

TRINITY INDUSTRIES INC
Form 10-Q
October 26, 2017

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, 2017

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 13, 2017 the number of shares of common stock outstanding was 151,783,625.

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

Caption	Page
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>39</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>54</u>
<u>Item 4. Controls and Procedures</u>	<u>54</u>
<u>PART II OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>55</u>
<u>Item 1A. Risk Factors</u>	<u>55</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>55</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>55</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>55</u>
<u>Item 5. Other Information</u>	<u>55</u>
<u>Item 6. Exhibits</u>	<u>56</u>
<u>SIGNATURES</u>	<u>57</u>
CERTIFICATIONS	

Table of Contents

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,	
	2017	2016	2017	2016
	(in millions, except per share amounts)			
Revenues:				
Manufacturing	\$698.7	\$938.5	\$2,111.0	\$2,837.4
Leasing	274.9	173.2	645.4	647.1
	973.6	1,111.7	2,756.4	3,484.5
Operating costs:				
Cost of revenues:				
Manufacturing	565.6	745.4	1,731.4	2,258.4
Leasing	156.6	81.9	332.4	356.5
	722.2	827.3	2,063.8	2,614.9
Selling, engineering, and administrative expenses:				
Manufacturing	59.1	54.9	177.0	176.6
Leasing	13.9	11.8	37.8	33.9
Other	41.5	35.6	114.8	95.0
	114.5	102.3	329.6	305.5
Gains (losses) on dispositions of property:				
Net gains on railcar lease fleet sales owned more than one year at the time of sale	16.5	—	40.2	13.5
Other	(0.4)	1.5	1.6	1.0
	16.1	1.5	41.8	14.5
Total operating profit	153.0	183.6	404.8	578.6
Other (income) expense:				
Interest income	(3.1)	(1.4)	(7.1)	(3.9)
Interest expense	46.8	45.3	137.5	136.7
Other, net	1.7	0.2	3.0	(5.4)
	45.4	44.1	133.4	127.4
Income before income taxes	107.6	139.5	271.4	451.2
Provision for income taxes	39.7	49.9	97.8	160.7
Net income	67.9	89.6	173.6	290.5
Net income attributable to noncontrolling interest	1.0	5.4	9.6	14.5
Net income attributable to Trinity Industries, Inc.	\$66.9	\$84.2	\$164.0	\$276.0
Net income attributable to Trinity Industries, Inc. per common share:				
Basic	\$0.44	\$0.55	\$1.08	\$1.81
Diluted	\$0.43	\$0.55	\$1.06	\$1.81
Weighted average number of shares outstanding:				
Basic	148.0	148.7	148.6	148.3
Diluted	151.3	148.7	151.1	148.3
Dividends declared per common share	\$0.13	\$0.11	\$0.37	\$0.33
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, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
	(in millions)			
Net income	\$67.9	\$89.6	\$173.6	\$290.5
Other comprehensive income (loss):				
Derivative financial instruments:				
Unrealized losses arising during the period, net of tax expense (benefit) of \$(0.1), \$0.1, \$(0.1), and \$(0.1)	(0.6)	—	(0.8)	(0.7)
Reclassification adjustments for losses included in net income, net of tax benefit of \$0.1, \$0.1, \$0.4, and \$0.6	1.0	1.2	3.2	3.4
Currency translation adjustment	0.8	(0.4)	1.6	1.4
Defined benefit plans:				
Amortization of net actuarial losses, net of tax benefit of \$0.5, \$0.4, \$1.4, and \$1.4	0.9	0.8	2.4	2.4
	2.1	1.6	6.4	6.5
Comprehensive income	70.0	91.2	180.0	297.0
Less: comprehensive income attributable to noncontrolling interest	1.5	6.2	11.6	16.5
Comprehensive income attributable to Trinity Industries, Inc.	\$68.5	\$85.0	\$168.4	\$280.5
See accompanying notes to consolidated financial statements.				

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

	September 30, 2017 (unaudited) (in millions)	December 31, 2016
ASSETS		
Cash and cash equivalents	\$874.7	\$ 563.4
Short-term marketable securities	150.0	234.7
Receivables, net of allowance	399.1	378.7
Income tax receivable	181.2	102.1
Inventories:		
Raw materials and supplies	299.1	302.5
Work in process	210.3	189.5
Finished goods	152.4	173.8
	661.8	665.8
Restricted cash, including partially-owned subsidiaries of \$66.6 and \$78.4	176.3	178.2
Property, plant, and equipment, at cost, including partially-owned subsidiaries of \$1,983.9 and \$1,979.8	8,274.9	7,981.0
Less accumulated depreciation, including partially-owned subsidiaries of \$404.7 and \$364.9	(2,204.8)	(2,014.2)
	6,070.1	5,966.8
Goodwill	770.2	754.1
Other assets	281.5	281.5
	\$9,564.9	\$ 9,125.3
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$194.5	\$ 156.1
Accrued liabilities	418.2	426.1
Debt:		
Recourse, net of unamortized discount of \$13.2 and \$27.1	862.9	850.6
Non-recourse:		
Wholly-owned subsidiaries	1,054.1	840.0
Partially-owned subsidiaries	1,359.4	1,366.0
	3,276.4	3,056.6
Deferred income	21.3	23.5
Deferred income taxes	1,247.4	1,072.9
Other liabilities	57.0	79.0
	5,214.8	4,814.2
Stockholders' equity:		
Preferred stock – 1.5 shares authorized and unissued	—	—
Common stock – 400.0 shares authorized	1.6	1.6
Capital in excess of par value	493.3	534.6
Retained earnings	3,604.7	3,497.3
Accumulated other comprehensive loss	(109.1)	(113.5)
Treasury stock	(2.6)	(1.5)
	3,987.9	3,918.5
Noncontrolling interest	362.2	392.6
	4,350.1	4,311.1
	\$9,564.9	\$ 9,125.3

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, 2017 2016 (in millions)	
Operating activities:		
Net income	\$173.6	\$290.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	220.7	210.6
Stock-based compensation expense	22.4	33.2
Excess tax benefits from stock-based compensation	—	(0.8)
Provision for deferred income taxes	151.7	158.1
Net gains on railcar lease fleet sales owned more than one year at the time of sale	(40.2)	(13.5)
Gains on dispositions of property and other assets	(1.6)	(1.0)
Non-cash interest expense	24.1	21.3
Other	(0.6)	(3.1)
Changes in assets and liabilities:		
(Increase) decrease in receivables	(94.3)	37.7
(Increase) decrease in inventories	10.6	73.5
(Increase) decrease in other assets	(4.3)	8.5
Increase (decrease) in accounts payable	38.4	(5.8)
Increase (decrease) in accrued liabilities	12.5	(26.4)
Increase (decrease) in other liabilities	(24.8)	9.3
Net cash provided by operating activities	488.2	792.1
Investing activities:		
(Increase) decrease in short-term marketable securities	84.7	(199.8)
Proceeds from dispositions of property and other assets	8.1	8.9
Proceeds from railcar lease fleet sales owned more than one year at the time of sale	160.3	37.7
Capital expenditures – leasing, net of sold lease fleet railcars owned one year or less with a net cost of \$74.3 and \$92.0	(360.4)	(555.2)
Capital expenditures – manufacturing and other	(61.9)	(101.1)
Acquisitions, net of cash acquired	(47.5)	—
Other	(0.3)	4.0
Net cash required by investing activities	(217.0)	(805.5)
Financing activities:		
Excess tax benefits from stock-based compensation	—	0.8
Payments to retire debt	(334.9)	(106.0)
Proceeds from issuance of debt	534.1	—
(Increase) decrease in restricted cash	1.9	11.9
Shares repurchased	(52.4)	(34.7)
Dividends paid to common shareholders	(53.0)	(50.0)
Purchase of shares to satisfy employee tax on vested stock	(14.1)	(16.4)
Distributions to noncontrolling interest	(41.4)	(18.4)
Other	(0.1)	(2.0)

Edgar Filing: TRINITY INDUSTRIES INC - Form 10-Q

Net cash provided (required) by financing activities	40.1	(214.8)
Net increase (decrease) in cash and cash equivalents	311.3	(228.2)
Cash and cash equivalents at beginning of period	563.4	786.0
Cash and cash equivalents at end of period	\$874.7	\$557.8
See accompanying notes to consolidated financial statements.		

6

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, 2016	152.2	\$ 1.6	\$ 534.6	\$ 3,497.3	\$ (113.5)	(0.1)	\$(1.5)	\$ 3,918.5	\$ 392.6	\$ 4,311.1
Net income	—	—	—	164.0	—	—	—	164.0	9.6	173.6
Other comprehensive income	—	—	—	—	4.4	—	—	4.4	2.0	6.4
Cash dividends on common stock	—	—	—	(56.0)	—	—	—	(56.0)	—	(56.0)
Restricted shares, net	1.7	—	25.3	—	—	(0.6)	(17.0)	8.3	—	8.3
Shares repurchased	—	—	—	—	—	(1.9)	(52.4)	(52.4)	—	(52.4)
Stock options exercised	—	—	0.2	—	—	—	—	0.2	—	0.2
Disbursements to non-controlling interest	—	—	—	—	—	—	—	—	(41.4)	(41.4)
Retirement of treasury stock	(2.5)	—	(68.3)	—	—	2.5	68.3	—	—	—
Other	—	—	1.5	(0.6)	—	—	—	0.9	(0.6)	0.3
Balances at September 30, 2017	151.4	\$ 1.6	\$ 493.3	\$ 3,604.7	\$ (109.1)	(0.1)	\$(2.6)	\$ 3,987.9	\$ 362.2	\$ 4,350.1

See accompanying notes to consolidated financial statements.

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 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, 2017, and the results of operations for the three and nine months ended September 30, 2017 and 2016, and cash flows for the nine months ended September 30, 2017 and 2016, 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, 2017 may not be indicative of expected results of operations for the year ending December 31, 2017. 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, 2016.

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. Under the program, 1,942,200 shares were repurchased during the nine months ended September 30, 2017, at a cost of approximately \$52.4 million. There were no shares repurchased during the three months ended September 30, 2017. During the nine months ended September 30, 2016, the Company repurchased 2,070,600 shares at a cost of approximately \$34.7 million. There were no shares repurchased during the three months ended September 30, 2016. As of September 30, 2017, the remaining authorization under the program totaled \$163.0 million.

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. Revenues for certain customer-requested “bill and hold” arrangements, primarily in the Energy Equipment Group, are recognized when all of the following conditions have been met: the risks of ownership have passed to the customer, the customer has made a fixed commitment to purchase the goods, there is a fixed delivery schedule consistent with the customer’s business purpose, the customer’s goods have been segregated from our inventory and are not available to fill other orders, the goods are complete and ready for shipment, and no additional performance obligations exist for the Company. 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 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.

Table of Contents

Recent Accounting Pronouncements

On January 1, 2017, the Company adopted Accounting Standards Update 2016-09, "Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting", ("ASU 2016-09") which changed how companies account for certain aspects of share-based payments to employees. ASU 2016-09 requires, among other things, that excess tax benefits or deficiencies related to vested awards, previously recognized in stockholders' equity, be included in income tax expense when the awards vest. The adoption of ASU 2016-09 resulted in an adjustment to retained earnings of \$0.6 million, net of tax, as of January 1, 2017 related to the cumulative effect of the standard. For the three and nine months ended September 30, 2017, the effect on the provision for income taxes included in the consolidated statement of operations was a benefit of \$0.2 million and an additional provision of \$2.2 million, respectively.

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.

The Company plans to adopt ASU 2014-09 effective January 1, 2018 using the modified retrospective method of adoption. Under this method, the guidance will be applied only to the most current period presented in the financial statements and the cumulative effect of initially applying the standard will result in an adjustment to the opening balance of retained earnings as of the date of adoption. Using both internal and external resources, the Company has substantially completed its evaluation of the requirements of the standard and their application to our various business units. Accordingly, we anticipate a change in the timing of revenue recognition for our wind towers and utility structures product lines within our Energy Equipment Group, no longer recognizing revenue when products are delivered, but under the new guidance, recognizing revenue over time as products are manufactured. The impact of this change cannot be reasonably estimated at this time. We expect revenue recognition policies related to our other business segments to remain substantially unchanged as a result of adopting ASU 2014-09. Additionally, we do not anticipate significant changes in business processes or systems. The Company is developing additional internal controls over financial reporting to ensure that the requirements of the new standard are satisfied.

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. The Company plans to adopt ASU 2016-02 effective January 1, 2019. We are continuing to assess the potential effects of the new standard, including its effects on our consolidated financial statements and the accounting for revenue from full service leases.

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, "Restricted Cash", ("ASU 2016-18") which clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The new guidance requires a reconciliation of totals in the statement of cash flows to the related cash and cash equivalents and restricted cash captions in the balance sheet. ASU 2016-18 will become effective for public companies during interim and annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company plans to adopt ASU 2016-18 effective January 1, 2018. The effect of adopting this standard is not expected to be significant.

In March 2017, the FASB issued Accounting Standards Update No. 2017-07, "Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" ("ASU 2017-07") which changes how companies that sponsor defined benefit pension plans present the related net periodic benefit cost in the income statement. The service cost component of the net periodic benefit cost will continue to be presented in the same income statement line items, however other components of the net periodic benefit cost will be presented as a component of other income and excluded from operating profit. ASU 2017-07 will become effective for

public companies during interim and annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company plans to adopt ASU 2017-07 effective January 1, 2018. The effect of adopting this standard is not expected to be significant.

Table of Contents

Note 2. Acquisitions and Divestitures

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2016	2017	2016
	(in millions)			

Acquisitions:

Purchase price	\$42.2	\$ —	\$ —	\$ —
Net cash paid	\$42.2	\$ —	\$ —	\$ —
Goodwill recorded	\$14.8	\$ —	\$ —	\$ —

In May 2017, we completed the acquisition of the assets of a lightweight aggregates business and, in July 2017, we completed the acquisition of the assets of a trench shoring products business. Both acquisitions were in our Construction Products Group. As of September 30, 2017, these acquisitions were recorded based on preliminary valuations of the acquired assets and liabilities at their acquisition date fair value using level three inputs. 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.

There was no divestiture activity for the three and nine months ended September 30, 2017 and September 30, 2016.

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, 2017
(in millions)

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ 247.1	\$ —	\$ —	\$ 247.1
Restricted cash	176.3	—	—	176.3
Equity instruments ⁽¹⁾	—	1.7	—	1.7
Fuel derivative instruments ⁽¹⁾	—	0.1	—	0.1
Interest rate hedge ⁽¹⁾	—	1.8	—	1.8
Total assets	\$ 423.4	\$ 3.6	\$ —	\$ 427.0

Liabilities:

Interest rate hedge: ⁽²⁾				
Partially-owned subsidiaries	\$ —	\$ —	\$ —	\$ —
Total liabilities	\$ —	\$ —	\$ —	\$ —

Fair Value Measurement as of December 31, 2016
(in millions)

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ 188.7	\$ —	\$ —	\$ 188.7
Restricted cash	178.2	—	—	178.2
Equity instruments ⁽¹⁾	—	3.1	—	3.1
Fuel derivative instruments ⁽¹⁾	—	0.3	—	0.3
Total assets	\$ 366.9	\$ 3.4	\$ —	\$ 370.3

Liabilities:

Interest rate hedge:⁽²⁾

Partially-owned subsidiaries	\$ —	\$ 0.9	\$ —	\$ 0.9
Total liabilities	\$ —	\$ 0.9	\$ —	\$ 0.9

⁽¹⁾ Included in other assets on the consolidated balance sheet.

⁽²⁾ 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

Table of Contents

the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value 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.

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

	September 30, 2017		December 31, 2016	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in millions)			
Recourse:				
Senior notes	\$399.7	\$409.0	\$399.6	\$386.3
Convertible subordinated notes	449.4	605.1	449.4	575.5
Less: unamortized discount	(12.9)		(26.7)	
	436.5		422.7	
Capital lease obligations	29.4	29.4	32.1	32.1
Other	0.5	0.5	—	—
	866.1	1,044.0	854.4	993.9
Less: unamortized debt issuance costs	(3.2)		(3.8)	
	862.9		850.6	
Non-recourse:				
2006 secured railcar equipment notes	164.4	177.6	194.2	201.5
2009 secured railcar equipment notes	167.7	179.2	172.5	189.9
2010 secured railcar equipment notes	269.9	284.4	280.6	284.3
2017 promissory notes	297.4	297.4	—	—
TILC warehouse facility	166.7	166.7	204.1	204.1
TRL 2012 secured railcar equipment notes	408.2	398.1	425.5	395.6
TRIP Master Funding secured railcar equipment notes	966.2	1,011.1	955.5	960.6
	2,440.5	2,514.5	2,232.4	2,236.0
Less: unamortized debt issuance costs	(27.0)		(26.4)	
	2,413.5		2,206.0	
Total	\$3,276.4	\$3,558.5	\$3,056.6	\$3,229.9

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, 2017 and December 31, 2016 (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, 2017 and December 31, 2016 using unobservable input values provided by a third party (Level 3 inputs). The carrying value of our Trinity Industries Leasing Company (“TILC”) warehouse facility and 2017 promissory notes approximate 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.

11

Table of Contents

Note 4. Segment Information

The Company reports operating results in five principal business segments: (1) the Rail Group, which manufactures and sells railcars and related parts, 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 construction 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.

Table of Contents

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, 2017

	Revenues			Operating Profit (Loss)
	External	Intersegment	Total	
	(in millions)			
Rail Group	\$317.4	\$ 175.0	\$492.4	\$ 50.6
Construction Products Group	130.1	1.8	131.9	16.9
Inland Barge Group	28.1	—	28.1	(0.7)
Energy Equipment Group	220.6	25.6	246.2	26.3
Railcar Leasing and Management Services Group	274.9	0.2	275.1	120.6
All Other	2.5	23.2	25.7	(4.7)
Segment Totals before Eliminations and Corporate	973.6	225.8	1,199.4	209.0
Corporate	—	—	—	(41.5)
Eliminations – Lease subsidiary	—	(160.5)	(160.5)	(13.6)
Eliminations – Other	—	(65.3)	(65.3)	(0.9)
Consolidated Total	\$973.6	\$ —	\$973.6	\$ 153.0

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

Nine Months Ended September 30, 2017

	Revenues			Operating Profit (Loss)
	External	Intersegment	Total	
	(in millions)			
Rail Group	\$938.8	\$ 497.8	\$1,436.6	\$ 138.3
Construction Products Group	381.7	4.6	386.3	54.8
Inland Barge Group	124.3	—	124.3	6.2

Edgar Filing: TRINITY INDUSTRIES INC - Form 10-Q

Energy Equipment Group	660.6	79.5	740.1	80.4
Railcar Leasing and Management Services Group	645.4	0.7	646.1	316.4
All Other	5.6	65.6	71.2	(15.0)
Segment Totals before Eliminations and Corporate	2,756.4	648.2	3,404.6	581.1
Corporate	—	—	—	(114.8)
Eliminations – Lease subsidiary	—	(457.4)	(457.4)	(56.1)
Eliminations – Other	—	(190.8)	(190.8)	(5.4)
Consolidated Total	\$2,756.4	\$ —	\$2,756.4	\$ 404.8

13

Table of Contents

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

14

Table of Contents

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, 2017, the Company's carrying value of its investment in TRIP Holdings and RIV 2013 totaled \$199.0 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.

Table of Contents

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 leasing, management, maintenance, and administrative services. Selected consolidating financial information for the Leasing Group is as follows:

	September 30, 2017			
	Leasing Group			
	Wholly- Owned Subsidiaries	Partially-Owned Subsidiaries	Manufacturing/ Corporate	Total
	(in millions)			
Cash, cash equivalents, and short-term marketable securities	\$7.8	\$ 0.1	\$ 1,016.8	\$1,024.7
Property, plant, and equipment, net	\$4,073.5	\$ 1,836.5	\$ 955.7	\$6,865.7
Net deferred profit on railcars sold to the Leasing Group				(795.6)
Consolidated property, plant and equipment, net				\$6,070.1
Restricted cash	\$109.6	\$ 66.6	\$ 0.1	\$176.3
Debt:				
Recourse	\$29.4	\$ —	\$ 849.9	\$879.3
Less: unamortized discount	—	—	(13.2)	(13.2)
Less: unamortized debt issuance costs	(0.1)	—	(3.1)	(3.2)
	29.3	—	833.6	862.9
Non-recourse	1,066.1	1,374.4	—	2,440.5
Less: unamortized debt issuance costs	(12.0)	(15.0)	—	(27.0)
	1,054.1	1,359.4	—	2,413.5
Total debt	\$1,083.4	\$ 1,359.4	\$ 833.6	\$3,276.4
Net deferred tax liabilities	\$1,047.8	\$ 2.0	\$ 180.7	\$1,230.5

	December 31, 2016			
	Leasing Group			
	Wholly- Owned Subsidiaries	Partially-Owned Subsidiaries	Manufacturing/ Corporate	Total
	(in millions)			
Cash, cash equivalents, and short-term marketable securities	\$7.2	\$ —	\$ 790.9	\$798.1
Property, plant, and equipment, net	\$3,923.6	\$ 1,879.6	\$ 961.7	\$6,764.9
Net deferred profit on railcars sold to the Leasing Group				(798.1)
Consolidated property, plant and equipment, net				\$5,966.8
Restricted cash	\$99.7	\$ 78.4	\$ 0.1	\$178.2
Debt:				
Recourse	\$32.1	\$ —	\$ 849.4	\$881.5
Less: unamortized discount	—	—	(27.1)	(27.1)
Less: unamortized debt issuance costs	(0.1)	—	(3.7)	(3.8)
	32.0	—	818.6	850.6
Non-recourse	851.4	1,381.0	—	2,232.4
Less: unamortized debt issuance costs	(11.4)	(15.0)	—	(26.4)
	840.0	1,366.0	—	2,206.0
Total debt	\$872.0	\$ 1,366.0	\$ 818.6	\$3,056.6
Net deferred tax liabilities	\$956.6	\$ 2.0	\$ 98.4	\$1,057.0

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.

Table of Contents

	Three Months Ended			Nine Months Ended		
	September 30,		Percent Change	September 30,		Percent Change
	2017	2016		2017	2016	
	(\$ in millions)			(\$ in millions)		
Revenues:						
Leasing and management	\$188.5	\$173.7	8.5 %	\$552.4	\$522.7	5.7 %
Sales of railcars owned one year or less at the time of sale	86.6	—	*	93.7	126.1	*
Total revenues	\$275.1	\$173.7	58.4	\$646.1	\$648.8	(0.4)
Operating profit:						
Leasing and management	\$86.2	\$80.5	7.1	\$256.8	\$224.8	14.2
Railcar sales:						
Railcars owned one year or less at the time of sale	17.9	—	*	19.4	34.1	*
Railcars owned more than one year at the time of sale	16.5	—	*	40.2	13.5	*
Total operating profit	\$120.6	\$80.5	49.8	\$316.4	\$272.4	16.2
Operating profit margin:						
Leasing and management	45.7 %	46.3 %		46.5 %	43.0 %	
Railcar sales	*	*		*	*	
Total operating profit margin	43.8 %	46.3 %		49.0 %	42.0 %	
Selected expense information ⁽¹⁾ :						
Depreciation	\$43.3	\$39.4	9.9	\$128.5	\$115.5	11.3
Maintenance and compliance	\$25.0	\$21.3	17.4	\$69.4	\$84.7	(18.1)
Rent	\$10.0	\$9.9	1.0	\$30.0	\$29.3	2.4
Interest	\$32.1	\$31.2	2.9	\$94.0	\$94.4	(0.4)

* 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, 2017 and 2016, the Company received proceeds from the sales of leased railcars as follows:

	Nine Months Ended September 30,	
	2017	2016
	(in millions)	
Leasing Group:		
Railcars owned one year or less at the time of sale	\$93.7	\$126.1
Railcars owned more than one year at the time of sale	160.3	37.7
Rail Group	—	8.1
	\$254.0	\$171.9

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 from one to twenty years. The Leasing Group primarily enters into operating leases. Future contractual minimum rental revenues on leases are as follows:

Remaining three	2018	2019	2020	2021	Thereafter	Total
--------------------	------	------	------	------	------------	-------

months

of

2017

(in millions)

Future contractual minimum rental revenue \$135.2 \$480.9 \$398.4 \$316.8 \$213.1 \$ 435.0 \$1,979.4

Debt. The Leasing Group's debt at September 30, 2017 consisted primarily of non-recourse debt. As of September 30, 2017, Trinity's wholly-owned subsidiaries included in the Leasing Group held equipment with a net book value of \$1,719.7 million

17

Table of Contents

which is pledged as collateral for Leasing Group debt held by those subsidiaries, including equipment with a net book value of \$41.1 million securing capital lease obligations. The net book value of unpledged equipment at September 30, 2017 was \$2,290.4 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 \$1,280.6 million is pledged as collateral for the TRIP Master Funding debt. TRL 2012 equipment with a net book value of \$555.9 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 each of the respective Trusts is considered to be the primary beneficiary of the Trust and therefore, the accounts of the Trusts, including the debt related to each of the Trusts, are 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, 2017 of \$144.5 million, including cash of \$53.3 million and railcars of \$63.0 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 2017 (in millions)						Total
	2018	2019	2020	2021	Thereafter		
Future operating lease obligations of Trusts' railcars	\$7.3	\$29.2	\$28.8	\$26.1	\$26.1	\$ 118.0	\$235.5
Future contractual minimum rental revenues of Trusts' railcars	\$11.1	\$36.5	\$25.7	\$16.1	\$11.3	\$ 15.5	\$116.2

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 2017 (in millions)						Total
	2018	2019	2020	2021	Thereafter		
Future operating lease obligations	\$2.9	\$12.0	\$9.5	\$7.7	\$7.6	\$ 13.4	\$53.1
Future contractual minimum rental revenues	\$3.1	\$9.2	\$6.8	\$4.5	\$3.3	\$ 4.1	\$31.0

Operating lease obligations totaling \$6.5 million are guaranteed by Trinity Industries, Inc. and certain subsidiaries. See Note 6 of the December 31, 2016 Consolidated Financial Statements filed on Form 10-K for a detailed explanation of these financing transactions.

Table of Contents

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, 2017. See Note 11 Debt for a description of the Company's debt instruments.

Interest rate hedges

	Included in accompanying balance sheet at September 30, 2017				
	Notional Amount	Interest Rate ⁽¹⁾	Asset / (liability)	AOCL – loss/ (income)	Noncontrolling Interest
	(in millions, except %)				
Expired hedges:					
2006 secured railcar equipment notes	\$200.0	4.87 %	\$ —	\$ (0.5)	\$ —
TRIP Holdings warehouse loan	\$788.5	3.60 %	\$ —	\$ 4.5	\$ 6.0
TRIP Master Funding secured railcar equipment notes	\$34.8	2.62 %	\$ —	\$ 0.3	\$ 0.5
Open hedge:					
2017 promissory notes	\$178.4	3.00 %	\$ 1.8	\$ 0.6	\$ —

(1) Weighted average fixed interest rate, except for 2017 promissory notes. Interest rate cap for 2017 promissory notes.

	Effect on interest expense - increase/(decrease)					
	Three Months Ended September 30,		Nine Months Ended September 30,		Expected effect during next twelve months ⁽¹⁾	
	2017	2016	2017	2016		
	(in millions)					
Expired hedges:						
2006 secured railcar equipment notes	\$(0.1)	\$(0.1)	\$(0.2)	\$(0.3)	\$ (0.1)	
TRIP Holdings warehouse loan	\$1.1	\$1.2	\$3.4	\$3.6	\$ 2.8	
TRIP Master Funding secured railcar equipment notes	\$0.1	\$0.2	\$0.4	\$0.7	\$ 0.3	

(1) Based on the fair value of open hedge as of September 30, 2017

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.

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 life of the terminated hedge with \$2.8 million of additional interest expense expected to be recognized during the twelve months following September 30, 2017.

In July 2011, TRIP Holdings' wholly-owned subsidiary, TRIP Master Funding, entered into an interest rate swap derivative instrument, expiring in 2021, with an initial notional amount of \$94.1 million to reduce the effect of changes in variable interest rates associated with the Class A-1b notes of the TRIP Master Funding secured railcar equipment notes. The TRIP Master Funding interest rate hedge was terminated in August 2017 in connection with the refinancing of the related indebtedness. The effect on interest expense is primarily a result of monthly interest settlements. The balance included in AOCL at the date the hedge was terminated is being amortized over the life of the terminated hedge with \$0.3 million of additional interest expense expected to be recognized during the twelve months following September 30, 2017.

In May 2017, TRL 2017 purchased an interest rate cap derivative, which qualified as a cash flow hedge, to limit the Libor component of the interest rate on the 2017 promissory notes to a maximum rate of 3%. The effect on interest expense is primarily the result of amortization of the cost of the derivative and is not expected to be significant during the next twelve months.

Table of Contents

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, 2017 for these instruments was an asset of \$0.1 million. The amount recorded in the consolidated balance sheet as of December 31, 2016 for these instruments was an asset of \$0.3 million.

Note 8. Property, Plant, and Equipment

The following table summarizes the components of property, plant, and equipment as of September 30, 2017 and December 31, 2016.

	September 30, 2017	December 31, 2016	
	(in millions)		
Manufacturing/Corporate:			
Land	\$ 109.9	\$ 103.3	
Buildings and improvements	664.8	642.6	
Machinery and other	1,195.7	1,151.1	
Construction in progress	33.4	39.1	
	2,003.8	1,936.1	
Less accumulated depreciation	(1,048.1)	(974.4))
	955.7	961.7	
Leasing:			
Wholly-owned subsidiaries:			
Machinery and other	10.7	10.7	
Equipment on lease	4,912.3	4,673.0	
	4,923.0	4,683.7	
Less accumulated depreciation	(849.5)	(760.1))
	4,073.5	3,923.6	
Partially-owned subsidiaries:			
Equipment on lease	2,313.5	2,309.4	
Less accumulated depreciation	(477.0)	(429.8))
	1,836.5	1,879.6	
Deferred profit on railcars sold to the Leasing Group	(965.5)	(948.2))
Less accumulated amortization	169.9	150.1	
	(795.6)	(798.1))
	\$6,070.1	\$ 5,966.8	

Table of Contents

Note 9. Goodwill

Goodwill by segment is as follows:

	September 30, 2017	December 31, 2016
	(as reported)	
	(in millions)	
Rail Group	\$134.6	\$ 134.6
Construction Products Group	125.8	111.0
Energy Equipment Group	508.0	506.7
Railcar Leasing and Management Services Group	1.8	1.8
	\$770.2	\$ 754.1

The increase in the Construction Products Group goodwill during the nine months ended September 30, 2017 is due to acquisitions. See Note 2 Acquisitions and Divestitures. Changes in goodwill in the Energy Equipment Group during the nine months ended September 30, 2017 resulted from fluctuations in foreign currency exchange rates.

Note 10. Warranties

The changes in the accruals for warranties for the three and nine months ended September 30, 2017 and 2016 are as follows:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	(in millions)			
Beginning balance	\$14.8	\$18.2	\$15.7	\$21.5
Warranty costs incurred	(2.5)	(1.7)	(6.6)	(6.5)
Warranty originations and revisions	2.1	(0.4)	6.9	4.0
Warranty expirations	(0.8)	(0.7)	(2.4)	(3.6)
Ending balance	\$13.6	\$15.4	\$13.6	\$15.4

Table of Contents

Note 11. Debt

The following table summarizes the components of debt as of September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
	(in millions)	
Corporate – Recourse:		
Revolving credit facility	\$—	\$ —
Senior notes, net of unamortized discount of \$0.3 and \$0.4	399.7	399.6
Convertible subordinated notes, net of unamortized discount of \$12.9 and \$26.7	436.5	422.7
Other	0.5	—
	836.7	822.3
Less: unamortized debt issuance costs	(3.1) (3.7)
	833.6	818.6
Leasing – Recourse:		
Capital lease obligations, net of unamortized debt issuances costs of \$0.1 and \$0.1	29.3	32.0
Total recourse debt	862.9	850.6
Leasing – Non-recourse:		
Wholly-owned subsidiaries:		
2006 secured railcar equipment notes	164.4	194.2
2009 secured railcar equipment notes	167.7	172.5
2010 secured railcar equipment notes	269.9	280.6
2017 promissory notes	297.4	—
TILC warehouse facility	166.7	204.1
	1,066.1	851.4
Less: unamortized debt issuance costs	(12.0) (11.4)
	1,054.1	840.0
Partially-owned subsidiaries:		
TRL 2012 secured railcar equipment notes	408.2	425.5
TRIP Master Funding secured railcar equipment notes	966.2	955.5
	1,374.4	1,381.0
Less: unamortized debt issuance costs	(15.0) (15.0)
	1,359.4	1,366.0
Total non–recourse debt	2,413.5	2,206.0
Total debt	\$3,276.4	\$ 3,056.6

We have a \$600.0 million unsecured corporate revolving credit facility that matures in May 2020. As of September 30, 2017, we had letters of credit issued under our revolving credit facility in an aggregate principal amount of \$82.6 million, leaving \$517.4 million available for borrowing. Other than these letters of credit, there were no borrowings under our revolving credit facility as of September 30, 2017, or during the nine month period then ended. Of the outstanding letters of credit as of September 30, 2017, approximately \$3.8 million is expected to expire in 2017 and the remainder primarily in 2018. The majority of our letters of credit obligations support the Company's various insurance programs and generally renew by their terms each year. Trinity's revolving credit facility requires the maintenance of ratios related to minimum interest coverage for the leasing and manufacturing operations and maximum leverage. As of September 30, 2017, we were in compliance with all such financial covenants. Borrowings under the credit facility bear interest at a defined index rate plus a margin and are guaranteed by certain 100%-owned subsidiaries of the Company.

The Company's Convertible Subordinated Notes due 2036 ("Convertible Subordinated Notes") bear an interest rate of 3 7/8% per annum on the principal amount payable semi-annually in arrears on June 1 and December 1 of each year. In

addition, commencing with the six-month period beginning June 1, 2018 and for each six-month period thereafter, we will pay contingent interest to the holders of the Convertible Subordinated Notes under certain circumstances. The Convertible Subordinated Notes mature on June 1, 2036, unless redeemed, repurchased, or converted earlier. We may not redeem the Convertible Subordinated Notes before June 1, 2018. On or after that date, we may redeem all or part of the Convertible Subordinated Notes for cash at 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest (including any contingent interest) up to, but excluding, the redemption date. Holders of the Convertible Subordinated Notes may require us to purchase all or a portion of their notes on June 1, 2018 or upon a fundamental change, in each case for cash at a price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest (including any contingent interest) up to, but excluding, the purchase date.

The Convertible Subordinated Notes are recorded net of unamortized discount to reflect their underlying economics by capturing the value of the conversion option as borrowing costs. As of September 30, 2017 and December 31, 2016, capital in excess of par

Table of Contents

value included \$92.5 million related to the estimated value of the Convertible Subordinated Notes' conversion options, in accordance with ASC 470-20. Debt discount recorded in the consolidated balance sheet is being amortized through June 1, 2018 to yield an effective annual interest rate of 8.42% based upon the estimated market interest rate for comparable non-convertible debt as of the issuance date of the Convertible Subordinated Notes. Total interest expense recognized on the Convertible Subordinated Notes for the three and nine months ended September 30, 2017 and 2016 is as follows:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	(in millions)			
Coupon rate interest	\$4.4	\$4.4	\$13.1	\$13.1
Amortized debt discount	4.7	4.3	13.8	12.7
	\$9.1	\$8.7	\$26.9	\$25.8

Holder of the Convertible Subordinated Notes may convert their notes under the following circumstances: 1) if the daily closing price of our common stock is greater than or equal to 130% of the conversion price during 20 of the last 30 trading days of the preceding calendar quarter; 2) upon notice of redemption; or 3) upon the occurrence of specified corporate transactions pursuant to the terms of the applicable indenture. Upon conversion, the Company is required to pay cash up to the aggregate principal amount of the Convertible Subordinated Notes to be converted. Any conversion obligation in excess of the aggregate principal amount of the Convertible Subordinated Notes to be converted may be settled in cash, shares of the Company's common stock, or a combination of cash and shares of the Company's common stock, at the Company's election. The conversion price, which is subject to adjustment upon the occurrence of certain events, was \$24.34 per share as of September 30, 2017. The Convertible Subordinated Notes were not subject to conversion as of October 1, 2017. See Note 17 Earnings Per Common Share for an explanation of the effects of the Convertible Subordinated Notes on earnings per share. The Company has not entered into any derivatives transactions associated with these notes.

The \$1.0 billion TILC warehouse loan facility, established to finance railcars owned by TILC, had \$166.7 million in outstanding borrowings as of September 30, 2017. Under the facility, \$833.3 million was unused and available as of September 30, 2017 based on the amount of warehouse-eligible, unpledged equipment. The warehouse loan facility is a non-recourse obligation which expires in April 2018 and is secured by a portfolio of railcars and operating leases, certain cash reserves, and other assets acquired and owned by the warehouse loan facility trust. The principal and interest of this indebtedness are paid from the cash flows of the underlying leases. Advances under the facility bear interest at a defined index rate plus a margin, for an all-in interest rate of 3.05% at September 30, 2017. Amounts outstanding at maturity, absent renewal, are payable under the facility in April 2019.

On May 15, 2017, Trinity Rail Leasing 2017, LLC, a Delaware limited liability company ("TRL 2017") and a limited purpose, indirect wholly-owned subsidiary of the Company owned through TILC, issued \$302.4 million of promissory notes (the "2017 Promissory Notes") due May 15, 2024, of which \$297.4 million was outstanding as of September 30, 2017. The 2017 Promissory Notes are obligations of TRL 2017 and are non-recourse to Trinity. The 2017 Promissory Notes bear interest at Libor plus a margin for an all-in interest rate of 3.00% as of September 30, 2017, payable monthly. The 2017 Promissory Notes are secured by a portfolio of railcars and operating leases thereon, certain cash reserves, and other assets acquired and owned by TRL 2017.

On August 15, 2017, TRIP Master Funding issued \$237.9 million in aggregate principle amount of Series 2017-1 Secured Railcar Equipment Notes pursuant to the Master Indenture between TRIP Master Funding and Wilmington Trust Company, as indenture trustee, with a final maturity date of August 2047. The proceeds from the issuance were used primarily to retire the TRIP Master Funding Secured Railcar Equipment Notes Class A-1a and Class A-1b notes as well as the TRIP Master Funding Series 2014-1 Secured Railcar Equipment Notes Class A-1 notes in full. The TRIP Master Funding Series 2017-1 Secured Railcar Equipment Notes consist of two classes with the Class A-1 notes

bearing interest at 2.71% and the Class A-2 notes bearing interest at 3.74%. The TRIP Master Funding Series 2017-1 Secured Railcar Equipment Notes are non-recourse to Trinity, TILC, TRIP Holdings, and the other equity investors in TRIP Holdings and are secured by TRIP Master Funding's portfolio of railcars and operating leases thereon, its cash reserves, and all other assets owned by TRIP Master Funding. As of September 30, 2017, there were \$101.0 million and \$134.9 million of Class A-1 and Class A-2 notes outstanding, respectively.

Terms and conditions of other debt, including recourse and non-recourse provisions, are described in Note 11 of the December 31, 2016 Consolidated Financial Statements filed on Form 10-K.

Table of Contents

The remaining principal payments under existing debt agreements as of September 30, 2017 are as follows:

	Remaining three months of 2017 (in millions)					
	2018	2019	2020	2021	Thereafter	
Recourse:						
Corporate ⁽¹⁾	\$—	\$0.1	\$0.1	\$0.2	\$0.1	\$ 849.4
Leasing – capital lease obligations (Note 6)	0.9	28.5	—	—	—	—
Non-recourse – leasing (Note 6):						
2006 secured railcar equipment notes	6.1	25.3	28.0	29.8	29.2	46.0
2009 secured railcar equipment notes	1.6	6.4	11.2	6.6	13.4	128.5
2010 secured railcar equipment notes	2.9	10.0	7.6	14.2	20.1	215.1
2017 promissory notes	3.8	15.1	15.1	15.1	15.1	233.2
TILC warehouse facility	1.7	6.9	1.7	—	—	—
Facility termination payments - TILC warehouse facility	—	—	156.4	—	—	—
TRL 2012 secured railcar equipment notes	5.5	22.9	21.9	19.3	19.9	318.7
TRIP Master Funding secured railcar equipment notes	3.6	20.0	23.8	32.9	40.4	845.5
Total principal payments	\$26.1	\$135.2	\$265.8	\$118.1	\$138.2	\$2,636.4

⁽¹⁾ Holders of the Convertible Subordinated Notes may require us to purchase all or a portion of their notes on June 1, 2018. On or after that date, we may redeem all or part of the Convertible Subordinated Notes.

Note 12. Other, Net

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
	(in millions)			
Foreign currency exchange transactions	\$(0.6)	\$0.9	\$0.7	\$(2.0)
Gain on equity investments	(0.2)	(0.1)	(0.2)	(0.1)
Other	2.5	(0.6)	2.5	(3.3)
Other, net	\$1.7	\$0.2	\$3.0	\$(5.4)

Other for the three and nine months ended September 30, 2017 includes \$0.3 million and \$1.4 million, respectively, in expense related to the change in fair value of certain equity instruments. Other for the three and nine months ended September 30, 2016 includes \$0.4 million and \$2.5 million, respectively, in income related to the change in fair value of certain equity instruments.

Note 13. Income Taxes

The provision for income taxes results in effective tax rates that differ from the statutory rates. The following is a reconciliation between the statutory U.S. federal income tax rate and the Company's effective income tax rate on income before income taxes:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
Statutory rate	35.0 %	35.0 %	35.0 %	35.0 %

Edgar Filing: TRINITY INDUSTRIES INC - Form 10-Q

State taxes	1.4	1.3	1.4	1.2
Noncontrolling interest in partially-owned subsidiaries	(1.4)	(0.8)	(0.9)	(1.0)
Settlements with tax authorities	—	—	(2.1)	—
Equity compensation	(0.2)	—	0.8	—
Other, net	2.1	0.3	1.8	0.4
Effective rate	36.9 %	35.8 %	36.0 %	35.6 %

Our effective tax rate reflects the Company's estimate for 2017 of its state income tax expense, income attributable to the noncontrolling interests in partially-owned leasing subsidiaries for which no income tax expense is provided, excess tax deficiencies related to equity compensation in accordance with ASU 2016-09, and the impact of the completion of income tax audits that

Table of Contents

resulted in a net tax benefit. See Note 5 Partially-Owned Leasing Subsidiaries for a further explanation of activities with respect to our partially-owned leasing subsidiaries.

Taxing authority examinations

During the nine months ended September 30, 2017, the Internal Revenue Service ("IRS") formally closed its audit of the 2006-2009 tax years and accordingly, we have adjusted unrecognized tax benefits and deferred tax amounts related to these tax years resulting in a \$5.8 million tax benefit. The 2013 audit has concluded and all issues have been agreed upon by us and the IRS and the revenue agent report has been sent to The Joint Committee of Taxation for final review. The statute of limitations for this tax year has been extended to June 30, 2018. The 2014 and 2015 tax years have been reviewed by the IRS with no significant adjustments. The 2014-2016 tax years remain open.

We have various subsidiaries in Mexico that file separate tax returns and are subject to examination by taxing authorities at different times. The 2007 tax year of one of our Mexican subsidiaries is still under review for transfer pricing purposes only, and its statute of limitations remains open through the end of October 2017. The remaining entities are generally open for their 2010 tax years and forward.

Unrecognized tax benefits

The change in unrecognized tax benefits for the nine months ended September 30, 2017 and 2016 was as follows:

	Nine Months Ended September 30, 2017 2016 (in millions)	
Beginning balance	\$28.2	\$65.2
Additions for tax positions related to the current year	—	4.6
Additions for tax positions of prior years	0.2	1.0
Settlements	(23.3)	—
Expiration of statute of limitations	—	(0.1)
Ending balance	\$5.1	\$70.7

Additions for tax positions related to the current year in the amount of \$4.6 million recorded in the nine months ended September 30, 2016 were amounts provided for tax positions taken for federal and state income tax purposes.

Additions for tax positions related to prior years of \$0.2 million and \$1.0 million recorded in the nine months ended September 30, 2017 and 2016, respectively, are due to foreign and state tax positions. Settlements during the nine months ended September 30, 2017 were due to the resolution of our 2006-2009 income tax years.

The total amount of unrecognized tax benefits including interest and penalties at September 30, 2017 and 2016, that would affect the Company's overall effective tax rate if recognized was \$5.7 million and \$15.6 million, respectively. There is a reasonable possibility that unrecognized federal and state tax benefits will decrease by \$1.8 million by September 30, 2018, due to settlements and lapses in statutes of limitations for assessing tax for tax years in which an extension was not requested by the taxing authority.

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 September 30, 2017 and December 31, 2016 was \$3.7 million and \$8.9 million, respectively. Income tax expense included an increase of \$0.1 million and a decrease of \$5.2 million in interest expense and penalties related to uncertain tax positions for the three and nine months ended September 30, 2017, respectively. Income tax expense included an increase of \$0.6 million and \$1.5 million in interest expense and penalties related to uncertain tax positions for the three and nine months ended September 30, 2016, respectively.

Table of Contents

Note 14. Employee Retirement Plans

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

Expense Components	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
	(in millions)			
Service cost	\$—	\$0.1	\$0.2	\$0.3
Interest	4.9	5.3	14.7	15.7
Expected return on plan assets	(6.8)	(6.8)	(20.4)	(20.4)
Amortization of actuarial loss	1.4	1.2	3.8	3.8
Defined benefit expense	(0.5)	(0.2)	(1.7)	(0.6)
Profit sharing	3.9	3.5	11.7	12.0
Multiemployer plan	0.6	0.5	1.6	1.7
Net expense	\$4.0	\$3.8	\$11.6	\$13.1

Trinity contributed \$0.8 million and \$1.7 million to the Company's defined benefit pension plans for the three and nine months ended September 30, 2017, respectively. Trinity contributed \$1.6 million and \$4.7 million to the Company's defined benefit pension plans for the three and nine months ended September 30, 2016, respectively. Total contributions to the Company's defined benefit pension plans in 2017 are expected to be approximately \$2.5 million. The Company participates in a multiemployer defined benefit plan under the terms of a collective-bargaining agreement that covers certain union-represented employees. The Company contributed \$0.5 million and \$1.4 million to the multiemployer plan for the three and nine months ended September 30, 2017, respectively. The Company contributed \$0.6 million and \$1.7 million to the multiemployer plan for the three and nine months ended September 30, 2016, respectively. Total contributions to the multiemployer plan for 2017 are expected to be approximately \$1.9 million.

Note 15. Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss for the nine months ended September 30, 2017 are as follows:

	Currency translation adjustments	Unrealized gain/(loss) on derivative financial instruments	Net actuarial gains/(losses) of defined benefit plans	Accumulated Other Comprehensive Loss
	(in millions)			
Balances at December 31, 2016	\$(23.7)	\$ (0.1)	\$ (89.7)	\$ (113.5)
Other comprehensive income (loss), net of tax, before reclassifications	1.6	(0.8)	—	0.8
Amounts reclassified from accumulated other comprehensive loss, net of tax benefit of \$-, \$0.4, \$1.4, and \$1.8	—	3.2	2.4	5.6
Less: noncontrolling interest	—	(2.0)	—	(2.0)
Other comprehensive income	1.6	0.4	2.4	4.4
Balances at September 30, 2017	\$(22.1)	\$ 0.3	\$ (87.3)	\$ (109.1)

See Note 7 Derivative Instruments for information on the reclassification of amounts in accumulated other comprehensive loss into earnings. Reclassifications of unrealized before-tax losses on derivative financial instruments are included in interest expense in the consolidated statements of operations. Approximately \$2.8 million of the

before-tax reclassification of net actuarial gains/(losses) of defined benefit plans are included in cost of revenues with the remainder included in selling, engineering, and administrative expenses in the consolidated statement of operations for the nine months ended September 30, 2017.

Table of Contents

Note 16. Stock-Based Compensation

Stock-based compensation totaled approximately \$8.7 million and \$24.9 million for the three and nine months ended September 30, 2017, respectively. Stock-based compensation totaled approximately \$10.4 million and \$33.2 million for the three and nine months ended September 30, 2016, respectively.

Note 17. Earnings Per Common Share

Basic net income attributable to Trinity Industries, Inc. 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 basic 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 1) the net impact of unvested restricted shares and shares that could be issued under outstanding stock options and 2) the incremental shares calculated by dividing the value of the conversion obligation in excess of the Convertible Subordinated Notes' aggregate principal amount by the average price of the Company's common stock during the period. See Note 11 Debt for further explanation of the Company's Convertible Subordinated Notes. Total weighted average restricted shares and antidilutive stock options were 6.3 million shares and 6.4 million shares for the three and nine months ended September 30, 2017, respectively. Total weighted average restricted shares and antidilutive stock options were 6.3 million shares and 6.7 million shares for the three and nine months ended September 30, 2016, respectively.

The computation of basic and diluted net income attributable to Trinity Industries, Inc. follows.

	Three Months Ended September 30, 2017			Three Months Ended September 30, 2016		
	Income	Average Shares	EPS	Income	Average Shares	EPS
	(Loss) (in millions, except per share amounts)					
Net income attributable to Trinity Industries, Inc.	\$66.9			\$84.2		
Unvested restricted share participation	(1.3)			(2.2)		
Net income attributable to Trinity Industries, Inc. – basic	65.6	148.0	\$0.44	82.0	148.7	\$0.55
Effect of dilutive securities:						
Nonparticipating unvested restricted shares and stock options	—	0.5		—	—	
Convertible subordinated notes	—	2.8		—	—	
Net income attributable to Trinity Industries, Inc. – diluted	\$65.6	151.3	\$0.43	\$82.0	148.7	\$0.55
	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
	Income	Average Shares	EPS	Income	Average Shares	EPS
	(Loss) (in millions, except per share amounts)					
Net income attributable to Trinity Industries, Inc.	\$164.0			\$276.0		
Unvested restricted share participation	(3.6)			(7.7)		
Net income attributable to Trinity Industries, Inc. – basic	160.4	148.6	\$1.08	268.3	148.3	\$1.81
Effect of dilutive securities:						
Nonparticipating unvested restricted shares and stock options	—	0.4		—	—	
Convertible subordinated notes	—	2.1		—	—	
Net income attributable to Trinity Industries, Inc. – diluted	\$160.4	151.1	\$1.06	\$268.3	148.3	\$1.81

Table of Contents

Note 18. Contingencies

Highway products litigation

We previously reported the filing of a False Claims Act (“FCA”) complaint in the United States District Court for the Eastern District of Texas, Marshall Division (“District Court”) styled Joshua Harman, on behalf of the United States of America, Plaintiff/Relator v. Trinity Industries, Inc., Defendant, Case No. 2:12-cv-00089-JRG (E.D. Tex.). In this case, in which the U.S. Government declined to intervene, the relator, Mr. Joshua Harman, alleged the Company violated the FCA pertaining to sales of the Company's ET-Plus® System, a highway guardrail end-terminal system (“ET Plus”). On October 20, 2014, a trial in this case concluded with a jury verdict stating that the Company and its subsidiary, Trinity Highway Products, LLC (“Trinity Highway Products”), “knowingly made, used or caused to be made or used, a false record or statement material to a false or fraudulent claim” and awarding \$175.0 million in damages. Following unsuccessful settlement negotiations to resolve this dispute and the District Court's denial of the Company's post-verdict motion for judgment as a matter of law, on June 9, 2015 the District Court entered judgment on the verdict in the total amount of \$682.4 million, comprised of \$175.0 million in damages, which amount is automatically trebled under the FCA to \$525.0 million plus \$138.4 million in civil penalties and \$19.0 million in costs and attorneys' fees.

On June 23, 2015, the District Court approved the Company's posting of a supersedeas bond in the amount of \$686.0 million (the “Bond”) and ordered a stay of the execution of the District Court's June 9, 2015 entry of judgment of \$682.4 million against the Company pending resolution of all appeals. The Company obtained the Bond on an unsecured basis and the annual premium is currently \$3.7 million.

On July 7, 2015, the Company filed a Motion for New Trial with the District Court and on August 3, 2015, the Motion was denied. On August 28, 2015, the Company filed a Notice of Appeal to the United States Court of Appeals for the Fifth Circuit (“Fifth Circuit”). On March 21, 2016, the Company filed its opening appellate brief. On March 28, 2016, six separate amicus curiae briefs were filed in the Fifth Circuit by the following organizations and individuals in support of Trinity's appeal seeking a reversal of the judgment: (i) Eleven states - Texas, Alabama, Arkansas, Colorado, Indiana, Louisiana, Nevada, Oklahoma, South Carolina, Utah and Wisconsin; (ii) the National Association of Manufacturers, United States Chamber of Commerce, and the American Tort Reform Association; (iii) five former United States Department of Justice Officials; (iv) Mothers Against Drunk Driving; (v) the Cato Institute; and (vi) the Washington Legal Foundation. On June 9, 2016, Mr. Joshua Harman filed his responsive appeal brief in the Fifth Circuit. On June 16, 2016, six amicus curiae briefs were filed in the Fifth Circuit by several organizations and individuals in support of Mr. Harman's opposition to the Company's appeal. On July 21, 2016, the Company filed its reply brief in this matter and on December 7, 2016, the Fifth Circuit heard the parties' oral arguments.

On September 29, 2017, the Fifth Circuit panel unanimously reversed the District Court's \$682.4 million judgment and rendered judgment as a matter of law in favor of the Company and Trinity Highway Products. The Company is monitoring any additional appeals that may be filed by the relator, Mr. Joshua Harman, in this case. The relator, Mr. Joshua Harman, may file a petition for rehearing with the Fifth Circuit and a petition for certiorari with the United States Supreme Court.

Texas A&M Transportation Institute (“TTI”), a member of The Texas A&M University System, designed the technology employed in the ET Plus. The Texas A&M University System is the owner of patents issued by the U.S. Patent Office that cover the ET Plus. Trinity Highway Products manufactures and markets the ET Plus pursuant to an exclusive license granted by The Texas A&M University System. In 2005, Trinity Highway Products contracted with TTI to conduct crash testing of the ET Plus to demonstrate compliance with the governing crash test criteria set out in National Cooperative Highway Research Program Report 350 (“Report 350”). Following the 2005 crash testing, TTI prepared and provided to Trinity Highway Products the test report on the crash test performance of the ET Plus. This report was reviewed by the Federal Highway Administration (the “FHWA”) in their 2005 acceptance of the product for use on the national highway system and determination of the product's eligibility for federal-aid reimbursement. In a memorandum dated June 17, 2014, the FHWA confirmed that “The Trinity ET Plus with 4-inch guide channels became eligible for federal-aid reimbursement under FHWA letter CC-94 on September 2, 2005. In addition, the device is eligible for reimbursement under FHWA letters CC-94A and CC-120.” In this memorandum the FHWA confirmed that the reimbursement eligibility applies at guardrail heights from 27 ¾" to 31". The memorandum goes on to state that an

“unbroken chain of eligibility for federal-aid reimbursement has existed since September 2, 2005 and the ET Plus continues to be eligible today.”

Preceding the October 2014 trial in this matter, the Company filed a Petition for Writ of Mandamus with the Fifth Circuit based, in part, on the District Court’s failure to apply precedential case law. The Fifth Circuit denied this petition, but expressed concern regarding the District Court’s failure to issue a reasoned ruling rejecting the Company’s prior motions for judgment as a matter of law. The Fifth Circuit also stated that the FHWA’s authoritative memorandum of June 17, 2014 appears to compel the conclusion that the FHWA, after due consideration of all the facts, found the ET Plus sufficiently compliant with federal safety standards and therefore fully eligible, in the past, present and future, for federal-aid reimbursement claims. Additionally, the Fifth Circuit noted that a strong argument could be made that the Company’s actions were neither material nor were any false claims based on false certifications presented to the government.

Table of Contents

Crash testing and FHWA assessments

Following the October 20, 2014 jury verdict, the FHWA requested that the Company conduct eight separate crash tests pursuant to crash test criteria set out in Report 350. Due to the FHWA's request for additional ET Plus crash tests, on October 24, 2014 the Company announced that it would suspend shipment of the ET Plus to customers. The FHWA-requested tests were conducted in December 2014 and January 2015 at Southwest Research Institute, an FHWA-approved and independent research facility. Following completion of the first four tests at a 27 ¾" guardrail installation height, and again after completion of the second four tests at a 31" guardrail installation height, the FHWA reported that the ET Plus passed all tests. Performance results from eight successful crash tests validate Trinity Highway Products' long standing position that the ET Plus performs as tested for both guardrail installation heights when properly installed and maintained. On March 11, 2015, the FHWA and the American Association of State Highway and Transportation Officials ("AASHTO") released the findings of a joint task force ("Task Force I"), comprised of representatives from the FHWA, AASHTO, the state Departments of Transportation of South Dakota, New Hampshire, Missouri, Ohio, Delaware, and Wyoming, and the Ministry of Transportation of Ontario, Canada, that evaluated field measurement data collected by FHWA engineers from more than 1,000 4-inch ET Plus devices installed on roadways throughout the country. Task Force I concluded there is no evidence to suggest that there are multiple versions of the 4-inch ET Plus on the nation's roadways. Task Force I also concluded that the ET Plus end terminals crash tested at Southwest Research Institute in December 2014 and January 2015 were representative of the devices installed across the country.

The FHWA and AASHTO formed a second joint task force ("Task Force II") comprised of representatives from the FHWA, AASHTO, the state Departments of Transportation of Iowa, Georgia, New Hampshire, North Carolina, New York, Michigan, Missouri, Delaware, and Utah, and independent experts to further evaluate the in-service performance of the ET Plus and other guardrail end terminals through the collection and analysis of a broad array of data. In a report dated September 11, 2015, the FHWA and AASHTO released the findings, conclusions, and recommendations of Task Force II, including but not limited to, the following: there are no performance limitations unique to the ET Plus; there will be real-world accident conditions that exceed the performance expectations of all manufacturers' guardrail end terminal systems; and additional crash testing of all existing Report 350 compliant guardrail end terminals, including the ET Plus, "would not be informative" and "would be irrelevant".

Further appellate review would continue to result in legal expenses that are expensed as incurred. We remain confident in the performance of the product at issue in this matter, and we maintain that the allegations in the case are baseless and without merit.

Based on information currently available to the Company, including, but not limited to the significance of the successful completion of eight post-verdict crash tests of the ET Plus, the favorable findings and conclusions published by both Task Force I and II regarding ET Plus end terminal systems installed on the nation's roadways, and the Fifth Circuit's unanimous panel opinion reversing the \$682.4 million judgment and rendering judgment in favor of the Company, we do not believe that a loss is probable in this matter, therefore no accrual has been included in the accompanying consolidated financial statements.

Revenues from sales of the ET Plus, included in the Construction Products Group, totaled approximately \$1.0 million and \$3.3 million for the three and nine months ended September 30, 2017, respectively. Revenues from sales of the ET Plus, included in the Construction Products Group, totaled approximately \$0.9 million and \$3.4 million for the three and nine months ended September 30, 2016, respectively.

State, county, and municipal actions

Trinity is aware of 29 states and the District of Columbia that have removed the ET Plus from their respective qualified products list.

Mr. Harman has also filed nine separate state qui tam actions pursuant to: the Virginia Fraud Against Taxpayers Act (Commonwealth of Virginia ex rel. Joshua M. Harman v. Trinity Industries, Inc. and Trinity Highway Products, LLC, Case No. CL13-698, in the Circuit Court, Richmond, Virginia); the Indiana False Claims and Whistleblower Protection Act (State of Indiana ex rel. Joshua M. Harman Qui Tam v. Trinity Industries, Inc., and Trinity Highway Products, LLC, Case No. 49D06-1407-PL-024117, in the Sixth Court of Marion County, Indiana); the Delaware False Claims and Reporting Act (State of Delaware ex rel. Joshua M. Harman v. Trinity Industries, Inc., and Trinity

Highway Products, LLC, Civ. No. N14C-06-227 MMJ CCLD, in the Superior Court of the State of Delaware In and For New Castle County); the Iowa False Claims Act (State of Iowa ex rel. Joshua M. Harman v. Trinity Industries, Inc., and Trinity Highway Products, LLC, Case No. CVCV048309, in the Iowa District Court for Polk County); the Rhode Island False Claims Act (State of Rhode Island ex rel. Joshua M. Harman v. Trinity Industries, Inc., and Trinity Highway Products, LLC, Case No. 14-3498, in the Superior Court for the State of Rhode Island and Providence Plantations); the Tennessee False Claims Act (State of Tennessee ex rel. Joshua M. Harman v. Trinity Industries, Inc., and Trinity Highway Products, LLC, Case No. 14C2652, in the Circuit Court for Davidson County, Tennessee); the Minnesota False Claims Act (State of Minnesota ex rel. Joshua M. Harman Qui Tam v. Trinity Industries, Inc., and Trinity Highway Products, LLC, Case No. 62-CV-14-3457, in the Second Judicial District Court, Ramsey County, Minnesota); the Montana False Claims Act (State of Montana ex rel. Joshua M. Harman v. Trinity Industries, Inc., and Trinity Highway Products, LLC, Case No. DV 14-0692, in the Montana Thirteenth Judicial District Court for Yellowstone County); and the Georgia Taxpayer Protection False Claims Act (State of Georgia ex rel. Joshua M. Harman v. Trinity Industries, Inc., and Trinity Highway Products, LLC, Case No. 1:15-CV-1260, in the U.S. District Court for the Northern District of Georgia). In each of these nine cases Mr. Harman is alleging the Company

Table of Contents

violated the respective states' false claims act pertaining to sales of the ET Plus, and he is seeking damages, civil penalties, attorneys' fees, costs and interest. Also, the respective states' Attorneys General filed Notices of Election to Decline Intervention in all of these matters, with the exception of the Commonwealth of Virginia Attorney General who intervened in the Virginia matter. At this time all of the above-referenced state qui tam cases are stayed. The Company believes these state qui tam lawsuits are without merit and intends to vigorously defend all allegations. Other states could take similar or different actions, and could be considering similar state false claims or other litigation against the Company.

The Company was served in a lawsuit filed November 26, 2014, titled Hamilton County, Illinois and Macon County, Illinois, Individually and on behalf of all Other Counties in the State of Illinois vs. Trinity Industries, Inc. and Trinity Highway Products, LLC, Case No. 3:14-cv-1320 (Southern District of Illinois). This complaint was later amended to substitute St. Clair County, Illinois for Hamilton County as a lead plaintiff and to expand the proposed class. The case was brought by plaintiffs for and on behalf of themselves and the other 101 counties of the State of Illinois and on behalf of cities, villages, incorporated towns, and township governments of the State of Illinois. The plaintiffs alleged that the Company and Trinity Highway Products made a series of un-tested modifications to the ET Plus and falsely certified that the modified ET Plus was acceptable for use on the nation's highways based on federal testing standards and approval for federal-aid reimbursement. The plaintiffs also alleged breach of implied warranties, violation of the Illinois Uniform Deceptive Trade Practices Act and unjust enrichment, for which plaintiffs sought actual damages related to purchases of the ET Plus, compensatory damages for establishing a common fund for class members, punitive damages, attorneys' fees and costs, and injunctive relief. On September 1, 2017, plaintiffs St. Clair County and Macon County, Illinois voluntarily dismissed this lawsuit with prejudice and without receiving any payment by the Company in connection therewith.

There are two pending class action lawsuits involving claims pertaining to the ET Plus that are currently pending. The Company has been served in a lawsuit filed February 11, 2015, titled The Corporation of the City of Stratford and Trinity Industries, Inc., Trinity Highway Products, LLC, and Trinity Industries Canada, Inc., Case No. 15-2622 CP, pending in Ontario Superior Court of Justice. The alleged class in this matter has been identified as persons in Canada who purchased and/or used an ET Plus guardrail end terminal. The plaintiff alleges that Trinity Industries, Inc., Trinity Highway Products, LLC, and Trinity Industries Canada, Inc., failed to warn of dangers associated with undisclosed modifications to the ET Plus guardrail end terminals, breached an implied warranty, breached a duty of care, and were negligent. The plaintiff is seeking \$400 million in compensatory damages and \$100 million in punitive damages. Alternatively, the plaintiff claims the right to an accounting or other restitution remedy for disgorgement of the revenues generated by the sale of the modified ET Plus in Canada.

The Company has been served in a lawsuit filed November 5, 2015, titled Jackson County, Missouri, individually and on behalf of a class of others similarly situated vs. Trinity Industries, Inc. and Trinity Highway Products, LLC, Case No. 1516-CV23684 (Circuit Court of Jackson County, Missouri). The case is being brought by plaintiff for and on behalf of itself and all Missouri counties with a population of 10,000 or more persons, including the City of St. Louis, and the State of Missouri's transportation authority. The plaintiff alleges that the Company and Trinity Highway Products did not disclose design changes to the ET Plus and these allegedly undisclosed design changes made the ET Plus allegedly defective, unsafe, and unreasonably dangerous. The plaintiff alleges product liability negligence, product liability strict liability, and negligently supplying dangerous instrumentality for supplier's business purposes. The plaintiff seeks compensatory damages, interest, attorneys' fees and costs, and in the alternative plaintiff seeks a declaratory judgment that the ET Plus is defective, the Company's conduct was unlawful, and class-wide costs and expenses associated with removing and replacing the ET Plus throughout Missouri.

The Company believes each of these pending county and municipal class action lawsuits is without merit and intends to vigorously defend all allegations. While the financial impacts of these two county and municipal class action lawsuits are currently unknown, they could be material.

Based on the information currently available to the Company, we currently do not believe that a loss is probable in any one or more of the actions described under "State, county, and municipal actions," therefore no accrual has been included in the accompanying consolidated financial statements. Because of the complexity of these actions as well as the current status of certain of these actions, we are not able to estimate a range of possible losses with respect to any

one or more of these actions.

30

Table of Contents

Product liability cases

The Company is currently defending a number of product liability lawsuits in several different states that are alleged to involve the ET Plus as well as other products manufactured by Trinity Highway Products. These cases are diverse in light of the randomness of collisions in general and the fact that each accident involving a roadside device such as an end terminal, or any other fixed object along the highway has its own unique facts and circumstances. Report 350 recognizes that performance of even the most carefully researched and tested roadside device is subject to physical laws and the crash worthiness of vehicles. The Company believes the District Court judgment in the FCA case, coupled with the media attention such judgment generated, caused the plaintiff's bar to seek out individuals involved in collisions with a Trinity Highway Products manufactured product as potential clients, which resulted in additional product liability lawsuits being filed against the Company. The Company carries general liability insurance to mitigate the impact of adverse judgment exposures in these product liability cases. To the extent that the Company believes that a loss is probable with respect to these product liability cases, the accrual for such losses is included in the amounts described below under "Other matters".

Shareholder class actions

On January 11, 2016, the previously reported cases styled Thomas Nemky, Individually and On Behalf of All Other Similarly Situated v. Trinity Industries, Inc., Timothy R. Wallace, and James E. Perry, Case No. (2:15-CV-00732) ("Nemky") and Richard J. Isolde, Individually and On Behalf of All Other Similarly Situated v. Trinity Industries, Inc., Timothy R. Wallace, and James E. Perry, Case No. (3:15-CV-2093) ("Isolde"), were consolidated in the District Court for the Northern District of Texas, with all future filings to be filed in the Isolde case. On March 9, 2016, the Court appointed the Department of the Treasury of the State of New Jersey and its Division of Investment and the Plumbers and Pipefitters National Pension Fund and United Association Local Union Officers & Employees' Pension Fund as co-lead plaintiffs ("Lead Plaintiffs"). On May 11, 2016, the Lead Plaintiffs filed their Consolidated Complaint alleging defendants Trinity Industries, Inc., Timothy R. Wallace, James E. Perry, and Gregory B. Mitchell violated Section 10(b) of the Securities Exchange Act of 1934, Rule 10b-5 promulgated thereunder, and defendants Mr. Wallace and Mr. Perry violated Section 20(a) of the Securities Exchange Act of 1934 by making materially false and misleading statements and/or by failing to disclose material facts about Trinity's ET Plus and the FCA case styled Joshua Harman, on behalf of the United States of America, Plaintiff/Relator v. Trinity Industries, Inc., Defendant, Case No. 2:12-cv-00089-JRG (E.D. Tex.). On August 18, 2016, Trinity, Mr. Wallace, Mr. Perry, and Mr. Mitchell filed motions to dismiss Lead Plaintiffs Consolidated Complaint, which remain pending. On March 13, 2017, the Court granted defendant's motion to stay and administratively close proceedings pending Fifth Circuit appeal. The Isolde matter is stayed and remains administratively closed pending the conclusion of any appeal in the Joshua Harman FCA case. Trinity, Mr. Wallace, Mr. Perry, and Mr. Mitchell deny and intend to vigorously defend against the allegations in the Isolde case. Based on the information available to the Company, we currently do not believe that a loss is probable with respect to this shareholder class action; therefore no accrual has been included in the accompanying consolidated financial statements. Because of the complexity of these actions as well as the current status of certain of these actions, we are not able to estimate a range of possible losses with respect to these matters.

Stockholder books and records requests

The Company has received multiple requests from stockholders pursuant to the Delaware General Corporation Law to review certain of the Company's books and records related to the ET Plus and the FCA case styled Joshua Harman, on behalf of the United States of America, Plaintiff/Relator v. Trinity Industries, Inc., Defendant, Case No. 2:12-cv-00089-JRG (E.D. Tex.). The stockholders' stated purpose for seeking access to the Company's books and records is to investigate the possibility of whether the directors or officers of the Company committed breaches of fiduciary duty or other wrongdoing. In accordance with the Company's obligations under the Delaware law when such requests are properly filed, the Company has provided books and records to some of those stockholders.

Stockholder derivative complaints

On July 25, 2017, the previously reported cases styled Bessent v. Wallace, et. al., Case No. 2017-0223, and Campi v. Wallace, et. al. Case No. 2017-0474-SG, both in the Court of Chancery of the State of Delaware, were consolidated in the Court of Chancery of the State of Delaware, with all future filings to be filed in Case No. 2017-0223-AG with the caption In re Trinity Industries, Inc. Stockholder Derivative Litigation ("Stockholder Derivative Litigation"). On

August 18, 2017, Plaintiffs filed their Verified Consolidated Amended Stockholder Derivative Complaint. The Stockholder Derivative Litigation is brought by purported stockholders of the Company derivatively on behalf of nominal defendants Trinity Industries, Inc. and Trinity Highway Products, LLC, against the Company's directors and certain officers. Plaintiffs allege the individual defendants breached their fiduciary duties in connection with Trinity's ET Plus and the FCA case styled Joshua Harman, on behalf of the United States of America, Plaintiff/Relator v. Trinity Industries, Inc., Defendant, Case No. 2:12-cv-00089-JRG (E.D. Tex.) and that certain defendants made improper sales of Company stock. Plaintiffs seek a declaration that they may maintain this derivative action on behalf of the Company and that they are the adequate representatives of the Company, a declaration that the individual defendants breached their fiduciary duties, awarding the Company damages as a result of the alleged breaches of fiduciary duties, awarding restitution, disgorgement of individual defendants' profits, benefits, and other compensation, certain injunctive relief, costs and fees, and

Table of Contents

interest. The director and officer defendants have moved to dismiss the Verified Consolidated Amended Stockholder Derivative Complaint.

The defendants deny and intend to vigorously defend against the allegations in the Stockholder Derivative Litigation. Based on the information available to the Company, we currently do not believe that a loss is probable with respect to these derivative cases; therefore no accrual has been included in the accompanying consolidated financial statements. Because of the complexity of these actions as well as the current status of certain of these actions, we are not able to estimate a range of possible losses with respect to these matters.

Other matters

The Company is involved in claims and lawsuits incidental to our business arising from various matters including product warranty, personal injury, environmental issues, workplace laws, and various governmental regulations. The Company evaluates its exposure to such claims and suits periodically and establishes accruals for these contingencies when a range of loss can be reasonably estimated. The range of reasonably possible losses for such matters, taking into consideration our rights in indemnity and recourse to third parties is \$3.2 million to \$19.0 million. This range includes any amount related to the Highway Products litigation matters described above in the section titled "Product liability cases." At September 30, 2017, total accruals of \$12.2 million, including environmental and workplace matters described below, are included in accrued liabilities in the accompanying consolidated balance sheet. The Company believes any additional liability would not be material to its financial position or results of operations.

Trinity is subject to remedial orders and federal, state, local, and foreign laws and regulations relating to the environment and the workplace. The Company has reserved \$3.5 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. We believe that we are currently in substantial compliance with environmental and workplace laws and regulations.

Table of Contents

Note 19. Financial Statements for Guarantors of the Senior Notes

The Company's Senior Notes are fully and unconditionally and jointly and severally guaranteed by certain of Trinity's 100%-owned subsidiaries: Trinity Industries Leasing Company; Trinity Marine Products, Inc.; Trinity North American Freight Car, Inc.; Trinity Rail Group, LLC; Trinity Tank Car, Inc.; Trinity Meyer Utility Structures LLC. and, effective April 20, 2017, Trinity Structural Towers, Inc. (collectively, the "Combined Guarantor Subsidiaries"). Amounts previously reported have been restated to include Trinity Structural Towers, Inc. as a Guarantor Subsidiary. The Senior Notes indenture agreement includes customary provisions for the release of the guarantees by the Combined Guarantor Subsidiaries upon the occurrence of certain allowed events including the release of one or more of the Combined Guarantor Subsidiaries as guarantor under the Company's revolving credit facility. See Note 11 Debt. The Senior Notes are not guaranteed by any remaining 100%-owned subsidiaries of the Company or partially-owned subsidiaries ("Combined Non-Guarantor Subsidiaries").

As of September 30, 2017, assets held by the Combined Non-Guarantor Subsidiaries included \$120.4 million of restricted cash that was not available for distribution to Trinity Industries, Inc. ("Parent"), \$3,576.7 million of equipment securing certain non-recourse debt, \$66.8 million of equipment securing certain lease obligations held by the Combined Non-Guarantor Subsidiaries, and \$330.6 million of assets located in foreign locations. As of December 31, 2016, assets held by the Combined Non-Guarantor Subsidiaries included \$147.1 million of restricted cash that was not available for distribution to the Parent, \$3,300.9 million of equipment securing certain non-recourse debt, \$68.0 million of equipment securing certain lease obligations held by the Combined Non-Guarantor Subsidiaries, and \$349.4 million of assets located in foreign locations.

Table of ContentsStatement of Operations and Comprehensive Income
Three Months Ended September 30, 2017

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
Revenues	\$—	\$ 622.5	\$ 501.3	\$ (150.2)	\$ 973.6
Cost of revenues	(0.1)	493.3	385.5	(156.5)	722.2
Selling, engineering, and administrative expenses	39.5	35.6	39.4	—	114.5
Gains/(losses) on dispositions of property	(0.1)	15.9	0.3	—	16.1
	39.5	513.0	424.6	(156.5)	820.6
Operating profit (loss)	(39.5)	109.5	76.7	6.3	153.0
Other (income) expense	5.7	6.4	33.3	—	45.4
Equity in earnings of subsidiaries, net of taxes	111.7	17.5	—	(129.2)	—
Income before income taxes	66.5	120.6	43.4	(122.9)	107.6
Provision (benefit) for income taxes	(0.4)	35.5	6.4	(1.8)	39.7
Net income	66.9	85.1	37.0	(121.1)	67.9
Net income attributable to noncontrolling interest	—	—	—	1.0	1.0
Net income attributable to controlling interest	\$66.9	\$ 85.1	\$ 37.0	\$ (122.1)	\$ 66.9
Net income	\$66.9	\$ 85.1	\$ 37.0	\$ (121.1)	\$ 67.9
Other comprehensive income (loss)	1.8	—	0.3	—	2.1
Comprehensive income	68.7	85.1	37.3	(121.1)	70.0
Comprehensive income attributable to noncontrolling interest	—	—	—	1.5	1.5
Comprehensive income attributable to controlling interest	\$68.7	\$ 85.1	\$ 37.3	\$ (122.6)	\$ 68.5

Statement of Operations and Comprehensive Income
Nine Months Ended September 30, 2017

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
Revenues	\$—	\$ 1,738.6	\$ 1,438.5	\$ (420.7)	\$ 2,756.4
Cost of revenues	3.7	1,392.3	1,106.4	(438.6)	2,063.8
Selling, engineering, and administrative expenses	108.2	100.3	121.1	—	329.6
Gains/(losses) on dispositions of property	0.5	36.9	4.4	—	41.8
	111.4	1,455.7	1,223.1	(438.6)	2,351.6
Operating profit (loss)	(111.4)	282.9	215.4	17.9	404.8
Other (income) expense	17.1	22.1	94.2	—	133.4
Equity in earnings of subsidiaries, net of taxes	274.1	60.6	—	(334.7)	—
Income before income taxes	145.6	321.4	121.2	(316.8)	271.4
Provision (benefit) for income taxes	(18.4)	105.8	26.0	(15.6)	97.8
Net income	164.0	215.6	95.2	(301.2)	173.6
Net income attributable to noncontrolling interest	—	—	—	9.6	9.6
Net income attributable to controlling interest	\$164.0	\$ 215.6	\$ 95.2	\$ (310.8)	\$ 164.0
Net income	\$164.0	\$ 215.6	\$ 95.2	\$ (301.2)	\$ 173.6

Edgar Filing: TRINITY INDUSTRIES INC - Form 10-Q

Other comprehensive income (loss)	4.1	—	2.3	—	6.4
Comprehensive income	168.1	215.6	97.5	(301.2)	180.0
Comprehensive income attributable to noncontrolling interest	—	—	—	11.6	11.6
Comprehensive income attributable to controlling interest	\$168.1	\$215.6	\$97.5	\$(312.8)	\$168.4

Table of ContentsStatement of Operations and Comprehensive Income
Three Months Ended September 30, 2016

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
Revenues	\$—	\$ 770.0	\$ 542.3	\$ (200.6)	\$ 1,111.7
Cost of revenues	0.3	615.6	419.2	(207.8)	827.3
Selling, engineering, and administrative expenses	33.8	29.8	38.7	—	102.3
Gains/(losses) on dispositions of property	0.2	0.2	1.1	—	1.5
	33.9	645.2	456.8	(207.8)	928.1
Operating profit (loss)	(33.9)	124.8	85.5	7.2	183.6
Other (income) expense	—	10.4	33.7	—	44.1
Equity in earnings of subsidiaries, net of taxes	114.8	33.9	—	(148.7)	—
Income before income taxes	80.9	148.3	51.8	(141.5)	139.5
Provision (benefit) for income taxes	(3.3)	37.6	13.0	2.6	49.9
Net income	84.2	110.7	38.8	(144.1)	89.6
Net income attributable to noncontrolling interest	—	—	—	5.4	5.4
Net income attributable to controlling interest	\$84.2	\$ 110.7	\$ 38.8	\$ (149.5)	\$ 84.2
Net income	\$84.2	\$ 110.7	\$ 38.8	\$ (144.1)	\$ 89.6
Other comprehensive income (loss)	0.3	(0.1)	1.4	—	1.6
Comprehensive income	84.5	110.6	40.2	(144.1)	91.2
Comprehensive income attributable to noncontrolling interest	—	—	—	6.2	6.2
Comprehensive income attributable to controlling interest	\$84.5	\$ 110.6	\$ 40.2	\$ (150.3)	\$ 85.0

Statement of Operations and Comprehensive Income
Nine Months Ended September 30, 2016

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
Revenues	\$—	\$ 2,484.0	\$ 1,609.7	\$ (609.2)	\$ 3,484.5
Cost of revenues	(3.3)	1,990.8	1,253.3	(625.9)	2,614.9
Selling, engineering, and administrative expenses	90.7	99.7	115.1	—	305.5
Gains/(losses) on dispositions of property	(0.7)	10.6	4.6	—	14.5
	88.1	2,079.9	1,363.8	(625.9)	2,905.9
Operating profit (loss)	(88.1)	404.1	245.9	16.7	578.6
Other (income) expense	(0.1)	28.8	98.7	—	127.4
Equity in earnings of subsidiaries, net of taxes	342.7	76.5	—	(419.2)	—
Income before income taxes	254.7	451.8	147.2	(402.5)	451.2
Provision (benefit) for income taxes	(21.3)	142.7	33.3	6.0	160.7
Net income	276.0	309.1	113.9	(408.5)	290.5
Net income attributable to noncontrolling interest	—	—	—	14.5	14.5
Net income attributable to controlling interest	\$276.0	\$ 309.1	\$ 113.9	\$ (423.0)	\$ 276.0

Edgar Filing: TRINITY INDUSTRIES INC - Form 10-Q

Net income	\$276.0	\$ 309.1	\$ 113.9	\$ (408.5)	\$ 290.5
Other comprehensive income (loss)	3.3	(0.1)	3.3	—	6.5
Comprehensive income	279.3	309.0	117.2	(408.5)	297.0
Comprehensive income attributable to noncontrolling interest	—	—	—	16.5	16.5
Comprehensive income attributable to controlling interest	\$279.3	\$ 309.0	\$ 117.2	\$ (425.0)	\$ 280.5

Table of ContentsBalance Sheet
September 30, 2017

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
Assets:					
Cash and cash equivalents	\$853.0	\$ 6.1	\$ 71.5	\$ (55.9)	\$ 874.7
Short-term marketable securities	150.0	—	—	—	150.0
Receivables, net of allowance	0.3	222.1	176.7	—	399.1
Income tax receivable	179.0	—	2.2	—	181.2
Inventory	—	434.4	237.9	(10.5)	661.8
Property, plant, and equipment, net	48.2	2,222.9	4,316.7	(517.7)	6,070.1
Investments in and advances to subsidiaries	5,145.3	3,057.9	386.2	(8,589.4)	—
Restricted cash	—	—	120.4	55.9	176.3
Goodwill and other assets	147.9	585.3	325.9	(7.4)	1,051.7
	\$6,523.7	\$ 6,528.7	\$ 5,637.5	\$ (9,125.0)	\$ 9,564.9
Liabilities:					
Accounts payable	\$8.4	\$ 74.4	\$ 112.1	\$ (0.4)	\$ 194.5
Accrued liabilities	215.7	70.0	139.9	(7.4)	418.2
Debt	833.1	29.3	2,414.0	—	3,276.4
Deferred income	—	19.8	1.5	—	21.3
Deferred income taxes	130.8	1,096.5	19.8	0.3	1,247.4
Advances from subsidiaries	932.6	—	—	(932.6)	—
Other liabilities	53.0	1.9	2.1	—	57.0
Total stockholders' equity	4,350.1	5,236.8	2,948.1	(8,184.9)	4,350.1
	\$6,523.7	\$ 6,528.7	\$ 5,637.5	\$ (9,125.0)	\$ 9,564.9

Balance Sheet
December 31, 2016

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
Assets:					
Cash and cash equivalents	\$537.9	\$ 5.2	\$ 51.3	\$ (31.0)	\$ 563.4
Short-term marketable securities	234.7	—	—	—	234.7
Receivables, net of allowance	1.1	219.2	158.4	—	378.7
Income tax receivable	99.9	—	2.2	—	102.1
Inventory	—	444.2	231.5	(9.9)	665.8
Property, plant, and equipment, net	48.8	2,347.4	4,029.8	(459.2)	5,966.8
Investments in and advances to subsidiaries	4,862.4	2,565.0	334.6	(7,762.0)	—
Restricted cash	—	—	147.1	31.1	178.2
Goodwill and other assets	150.8	585.1	301.0	(1.3)	1,035.6
	\$5,935.6	\$ 6,166.1	\$ 5,255.9	\$ (8,232.3)	\$ 9,125.3
Liabilities:					
Accounts payable	\$5.7	\$ 54.8	\$ 96.1	\$ (0.5)	\$ 156.1
Accrued liabilities	200.0	87.7	139.7	(1.3)	426.1
Debt	818.7	32.0	2,205.9	—	3,056.6

Edgar Filing: TRINITY INDUSTRIES INC - Form 10-Q

Deferred income	—	21.9	1.6	—	23.5
Deferred income taxes	78.6	984.7	9.3	0.3	1,072.9
Advances from subsidiaries	458.2	—	—	(458.2) —
Other liabilities	63.3	13.5	2.2	—	79.0
Total stockholders' equity	4,311.1	4,971.5	2,801.1	(7,772.6) 4,311.1
	\$5,935.6	\$ 6,166.1	\$ 5,255.9	\$ (8,232.3) \$ 9,125.3

Table of Contents

Statement of Cash Flows

Nine Months Ended September 30, 2017

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
Operating activities:					
Net income	\$ 164.0	\$ 215.6	\$ 95.2	\$ (301.2)	\$ 173.6
Equity in earnings of subsidiaries, net of taxes	(274.1)	(60.6)	—	334.7	—
Other	28.5	134.9	165.7	(14.5)	314.6
Net cash provided (required) by operating activities	(81.6)	289.9	260.9	19.0	488.2
Investing activities:					
(Increase) decrease in short-term marketable securities	84.7	—	—	—	84.7
Proceeds from railcar lease fleet sales owned more than one year	—	515.8	8.4	(363.9)	160.3
Proceeds from dispositions of property and other assets	—	1.2	6.9	—	8.1
Capital expenditures – leasing	—	(349.2)	(375.1)	363.9	(360.4)
Capital expenditures – manufacturing and other	(5.9)	(12.3)	(43.7)	—	(61.9)
Acquisitions, net of cash acquired	—	—	(47.5)	—	(47.5)
(Increase) decrease in investment in partially-owned subsidiaries	—	30.0	—	(30.0)	—
Other	—	—	(0.3)	—	(0.3)
Net cash provided (required) by investing activities	78.8	185.5	(451.3)	(30.0)	(217.0)
Financing activities:					
Excess tax benefits from stock-based compensation	—	—	—	—	—
Payments to retire debt	—	(2.7)	(332.2)	—	(334.9)
Proceeds from issuance of debt	—	—	534.1	—	534.1
(Increase) decrease in restricted cash	—	—	26.7	(24.8)	1.9
Shares repurchased	(52.4)	—	—	—	(52.4)
Dividends paid to common shareholders	(53.0)	—	—	—	(53.0)
Purchase of shares to satisfy employee tax on vested stock	(14.1)	—	—	—	(14.1)
Distributions to noncontrolling interest	—	—	(41.4)	—	(41.4)
Distributions to controlling interest in partially-owned subsidiaries	—	—	(30.0)	30.0	—
Change in intercompany financing between entities	437.4	(471.8)	53.5	(19.1)	—
Other	—	—	(0.1)	—	(0.1)
Net cash provided (required) by financing activities	317.9	(474.5)	210.6	(13.9)	40.1
Net increase (decrease) in cash and cash equivalents	315.1	0.9	20.2	(24.9)	311.3
Cash and cash equivalents at beginning of period	537.9	5.2	51.3	(31.0)	563.4
Cash and cash equivalents at end of period	\$ 853.0	\$ 6.1	\$ 71.5	\$ (55.9)	\$ 874.7

Table of Contents

Statement of Cash Flows

Nine Months Ended September 30, 2016

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
Operating activities:					
Net income	\$276.0	\$ 309.1	\$ 113.9	\$ (408.5)	\$ 290.5
Equity in earnings of subsidiaries, net of taxes	(342.7)	(76.5)	—	419.2	—
Other	157.4	207.4	158.1	(21.3)	501.6
Net cash provided (required) by operating activities	90.7	440.0	272.0	(10.6)	792.1
Investing activities:					
(Increase) decrease in short-term marketable securities	(199.8)	—	—	—	(199.8)
Proceeds from railcar lease fleet sales owned more than one year	—	27.3	10.4	—	37.7
Proceeds from dispositions of property and other assets	—	2.2	6.7	—	8.9
Capital expenditures – leasing	—	(553.6)	(1.6)	—	(555.2)
Capital expenditures – manufacturing and other	(12.9)	(10.7)	(77.5)	—	(101.1)
Acquisitions, net of cash acquired	—	—	—	—	—
(Increase) decrease in investment in partially-owned subsidiaries	—	11.7	—	(11.7)	—
Other	—	—	4.0	—	4.0
Net cash provided (required) by investing activities	(212.7)	(523.1)	(58.0)	(11.7)	(805.5)
Financing activities:					
Excess tax benefits from stock-based compensation	0.8	—	—	—	0.8
Payments to retire debt	—	(2.5)	(103.5)	—	(106.0)
Proceeds from issuance of debt	—	—	—	—	—
(Increase) decrease in restricted cash	—	0.2	10.6	1.1	11.9
Shares repurchased	(34.7)	—	—	—	(34.7)
Dividends paid to common shareholders	(50.0)	—	—	—	(50.0)
Purchase of shares to satisfy employee tax on vested stock	(16.4)	—	—	—	(16.4)
Distributions to noncontrolling interest	—	—	(18.4)	—	(18.4)
Distributions to controlling interest in partially-owned subsidiaries	—	—	(11.7)	11.7	—
Change in intercompany financing between entities	(22.4)	87.6	(75.8)	10.6	—
Other	—	—	(2.0)	—	(2.0)
Net cash provided (required) by financing activities	(122.7)	85.3	(200.8)	23.4	(214.8)
Net increase (decrease) in cash and cash equivalents	(244.7)	2.2	13.2	1.1	(228.2)
Cash and cash equivalents at beginning of period	768.3	1.7	51.1	(35.1)	786.0
Cash and cash equivalents at end of period	\$523.6	\$ 3.9	\$ 64.3	\$ (34.0)	\$ 557.8

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide management's perspective on our financial condition, results of operations, liquidity, and certain other factors that may affect our future results. Our MD&A is presented in the following sections:

- Executive Summary
- Results of Operations
- Liquidity and Capital Resources
- Contractual Obligations and Commercial Commitments
- Recent Accounting Pronouncements
- Forward-Looking Statements

Our MD&A should be read in conjunction with the unaudited consolidated financial statements of Trinity Industries, Inc. and subsidiaries ("Trinity," "Company," "we," and "our") and related Notes in Part I, Item 1 of the Quarterly Report on Form 10-Q and Item 8, Financial Statements and Supplementary Data, of the Annual Report on Form 10-K for the year-ended December 31, 2016.

Executive Summary

The Company's revenues for the three and nine months ended September 30, 2017 were \$973.6 million and \$2,756.4 million, respectively, representing a decrease of 12.4% and 20.9%, respectively, compared to the same periods in 2016. Operating profit for the three and nine months ended September 30, 2017 totaled \$153.0 million and \$404.8 million, respectively, representing a decrease of 16.7% and 30.0%, respectively, for the same periods in 2016. The decrease in both revenues and operating profit for the three and nine months ended September 30, 2017, when compared to the prior year periods, resulted primarily from lower volumes in our Rail and Inland Barge Groups. When compared to the same periods in 2016, revenues and operating profit produced by our Construction Products Group decreased for the three and nine months ended September 30, 2017 primarily due to lower volumes in the Group's construction aggregates and highway products businesses. Revenues generated by our Energy Equipment Group were substantially unchanged while operating profit decreased for the three and nine months ended September 30, 2017 as higher delivery volumes in our wind towers and utility structures businesses were offset by lower delivery volumes in the Group's other product lines. Revenues and operating profit from the Leasing Group increased for the three months ended September 30, 2017, when compared to the prior year periods, primarily due to higher sales of leased railcars. For the nine months ended September 30, 2017, Leasing Group revenue was substantially unchanged while operating profit increased from higher leased railcar sales and lower fleet maintenance and compliance expenses.

Selling, engineering, and administrative expenses increased by 11.9% and 7.9% for the three and nine months ended September 30, 2017, respectively, when compared to the prior year periods. The increase for the three months ended September 30, 2017 was primarily due to higher performance-related compensation while the increase for the nine months ended September 30, 2017 was primarily due to higher performance-related compensation and litigation-related costs. The Company's headcount, including both production and non-production personnel, decreased approximately 20% since September 30, 2016 and approximately 13% since the end of 2016 primarily due to actions taken to realign our costs with current market conditions.

Net income for the three and nine months ended September 30, 2017 was \$67.9 million and \$173.6 million, respectively, compared with \$89.6 million and \$290.5 million, respectively, for the same periods in 2016. Net income attributable to Trinity Industries, Inc. common stockholders for the three and nine months ended September 30, 2017 was \$66.9 million and \$164.0 million, respectively, compared with \$84.2 million and \$276.0 million, respectively, for the prior year periods.

Our Rail, Inland Barge, and Leasing Groups and our structural wind towers, utility structures, and storage and distribution containers businesses operate in cyclical industries. Additionally, results in our Construction Products Group are affected by seasonal fluctuations with the second and third quarters historically being the quarters with the highest revenues. Due to their transactional nature, railcar sales from the lease fleet are the primary driver of fluctuations in results in the Railcar Leasing and Management Services Group.

We continue to experience below normal levels for many of the Company's products and services. The ongoing level of uncertainty in the industrial economy has continued to impact our customers' long-term capital planning processes. The oversupply of railcars and barges in the North American market has limited new order levels for these businesses. We continue to assess demand for our products and services and take steps to align our manufacturing capacity appropriately.

Table of Contents

As of September 30, 2017 and 2016 our backlog of firm orders was as follows:

	September 30, 2017	September 30, 2016
	(in millions)	

Rail Group

External Customers	\$1,509.1	\$ 2,679.6
--------------------	-----------	------------

Leasing Group	935.9	1,021.7
	\$2,445.0	\$ 3,701.3

Inland Barge Group	\$126.0	\$ 177.3
--------------------	---------	----------

Wind towers	\$847.3	\$ 1,040.9
-------------	---------	------------

For the nine months ended September 30, 2017, our rail manufacturing businesses received orders for 9,720 railcars. The change in backlog as of September 30, 2017 compared with our backlog as of September 30, 2016 reflects the value of orders taken, net of cancellations, executory contract change orders and price modifications, and orders delivered during the period. The orders in our backlog from the Leasing Group are fully supported by lease commitments with external customers. The final amount dedicated to the Leasing Group may vary by the time of delivery as customers may alternatively choose to purchase railcars as external sales from the Rail Group. The Company does not report backlog from its utility structures business because certain contracts contain partial order cancellation provisions.

During the nine months ended September 30, 2017 and 2016, the Company received proceeds from the sales of leased railcars as follows:

	Nine Months Ended September 30, 2017 2016 (in millions)	
Leasing Group:		
Railcars owned one year or less at the time of sale	\$93.7	\$126.1
Railcars owned more than one year at the time of sale	160.3	37.7
Rail Group	—	8.1
	\$254.0	\$171.9

On May 15, 2017, Trinity Rail Leasing 2017, LLC, a Delaware limited liability company ("TRL 2017") and a limited purpose, indirect wholly-owned subsidiary of the Company owned through TILC, issued \$302.4 million of promissory notes (the "2017 Promissory Notes") due May 15, 2024, of which \$297.4 million was outstanding as of September 30, 2017. The 2017 Promissory Notes are obligations of TRL 2017 and are non-recourse to Trinity. The 2017 Promissory Notes bear interest at Libor plus a margin for an all-in interest rate of 3.00% as of September 30, 2017, payable monthly. The 2017 Promissory Notes are secured by a portfolio of railcars and operating leases thereon, certain cash reserves, and other assets acquired and owned by TRL 2017.

On August 15, 2017, TRIP Rail Master Funding LLC ("TRIP Master Funding") issued \$237.9 million in aggregate principle amount of Series 2017-1 Secured Railcar Equipment Notes pursuant to the Master Indenture between TRIP Master Funding and Wilmington Trust Company, as indenture trustee, with a final maturity date of August 2047. The proceeds from the issuance were used primarily to retire the TRIP Master Funding Secured Railcar Equipment Notes Class A-1a and Class A-1b notes as well as the TRIP Master Funding Series 2014-1 Secured Railcar Equipment Notes Class A-1 notes in full. The TRIP Master Funding Series 2017-1 Secured Railcar Equipment Notes consist of two classes with the Class A-1 notes bearing interest at 2.71% and the Class A-2 notes bearing interest at 3.74%. The TRIP Master Funding Series 2017-1 Secured Railcar Equipment Notes are non-recourse to Trinity, TILC, TRIP Holdings, and the other equity investors in TRIP Holdings and are secured by TRIP Master Funding's portfolio of railcars and operating leases thereon, its cash reserves, and all other assets owned by TRIP Master Funding. As of September 30, 2017, there were \$101.0 million and \$134.9 million of Class A-1 and Class A-2 notes outstanding, respectively.

In May 2017, the Company declared an increase in its quarterly dividend from \$0.11 to \$0.13 per share, reflecting an 18% increase.

In December 2015, the Company's Board of Directors renewed its \$250 million share repurchase program effective January 1, 2016 through December 31, 2017. Under the program, 1,942,200 shares were repurchased during the nine months ended September 30, 2017, at a cost of approximately \$52.4 million. There were no shares repurchased during the three months ended September 30, 2017. As of September 30, 2017, the remaining authorization under the program totaled \$163.0 million.

A current summary of the Company's Highway Products litigation is provided in Note 18 of the Consolidated Financial Statements.

Table of ContentsResults of Operations
Overall Summary
Revenues

	Three Months Ended September 30, 2017			Three Months Ended September 30, 2016			Percent Change
	External	Intersegment	Total	External	Intersegment	Total	
	Revenues						
	(\$ in millions)						
Rail Group	\$317.4	\$ 175.0	\$492.4	\$506.0	\$ 214.8	\$720.8	(31.7)%
Construction Products Group	130.1	1.8	131.9	136.3	3.5	139.8	(5.7)
Inland Barge Group	28.1	—	28.1	98.9	—	98.9	(71.6)
Energy Equipment Group	220.6	25.6	246.2	194.6	47.1	241.7	1.9
Railcar Leasing and Management Services Group	274.9	0.2	275.1	173.2	0.5	173.7	58.4
All Other	2.5	23.2	25.7	2.7	24.0	26.7	(3.7)
Segment Totals before Eliminations	973.6	225.8	1,199.4	1,111.7	289.9	1,401.6	(14.4)
Eliminations – Lease subsidiary	—	(160.5)	(160.5)	—	(206.7)	(206.7)	
Eliminations – Other	—	(65.3)	(65.3)	—	(83.2)	(83.2)	
Consolidated Total	\$973.6	\$ —	\$973.6	\$1,111.7	\$ —	\$1,111.7	(12.4)

	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016			Percent Change
	External	Intersegment	Total	External	Intersegment	Total	
	Revenues						
	(\$ in millions)						
Rail Group	\$938.8	\$ 497.8	\$1,436.6	\$1,476.9	\$ 784.0	\$2,260.9	(36.5)%
Construction Products Group	381.7	4.6	386.3	399.6	10.9	410.5	(5.9)
Inland Barge Group	124.3	—	124.3	328.0	—	328.0	(62.1)
Energy Equipment Group	660.6	79.5	740.1	626.2	129.5	755.7	(2.1)
Railcar Leasing and Management Services Group	645.4	0.7	646.1	647.1	1.7	648.8	(0.4)
All Other	5.6	65.6	71.2	6.7	61.6	68.3	4.2
Segment Totals before Eliminations	2,756.4	648.2	3,404.6	3,484.5	987.7	4,472.2	(23.9)
Eliminations – Lease subsidiary	—	(457.4)	(457.4)	—	(742.1)	(742.1)	
Eliminations – Other	—	(190.8)	(190.8)	—	(245.6)	(245.6)	
Consolidated Total	\$2,756.4	\$ —	\$2,756.4	\$3,484.5	\$ —	\$3,484.5	(20.9)

Our revenues for the three and nine months ended September 30, 2017 decreased by 12% and 21%, respectively, from the prior year periods primarily as a result of reduced volumes in our Rail and Inland Barge Groups. Revenues from our Construction Products Group decreased for the three and nine months ended September 30, 2017 primarily due to lower volumes in the Group's construction aggregates and highway products business. In our Energy Equipment Group, revenues were substantially unchanged as higher volumes in our wind towers and utility structures product lines were offset by lower volumes in the Group's other product lines for the three and nine months ended September 30, 2017 when compared to the prior year periods. Revenues from our Leasing Group increased for the three months ended September 30, 2017 when compared to the prior year period primarily as a result of higher revenues from sales of leased railcars. For the nine months ended September 30, 2017, Leasing Group revenues were substantially unchanged as higher leasing and management revenues were offset by lower revenues from sales of leased railcars.

Table of Contents

Operating Costs

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	(in millions)			
Rail Group	\$441.8	\$617.2	\$1,298.3	\$1,911.3
Construction Products Group	115.0	116.0	331.5	349.3
Inland Barge Group	28.8	87.2	118.1	289.4
Energy Equipment Group	219.9	210.5	659.7	652.2
Railcar Leasing and Management Services Group	154.5	93.2	329.7	376.4
All Other	30.4	30.2	86.2	82.1
Segment Totals before Eliminations and Corporate Expenses	990.4	1,154.3	2,823.5	3,660.7
Corporate	41.5	35.6	114.8	95.0
Eliminations – Lease subsidiary	(146.9)	(179.0)	(401.3)	(603.0)
Eliminations – Other	(64.4)	(82.8)	(185.4)	(246.8)
Consolidated Total	\$820.6	\$928.1	\$2,351.6	\$2,905.9

Operating costs for the three and nine months ended September 30, 2017 decreased by 11.6% and 19.1%, respectively, over the same periods in 2016 primarily due to lower shipment levels in our Rail and Inland Barge Groups. The reduction in operating costs was partially offset by additional costs associated with aligning our production footprint with demand in several of our business groups.

Selling, engineering, and administrative expenses, including Corporate expenses, increased for the three and nine months ended September 30, 2017, by 11.9% and 7.9%, respectively. As a percentage of revenue, selling, engineering, and administrative expenses were 11.8% and 12.0%, respectively, for the three and nine months ended September 30, 2017 as compared to 9.2% and 8.8%, respectively, for the same periods in 2016. The increase for the three months ended September 30, 2017 was primarily due to higher performance-related compensation while the increase for the nine months ended September 30, 2017 was primarily due to higher performance-related compensation and litigation-related costs.

Operating Profit (Loss)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	(in millions)			
Rail Group	\$50.6	\$103.6	\$138.3	\$349.6
Construction Products Group	16.9	23.8	54.8	61.2
Inland Barge Group	(0.7)	11.7	6.2	38.6
Energy Equipment Group	26.3	31.2	80.4	103.5
Railcar Leasing and Management Services Group	120.6	80.5	316.4	272.4
All Other	(4.7)	(3.5)	(15.0)	(13.8)
Segment Totals before Eliminations and Corporate Expenses	209.0	247.3	581.1	811.5
Corporate	(41.5)	(35.6)	(114.8)	(95.0)
Eliminations – Lease subsidiary	(13.6)	(27.7)	(56.1)	(139.1)
Eliminations – Other	(0.9)	(0.4)	(5.4)	1.2
Consolidated Total	\$153.0	\$183.6	\$404.8	\$578.6

Our operating profit for the three and nine months ended September 30, 2017 decreased by 16.7% and 30.0%, respectively, when compared to the same periods in 2016 primarily as a result of lower shipment volumes in our Rail and Inland Barge Groups. Operating profit was affected by additional costs associated with aligning our production

footprint with demand in several of our business groups. Operating profit in the Construction Products Group decreased for the three and nine months ended September 30, 2017 when compared to prior year periods primarily due to lower volumes in our construction aggregates and highway products businesses. Operating profit in our Energy Equipment Group decreased for the three and nine months ended September 30, 2017 when compared to prior year periods as a result of lower volumes from the Group's other businesses, primarily storage and distribution containers and tank heads product lines. Operating profit in our Leasing Group increased for the three months ended September 30, 2017 over the prior year period primarily as a result of a higher volume of railcar sales. Leasing Group operating profit for the nine months ended September 30, 2017 increased primarily due to lower fleet maintenance and compliance expenses and a higher volume of railcar sales.

For a further discussion of revenues, costs, and the operating results of individual segments, see Segment Discussion below.

Table of Contents

Other Income and Expense. Other income and expense is summarized in the following table:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
	(in millions)			
Interest income	\$(3.1)	\$(1.4)	\$(7.1)	\$(3.9)
Interest expense	46.8	45.3	137.5	136.7
Other, net	1.7	0.2	3.0	(5.4)
Consolidated Total	\$45.4	\$44.1	\$133.4	\$127.4

Income Taxes. The provision for income taxes results in effective tax rates that differ from the statutory rates. The following is a reconciliation between the statutory U.S. federal income tax rate and the Company's effective income tax rate on income before income taxes:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
Statutory rate	35.0 %	35.0 %	35.0 %	35.0 %
State taxes	1.4	1.3	1.4	1.2
Noncontrolling interest in partially-owned subsidiaries	(1.4)	(0.8)	(0.9)	(1.0)
Settlements with tax authorities	—	—	(2.1)	—
Equity compensation	(0.2)	—	0.8	—
Other, net	2.1	0.3	1.8	0.4
Effective rate	36.9 %	35.8 %	36.0 %	35.6 %

Our effective tax rate reflects the Company's estimate for 2017 of its state income tax expense, income attributable to the noncontrolling interests in partially-owned leasing subsidiaries for which no income tax expense is provided, excess tax deficiencies related to equity compensation in accordance with ASU 2016-09, and the impact of the completion of income tax audits that resulted in a net tax benefit. See Note 5 of the Consolidated Financial Statements for a further explanation of activities with respect to our partially-owned leasing subsidiaries. Income tax payments, net of refunds received, during the nine months ended September 30, 2017 totaled \$6.4 million. The total net income tax receivable position at September 30, 2017 amounted to \$180.7 million. During the nine months ended September 30, 2017, the Internal Revenue Service ("IRS") formally closed its audit of the 2006-2009 tax years and, accordingly, we have adjusted unrecognized tax benefits and deferred tax amounts related to these tax years resulting in a \$5.8 million tax benefit. The 2014-2016 tax years remain open.

See Note 13 of the Consolidated Financial Statements for a further discussion of income taxes.

Table of Contents

Segment Discussion

Rail Group

	Three Months Ended			Nine Months Ended		
	September 30,		Percent	September 30,		Percent
	2017	2016		2017	2016	
	(\$ in millions)		Change	(\$ in millions)		Change
Revenues:						
Railcars	\$437.1	\$674.5	(35.2)%	\$1,269.5	\$2,120.9	(40.1)%
Components and maintenance services	55.3	46.3	19.4	167.1	140.0	19.4
Total revenues	492.4	720.8	(31.7)	1,436.6	2,260.9	(36.5)
Operating costs:						
Cost of revenues	426.1	603.4	(29.4)	1,253.3	1,862.7	(32.7)
Selling, engineering, and administrative costs	15.7	13.8	13.8	45.0	48.6	(7.4)
Operating profit	\$50.6	\$103.6	(51.2)	\$138.3	\$349.6	(60.4)
Operating profit margin	10.3	% 14.4	%	9.6	% 15.5	%

As of September 30, 2017 and 2016 our Rail Group backlog of railcars was as follows:

	As of September 30,	
	2017	2016
	(in millions)	
External Customers	\$1,509.1	\$2,679.6
Leasing Group	935.9	1,021.7
Total	\$2,445.0	\$3,701.3

The changes in the number of railcars in the Rail Group backlog are as follows:

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Beginning balance	27,580	40,205	29,220	48,885
Orders received	3,045	1,260	9,720	5,790
Shipments	(4,420)	(6,595)	(12,245)	(19,805)
Ending balance ⁽¹⁾	25,555	34,870	25,555	34,870

⁽¹⁾ The ending backlog figures for the three and nine months ended September 30, 2017 reflect the removal of 650 railcars and 1,140 railcars, respectively, that have not been netted against orders. The adjustment for the three months ended September 30, 2017 resulted from an order termination negotiated and agreed to with a customer in October 2017. The Company will receive compensation for the termination upon finalization of documents and expects to record a cancellation fee during the three months ending December 31, 2017.

Revenues and cost of revenues decreased for the three months ended September 30, 2017 by 31.7% and 29.4%, respectively, when compared to the prior year periods. Revenues and cost of revenues decreased for the nine months ended September 30, 2017 by 36.5% and 32.7%, respectively, when compared to the prior year periods. The decreases in revenues and cost of revenues primarily resulted from a decrease in railcar unit deliveries.

Unit decreases and lower prices decreased total backlog dollars by 33.9% when comparing September 30, 2017 to the prior year period. The average selling price in the backlog at September 30, 2017 was 9.9% lower as compared to September 30, 2016 primarily due to pricing and product mix changes. The backlog dedicated to the Leasing Group is supported by lease commitments with external customers. The final amount dedicated to the Leasing Group may vary by the time of delivery as customers may alternately choose to purchase railcars as external sales from the Rail Group.

Table of Contents

During the three months ended September 30, 2017, railcar shipments included sales to the Leasing Group of \$160.5 million with a deferred profit of \$13.6 million, representing 1,721 railcars, compared to \$206.7 million with a deferred profit of \$27.7 million representing 1,895 railcars in the comparable period in 2016. During the nine months ended September 30, 2017, railcar shipments included sales to the Leasing Group of \$457.4 million with a deferred profit of \$56.1 million, representing 4,597 railcars, compared to \$742.1 million with a deferred profit of \$139.1 million, representing 6,775 railcars, in the comparable period in 2016. There were no railcar shipments of leased railcars to third parties during the three months ended September 30, 2017 and 2016. There were no railcar shipments of leased railcars to third parties during the nine months ended September 30, 2017. During the nine months ended September 30, 2016, railcar shipments included sales of leased railcars to third parties of \$8.1 million.

Construction Products Group

	Three Months Ended			Nine Months Ended		
	September 30, 2017	2016	Percent Change	September 30, 2017	2016	Percent Change
	(\$ in millions)			(\$ in millions)		
Revenues:						
Highway products	\$62.4	\$71.6	(12.8)%	\$191.5	\$215.4	(11.1)%
Construction aggregates	53.3	56.9	(6.3)	155.1	163.2	(5.0)
Other	16.2	11.3	43.4	39.7	31.9	24.5
Total revenues	131.9	139.8	(5.7)	386.3	410.5	(5.9)
Operating costs:						
Cost of revenues	95.1	98.8	(3.7)	273.4	294.6	(7.2)
Selling, engineering, and administrative costs	19.9	17.9	11.2	58.7	55.9	5.0
Property disposition gains	—	(0.7)	(100.0)	(0.6)	(1.2)	(50.0)
Operating profit	\$16.9	\$23.8	(29.0)	\$54.8	\$61.2	(10.5)
Operating profit margin	12.8 %	17.0 %		14.2 %	14.9 %	

Revenues decreased by 5.7% for the three months ended September 30, 2017, when compared to the same period in 2016. The decrease in revenues resulted primarily from lower volumes in our highway products and construction aggregates businesses, partially offset by higher volumes in our other businesses due to the trench shoring products acquisition made during the quarter.

Cost of revenues decreased by 3.7% for the three months ended September 30, 2017, when compared to the same period in 2016. The decrease in cost of revenues resulted primarily from lower volumes in our highway products and construction aggregates businesses. In August, the Company had an equipment failure in a highway products plant that negatively impacted quarterly operating profit by approximately \$2.0 million.

Selling, engineering, and administrative costs increased by 11.2% for the three months ended September 30, 2017 compared to the same period in 2016, primarily due to increased legal expenses and compensation related expenses, including a higher level of costs from the acquisition.

Revenues and cost of revenues decreased by 5.9% and 7.2%, respectively, for the nine months ended September 30, 2017, when compared to the same period in 2016. The decreases in revenues and cost of revenues resulted primarily from lower volumes in our highway products and construction aggregates businesses, partially offset by higher volumes in our other businesses, as a result of our trench shoring products acquisition. Selling, engineering, and administrative costs increased by 5.0% for the nine months ended September 30, 2017, compared to the same period in 2016, primarily due to increased legal and compensation related expenses.

Table of Contents

Inland Barge Group

	Three Months Ended			Nine Months Ended		
	September 30, 2017	2016	Percent Change	September 30, 2017	2016	Percent Change
Revenues	\$28.1	\$98.9	(71.6)%	\$124.3	\$328.0	(62.1)%
Operating costs:						
Cost of revenues	25.7	83.9	(69.4)	109.1	278.8	(60.9)
Selling, engineering, and administrative costs	3.1	3.3	(6.1)	9.0	10.6	(15.1)
Operating profit (loss)	\$(0.7)	\$11.7	(106.0)	\$6.2	\$38.6	(83.9)
Operating profit (loss) margin	(2.5)%	11.8 %		5.0 %	11.8 %	

Revenues and cost of revenues decreased for the three months ended September 30, 2017 by 71.6% and 69.4%, respectively, compared to the same period in 2016 primarily from lower barge deliveries. Revenues and cost of revenues decreased for the nine months ended September 30, 2017 by 62.1% and 60.9%, respectively, compared to the same period in 2016 primarily from lower barge deliveries. Selling, engineering, and administrative costs decreased for the three and nine months ended September 30, 2017 compared to the same periods in 2016 primarily due to lower compensation costs.

As of September 30, 2017, the backlog for the Inland Barge Group was \$126.0 million compared to \$177.3 million as of September 30, 2016.

Energy Equipment Group

	Three Months Ended			Nine Months Ended		
	September 30, 2017	2016	Percent Change	September 30, 2017	2016	Percent Change
Revenues:						
Wind towers and utility structures	\$167.1	\$148.8	12.3 %	\$514.4	\$484.9	6.1 %
Other	79.1	92.9	(14.9)	225.7	270.8	(16.7)
Total revenues	246.2	241.7	1.9	740.1	755.7	(2.1)
Operating costs:						
Cost of revenues	201.3	192.3	4.7	601.2	596.4	0.8
Selling, engineering, and administrative costs	18.6	18.2	2.2	58.5	55.8	4.8
Operating profit	\$26.3	\$31.2	(15.7)	\$80.4	\$103.5	(22.3)
Operating profit margin	10.7 %	12.9 %		10.9 %	13.7 %	

Revenues for the three months ended September 30, 2017 increased by 1.9% when compared to the same period in 2016. Revenues from our wind towers and utility structures product lines increased by 12.3%, primarily as a result of increased shipping volumes. Revenues from other product lines for the three months ended September 30, 2017 decreased by 14.9% when compared to the same period in 2016, primarily as a result of lower shipping volumes.

Other revenues include results primarily from our storage and distribution containers and tank heads product lines. Cost of revenues increased by 4.7% for the three months ended September 30, 2017 compared to the same period in 2016, primarily as a result of higher volumes in our wind towers product line. Selling, engineering, and administrative costs increased by 2.2% for the three months ended September 30, 2017 compared to the same period in 2016, primarily due to increased compensation related expenses.

Revenues for the nine months ended September 30, 2017 decreased by 2.1% when compared to the same period in 2016. Revenues from our wind towers and utility structures product lines increased by 6.1%, driven primarily by higher shipping volumes. Revenues from other product lines decreased by 16.7% as a result of decreased shipping volumes. Cost of revenues increased by 0.8% for the nine months ended September 30, 2017 compared to 2016, in

line with higher volumes. Selling, engineering, and administrative costs increased by 4.8% for the nine months ended September 30, 2017 compared to the same period in 2016, primarily due to increased bad debt expense related to a single customer and increased compensation related expenses.

The backlog for wind towers was \$847.3 million and \$1,040.9 million at September 30, 2017 and 2016, respectively. The Company does not report backlog from its utility structures business because certain contracts contain partial order cancellation provisions.

Table of Contents

Railcar Leasing and Management Services Group

	Three Months Ended			Nine Months Ended		
	September 30,		Percent Change	September 30,		Percent Change
	2017	2016		2017	2016	
	(\$ in millions)			(\$ in millions)		
Revenues:						
Leasing and management	\$188.5	\$173.7	8.5 %	\$552.4	\$522.7	5.7 %
Sales of railcars owned one year or less at the time of sale	86.6	—	*	93.7	126.1	*
Total revenues	\$275.1	\$173.7	58.4	\$646.1	\$648.8	(0.4)
Operating profit:						
Leasing and management	\$86.2	\$80.5	7.1	\$256.8	\$224.8	14.2
Railcar sales:						
Railcars owned one year or less at the time of sale	17.9	—	*	19.4	34.1	*
Railcars owned more than one year at the time of sale	16.5	—	*	40.2	13.5	*
Total operating profit	\$120.6	\$80.5	49.8	\$316.4	\$272.4	16.2
Operating profit margin:						
Leasing and management	45.7 %	46.3 %		46.5 %	43.0 %	
Railcar sales	*	*		*	*	
Total operating profit margin	43.8 %	46.3 %		49.0 %	42.0 %	
Selected expense information ⁽¹⁾ :						
Depreciation	\$43.3	\$39.4	9.9	\$128.5	\$115.5	11.3
Maintenance and compliance	\$25.0	\$21.3	17.4	\$69.4	\$84.7	(18.1)
Rent	\$10.0	\$9.9	1.0	\$30.0	\$29.3	2.4
Interest	\$32.1	\$31.2	2.9	\$94.0	\$94.4	(0.4)

* 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.

Total revenues increased by 58.4% for the three months ended September 30, 2017 compared to 2016 primarily due to a higher volume of railcar sales owned one year or less and an increase in asset management advisory fees earned.

Total revenues were substantially unchanged for the nine months ended September 30, 2017 compared to 2016.

Revenues from sales of railcars owned one year or less decreased due to a change in mix of railcars sold. Leasing and management revenues for the nine months ended September 30, 2017 increased 5.7%, compared to 2016 due to net fleet additions and asset management advisory fees, partially offset by the effect of lower average rental rates.

During the nine months ended September 30, 2017 and 2016, the Company received proceeds from the sales of leased railcars as follows:

	Nine Months Ended September 30,	
	2017	2016
	(in millions)	
Leasing Group:		
Railcars owned one year or less at the time of sale	\$93.7	\$126.1
Railcars owned more than one year at the time of sale	160.3	37.7
Rail Group	—	8.1

\$254.0 \$171.9

Operating profit increased by 49.8% for the three months ended September 30, 2017 compared to 2016 primarily due to a higher volume of railcar sales. Leasing and management operating profit increased for the three months ended September 30, 2017 compared to 2016 due to higher asset management advisory fees partially offset by higher maintenance and compliance costs. Operating profit increased by 16.2% for the nine months ended September 30, 2017 compared to 2016 primarily due to lower fleet maintenance and compliance expenses, higher asset management advisory fees, and a higher volume of railcar sales.

Table of Contents

The Leasing Group generally uses cash or its non-recourse warehouse loan facility to provide initial funding for a portion of the purchase price of the railcars. After initial funding, the Leasing Group may obtain long-term financing for the railcars in the lease fleet through non-recourse asset-backed securities; long-term non-recourse operating leases pursuant to sales/leaseback transactions; long-term recourse debt such as equipment trust certificates; or third-party equity. See Other Investing and Financing Activities.

Information regarding the Leasing Group's lease fleet, managed or owned through its wholly-owned and partially-owned subsidiaries, follows:

	September 30, 2017	September 30, 2016
Number of railcars:		
Wholly-owned	62,910	57,860
Partially-owned	24,680	24,680
	87,590	82,540
Managed	20,830	19,330
	108,420	101,870
Owned railcars:		
Average age in years	8.7	8.2
Average remaining lease term in years	3.3	3.4
Fleet utilization	97.3	% 97.1 %

All Other

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Percent Change	2017	2016	Percent Change
Revenues	\$25.7	\$26.7	(3.7)%	\$71.2	\$68.3	4.2 %
Operating costs:						
Cost of revenues	28.4	28.6	(0.7)	81.1	75.5	7.4
Selling, engineering, and administrative costs	1.9	1.9	—	5.6	5.9	(5.1)
Property disposition (gains) losses	0.1	(0.3))	(0.5)) 0.7	
Operating loss	\$(4.7)	\$(3.5)	*	\$(15.0)	\$(13.8)	*

* not meaningful

Revenues and cost of revenues were substantially unchanged for the three months ended September 30, 2017 compared to 2016. Revenues and cost of revenues increased for the nine months ended September 30, 2017 compared to 2016 primarily due to an increase in services provided by our facilities maintenance operations.

Corporate

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Percent Change	2017	2016	Percent Change
Operating costs	\$41.5	\$35.6	16.6 %	\$114.8	\$95.0	20.8 %

The increase in operating costs for the three months ended September 30, 2017 compared to the same period in 2016 is primarily due to higher performance-related compensation and consulting costs. The increase in operating costs for the nine months ended September 30, 2017 is primarily due to higher litigation-related costs as well as higher performance-related compensation and consulting costs.

Table of Contents

Liquidity and Capital Resources

Cash Flows

The following table summarizes our cash flows from operating, investing, and financing activities for the nine months ended September 30, 2017 and September 30, 2016:

	Nine Months Ended September 30, 2017 2016 (in millions)	
Total cash provided by (required by):		
Operating activities	\$488.2	\$792.1
Investing activities	(217.0)	(805.5)
Financing activities	40.1	(214.8)
Net increase (decrease) in cash and cash equivalents	\$311.3	\$(228.2)

Operating Activities. Net cash provided by operating activities for the nine months ended September 30, 2017 was \$488.2 million compared to net cash provided by operating activities of \$792.1 million for the nine months ended September 30, 2016. Cash flow provided by operating activities decreased primarily due to lower net income and an increase in receivables.

Receivables at September 30, 2017 increased by \$94.3 million or 19.6% since December 31, 2016 primarily due to a higher income tax receivable and higher trade receivables in our Rail Group. Raw materials inventory at September 30, 2017 was substantially unchanged while work in process inventory increased by \$20.8 million or 11.0% primarily in our Rail Group. Finished goods inventory decreased by \$21.4 million or 12.3% since December 31, 2016 due to higher inventory balances carried at the previous year end for scheduled shipments in early 2017 in our Energy Equipment Group. Accounts payable increased by \$38.4 million, while accrued liabilities increased by \$12.5 million from December 31, 2016. 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 nine months ended September 30, 2017 was \$217.0 million compared to \$805.5 million for the nine months ended September 30, 2016. Capital expenditures for the nine months ended September 30, 2017 were \$422.3 million, which included \$434.7 million for additions to the lease fleet less \$74.3 million for the cost of sold lease fleet railcars owned one year or less. This compares to \$656.3 million of capital expenditures for the same period last year, which included \$647.2 million for additions to the lease fleet less \$92.0 million for the cost of sold lease fleet railcars owned one year or less. Proceeds from the sale of property, plant, and equipment and other assets totaled \$168.4 million for the nine months ended September 30, 2017, including railcar sales from the lease fleet owned more than one year at the time of sale totaling \$160.3 million. This compares to \$46.6 million for the same period in 2016, including railcar sales from the lease fleet owned more than one year at the time of sale totaling \$37.7 million. Full-year manufacturing/corporate capital expenditures for 2017 are projected to range between \$80.0 million and \$95.0 million. For 2017, we anticipate a net investment in our wholly-owned lease fleet of between \$190.0 million and \$240.0 million, after taking into account the proceeds from sales of leased railcars. Short-term marketable securities decreased by \$84.7 million and increased by \$199.8 million for the nine months ended September 30, 2017 and 2016, respectively. Net cash required related to acquisitions amounted to \$47.5 million for the nine months ended September 30, 2017. There was no divestiture activity for the nine months ended September 30, 2017. There was no acquisition or divestiture activity for the nine months ended September 30, 2016.

Financing Activities. Net cash provided by financing activities during the nine months ended September 30, 2017 was \$40.1 million compared to \$214.8 million of cash required by financing activities for the same period in 2016. During the nine months ended September 30, 2017, we borrowed \$534.1 million, net of debt issuance costs, primarily from the issuance by TRL 2017 of promissory notes and the issuance by TRIP Master Funding of secured railcar equipment notes. Additionally we retired \$334.9 million in debt, primarily consisting of previously-issued TRIP Master Funding secured railcar equipment notes. During the nine months ended September 30, 2016, we retired \$106.0 million in debt

as scheduled. We intend to use our cash and committed credit facilities to fund the operations, expansions, and growth initiatives of the Company. Additionally, we may use our cash and committed credit facilities to retire or repurchase the Company's outstanding debt prior to its stated maturity or repurchase shares of its common stock.

Other Investing and Financing Activities

The \$1.0 billion TILC warehouse loan facility, established to finance railcars owned by TILC, had \$166.7 million in outstanding borrowings as of September 30, 2017. Under the facility, \$833.3 million was unused and available as of September 30, 2017 based on the amount of warehouse-eligible, unpledged equipment. The warehouse loan facility is a non-recourse obligation which expires in April 2018 and is secured by a portfolio of railcars and operating leases, certain cash reserves, and other assets acquired and owned by the warehouse loan facility trust. The principal and interest of this indebtedness are paid from the cash flows of the

Table of Contents

underlying leases. Advances under the facility bear interest at a defined index rate plus a margin, for an all-in interest rate of 3.05% at September 30, 2017. Amounts outstanding at maturity, absent renewal, are payable under the facility in April 2019.

On May 15, 2017, TRL 2017 issued \$302.4 million of 2017 Promissory Notes, due May 15, 2024, of which \$297.4 million was outstanding as of September 30, 2017. The 2017 Promissory Notes are obligations of TRL 2017 and are non-recourse to Trinity. The 2017 Promissory Notes bear interest at Libor plus a margin for an all-in interest rate of 3.00% as of September 30, 2017, payable monthly. The 2017 Promissory Notes are secured by a portfolio of railcars and operating leases thereon, certain cash reserves, and other assets acquired and owned by TRL 2017.

On August 15, 2017, TRIP Master Funding issued \$237.9 million in aggregate principle amount of Series 2017-1 Secured Railcar Equipment Notes pursuant to the Master Indenture between TRIP Master Funding and Wilmington Trust Company, as indenture trustee, with a final maturity date of August 2047. The proceeds from the issuance were used primarily to retire the TRIP Master Funding Secured Railcar Equipment Notes Class A-1a and Class A-1b notes as well as the TRIP Master Funding Series 2014-1 Secured Railcar Equipment Notes Class A-1 notes in full. The TRIP Master Funding Series 2017-1 Secured Railcar Equipment Notes consist of two classes with the Class A-1 notes bearing interest at 2.71% and the Class A-2 notes bearing interest at 3.74%. The TRIP Master Funding Series 2017-1 Secured Railcar Equipment Notes are non-recourse to Trinity, TILC, TRIP Holdings, and the other equity investors in TRIP Holdings and are secured by TRIP Master Funding's portfolio of railcars and operating leases thereon, its cash reserves, and all other assets owned by TRIP Master Funding. As of September 30, 2017, there were \$101.0 million and \$134.9 million of Class A-1 and Class A-2 notes outstanding, respectively.

In May 2017, the Company declared an increase in its quarterly dividend from \$0.11 to \$0.13 per share, reflecting an 18% increase.

As of September 30, 2017, we had letters of credit issued under our \$600 million revolving credit facility in an aggregate principal amount of \$82.6 million, leaving \$517.4 million available for borrowing. Other than these letters of credit, there were no borrowings under our revolving credit facility as of September 30, 2017, or for the nine month period then ended. Borrowings under the credit facility bear interest at a defined index rate plus a margin and are guaranteed by certain 100%-owned subsidiaries of the Company.

In December 2015, the Company's Board of Directors renewed its \$250 million share repurchase program effective January 1, 2016 through December 31, 2017. Under the program, 1,942,200 shares were repurchased during the nine months ended September 30, 2017, at a cost of approximately \$52.4 million. There were no shares repurchased during the three months ended September 30, 2017. As of September 30, 2017, the remaining authorization under the program totaled \$163.0 million.

During the nine months ended September 30, 2017 and 2016, the Company received proceeds from the sales of leased railcars as follows:

	Nine Months Ended September 30, 2017 2016 (in millions)	
Leasing Group:		
Railcars owned one year or less at the time of sale	\$93.7	\$126.1
Railcars owned more than one year at the time of sale	160.3	37.7
Rail Group	—	8.1
	\$254.0	\$171.9

We continue to experience below normal levels for many of the Company's products and services. The ongoing level of uncertainty in the industrial economy has continued to impact our customers' long-term capital planning processes. The oversupply of railcars and barges in the North American market has limited new order levels for these businesses. We continue to assess demand for our products and services and take steps to align our manufacturing capacity appropriately.

Equity Investment

See Note 5 of the Notes to Consolidated Financial Statements for information about the Company's investment in partially-owned leasing subsidiaries.

50

Table of Contents

Future Operating Requirements

We expect to finance future operating requirements with cash, cash equivalents, and short-term marketable securities; cash flows from operations; and, depending on market conditions, short-term debt, long-term debt, and equity. Debt instruments that the Company has utilized include its revolving credit facility, the TILC warehouse facility, senior notes, convertible subordinated notes, asset-backed securities, and sale-leaseback transactions. As of September 30, 2017, the Company had unrestricted cash, cash equivalents, and short-term marketable securities balances of \$1,024.7 million, and \$517.4 million available under its revolving credit facility. Under the TILC warehouse facility, \$833.3 million was unused and available as of September 30, 2017 based on the amount of warehouse-eligible, unpledged equipment. The Company believes it has access to adequate capital resources to fund operating requirements and is an active participant in the capital markets.

Off Balance Sheet Arrangements

See Note 6 and Note 11 of the Notes to Consolidated Financial Statements for information about off balance sheet arrangements.

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 of the Notes to Consolidated Financial Statements for discussion of how the Company valued its commodity hedges and interest rate swap at September 30, 2017. See Note 11 Debt of the Notes to Consolidated Financial Statements for a description of the Company's debt instruments.

Interest rate hedges

			Included in accompanying balance sheet at September 30, 2017		
	Notional Amount	Interest Rate ⁽¹⁾	Asset / (liability)	AOCL – loss/ (income)	Noncontrolling Interest
	(in millions, except %)				
Expired hedges:					
2006 secured railcar equipment notes	\$200.0	4.87 %	\$ —	\$ (0.5)	\$ —
TRIP Holdings warehouse loan	\$788.5	3.60 %	\$ —	\$ 4.5	\$ 6.0
TRIP Master Funding secured railcar equipment notes	\$34.8	2.62 %	\$ —	\$ 0.3	\$ 0.5
Open hedge:					
2017 promissory notes	\$178.4	3.00 %	\$ 1.8	\$ 0.6	\$ —

(1) Weighted average fixed interest rate, except for 2017 promissory notes. Interest rate cap for 2017 promissory notes.

	Effect on interest expense - increase/(decrease)				
	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016		Expected effect during next twelve months ⁽¹⁾
	2017	2016	2017	2016	
	(in millions)				
Expired hedges:					
2006 secured railcar equipment notes	\$(0.1)	\$(0.1)	\$(0.2)	\$(0.3)	\$(0.1)
TRIP Holdings warehouse loan	\$1.1	\$1.2	\$3.4	\$3.6	\$ 2.8

TRIP Master Funding secured railcar equipment notes \$0.1 \$0.2 \$0.4 \$0.7 \$ 0.3

⁽¹⁾ Based on the fair value of open hedge as of September 30, 2017

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.

51

Table of Contents

Between 2007 and 2009, TRIP Holdings, as required by the TRIP Warehouse Loan, entered into interest rate swap derivatives, all of which qualified as cash flow hedges, to reduce the effect of changes in variable interest rates in the TRIP Warehouse Loan. In July 2011, these interest rate hedges were terminated in connection with the refinancing of the TRIP Warehouse Loan. Balances included in AOCL at the date the hedges were terminated are being amortized over the life of the terminated hedge with \$2.8 million of additional interest expense expected to be recognized during the twelve months following September 30, 2017.

In July 2011, TRIP Holdings' wholly-owned subsidiary, TRIP Master Funding, entered into an interest rate swap derivative instrument, expiring in 2021, with an initial notional amount of \$94.1 million to reduce the effect of changes in variable interest rates associated with the Class A-1b notes of the TRIP Master Funding secured railcar equipment notes. The TRIP Master Funding interest rate hedge was terminated in August 2017 in connection with the refinancing of the related indebtedness. The effect on interest expense is primarily a result of monthly interest settlements. The balance included in AOCL at the date the hedge was terminated is being amortized over the life of the terminated hedge with \$0.3 million of additional interest expense expected to be recognized during the twelve months following September 30, 2017.

In May 2017, TRL 2017 purchased an interest rate cap derivative, which qualified as a cash flow hedge, to limit the Libor component of the interest rate on the 2017 promissory notes to a maximum rate of 3%. The effect on interest expense is primarily the result of amortization of the cost of the derivative and is not expected to be significant during the next twelve months.

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, 2017 for these instruments was an asset of \$0.1 million. The amount recorded in the consolidated balance sheet as of December 31, 2016 for these instruments was an asset of \$0.3 million.

Contractual Obligation and Commercial Commitments

As of September 30, 2017, contractual obligations related to letters of credit decreased to \$82.6 million from \$92.3 million at December 31, 2016. Refer to Note 11 of the Consolidated Financial Statements for changes to our outstanding debt and maturities. Contractual obligations that relate to operating leases including sale/leaseback transactions were substantially unchanged as of September 30, 2017. See Note 6 of the Consolidated Financial Statements regarding operating lease obligations.

Recent Accounting Pronouncements

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

Table of Contents

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,” and similar 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;
- naturally-occurring events and disasters causing disruption to our manufacturing, product deliveries, and production capacity, thereby giving rise to an increase in expenses, loss of revenue, and property losses;
- the timing of introduction of new products;
- the timing and delivery of customer orders, sales of leased railcars, 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 costs incurred to align manufacturing capacity with demand and the extent of its utilization;
- the operating leverage and efficiencies that can be achieved by our manufacturing businesses;
- 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 steel, component parts, supplies and other raw materials;
- interest rates and capital costs;
- counter-party risks for financial instruments;
- long-term funding of our operations;
- changes in our stock price resulting in a dilutive impact on earnings per share related to conversion features in our financing instruments;
- 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, including trial and appellate costs and supersedeas bonding costs;
- changes in accounting standards or inaccurate estimates or assumptions in the application of accounting policies; legal, regulatory, and environmental issues, including compliance of our products with mandated specifications, standards, or testing criteria and obligations to remove and replace our products following installation or to recall our products and install different products manufactured by us or our competitors;
- actions by the executive and legislative branches of the U.S. government relative to federal government budgeting, taxation policies, government expenditures, U.S. borrowing/debt ceiling limits, and trade policies;
- the use of social or digital media to disseminate false, misleading and/or unreliable or inaccurate information; and
- the inability to sufficiently protect our intellectual property rights.

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. For a discussion of risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see “Risk Factors” in the Company’s Annual Report on Form 10-K for the

most recent fiscal year.

53

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, 2016 as set forth in Item 7A of our 2016 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 nine months ended September 30, 2017.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that it is able to collect and record 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 that 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 1) 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 and 2) accumulate and communicate this information to the Company's management, including its Chief Executive and Chief Financial Officers, to allow timely decisions regarding this disclosure.

Internal Controls over Financial Reporting

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 2016 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 September 30, 2017:

Period	Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share ⁽¹⁾	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
July 1, 2017 through July 31, 2017	1,540	\$ 27.68	—	\$ 163,034,477
August 1, 2017 through August 31, 2017	157	\$ 28.81	—	\$ 163,034,477
September 1, 2017 through September 30, 2017	153	\$ 29.45	—	\$ 163,034,477
Total	1,850	\$ 27.92	—	\$ 163,034,477

⁽¹⁾ These columns include the following transactions during the three months ended September 30, 2017: (i) the surrender to the Company of 1,379 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 471 shares of common stock by the Trustee for assets held in a non-qualified employee profit sharing plan trust.

⁽²⁾ In December 2015, the Company's Board of Directors renewed its \$250 million share repurchase program effective January 1, 2016 through December 31, 2017. Under the program, no shares were repurchased during the three months ended September 30, 2017. The approximate dollar value of shares that were eligible to be repurchased under such share repurchase program is shown as of the end of such month or quarter.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95 to this Form 10-Q.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

NO.	DESCRIPTION
31.1	<u>Rule 13a-15(e) and 15d-15(e) Certification of the Chief Executive Officer (filed herewith).</u>
31.2	<u>Rule 13a-15(e) and 15d-15(e) Certification of the Chief Financial Officer (filed herewith).</u>
32.1	<u>Certification pursuant to 18U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u>
32.2	<u>Certification pursuant to 18U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u>
95	<u>Mine Safety Disclosure Exhibit (filed herewith).</u>
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).

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. By/s/ James E. Perry

Registrant

James E. Perry
Senior Vice President and
Chief Financial Officer
October 26, 2017