9)	
Restricted shares, net	2.6	—	36.8	—	—	(1.1)	(20.0)	16.8	—	16.8
Shares repurchased	—	—	—	—	—	(2.1)	(34.7)	(34.7)	—	(34.7)
Excess net tax deficiency from stock-based compensation	—	—	(4.7)	—	—	—	(4.7)	—	—	(4.7)
Disbursements to non-controlling interest	—	—	—	—	—	—	—	—	(18.4)	(18.4)
Retirement of treasury stock	(3.1)	—	(51.7)	—	—	3.1	51.7	—	—	—
Other	—	—	—	—	—	—	(0.4)	(0.4)	—	(0.4)
Balances at September 30, 2016	152.4	\$ 1.5	\$ 528.9	\$ 3,446.4	\$ (110.9)	(0.2)	\$(4.4)	\$ 3,861.5	\$ 392.9	\$ 4,254.4

See accompanying notes to consolidated financial statements.

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Trinity Industries, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The foregoing consolidated financial statements are unaudited and have been prepared from the books and records of Trinity Industries, Inc. and its consolidated subsidiaries (“Trinity”, “Company”, “we”, or “our”) including the accounts of its wholly-owned subsidiaries and its partially-owned subsidiaries, TRIP Rail Holdings LLC (“TRIP Holdings”) and RIV 2013 Rail Holdings LLC (“RIV 2013”), in which the Company has a controlling interest. In our opinion, all normal and recurring adjustments necessary for a fair presentation of the financial position of the Company as of September 30, 2016, and the results of operations for the three and nine months ended September 30, 2016 and 2015, and cash flows for the nine months ended September 30, 2016 and 2015, have been made in conformity with generally accepted accounting principles. All significant intercompany accounts and transactions have been eliminated. Because of seasonal and other factors, the results of operations for the nine months ended September 30, 2016 may not be indicative of expected results of operations for the year ending December 31, 2016. 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, 2015.

Stockholders' Equity

In December 2015, the Company’s Board of Directors renewed its \$250 million share repurchase program effective January 1, 2016 through December 31, 2017. The new program replaced the previous program which expired on December 31, 2015. Under the new program, 2,070,600 shares were repurchased during the nine months ended September 30, 2016, at a cost of approximately \$34.7 million. There were no shares repurchased during the three months ended September 30, 2016. During the three and nine months ended September 30, 2015, the Company repurchased 1,556,516 shares and 3,947,320 shares, respectively, at a cost of approximately \$40.0 million and \$115.0 million, respectively.

Revenue Recognition

Revenues for contracts providing for a large number of units and few deliveries are recorded as the individual units are produced, inspected, and accepted by the customer as the risk of loss passes to the customer upon delivery acceptance on these contracts. This occurs primarily in the Rail and Inland Barge Groups. Revenue from rentals and operating leases, including contracts that contain non-level fixed rental payments, is recognized monthly on a straight-line basis. Revenue is recognized from the sales of railcars from the lease fleet on a gross basis in leasing revenues and cost of revenues if the railcar has been owned for one year or less at the time of sale. Sales of railcars from the lease fleet that have been owned for more than one year are recognized as a net gain or loss from the disposal of a long-term asset. Fees for shipping and handling are recorded as revenue. For all other products, we recognize revenue when products are shipped or services are provided.

Financial Instruments

The Company considers all highly liquid debt instruments to be either cash and cash equivalents if purchased with a maturity of three months or less, or short-term marketable securities if purchased with a maturity of more than three months and less than one year. The Company intends to hold its short-term marketable securities until they are redeemed at their maturity date and believes that under the "more likely than not" criteria, the Company will not be required to sell the securities before recovery of their amortized cost bases, which may be maturity.

Financial instruments that potentially subject the Company to a concentration of credit risk are primarily cash investments including restricted cash, short-term marketable securities, and receivables. The Company places its cash investments and short-term marketable securities in bank deposits and investment grade, short-term debt instruments and limits the amount of credit exposure to any one commercial issuer. Concentrations of credit risk with respect to receivables are limited due to control procedures that monitor the credit worthiness of customers, the large number of customers in the Company's customer base, and their dispersion across different industries and geographic areas. As

receivables are generally unsecured, the Company maintains an allowance for doubtful accounts based upon the expected collectibility of all receivables. Receivable balances determined to be uncollectible are charged against the allowance. The carrying values of cash, short-term marketable securities (using level two inputs), receivables, and accounts payable are considered to be representative of their respective fair values.

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Recent Accounting Pronouncements

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

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases", ("ASU 2016-02") which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 will become effective for public companies during interim and annual reporting periods beginning after December 15, 2018 with early adoption permitted. We are currently evaluating the impact this standard will have on our consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, "Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting", ("ASU 2016-09") which will change how companies account for certain aspects of share-based payments to employees. Excess tax benefits or deficiencies related to vested awards, previously recognized in stockholders' equity, will be required to be recognized in the income statement when the awards vest. ASU 2016-09 will become effective for public companies during interim and annual reporting periods beginning after December 15, 2016 with early adoption permitted. The effect of adopting this standard will result in volatility in the provision for income taxes depending on fluctuations in the price of the Company's stock.

Note 2. Acquisitions and Divestitures

There was no acquisition or divestiture activity for the three and nine months ended September 30, 2016.

In March 2015, we completed the acquisition of the assets of a lightweight aggregates business in our Construction Products Group with facilities located in Louisiana, Alabama, and Arkansas. As of March 31, 2016, the purchase price allocation of the acquisition was finalized. Such assets and liabilities were not significant in relation to assets and liabilities at the consolidated or segment level. See Note 3 Fair Value Accounting for a discussion of inputs in determining fair value.

In June 2015, we sold the assets of our galvanizing business which included six facilities in Texas, Mississippi, and Louisiana, recognizing a gain of \$8.2 million which is included in gains on other dispositions of property in the accompanying consolidated statements of operations. The assets and results of operations for this divestiture were included in the Construction Products Group.

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Note 3. Fair Value Accounting

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

Fair Value Measurement as of September 30, 2016
(in millions)

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ 114.7	\$ —	\$ —	\$ 114.7
Restricted cash	183.9	—	—	183.9
Equity instruments	—	3.4	—	3.4
Total assets	\$ 298.6	\$ 3.4	\$ —	\$ 302.0

Liabilities:

Interest rate hedge:⁽¹⁾

Partially-owned subsidiaries	\$ —	\$ 1.6	\$ —	\$ 1.6
Total liabilities	\$ —	\$ 1.6	\$ —	\$ 1.6

Fair Value Measurement as of December 31, 2015
(in millions)

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ 174.0	\$ —	\$ —	\$ 174.0
Restricted cash	195.8	—	—	195.8
Total assets	\$ 369.8	\$ —	\$ —	\$ 369.8

Liabilities:

Interest rate hedge:⁽¹⁾

Partially-owned subsidiaries	\$ —	\$ 1.6	\$ —	\$ 1.6
Fuel derivative instruments ⁽¹⁾	—	0.8	—	0.8
Total liabilities	\$ —	\$ 2.4	\$ —	\$ 2.4

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

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for that asset or liability in an orderly transaction between market participants on the measurement date. An entity is required to establish a fair value hierarchy that maximizes the use of observable inputs and minimizes 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 and restricted cash are instruments of the U.S. Treasury or highly-rated money market mutual funds.

Level 2 – This level is defined as observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's fuel derivative instruments, which are commodity swaps, are valued using energy and commodity market data. Interest rate hedges are valued at exit prices obtained from each counterparty. See Note 7 Derivative Instruments and Note 11 Debt. The equity instruments consist of warrants for the purchase of certain publicly-traded equity securities and are valued using the Black-Scholes-Merton option pricing model and certain assumptions regarding the exercisability of the options under the related agreement.

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.

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

	September 30, 2016		December 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in millions)			
Recourse:				
Senior notes	\$399.6	\$398.4	\$399.6	\$370.3
Convertible subordinated notes	449.4	538.6	449.4	534.8
Less: unamortized discount	(31.1)		(43.8)	
	418.3		405.6	
Capital lease obligations	33.2	33.2	35.8	35.8
Other	0.3	0.3	0.5	0.5
	851.4	970.5	841.5	941.4
Less: unamortized debt issuance costs	(4.0)		(4.8)	
	847.4		836.7	
Non-recourse:				
2006 secured railcar equipment notes	198.0	207.8	204.1	218.2
2009 secured railcar equipment notes	174.1	196.4	179.2	207.2
2010 secured railcar equipment notes	284.1	295.1	296.2	314.2
TILC warehouse facility	236.8	236.8	264.3	264.3
TRL 2012 secured railcar equipment notes (RIV 2013)	431.1	411.3	449.1	436.9
TRIP Master Funding secured railcar equipment notes (TRIP Holdings)	963.3	984.0	997.8	1,039.5
	2,287.4	2,331.4	2,390.7	2,480.3
Less: unamortized debt issuance costs	(27.7)		(32.0)	
	2,259.7		2,358.7	
Total	\$3,107.1	\$3,301.9	\$3,195.4	\$3,421.7

The estimated fair values of our senior notes and convertible subordinated notes were based on a quoted market price in a market with little activity as of September 30, 2016 and December 31, 2015 (Level 2 input). The estimated fair values of our 2006, 2009, 2010, and 2012 secured railcar equipment notes and TRIP Rail Master Funding LLC (“TRIP Master Funding”) secured railcar equipment notes are based on our estimate of their fair value as of September 30, 2016 and December 31, 2015. These values were determined by discounting their future cash flows at the current market interest rate (Level 3 inputs). The carrying value of our Trinity Industries Leasing Company (“TILC”) warehouse facility approximates fair value because the interest rate adjusts to the market interest rate (Level 3 input). The fair values of all other financial instruments are estimated to approximate carrying value. See Note 11 Debt for a description of the Company's long-term debt.

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, components, and maintenance services; (2) the Construction Products Group, which manufactures and sells highway products and other primarily-steel products and services for infrastructure-related projects, and produces and sells aggregates; (3) the Inland Barge Group, which manufactures and sells barges and related products for inland waterway services; (4) the Energy Equipment Group, which manufactures and sells products for energy-related businesses, including structural wind towers, steel utility structures for electricity transmission and distribution, storage and distribution containers, and tank heads for pressure and non-pressure vessels; and (5) the Railcar Leasing and Management Services Group (“Leasing Group”), which owns and operates a fleet of railcars as well as provides third-party fleet leasing, management, maintenance, and administrative services. The segment All Other includes our captive insurance and transportation companies; legal, environmental, and maintenance costs associated with non-operating facilities; and other peripheral businesses. Gains and losses from the sale of property, plant, and equipment related to manufacturing and dedicated to the specific manufacturing

operations of a particular segment are included in the operating profit of that respective segment. Gains and losses from the sale of property, plant, and equipment that can be utilized by multiple segments are included in operating profit of the All Other segment.

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Sales and related net profits ("deferred profit") from the Rail Group to the Leasing Group are recorded in the Rail Group and eliminated in consolidation and reflected in the "Eliminations - Lease subsidiary" line in the table below. Sales between these groups are recorded at prices comparable to those charged to external customers, taking into consideration quantity, features, and production demand. Amortization of deferred profit on railcars sold to the Leasing Group is included in the operating profit of the Leasing Group, resulting in the recognition of depreciation expense based on the Company's original manufacturing cost of the railcars. Sales of railcars from the lease fleet are included in the Leasing Group, with related gains and losses computed based on the net book value of the original manufacturing cost of the railcars. The financial information for these segments is shown in the tables below. We operate principally in North America.

Three Months Ended September 30, 2016

	Revenues			Operating Profit (Loss)
	External	Intersegment	Total	
	(in millions)			
Rail Group	\$506.0	\$ 214.8	\$720.8	\$ 103.6
Construction Products Group	136.3	3.5	139.8	23.8
Inland Barge Group	98.9	—	98.9	11.7
Energy Equipment Group	194.6	47.1	241.7	31.2
Railcar Leasing and Management Services Group	173.2	0.5	173.7	80.5
All Other	2.7	24.0	26.7	(3.5)
Segment Totals before Eliminations and Corporate	1,111.7	289.9	1,401.6	247.3
Corporate	—	—	—	(35.6)
Eliminations – Lease subsidiary	—	(206.7)	(206.7)	(27.7)
Eliminations – Other	—	(83.2)	(83.2)	(0.4)
Consolidated Total	\$1,111.7	\$ —	\$1,111.7	\$ 183.6

Three Months Ended September 30, 2015

	Revenues			Operating Profit (Loss)
	External	Intersegment	Total	
	(in millions)			
Rail Group	\$747.2	\$ 326.2	\$1,073.4	\$ 223.3
Construction Products Group	151.1	3.7	154.8	19.9
Inland Barge Group	164.8	—	164.8	28.1
Energy Equipment Group	229.6	59.9	289.5	44.8
Railcar Leasing and Management Services Group	246.6	2.6	249.2	158.2
All Other	2.9	26.2	29.1	(3.0)
Segment Totals before Eliminations and Corporate	1,542.2	418.6	1,960.8	471.3
Corporate	—	—	—	(39.7)
Eliminations – Lease subsidiary	—	(308.4)	(308.4)	(65.6)
Eliminations – Other	—	(110.2)	(110.2)	(1.1)
Consolidated Total	\$1,542.2	\$ —	\$1,542.2	\$ 364.9

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Nine Months Ended September 30, 2016

	Revenues			Operating Profit (Loss)
	External	Intersegment	Total	
	(in millions)			
Rail Group	\$1,476.9	\$ 784.0	\$2,260.9	\$ 349.6
Construction Products Group	399.6	10.9	410.5	61.2
Inland Barge Group	328.0	—	328.0	38.6
Energy Equipment Group	626.2	129.5	755.7	103.5
Railcar Leasing and Management Services Group	647.1	1.7	648.8	272.4
All Other	6.7	61.6	68.3	(13.8)
Segment Totals before Eliminations and Corporate	3,484.5	987.7	4,472.2	811.5
Corporate	—	—	—	(95.0)
Eliminations – Lease subsidiary	—	(742.1)	(742.1)	(139.1)
Eliminations – Other	—	(245.6)	(245.6)	1.2
Consolidated Total	\$3,484.5	\$ —	\$3,484.5	\$ 578.6

Nine Months Ended September 30, 2015

	Revenues			Operating Profit (Loss)
	External	Intersegment	Total	
	(in millions)			
Rail Group	\$2,506.8	\$ 821.4	\$3,328.2	\$663.7
Construction Products Group	411.4	7.5	418.9	49.5
Inland Barge Group	505.7	—	505.7	96.3
Energy Equipment Group	694.4	177.1	871.5	118.3
Railcar Leasing and Management Services Group	722.2	9.9	732.1	418.7
All Other	5.2	78.8	84.0	(4.6)
Segment Totals before Eliminations and Corporate	4,845.7	1,094.7	5,940.4	1,341.9
Corporate	—	—	—	(98.7)
Eliminations – Lease subsidiary	—	(782.9)	(782.9)	(163.8)
Eliminations – Other	—	(311.8)	(311.8)	1.5
Consolidated Total	\$4,845.7	\$ —	\$4,845.7	\$1,080.9

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Note 5. Partially-Owned Leasing Subsidiaries

The Company, through its wholly-owned subsidiary, TILC, formed two subsidiaries, TRIP Holdings and RIV 2013, for the purpose of providing railcar leasing in North America. Each of TRIP Holdings and RIV 2013 are direct, partially-owned subsidiaries of TILC in which the Company has a controlling interest. Each is governed by a seven-member board of representatives, two of whom are designated by TILC. TILC is the agent of each of TRIP Holdings and RIV 2013 and as such, has been delegated the authority, power, and discretion to take certain actions on behalf of the respective companies.

At September 30, 2016, the Company's carrying value of its investment in TRIP Holdings and RIV 2013 totaled \$223.2 million. The Company's weighted average ownership interest in TRIP Holdings and RIV 2013 is 39% while the remaining 61% weighted average interest is owned by third-party investor-owned funds. The Company's investments in its partially-owned leasing subsidiaries are eliminated in consolidation.

Each of TRIP Holdings and RIV 2013 has wholly-owned subsidiaries that are the owners of railcars acquired from the Company's Rail and Leasing Groups. These wholly-owned subsidiaries are TRIP Master Funding (wholly-owned by TRIP Holdings) and Trinity Rail Leasing 2012 LLC ("TRL 2012", wholly-owned by RIV 2013). Railcar purchases by these subsidiaries were funded by secured borrowings and capital contributions from TILC and third-party equity investors. TILC is the contractual servicer for TRIP Master Funding and TRL 2012, with the authority to manage and service each entity's owned railcars. The Company's controlling interest in each of TRIP Holdings and RIV 2013 results from its combined role as both equity member and agent/servicer. The noncontrolling interest included in the accompanying consolidated balance sheets represents the non-Trinity equity interest in these partially-owned subsidiaries.

Trinity has no obligation to guarantee performance under any of the partially-owned subsidiaries' (or their respective subsidiaries') debt agreements, guarantee any railcar residual values, shield any parties from losses, or guarantee minimum yields.

The assets of each of TRIP Master Funding and TRL 2012 may only be used to satisfy the particular subsidiary's liabilities, and the creditors of each of TRIP Master Funding and TRL 2012 have recourse only to the particular subsidiary's assets. Each of TILC and the third-party equity investors receive distributions from TRIP Holdings and RIV 2013, when available, in proportion to its respective equity interests, and has an interest in the net assets of the partially-owned subsidiaries upon a liquidation event in the same proportion. TILC is paid fees for the services it provides to TRIP Master Funding and TRL 2012 and has the potential to earn certain incentive fees. TILC and the third-party equity investors have commitments to provide additional equity funding to TRIP Holdings that expire in May 2019 contingent upon certain returns on investment in TRIP Holdings and other conditions being met. There are no remaining equity commitments with respect to RIV 2013.

See Note 11 Debt regarding the debt of TRIP Holdings and RIV 2013 and their respective subsidiaries.

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Note 6. Railcar Leasing and Management Services Group

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

	September 30, 2016			Total
	Leasing Group			
	Wholly- Owned Subsidiaries	Partially-Owned Subsidiaries	Manufacturing/ Corporate	
	(in millions)			
Cash, cash equivalents, and short-term marketable securities	\$ 5.8	\$ —	\$ 836.7	\$ 842.5
Property, plant, and equipment, net	\$ 3,677.0	\$ 1,894.0	\$ 958.5	\$ 6,529.5
Net deferred profit on railcars sold to the Leasing Group				(766.3)
Consolidated property, plant and equipment, net				\$ 5,763.2
Restricted cash	\$ 102.1	\$ 81.7	\$ 0.1	\$ 183.9
Debt:				
Recourse	\$ 33.2	\$ —	\$ 849.7	\$ 882.9
Less: unamortized discount	—	—	(31.5)	(31.5)
Less: unamortized debt issuance costs	(0.1)	—	(3.9)	(4.0)
	33.1	—	814.3	847.4
Non-recourse	893.0	1,394.4	—	2,287.4
Less: unamortized debt issuance costs	(12.3)	(15.4)	—	(27.7)
	880.7	1,379.0	—	2,259.7
Total debt	\$ 913.8	\$ 1,379.0	\$ 814.3	\$ 3,107.1
Net deferred tax liabilities	\$ 878.8	\$ 1.4	\$ 38.3	\$ 918.5

	December 31, 2015			Total
	Leasing Group			
	Wholly- Owned Subsidiaries	Partially-Owned Subsidiaries	Manufacturing/ Corporate	
	(in millions)			
Cash, cash equivalents, and short-term marketable securities	\$ 3.8	\$ —	\$ 867.1	\$ 870.9
Property, plant, and equipment, net	\$ 3,126.3	\$ 1,938.6	\$ 956.1	\$ 6,021.0
Net deferred profit on railcars sold to the Leasing Group				(673.0)
Consolidated property, plant and equipment, net				\$ 5,348.0
Restricted cash	\$ 105.9	\$ 89.9	\$ —	\$ 195.8
Debt:				
Recourse	\$ 35.8	\$ —	\$ 849.9	\$ 885.7
Less: unamortized discount	—	—	(44.2)	(44.2)
Less: unamortized debt issuance costs	(0.1)	—	(4.7)	(4.8)
	35.7	—	801.0	836.7
Non-recourse	943.8	1,446.9	—	2,390.7
Less: unamortized debt issuance costs	(15.1)	(16.9)	—	(32.0)
	928.7	1,430.0	—	2,358.7
Total debt	\$ 964.4	\$ 1,430.0	\$ 801.0	\$ 3,195.4
Net deferred tax liabilities	\$ 746.0	\$ 1.4	\$ (12.6)	\$ 734.8

Net deferred profit on railcars sold to the Leasing Group consists of intersegment profit that is eliminated in consolidation and is, therefore, not allocated to an operating segment. See Note 5 Partially-Owned Leasing Subsidiaries and Note 11 Debt for a further discussion regarding the Company's investment in its partially-owned leasing subsidiaries and the related indebtedness.

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	Three Months Ended			Nine Months Ended		
	September 30, 2016 (\$ in millions)	2015	Percent Change	September 30, 2016 (\$ in millions)	2015	Percent Change
Revenues:						
Leasing and management	\$173.7	\$176.6	(1.6)%	\$522.7	\$520.9	0.3 %
Sales of railcars owned one year or less at the time of sale	—	72.6	*	126.1	211.2	*
Total revenues	\$173.7	\$249.2	(30.3)	\$648.8	\$732.1	(11.4)
Operating profit:						
Leasing and management	\$80.5	\$81.8	(1.6)	\$224.8	\$254.7	(11.7)
Railcar sales:						
Railcars owned one year or less at the time of sale	—	18.6	*	34.1	61.2	*
Railcars owned more than one year at the time of sale	—	57.8	*	13.5	102.8	*
Total operating profit	\$80.5	\$158.2	(49.1)	\$272.4	\$418.7	(34.9)
Operating profit margin:						
Leasing and management	46.3	% 46.3	%	43.0	% 48.9	%
Railcar sales	*	*		*	*	
Total operating profit margin	46.3	% 63.5	%	42.0	% 57.2	%
Selected expense information⁽¹⁾:						
Depreciation	\$39.4	\$35.9	9.7	\$115.5	\$105.8	9.2
Maintenance and compliance	\$21.3	\$24.6	(13.4)	\$84.7	\$65.9	28.5
Rent	\$9.9	\$9.9	—	\$29.3	\$31.3	(6.4)
Interest	\$31.2	\$32.5	(4.0)	\$94.4	\$106.8	(11.6)

* Not meaningful

⁽¹⁾ Depreciation, maintenance and compliance, and rent expense are components of operating profit. Amortization of deferred profit on railcars sold from the Rail Group to the Leasing Group is included in the operating profit of the Leasing Group resulting in the recognition of depreciation expense based on the Company's original manufacturing cost of the railcars. Interest expense is not a component of operating profit and includes the effect of hedges.

During the nine months ended September 30, 2016 and 2015, the Company received proceeds from the sales of leased railcars as follows:

	Nine Months Ended September 30, 2016 2015 (in millions)	
	Leasing Group:	
Railcars owned one year or less at the time of sale	\$126.1	\$211.2
Railcars owned more than one year at the time of sale	37.7	313.4
Rail Group	8.1	175.8
	\$171.9	\$700.4

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

Remaining three	2017	2018	2019	2020	Thereafter	Total
--------------------	------	------	------	------	------------	-------

months
of
2016
(in millions)

Future contractual minimum rental revenue \$ 136.8 \$ 489.0 \$ 405.0 \$ 322.7 \$ 249.0 \$ 411.8 \$ 2,014.3

Debt. The Leasing Group's debt at September 30, 2016 consisted primarily of non-recourse debt. As of September 30, 2016, Trinity's wholly-owned subsidiaries included in the Leasing Group held equipment with a net book value of \$1,406.7 million

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which is pledged as collateral for Leasing Group debt held by those subsidiaries, including equipment with a net book value of \$43.1 million securing capital lease obligations. The net book value of unpledged equipment at September 30, 2016 was \$2,204.9 million. See Note 11 Debt for the form, maturities, and descriptions of Leasing Group debt.

Partially-owned subsidiaries. Debt owed by TRIP Holdings and RIV 2013 and their respective subsidiaries is nonrecourse to Trinity and TILC. Creditors of each of TRIP Holdings and RIV 2013 and their respective subsidiaries have recourse only to the particular subsidiary's assets. TRIP Master Funding equipment with a net book value of \$1,321.8 million is pledged as collateral for the TRIP Master Funding debt. TRL 2012 equipment with a net book value of \$572.2 million is pledged solely as collateral for the TRL 2012 secured railcar equipment notes. See Note 5 Partially-Owned Leasing Subsidiaries for a description of TRIP Holdings and RIV 2013.

Off Balance Sheet Arrangements. In prior years, the Leasing Group completed a series of financing transactions whereby railcars were sold to one or more separate independent owner trusts ("Trusts"). Each of the Trusts financed the purchase of the railcars with a combination of debt and equity. In each transaction, the equity participant in the Trust is considered to be the primary beneficiary of the Trust and therefore, the debt related to the Trust is not included as part of the consolidated financial statements. The Leasing Group, through 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 September 30, 2016 of \$146.2 million, including cash of \$53.6 million and railcars of \$65.0 million. The subsidiaries' cash, railcars, and an interest in each sublease 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 three months of 2016 (in millions)						Total
	2017	2018	2019	2020	Thereafter		
Future operating lease obligations of Trusts' railcars	\$7.3	\$29.2	\$29.2	\$28.8	\$26.1	\$ 144.1	\$264.7
Future contractual minimum rental revenues of Trusts' railcars	\$12.7	\$43.7	\$34.3	\$23.8	\$14.1	\$ 23.5	\$152.1

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

	Remaining three months of 2016 (in millions)						Total
	2017	2018	2019	2020	Thereafter		
Future operating lease obligations	\$3.1	\$12.1	\$12.0	\$9.5	\$7.7	\$ 20.7	\$65.1
Future contractual minimum rental revenues	\$4.6	\$14.5	\$7.4	\$5.4	\$3.5	\$ 6.6	\$42.0

Operating lease obligations totaling \$10.2 million are guaranteed by Trinity Industries, Inc. and certain subsidiaries. See Note 6 of the December 31, 2015 Consolidated Financial Statements filed on Form 10-K for a detailed explanation of these financing transactions.

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Note 7. Derivative Instruments

We may use derivative instruments to mitigate the impact of changes in interest rates, both in anticipation of future debt issuances and to offset interest rate variability of certain floating rate debt issuances outstanding. We also may use derivative instruments to mitigate the impact of changes in natural gas and diesel fuel prices and changes in foreign currency exchange rates. Derivative instruments that are designated and qualify as cash flow hedges are accounted for in accordance with applicable accounting standards. See Note 3 Fair Value Accounting for discussion of how the Company valued its commodity hedges and interest rate swap at September 30, 2016. See Note 11 Debt for a description of the Company's debt instruments.

Interest rate hedges

	Included in accompanying balance sheet at September 30, 2016				
	Notional Amount	Interest Rate ⁽¹⁾	Liability	AOCL – loss/ (income)	Noncontrolling Interest
	(in millions, except %)				
Expired hedges:					
2006 secured railcar equipment notes	\$200.0	4.87 %	\$ —	\$ (0.8)	\$ —
TRIP Holdings warehouse loan	\$788.5	3.60 %	\$ —	\$ 6.4	\$ 8.7
Open hedge:					
TRIP Master Funding secured railcar equipment notes	\$40.3	2.62 %	\$ 1.6	\$ 0.7	\$ 0.9

⁽¹⁾ Weighted average fixed interest rate

	Effect on interest expense - increase/(decrease)				
	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015	Expected effect during next twelve months ⁽¹⁾
	(in millions)				
Expired hedges:					
2006 secured railcar equipment notes	\$(0.1)	\$—	\$(0.3)	\$(0.2)	\$ (0.2)
Promissory notes	\$—	\$—	\$—	\$1.2	\$ —
TRIP Holdings warehouse loan	\$1.2	\$1.2	\$3.6	\$3.7	\$ 4.6
Open hedges:					
TRIP Master Funding secured railcar equipment notes	\$0.2	\$0.2	\$0.7	\$0.9	\$ 0.7
Promissory notes	\$—	\$—	\$—	\$5.3	\$ —

⁽¹⁾ Based on the fair value of open hedges as of September 30, 2016

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

During 2006 and 2007, we entered into interest rate swap derivatives in anticipation of issuing our Promissory Notes. These derivative instruments, with a notional amount of \$370.0 million, were settled in 2008 and fixed the interest rate on a portion of the related debt issuance. These derivative instrument transactions were being accounted for as cash

flow hedges with changes in the fair value of the instruments of \$24.5 million recorded as a loss in AOCL through the date the related debt issuance closed in 2008. The balance was being amortized over the term of the related debt. These derivative instruments were fully amortized in May 2015. The effect on interest expense is due to amortization of the AOCL balance.

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

Between 2007 and 2009, TRIP Holdings, as required by the TRIP Warehouse Loan, entered into interest rate swap derivatives, all of which qualified as cash flow hedges, to reduce the effect of changes in variable interest rates in the TRIP Warehouse Loan. In July 2011, these interest rate hedges were terminated in connection with the refinancing of the TRIP Warehouse Loan. Balances included in AOCL at the date the hedges were terminated are being amortized over the expected life of the new debt with \$4.6 million of additional interest expense expected to be recognized during the twelve months following September 30, 2016. Also in

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July 2011, TRIP Holdings' wholly-owned subsidiary, TRIP Master Funding, entered into an interest rate swap derivative instrument, expiring in 2021, with an initial notional amount of \$94.1 million to reduce the effect of changes in variable interest rates associated with the Class A-1b notes of the TRIP Master Funding secured railcar equipment notes. The effect on interest expense is primarily a result of monthly interest settlements.

See Note 11 Debt regarding the related debt instruments.

Other Derivatives

Natural gas and diesel fuel

We maintain a program to mitigate the impact of fluctuations in the price of natural gas and diesel fuel. 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 effect on operating income for these instruments was not significant. The amount recorded in the consolidated balance sheet as of September 30, 2016 for these instruments was not significant.

Note 8. Property, Plant, and Equipment

The following table summarizes the components of property, plant, and equipment as of September 30, 2016 and December 31, 2015.

	September 30, 2016	December 31, 2015
	(in millions)	
Manufacturing/Corporate:		
Land	\$ 103.4	\$ 86.5
Buildings and improvements	634.6	610.4
Machinery and other	1,132.4	1,095.9
Construction in progress	38.6	68.7
	1,909.0	1,861.5
Less accumulated depreciation	(950.5)	(905.4)
	958.5	956.1
Leasing:		
Wholly-owned subsidiaries:		
Machinery and other		