GENESEE & WYOMING INC
Form 10-Q
August 07, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
or
o 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 001-31456

GENESEE & WYOMING INC.
(Exact name of registrant as specified in its charter)

Delaware	06-0984624
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

20 West Avenue, Darien, Connecticut 06820
(Address of principal executive offices)(Zip Code)
(203) 202-8900
(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. x Yes o 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). x Yes o 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	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o
		Emerging growth company	o

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. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No
Shares of common stock outstanding as of the close of business on August 1, 2018:

Class	Number of Shares Outstanding
Class A Common Stock	59,431,635
Class B Common Stock	671,138

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Unless the context otherwise requires, when used in this Quarterly Report on Form 10-Q, the terms "Genesee & Wyoming," "G&W," the "Company," "we," "our" and "us" refer to Genesee & Wyoming Inc. and its subsidiaries. All references to currency amounts included in this Quarterly Report on Form 10-Q, including the financial statements, are in United States dollars unless specifically noted otherwise. The term carload represents physical railcars and the estimated railcar equivalents of commodities transported by metric ton or other measure, as well as intermodal units. From time to time, we may use our website as a channel of distribution of material company information. Financial and other material information regarding the Company is routinely posted on and accessible at www.gwrr.com/investors. In addition, you may automatically receive email alerts and other information about us by enrolling your email address in the "Email Alerts" section of www.gwrr.com/investors. The information contained on or connected to our Internet website is not deemed to be incorporated by reference in this Quarterly Report or filed with the Securities and Exchange Commission.

Forward-Looking Statements

This report and other documents referred to in this report contain forward-looking statements regarding future events and the future performance of Genesee & Wyoming Inc. that are based on current expectations, estimates and projections about our industry, our business and our performance, management's beliefs and assumptions made by management. Words such as "anticipates," "intends," "plans," "believes," "could," "should," "seeks," "expects," "will," "estimates," "trends," "outlook," variations of these words and similar expressions are intended to identify these forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to forecast, including the following: risks related to the operation of our railroads; severe weather conditions and other natural occurrences, which could result in shutdowns, derailments, railroad network and port congestion or other substantial disruption of operations; customer demand and changes in our operations or loss of important customers; exposure to the credit risk of customers and counterparties; changes in commodity prices; consummation and integration of acquisitions; implementation of restructuring plans; economic, political and industry conditions, including employee strikes or work stoppages; retention and contract continuation; legislative and regulatory developments, including changes in environmental and other laws and regulations to which we or our customers are subject; increased competition in relevant markets; funding needs and financing sources, including our ability to obtain government funding for capital projects; international complexities of operations, currency fluctuations, finance, tax and decentralized management; challenges of managing rapid growth, including retention and development of senior leadership; unpredictability of fuel costs; susceptibility to and outcome of various legal claims, lawsuits and arbitrations; increase in, or volatility associated with, expenses related to estimated claims, self-insured retention amounts and insurance coverage, collectability and limits; consummation of new business opportunities; decrease in revenues and/or increase in costs and expenses; susceptibility to the risks of doing business in foreign countries; uncertainties arising from a referendum in which voters in the United Kingdom (U.K.) approved an exit from the European Union (E.U.), commonly referred to as Brexit; our ability to integrate acquired businesses successfully or to realize the expected synergies associated with acquisitions; risks associated with our substantial indebtedness; failure to maintain satisfactory working relationships with partners in Australia; failure to maintain an effective system of internal control over financial reporting as well as disclosure controls and procedures and other risks including, but not limited to, those set forth in Part II Item 1A of this Quarterly Report on Form 10-Q, if any, and those noted in our 2017 Annual Report on Form 10-K under "Risk Factors." Therefore, actual results may differ materially from those expressed or forecasted in any such forward-looking statements.

Forward-looking statements speak only as of the date of this report or as of the date they were made. We do not undertake, and expressly disclaim, any duty to publicly update any forward-looking statement, whether as a result of new information, future events, or otherwise, except as required by law.

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.
GENESEE & WYOMING INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2018 and DECEMBER 31, 2017 (Unaudited)
(dollars in thousands, except per share and share amounts)

	June 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$69,702	$80,472
Accounts receivable, net	436,149	416,705
Materials and supplies	53,775	57,750
Prepaid expenses and other	51,263	34,606
Total current assets	610,889	589,533
PROPERTY AND EQUIPMENT, net	4,613,849	4,656,921
GOODWILL	1,136,985	1,165,587
INTANGIBLE ASSETS, net	1,495,458	1,567,038
DEFERRED INCOME TAX ASSETS, net	3,608	3,343
OTHER ASSETS	59,696	52,475
Total assets	$7,920,485	$8,034,897
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$19,074	$27,853
Accounts payable	271,672	253,993
Accrued expenses	152,016	185,935
Total current liabilities	442,762	467,781
LONG-TERM DEBT, less current portion	2,357,245	2,303,442
DEFERRED INCOME TAX LIABILITIES, net	853,933	873,194
DEFERRED ITEMS - grants from outside parties	318,611	321,592
OTHER LONG-TERM LIABILITIES	165,556	172,796
COMMITMENTS AND CONTINGENCIES		
EQUITY:		
Class A Common Stock, $0.01 par value, one vote per share; 180,000,000 shares authorized at June 30, 2018 and December 31, 2017; 74,996,304 and 74,808,305 shares issued and 59,428,675 and 61,946,078 shares outstanding (net of 15,567,629 and 12,862,227 shares in treasury) on June 30, 2018 and December 31, 2017, respectively	750	748
Class B Common Stock, $0.01 par value, ten votes per share; 30,000,000 shares authorized at June 30, 2018 and December 31, 2017; 671,138 and 701,138 shares issued and outstanding on June 30, 2018 and December 31, 2017, respectively	7	7
Additional paid-in capital	1,768,808	1,757,332
Retained earnings	2,357,100	2,234,864
Accumulated other comprehensive loss	(135,670)	(105,534)
Treasury stock, at cost	(432,078)	(236,951)
Total Genesee & Wyoming Inc. stockholders' equity	3,558,917	3,650,466
Noncontrolling interest	223,461	245,626
Total equity	3,782,378	3,896,092
Total liabilities and equity	$7,920,485	$8,034,897

The accompanying notes are an integral part of these consolidated financial statements.

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GENESEE & WYOMING INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 and 2017 (Unaudited)
(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
OPERATING REVENUES	$594,990	$540,433	$1,169,651	$1,059,541
OPERATING EXPENSES:				
Labor and benefits	179,838	164,222	363,554	331,360
Equipment rents	34,802	33,237	68,889	67,108
Purchased services	61,045	56,795	125,147	107,796
Depreciation and amortization	65,745	61,513	131,735	122,287
Diesel fuel used in train operations	45,623	33,030	91,774	71,183
Electricity used in train operations	2,044	2,134	4,278	5,307
Casualties and insurance	12,984	10,179	22,950	22,722
Materials	32,376	26,651	64,845	47,197
Trackage rights	23,303	21,797	44,281	44,020
Net gain on sale and impairment of assets	(823)	(354)	(1,859)	(781)
Restructuring costs	9,362	2,361	9,645	6,116
Other expenses, net	25,566	29,135	54,374	59,593
Total operating expenses	491,865	440,700	979,613	883,908
OPERATING INCOME	103,125	99,733	190,038	175,633
Interest income	584	581	1,082	808
Interest expense	(28,940)	(25,785)	(54,176)	(52,150)
Other income/(loss), net	288	3,196	(1,752)	2,651
Income before income taxes	75,057	77,725	135,192	126,942
Provision for income taxes	(26,446)	(29,597)	(10,556)	(51,525)
Net income	$48,611	$48,128	$124,636	$75,417
Less: Net income attributable to noncontrolling interest	4,443	2,121	5,370	3,172
Net income attributable to Genesee & Wyoming Inc.	$44,168	$46,007	$119,266	$72,245
Basic earnings per common share attributable to Genesee & Wyoming Inc. common stockholders:	$0.74	$0.75	$1.96	$1.18
Weighted average shares - Basic	59,996	61,551	60,946	61,472
Diluted earnings per common share attributable to Genesee & Wyoming Inc. common stockholders:	$0.73	$0.74	$1.93	$1.16
Weighted average shares - Diluted	60,879	62,415	61,841	62,371

The accompanying notes are an integral part of these consolidated financial statements.

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GENESEE & WYOMING INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 and 2017 (Unaudited)
(dollars in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
NET INCOME	$48,611	$48,128	$124,636	$75,417
OTHER COMPREHENSIVE INCOME/(LOSS):				
Foreign currency translation adjustment	(48,923)	30,899	(49,541)	67,152
Net unrealized gain/(loss) on qualifying cash flow hedges, net of tax benefit/(provision) of ($879), $360, ($3,029) and ($264), respectively	2,702	(604)	9,603	(98)
Changes in pension and other postretirement benefits, net of tax (provision)/benefit of ($14), $458, ($28) and $907, respectively	43	(1,294)	86	(2,187)
Other comprehensive (loss)/income	(46,178)	29,001	(39,852)	64,867
COMPREHENSIVE INCOME	$2,433	$77,129	$84,784	$140,284
Less: Comprehensive (loss)/income attributable to noncontrolling interest	(4,225)	3,078	(7,316)	16,163
COMPREHENSIVE INCOME ATTRIBUTABLE TO GENESEE & WYOMING INC.	$6,658	$74,051	$92,100	$124,121

The accompanying notes are an integral part of these consolidated financial statements.

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GENESEE & WYOMING INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2018 and 2017 (Unaudited)
(dollars in thousands)

	Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$124,636	$75,417
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	131,735	122,287
Stock-based compensation	8,601	8,857
Deferred income taxes	(11,489)	34,320
Net gain on sale and impairment of assets	(1,859)	(781)
Changes in assets and liabilities which provided/(used) cash, net of effect of acquisitions:		
Accounts receivable, net	(46,519)	10,066
Materials and supplies	2,460	2,198
Prepaid expenses and other	(7,587)	14,617
Accounts payable and accrued expenses	20,665	(48,282)
Other assets and liabilities, net	10,684	5,627
Net cash provided by operating activities	231,327	224,326
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(133,328)	(91,498)
Grant proceeds from outside parties	12,901	11,630
Net cash paid for acquisitions, net of cash acquired	—	(102,655)
Proceeds from sale of business	7,927	—
Proceeds from sale of investment	—	2,100
Insurance proceeds for replacement of assets	1,866	1,406
Proceeds from disposition of property and equipment	2,795	3,280
Other investing activities	(2,921)	—
Net cash used in investing activities	(110,760)	(175,737)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on revolving line-of-credit, long-term debt and capital lease obligations	(673,952)	(322,446)
Proceeds from revolving line-of-credit and long-term borrowings	762,228	320,191
Debt amendment/issuance costs	(5,303)	—
Common share repurchases	(192,324)	—
Distribution to noncontrolling interest	(14,898)	—
Installment payments on Freightliner deferred consideration	(6,255)	—
Other financing related activities, net	(893)	1,708
Net cash used in financing activities	(131,397)	(547)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	60	3,382
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(10,770)	51,424
CASH AND CASH EQUIVALENTS, beginning of period	80,472	32,319
CASH AND CASH EQUIVALENTS, end of period	$69,702	$83,743

The accompanying notes are an integral part of these consolidated financial statements.

1. PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION:

The interim consolidated financial statements presented herein include the accounts of Genesee & Wyoming Inc. and its subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation. These interim consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and are unaudited. They do not contain all disclosures which would be required in a full set of financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). In the opinion of management, the unaudited financial statements for the three and six months ended June 30, 2018 and 2017 are presented on a basis consistent with the audited financial statements and contain all adjustments, consisting only of normal recurring adjustments, necessary to provide a fair statement of the results for the interim periods presented. The results of operations for interim periods are not necessarily indicative of results of operations for the full year. The consolidated balance sheet data for 2017 was derived from the audited financial statements in the Company's 2017 Annual Report on Form 10-K, but does not include all disclosures required by U.S. GAAP.

The results of operations of the foreign entities are maintained in the local currency of the respective subsidiary and translated into United States dollars at the applicable exchange rates for inclusion in the consolidated financial statements. As a result, any appreciation or depreciation of these currencies against the United States dollar will impact the Company's results of operations.

The interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2017 included in the Company's 2017 Annual Report on Form 10-K.

Certain reclassifications and adjustments have been made to prior period balances to conform to the current year presentation as noted below.

On January 1, 2018, the Company adopted ASU 2017-07, Compensation-Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Prior to the adoption of ASU 2017-07, the Company presented net pension costs within operating income on the same line item as other compensation costs arising from services rendered by the applicable employees. ASU 2017-07 requires that net pension costs, other than service cost, be presented outside of operating income. The Company applied these changes retrospectively to its consolidated statement of operations which resulted in a \$1.6 million and \$3.2 million decrease in operating income and a corresponding change in other income/(loss), net for the three and six months ended June 30, 2017, respectively. The adjustments had no impact on net income.

On January 1, 2018, the Company adopted ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The current standard, ASC Topic 740, requires deferred tax liabilities to be adjusted for the effect of a change in tax laws or rates with the effect included in income from operations in the reporting period of the enactment date. The Tax Cuts and Jobs Act of 2017 (the TCJA) enacted by the Unites States federal government resulted in tax effects of items recorded within accumulated other comprehensive income (AOCI) to be "stranded," as those items no longer reflect the appropriate tax rate. This amendment allows the reclassification from AOCI to retained earnings for the stranded tax effects resulting from the new income tax rates. The Company applied the amendments as of January 1, 2018 by reclassifying \$3.0 million from AOCI to retained earnings, eliminating the stranded tax effects in AOCI resulting from the TCJA. This reclassification reduced AOCI and increased retained earnings by \$3.0 million. It is the Company's policy to release income tax effects from accumulated other comprehensive loss using the item-by-item approach.

On January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers, which supersedes previous revenue guidance. The standard requires that the Company recognize revenue when it transfers the promised goods or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. The Company adopted ASU 2014-09 and all related amendments using the modified retrospective approach. Under the standard, the Company continues to recognize freight revenue proportionally as a shipment moves from origin to destination. The adoption did not affect the Company’s financial condition, results of operations or liquidity. Disclosures related to the nature, amount and timing of revenue and cash flows resulting from contracts with customers are included in Note 4, Revenue.

On December 1, 2016, a subsidiary of the Company completed the acquisition of Glencore Rail (NSW) Pty Limited (GRail) and concurrently issued a 48.9% stake in G&W Australia Holdings LP (GWAHLP) (collectively, the Australia Partnership), which is the holding entity for all of the Company's Australian businesses, including GRail, to a consortium of funds and clients managed by Macquarie Infrastructure and Real Assets (MIRA), a large infrastructure investment firm. The Company, through wholly-owned subsidiaries, also made incremental investments and retained a 51.1% ownership in GWAHLP. The investments made by both the Company and MIRA consisted of equity and debt financing of GWAHLP in similar proportions. As MIRA's investments were made at the contemporaneous fair value of GWAHLP as of December 1, 2016, accounting for MIRA's noncontrolling interest in the Company's consolidated financial statements required adjustments to reflect a proportional interest in the net book value of GWAHLP. During the three months ended March 31, 2018, the Company determined that there was an error in its December 1, 2016 calculation of the noncontrolling interest for MIRA's 48.9% equity interest, which resulted in the following adjustment within the total equity section of the Company's consolidated balance sheet: a decrease in noncontrolling interest of $71.9 million, an increase in additional paid-in capital of $57.9 million and a decrease in accumulated other comprehensive loss of $14.0 million. This revision has been reflected in the Company's consolidated balance sheet as of December 31, 2017 as well as the December 31, 2016 equity balances as disclosed in Note 14, Stockholders' Equity. There was no effect on any other section of the Company's balance sheet. This revision had no impact on the Company's consolidated statements of operations, comprehensive income or cash flows for the three and six months ended June 30, 2018 and 2017. The Company does not consider this revision material to any previously issued consolidated financial statements.

When comparing the Company's results of operations from one reporting period to another, it is important to consider that the Company has historically experienced fluctuations in revenues and expenses due to acquisitions, changing economic conditions, fluctuations in commodity prices, competitive forces, changes in foreign currency exchange rates, rail network congestion, one-time freight moves, fuel price fluctuations, customer plant expansions and shutdowns, sales of property and equipment, derailments and weather-related conditions, such as hurricanes, cyclones, tornadoes, high winds, droughts, heavy snowfall, unseasonably hot or cold weather, freezing and flooding, among other factors. In periods when these events occur, the Company's results of operations are not easily comparable from one period to another. Finally, certain of the Company's railroads have commodity shipments that are sensitive to general economic conditions, global commodity prices and foreign exchange rates, such as steel products, iron ore, paper products, lumber and forest products and agricultural products, as well as product specific market conditions, such as the availability of lower priced alternative sources of power generation (coal) and energy commodity price differentials (crude oil and natural gas liquids) or congestion at ports (intermodal). Other shipments are relatively less affected by economic conditions and are more closely affected by other factors, such as winter weather (salt) and seasonal rainfall (agricultural products). As a result of these and other factors, the Company's results of operations in any reporting period may not be directly comparable to the Company's results of operations in other reporting periods.

2. CHANGES IN OPERATIONS:

North American Operations

Heart of Georgia Railroad, Inc.: On May 31, 2017, the Company completed the acquisition of all the outstanding shares of Atlantic Western Transportation, Inc., the parent company of Heart of Georgia Railroad, Inc. (HOG), for $5.6 million in cash and contingent consideration valued at $5.7 million. The contingent consideration is payable to the sellers upon satisfaction of certain conditions, which the Company expects to be paid in 2021. The results of operations from HOG have been included in the Company's consolidated statements of operations since the acquisition date.

HOG was founded in 1999 and operates 219 miles of track that runs across the State of Georgia. The track is leased from the Georgia Department of Transportation. It connects with the Company's Georgia Southwestern Railroad at Americus, Georgia, and with the Company's Georgia Central Railway at Vidalia, Georgia. HOG serves an inland intermodal terminal at Cordele, Georgia, providing five days per week, direct rail service via the Georgia Central Railway to the Port of Savannah for auto, agricultural products and other merchandise customers. HOG has Class I railroad connections with CSX Corp. at Cordele and with Norfolk Southern at Americus and Helena, Georgia. HOG transports approximately 10,000 annual carloads of agricultural products, feed, fertilizer, and lumber and forest products, of which approximately 2,000 carloads are interchanged with the Company's Georgia Central Railway.

Australian Operations

Arrium Limited: On April 7, 2016, Genesee & Wyoming Australia's (GWA) customer, Arrium Limited (Arrium) announced it had entered into voluntary administration. As a result, during the first quarter of 2016, the Company recorded a $13.0 million non-cash charge related to the impairment of GWA's idle rolling-stock maintenance facility and an allowance for doubtful accounts charge of $8.1 million. Also, as a result of the voluntary administration, all payments to GWA associated with the rail haulage agreement for Arrium's Southern Iron mine ceased.

On August 31, 2017, Arrium was sold to GFG Alliance. The steel making business was rebranded as Liberty OneSteel and the mining business was rebranded as SIMEC Mining (SIMAC). Although the Southern Iron mine is still mothballed, GWA continues to provide services and receive payments under the rail haulage agreement for the SIMEC's Middleback Range operations. Pursuant to that rail haulage agreement, GWA serves several iron ore mines in the Middleback Range and the Whyalla steelworks operations.

In December 2017, the Company recovered $0.9 million of cash in relation to the Company's previous agreements with Arrium. In June 2018, the Company recorded a gain on settlement of $6.3 million from an additional cash recovery of pre-petition claims associated with Arrium, which was recognized as an offset to other expenses, net in the Company’s consolidated statement of operations for the three months ended June 30, 2018.

U.K./European Operations

Continental Europe Intermodal Business: In 2017, the Company ceased all "open" train services from the port of Rotterdam, closed its Continental Europe intermodal business, ERS Railways B.V. (ERS), offices in Rotterdam and Frankfurt, and the ERS customer services function in Warsaw. The Company recorded restructuring charges of $1.3 million and $4.5 million for the three and six months ended June 30, 2017, respectively, primarily related to severance costs and costs associated with surplus locomotives and railcar leases.

On June 5, 2018, the Company finalized the sale of ERS for gross cash proceeds of €11.2 million (or $13.1 million at the exchange rate on June 5, 2018) or €6.8 million (or $7.9 million at the exchange rate on June 5, 2018) net of €4.4 million (or $5.2 million at the exchange rate on June 5, 2018) of cash on hand that transferred to the buyer. The sale resulted in a net loss of $1.4 million recognized in the Company’s consolidated statement of operations for the three months ended June 30, 2018 within other income/(loss), net.

Pentalver Transport Limited: On May 3, 2017, the Company's subsidiary, GWI UK Acquisition Company Limited, purchased for cash all of the issued share capital of Pentalver Transport Limited (Pentalver) from a subsidiary of APM Terminals (a subsidiary of AP Møller-Maersk A/S) for £97.8 million (or $126.2 million at the exchange rate on May 3, 2017) or £77.5 million (or $100.1 million at the exchange rate on May 3, 2017) net of £20.2 million (or $26.1 million at the exchange rate on May 3, 2017) of cash received in connection with the sale. The Company funded the acquisition with borrowings under the Company's Second Amended and Restated Senior Secured Syndicated Credit Facility Agreement (the Credit Agreement).

Headquartered in Southampton, U.K., Pentalver operates off-dock container terminals (most under long-term leases) strategically placed at each of the three major seaports of Felixstowe, Southampton and London Gateway, as well as an inland terminal located at Cannock, in the Midlands, near many of the nation’s largest distribution centers. In addition to providing storage for loaded and empty containers on over 100 acres of land, Pentalver also operates a trucking haulage service with more than 150 trucks, primarily providing daily service between the seaports of Felixstowe and Southampton and its inland terminal at Cannock. Pentalver also provides services related to container customization, maintenance and repair (including refrigerated containers) and is one of the largest sellers of new and used containers in the U.K.

Pentalver’s operations are complementary to those of the Company's Freightliner Group Limited (Freightliner) subsidiary, which is the largest rail maritime intermodal operator in the U.K. The logistics of maritime container transportation in the U.K. are highly competitive, whether by road, rail or short-sea, with a premium placed on timely, efficient and safe service. The results of operations from Pentalver have been included in the Company's consolidated statements of operations since the May 3, 2017 acquisition date.

The Company accounted for the acquisition as a business combination using the acquisition method of accounting under U.S. GAAP. The acquired assets and liabilities of Pentalver were recorded at their acquisition-date fair values and were consolidated with those of the Company as of the acquisition date. The foreign exchange rate used to translate the balance sheet to United States dollars was $1.29 for one British pound.

The acquisition date fair values were assigned to the acquired net assets as follows (amounts in thousands):

	GBP	USD
Cash and cash equivalents	£20,224	$26,117
Accounts receivable	16,849	21,759
Materials and supplies	13,360	17,253
Prepaid expenses and other	3,238	4,182
Property and equipment	20,649	26,666
Goodwill	8,592	11,096
Intangible assets	42,000	54,239
Total assets	124,912	161,312
Accounts payable and accrued expenses	21,341	27,560
Deferred income tax liabilities, net	5,220	6,741
Deferred items-grants from outside parties	601	776
Net assets	£97,750	$126,235

The $54.2 million of intangible assets relate to amortizable operational rights with contractual terms spanning up to 50 years and a weighted average amortization period of 33 years. The $11.1 million of goodwill will not be deductible for tax purposes.

3. EARNINGS PER COMMON SHARE:

The following table sets forth the computation of basic and diluted earnings per common share for the three and six months ended June 30, 2018 and 2017 (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Numerators:				
Net income attributable to Genesee & Wyoming Inc.	$44,168	$46,007	$119,266	$72,245
Denominators:				
Weighted average Class A common shares outstanding – Basic	59,996	61,551	60,946	61,472
Weighted average Class B common shares outstanding	673	747	687	753
Dilutive effect of employee stock-based awards	210	117	208	146
Weighted average shares – Diluted	60,879	62,415	61,841	62,371
Earnings per common share attributable to Genesee & Wyoming Inc. common stockholders:				
Basic earnings per common share	$0.74	$0.75	$1.96	$1.18
Diluted earnings per common share	$0.73	$0.74	$1.93	$1.16

The following total number of shares of Class A Common Stock issuable under the assumed exercise of stock-based awards computed based on the treasury stock method were excluded from the calculation of diluted earnings per common share, as the effect of including these shares would have been antidilutive (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Antidilutive shares	1,130	1,475	1,043	1,271

Share Repurchase

In September of 2015, the Company's Board of Directors authorized the repurchase of up to $300 million of the Company's Class A Common Stock (the Repurchase Program), subject to certain limitations under the Company's credit facility. The Repurchase Program was reaffirmed by the Board of Directors on March 4, 2018 after discussion of management's assessments of market conditions and other pertinent factors. The table below presents information regarding shares repurchased by the Company during under the Repurchase Program during the three and six months ended June 30, 2018 (in thousands, except for per share amounts):

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Class A Common Stock repurchased	1,873	2,666
Average price paid per share of Class A Common Stock repurchased	$ 72.04	$ 72.14
Shares excluded from weighted-average basic shares outstanding	1,279	1,067

Repurchased shares are recorded in treasury stock, at cost, which includes any applicable commissions and fees. As of June 30, 2018, the remaining amount authorized for repurchase under the Repurchase Program was $107.7 million.

4. REVENUE:

The Company classifies its operating revenues into the following three categories: freight, freight-related and all other. Revenue is recognized when obligations under the terms of a contract with a customer are satisfied. Revenue is measured as the amount of consideration the Company expects to receive in exchange for providing services. Certain of the countries in which the Company operates have a tax assessed by a governmental authority that is both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer. The Company records these taxes on a net basis.

The Company generates freight revenues from the haulage of freight by rail based on a per car, per container or per ton basis. Freight revenues are recognized over time as shipments move from origin to destination as the customer simultaneously receives and consumes the benefit. Related expenses are recognized as incurred.

The Company generates freight-related revenues from port terminal railroad operations and industrial switching (where the Company operates trains on a contract basis in facilities it does not own), as well as demurrage, storage, car hire, trucking haulage services, track access rights, transloading, crewing services, traction service (or hook and pull service that requires the Company to provide locomotives and drivers to move a customer's train between specified origin and destination points), and other ancillary revenues related to the movement of freight.

Freight-related revenues are recognized as services are performed or as contractual obligations are fulfilled.

The Company generates all other revenues from third-party railcar and locomotive repairs, container sales, property rentals and other ancillary revenues not directly related to the movement of freight. All other revenues are recognized as services are performed or as contractual obligations are fulfilled.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. The Company's contracts may have a single performance obligation or multiple performance obligations. Contracts with multiple obligations are evaluated to define the specific performance obligations to the customer. The Company typically allocates the standalone selling price adjusted for any applicable variable consideration to each performance obligation to determine the transaction price.

For interline traffic, one railroad typically invoices a customer on behalf of all railroads participating in the route. The invoicing railroad then pays the other railroads their portion of the total amount invoiced on a monthly basis. When the Company is the invoicing railroad, it is exposed to customer credit risk for the total amount invoiced and is required to pay the other railroads participating in the route even if the Company is not paid by the customer. The Company records revenue related to interline traffic that involves the services of another party or railroad on a net basis. The portion of the gross amount billed to customers that is remitted by the Company to another party is not reflected as revenue.

The timing of revenue recognition, billings and cash collections result in billed accounts receivables, contract assets (unbilled receivables) and contract liabilities. The Company's contract assets and liabilities are typically short-term in nature, with terms settled within a 12-month period. The Company had no material contract assets or contract liabilities recorded on the consolidated balance sheet as of June 30, 2018.

Disaggregation of Revenue

The Company disaggregates its operating revenues into the following three categories: freight revenues, freight-related revenues and all other revenues. The Company further disaggregates its freight revenues into 14 commodity groups. Refer to Note 16, Segment Information, for the disaggregation of the Company's operating revenues by reportable segment for the three and six months ended June 30, 2018 and 2017.

5. ACCOUNTS RECEIVABLE:

Accounts receivable consisted of the following as of June 30, 2018 and December 31, 2017 (dollars in thousands):

	June 30, 2018	December 31, 2017
Accounts receivable – trade	$423,050	$ 401,723
Accounts receivable – grants from outside parties	10,885	17,734
Accounts receivable – insurance and other third-party claims	11,295	10,753
Total accounts receivable	445,230	430,210
Less: Allowance for doubtful accounts	(9,081)	(13,505)
Accounts receivable, net	$436,149	$ 416,705

Grants from Outside Parties

The Company periodically receives grants for the upgrade and construction of rail lines and the upgrade of locomotives from federal, provincial, state and local agencies in the United States and provinces in Canada in which the Company operates. These grants typically reimburse the Company for 50% to 100% of the actual cost of specific projects. In total, the Company received grant proceeds of $12.9 million and $11.6 million for the six months ended June 30, 2018 and 2017, respectively, from such grant programs. The proceeds were presented as cash inflows from investing activities within each of the applicable periods.

None of the Company's grants represent a future liability of the Company unless the Company abandons the rehabilitated or new track structure within a specified period of time or fails to maintain the upgraded or new track to certain standards, fails to make certain minimum capital improvements or ceases use of the locomotives within the specified geographic area and time period, or fails to comply with other grant provisions in each case, as set forth in the applicable grant agreement. As the Company intends to comply with the requirements of these agreements, the Company has recorded additions to track property and locomotives and has deferred the amount of the grants. The amortization of deferred grants is a non-cash offset to depreciation expense over the useful lives of the related assets. The following table sets forth the offset to depreciation expense from the amortization of deferred grants recorded by the Company during the three and six months ended June 30, 2018 and 2017 (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Amortization of deferred grants	$3,136	$3,065	$5,603	$6,310

Insurance and Third-Party Claims

Accounts receivable from insurance and other third-party claims as of June 30, 2018 included $6.0 million from the Company's North American Operations and $5.3 million from the Company's U.K./European Operations. The balance from the Company's North American Operations resulted predominately from the Company's anticipated insurance recoveries associated with a bridge washout in Canada in January 2018. The balance from the Company's U.K./European Operations resulted primarily from the Company's anticipated insurance recoveries associated with a personal injury that occurred in the U.K. in 2016. The Company received proceeds from insurance totaling $1.9 million and $1.4 million for the six months ended June 30, 2018 and 2017, respectively.

Accounts receivable from insurance and other third-party claims at December 31, 2017 included $5.9 million from the Company's North American Operations, $4.3 million from the Company's U.K./European Operations and $0.6 million from the Company's Australian Operations. The balance from the Company's North American Operations resulted predominately from the Company's anticipated insurance recoveries associated with a 2015 trestle fire in the United States and derailments in Canada. The balance from the Company's U.K./European Operations resulted primarily from the Company's anticipated insurance recoveries associated with an ERS rail-related collision in Germany in 2014 that occurred prior to the Company's acquisition of Freightliner. This receivable and the associated claim liability was removed from the Company's consolidated balance sheet with the sale of ERS in June 2018. See Note 2, Changes in Operations, for additional information regarding the sale of ERS.

6. LONG-TERM DEBT:

Credit Agreement Amendment

On June 5, 2018 the Company entered into Amendment No. 3 (the Amendment) to the Credit Agreement, the Third Amended and Restated Senior Secured Syndicated Credit Facility Agreement (the Amended Credit Agreement). At closing, the credit facilities under the Amended Credit Agreement were comprised of a $1,423.0 million United States term loan, a £272.9 million (or $365.2 million at the exchange rate on June 5, 2018) U.K. term loan and a $625.0 million revolving credit facility. The revolving credit facility includes borrowing capacity for letters of credit and swingline loans. The Amendment also extended the maturity date of the Company's credit facilities to June 5, 2023. In connection with entering into the Amendment, the Company wrote-off $2.2 million of unamortized deferred financing fees and capitalized an additional $5.3 million of new fees. Deferred financing costs are amortized as additional interest expense over the terms of the related debt using the effective-interest method for the term loan debt and the straight-line method for the revolving credit facility.

At the Company's election, at the time of entering into a specific borrowing, interest on that borrowing is calculated under a "LIBOR" or "Base Rate." LIBOR is the London Interbank Offered Rate. As of June 5, 2018, 100% of the Company's term loan and revolver borrowings under the Amended Credit Agreement are LIBOR Rate loans. The applicable borrowing spread for the LIBOR Rate loans will initially be 1.50% over LIBOR, and, following the Company's first quarterly compliance certificate, will range from 1.00% to 2.00% depending on the Company's total leverage ratio. The applicable spread for the Base Rate loans will initially be 0.50% over the base rate, and, following the Company's first quarterly compliance certificate, will range from 0.00% to 1.00% depending on the Company's total leverage ratio.

In addition to paying interest on any outstanding borrowing under the Amended Credit Agreement, the Company is required to pay a commitment fee related to the unutilized portion of the commitments under the revolving credit facility. The commitment fee will initially be 0.25%, and, following the Company's first quarterly compliance certificate, will range from 0.20% to 0.30% depending on the Company's total leverage ratio as defined in the Amended Credit Agreement.

Since entering into the Amendment, the Company has made prepayments of $105.0 million on its United States term loan and £15.0 million (or $19.8 million at the exchange rate the payment was made) on its U.K. term loan, which were applied towards its future quarterly installments. As of June 30, 2018, the Company had the following amounts of term loans outstanding under the Amended Credit Agreement (amounts in thousands, except percentages):

	Local Currency	United States Dollar Equivalent	Interest Rate
United States dollar	$1,318,000	$1,318,000	3.59 %
British pound	£257,932	$340,290	2.00 %

The United States dollar-denominated and British pound-denominated term loans will amortize in quarterly installments, with the remaining principal balance payable upon maturity, as set forth below (dollars in thousands):

	Quarterly Payment Date	Principal Amount of Each Quarterly Installment
United States dollar:	December 31, 2019	$1,725
	March 31, 2020 through March 31, 2023	$17,788
	Maturity date - June 5, 2023	$1,085,038
British pound:	September 30, 2019	£2,058
	December 31, 2019 through March 31, 2023	£3,412
	Maturity date - June 5, 2023	£208,111

The Company's availability to draw from the unused borrowing capacity is subject to covenant limitations as discussed below. As of June 30, 2018, the Company had the following unused borrowing capacity under its revolving credit facility (amounts in thousands):

	June 30, 2018
Total available borrowing capacity	$625,000
Outstanding revolving loans	$5,558
Outstanding letter of credit guarantees	$2,106
Unused borrowing capacity	$617,336

As of June 30, 2018, the Company had the following outstanding revolving loans under its revolving credit facility (amounts in thousands, except percentages):

	Local Currency	United States Dollar Equivalent	Interest Rate
Canadian dollar	C$ 7,000	$ 5,325	3.14 %
Euro	€ 200	$ 234	1.50 %

Under the Amended Credit Agreement, the Company is required to comply with specified maximum senior secured leverage ratios. The maximum senior secured leverage ratio is set at 4.25 to 1.00 through June 30, 2019, and then, except as described below, decreases to 4.00 to 1.00 for all periods thereafter, subject, if applicable, to netting of certain cash and cash equivalents of the Company. Following acquisitions by the Company in excess of $500 million, subject to certain limitations, the senior secured leverage ratio will be set at a level of 4.50 to 1.00 for the four fiscal quarters immediately following the date of such applicable acquisition.

In addition, the Amended Credit Agreement contains a maximum total leverage ratio and minimum interest coverage ratio. The maximum total leverage ratio is 4.50 to 1.00 and the minimum interest coverage ratio is 3.50 to 1.00 for the term of the Amended Credit Agreement.

The Amendment permits the Company to repurchase an unlimited amount of shares of the Company's Class A Common Stock if the Company's total leverage ratio after giving effect to such repurchases on a pro forma basis would be less than 3.25 to 1.00, subject to certain other restrictions and limitations. If the Company's total leverage ratio after giving effect to such repurchases on a pro forma basis would exceed 3.25 to 1.00, the Company may, subject to certain limitations, repurchase shares of the Company's Class A Common Stock with a value of up to the sum of $500 million and the amount remaining under the Company's current share repurchase program as of June 5, 2018 of $107.7 million, if the Company maintains at least $100 million of liquidity.

As of June 30, 2018, the Company was in compliance with the covenants under the Amended Credit Agreement.

7. U.K. OPERATIONS OPTIMIZATION:

In 2018, the Company reorganized its U.K. business into three service platforms: Rail (Intermodal and Heavy Haul), Road (former Freightliner and Pentalver road operations) and Terminals (former Freightliner and Pentalver terminals), with a single combined commercial organization responsible for selling all three services. The Company also announced a program to restructure and further optimize its operations in the U.K. that began in May 2018 and is intended to be completed by early 2019. The program includes the rationalization of the locomotive and railcar fleet, management restructuring (following the U.K. consultative process), and technology investments to upgrade systems to enhance productivity and service quality. Restructuring and related expenses associated with the optimization are expected to be approximately $55 million (assuming the adjustment described in footnote (a) below does not occur and an exchange rate of $1.40 for one British pound) and are comprised of the following, including the current estimate of the timing of the related charges, which is subject to change (dollars in thousands):

	Three and Six Months Ended June 30, 2018	Estimated Total Restructuring and Related Costs
Rationalization of locomotive and railcar fleet[(a)]	$ 5,938	$ 29,000
Management restructuring[(b)]	2,129	9,000
Productivity and automation investments	1,288	17,000
Total	$ 9,355	$ 55,000

(a) Strengthening commercial demand for bulk commodity shipments may result in less restructuring and related expense if new business is contracted for a higher profit using the excess equipment.

(b) Subject to requisite U.K. consultative process.

Restructuring and related activity for the U.K. Operations Optimization program for the six months ended June 30, 2018 was as follows (dollars in thousands):

	Rationalization of Locomotive and Railcar Fleet	Management Restructuring	Productivity and Automation Investments	Total
Restructuring and related liability as of December 31, 2017	$ —	$ —	$ —	$—
Restructuring and related costs incurred	5,938	2,129	1,288	9,355
Cash payments	(307)	(620)	(1,065)	(1,992)
Non-cash settlements	(897)	—	(223)	(1,120)
Restructuring and related liability as of June 30, 2018	$ 4,734	$ 1,509	$ —	$6,243

8. DERIVATIVE FINANCIAL INSTRUMENTS:

On January 1, 2018, the Company adopted ASU 2017-12, Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities, which expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The amendment also includes certain improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The adoption of this guidance amended the Company’s accounting for cross-currency swaps whereby interest expense accruals previously presented in an interest expense line item are presented as a gain/loss on currency conversion within other income/(loss), net in the non-operating section of the consolidated statement of operations. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

The Company actively monitors its exposure to interest rate and foreign currency exchange rate risks and uses derivative financial instruments to manage the impact of these risks. The Company uses derivatives only for purposes of managing risk associated with underlying exposures. The Company does not trade or use derivative instruments with the objective of earning financial gains on the interest rate or exchange rate fluctuations alone, nor does the Company use derivative instruments where it does not have underlying exposures. Complex instruments involving leverage or multipliers are not used. The Company manages its hedging position and monitors the credit ratings of counterparties and does not anticipate losses due to counterparty nonperformance. Management believes its use of derivative instruments to manage risk is in the Company's best interest. However, the Company's use of derivative financial instruments may result in short-term gains or losses and increased earnings volatility. The Company's instruments are recorded in the consolidated balance sheets at fair value in prepaid expenses and other, other assets, accrued expenses or other long-term liabilities.

The Company may designate derivatives as a hedge of a forecasted transaction or a hedge of the variability of the cash flows to be received or paid in the future related to a recognized asset or liability (cash flow hedge). The portion of the changes in the fair value of the derivative used as a cash flow hedge that is offset by changes in the expected cash flows related to a recognized asset or liability is recorded in other comprehensive income/(loss). As the hedged item is realized, the gain or loss included in accumulated other comprehensive income/(loss) is reported in the consolidated statements of operations on the same line item as the hedged item.

The Company matches the hedge instrument to the underlying hedged item (assets, liabilities, firm commitments or forecasted transactions). At inception of the hedge and at least quarterly thereafter, the Company assesses whether the derivatives used to hedge transactions are highly effective in offsetting changes in either the fair value or cash flows of the hedged item. When it is determined that a derivative ceases to be a highly effective hedge, the Company discontinues hedge accounting, and any gains or losses on the derivative instrument thereafter are recognized in earnings during the period in which it no longer qualifies for hedge accounting.

From time to time, the Company may enter into certain derivative instruments that may not be designated as hedges for accounting purposes. For example, to mitigate currency exposures related to intercompany debt, cross-currency swap contracts may be entered into for periods consistent with the underlying debt. The Company believes such instruments are closely correlated with the underlying exposure, thus reducing the associated risk. The gains or losses from the changes in the fair value of derivative instruments not accounted for using hedge accounting are recognized in current period earnings within other income/(loss), net. Derivative instruments entered into in conjunction with contemplated acquisitions also do not qualify as hedges for accounting purposes.

Interest Rate Risk Management

The Company uses interest rate swap agreements to manage its exposure to the changes in interest rates on the Company's variable rate debt. These swap agreements are recorded in the consolidated balance sheets at fair value. Changes in the fair value of the swap agreements are recorded in net income or other comprehensive income/(loss), based on whether the agreements are designated as part of a hedge transaction and whether the agreements are effective in offsetting the change in the value of the future interest payments attributable to the underlying portion of the Company's variable rate debt. Interest payments accrued each reporting period for these interest rate swaps are recognized in interest expense. The Company formally documents its hedge relationships, including identifying the hedge instruments and hedged items, as well as its risk management objectives and strategies for entering into the hedge transaction.

The following table summarizes the terms of the Company's outstanding interest rate swap agreements entered into to manage the Company's exposure to changes in interest rates on its variable rate debt (amounts in thousands):

		Notional Amount			
Effective Date	Expiration Date	Date	Amount	Pay Fixed Rate	Receive Variable Rate
9/30/2016	9/30/2026	9/30/2026	$ 100,000	2.76%	1-month LIBOR
9/30/2016	9/30/2026	9/30/2026	$ 100,000	2.74%	1-month LIBOR
9/30/2016	9/30/2026	9/30/2026	$ 100,000	2.73%	1-month LIBOR
12/1/2016	12/1/2021	12/1/2021	A$93,150	2.44%	AUD-BBR
12/1/2016	12/1/2021	12/1/2021	A$93,150	2.44%	AUD-BBR
12/1/2016	12/1/2021	12/1/2021	A$93,150	2.44%	AUD-BBR
12/1/2016	12/1/2021	12/1/2021	A$93,150	2.44%	AUD-BBR
12/1/2016	12/1/2021	12/1/2021	A$55,373	2.44%	AUD-BBR
12/1/2016	12/1/2021	12/1/2021	A$55,373	2.44%	AUD-BBR
12/1/2016	12/1/2021	12/1/2021	A$34,155	2.44%	AUD-BBR

On November 9, 2012, the Company entered into multiple 10-year forward starting interest rate swap agreements to manage the exposure to changes in interest rates on the Company's variable rate debt. On September 30, 2016, the Company amended its forward starting swaps, which included moving the mandatory settlement date from September 30, 2016 to September 30, 2026, changing from three-month LIBOR to one-month LIBOR and adjusting the fixed rate. The amended forward starting swaps continue to qualify for hedge accounting. In addition, it remains probable that the Company will either issue $300.0 million of fixed-rate debt or have $300.0 million of variable-rate debt under the Company's commercial banking lines throughout the term of the outstanding swap agreements. The Company expects to amortize any gains or losses on the settlements over the life of the respective swap.

The fair values of the Company's interest rate swap agreements were estimated based on Level 2 inputs. During the three and six months ended June 30, 2018, $0.2 million and $0.7 million, respectively, of existing net losses were realized and recorded as interest expense in the consolidated statements of operations. During the three and six months ended June 30, 2017, $0.5 million and $0.9 million, respectively, of existing net losses were realized and recorded as interest expense in the consolidated statements of operations. Based on the Company's fair value assumptions as of June 30, 2018, it expects to realize $0.6 million of existing net losses that are reported in accumulated other comprehensive loss into earnings within the next 12 months. See Note 13, Accumulated Other Comprehensive Loss, for additional information regarding the Company's cash flow hedges.

Foreign Currency Exchange Rate Risk

As of June 30, 2018, the Company's foreign subsidiaries had $1.1 billion of third-party debt, including capital leases, denominated in the local currencies in which the Company's foreign subsidiaries operate, including the Australian dollar, the British pound, the Canadian dollar and the Euro. The debt service obligations associated with this foreign currency debt are generally funded directly from those foreign operations. As a result, foreign currency risk related to this portion of the Company's debt service payments is limited. However, in the event the foreign currency debt service is not paid by the Company's foreign subsidiaries and is paid by its United States subsidiaries, the Company may face exchange rate risk if the Australian dollar, the British pound, the Canadian dollar or the Euro were to appreciate relative to the United States dollar and require higher United States dollar equivalent cash.

The Company is also exposed to foreign currency exchange rate risk, including non-functional currency intercompany debt, typically associated with acquisitions and any timing difference between announcement and closing of an acquisition of a foreign business. To mitigate currency exposures of non-United States dollar-denominated acquisitions, the Company may enter into foreign currency forward purchase contracts. To mitigate currency exposures related to non-functional currency denominated intercompany debt, cross-currency swaps or foreign currency forward contracts may be entered into for periods consistent with the underlying debt. To mitigate currency exposures related to significant asset purchases in non-functional denominated currencies, foreign currency forward contracts may be entered into for periods consistent with the anticipated future outflow of cash. In determining the fair value of the derivative contract, the significant inputs to valuation models are quoted market prices of similar instruments in active markets. However, cross-currency swap contracts and foreign currency forward contracts used to mitigate exposures on foreign currency intercompany debt may not qualify for hedge accounting. In cases where the cross-currency swap contracts and foreign currency forward contracts do not qualify for hedge accounting, the Company believes that such instruments are closely correlated with the underlying exposure, thus reducing the associated risk. The gains or losses from changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognized in current period earnings within other income/(loss), net.

The following table summarizes the Company's outstanding foreign currency forward contracts associated with assets to be purchased by GWA in U.S. dollars within the next six months (United States dollars in thousands):

Effective date	Settlement Date	Notional Amount	Exchange Rate
4/18/2018	7/5/2018	$5,379	0.78
5/2/2018	11/5/2018	$4,315	0.75
5/2/2018	12/21/2018	$5,753	0.75

The fair values of the Company's foreign currency forward contracts were estimated based on Level 2 inputs. Based on the Company's fair value assumptions as of June 30, 2018, it expects to realize $0.4 million of existing net gains that are reported in accumulated other comprehensive loss into earnings within the next 12 months. See Note 13, Accumulated Other Comprehensive Loss, for additional information regarding the Company's cash flow hedges.

On March 25, 2015, the Company closed on the Freightliner acquisition and paid cash consideration of £492.1 million (or $733.0 million at the exchange rate on March 25, 2015). The Company financed the acquisition through a combination of available cash and borrowings under the Company's Credit Agreement. A portion of the funds were transferred from the United States to the U.K. through an intercompany loan with a notional amount of £120.0 million (or $181.0 million at the exchange rate on the effective date of the loan) and accrued interest as of June 30, 2018 of

£25.9 million (or $34.2 million at the exchange rate on June 30, 2018), each of which are expected to remain until maturity of the loan. To mitigate the foreign currency exchange rate risk related to this non-functional currency intercompany loan and the related interest, the Company entered into British pound forward contracts, which are accounted for as cash flow hedges.

The fair values of the Company's British pound forward contracts were estimated based on Level 2 inputs. During the three and six months ended June 30, 2018, $0.2 million and $0.3 million, respectively, of net gains were recorded as interest income in the consolidated statements of operations. During the three and six months ended June 30, 2017, $0.1 million and $0.3 million, respectively, of net gains were recorded as interest income in the consolidated statements of operations. Based on the Company's fair value assumptions as of June 30, 2018, it expects to realize $0.7 million of existing net gains that are reported in accumulated other comprehensive loss into earnings within the next 12 months. See Note 13, Accumulated Other Comprehensive Loss, for additional information regarding the Company's cash flow hedges.

The following table summarizes the Company's outstanding British pound forward contracts (British pounds in thousands):

Effective Date	Settlement Date	Notional Amount	Exchange Rate
3/25/2015	3/31/2020	£60,000	1.51
3/25/2015	3/31/2020	£60,000	1.50
6/30/2015	3/31/2020	£2,035	1.57
9/30/2015	3/31/2020	£1,846	1.51
12/31/2015	3/31/2020	£1,873	1.48
3/31/2016	3/31/2020	£1,881	1.45
6/30/2016	3/31/2020	£1,909	1.35
9/30/2016	3/31/2020	£1,959	1.33
12/30/2016	3/31/2020	£1,989	1.28
3/31/2017	3/31/2020	£1,975	1.30
6/30/2017	3/31/2020	£2,026	1.34
10/2/2017	3/31/2020	£2,079	1.36
12/29/2017	3/31/2020	£2,111	1.39
3/31/2018	3/31/2020	£2,096	1.44
6/29/2018	3/31/2020	£2,151	1.36

On December 1, 2016, GWAHLP and the Company's subsidiary, GWI Holding B.V. (GWBV), entered into an A$248.9 million non-recourse subordinated partner loan agreement (GRail Intercompany Loan), which is eliminated in consolidation. GWAHLP used the proceeds from this loan to fund a portion of the acquisition of GRail. To mitigate the foreign currency exchange rate risk related to the non-functional currency intercompany loan, the Company entered into two Euro/Australian dollar floating-to-floating cross-currency swap agreements (the Swaps) on December 22, 2016, which effectively convert the A$248.9 million intercompany loan receivable in the Netherlands into a €171.7 million loan receivable. These agreements do not qualify as hedges for accounting purposes and, accordingly, mark-to-market changes in the fair value of the Swaps relative to the underlying GRail Intercompany Loan will be recorded over the life of the agreements, which expire on June 30, 2019.

The first swap requires the Company to pay Australian dollar BBR plus 4.50% based on a notional amount of A$123.9 million and allows the Company to receive EURIBOR plus 2.68% based on a notional amount of €85.5 million on a semi-annual basis. BBR is the Bankers Buyers Rate and EURIBOR is the Euro Interbank Offered Rate, which the Company believes are generally considered equivalents to LIBOR. The second swap requires the Company to pay Australian dollar BBR plus 4.50% based on a notional amount of A$125.0 million and allows the Company to receive EURIBOR plus 2.90% based on a notional amount of €86.3 million on a semi-annual basis. The Swaps require semi-annual net settlement payments. During the three and six months ended June 30, 2018, $0.3 million of net income and $2.5 million of net expense, respectively, was realized within other income/(loss), net in the consolidated statement of operations as a result of the mark-to-market impact of the GRail Intercompany Loan compared to the mark-to-market of the Swaps.

During the three and six months ended June 30, 2017, $0.8 million and $3.7 million, respectively, of net expense was realized within other income/(loss), net in the consolidated statements of operations as a result of the mark-to-market impact of the GRail Intercompany Loan compared to the mark-to-market of the Swaps. Over the life of the Swaps, the Company expects the cumulative impact of net gains and losses from the mark-to-market of the GRail Intercompany Loan and Swaps to be approximately zero.

The following table summarizes the fair value of the Company's derivative instruments recorded in the consolidated balance sheets as of June 30, 2018 and December 31, 2017 (dollars in thousands):

	Balance Sheet Location	Fair Value June 30, 2018	Fair Value December 31, 2017
Asset Derivatives:			
Derivatives designated as hedges:			
Interest rate swap agreements	Prepaid expenses and other	$69	$ —
Foreign currency forward contracts	Prepaid expenses and other	411	—
Interest rate swap agreements	Other assets	500	—
British pound forward contracts	Other assets	18,133	13,657
Total derivatives designated as hedges		$19,113	$ 13,657
Derivatives not designated as hedges:			
Cross-currency swap contract	Prepaid expenses and other	$14,289	$ 5,775
Cross-currency swap contract	Other assets	—	2,887
Total derivatives not designated as hedges		$14,289	$ 8,662
Liability Derivatives:			
Derivatives designated as hedges:			
Interest rate swap agreements	Accrued expenses	$641	$ 1,972
Interest rate swap agreements	Other long-term liabilities	1,611	12,410
British pound forward contracts	Other long-term liabilities	419	829
Total derivatives designated as hedges		$2,671	$ 15,211

The following table shows the effect of the Company's derivative instruments designated as cash flow hedges for the three and six months ended June 30, 2018 and 2017 in other comprehensive income (OCI) (dollars in thousands):

	Total Cash Flow Hedge OCI Activity, Net of Tax			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Derivatives Designated as Cash Flow Hedges:				
Effective portion of net changes in fair value recognized in OCI, net of tax:				
Interest rate swap agreements	$2,688	$(1,647)	$9,580	$(1,770)
Foreign currency forward contracts	288	—	288	—
British pound forward contracts, net [(a)]	(274)	1,043	(265)	1,672
	$2,702	$(604)	$9,603	$(98)

(a) The three and six months ended June 30, 2018 represented a net gain of $9.0 million and $3.5 million, respectively, for the mark-to-market of the British pound forward contracts, partially offset by a net loss of $9.2 million and $3.7 million, respectively, for the mark-to-market of the U.K. intercompany loan. The three and six months ended June 30, 2017 represented a net gain of $3.8 million and $5.4 million, respectively, for the mark-to-market of the U.K. intercompany loan, partially offset by a net loss of $2.8 million and $3.8 million, respectively, for the mark-to-market of the British pound forward contracts.

The following table shows the effect of the Company's derivative instruments not designated as hedges for the three and six months ended June 30, 2018 and 2017 in the consolidated statements of operations (dollars in thousands):

	Location of Amount Recognized in Earnings	Amount Recognized in Earnings			
		Three Months Ended		Six Months Ended	
		June 30,		June 30,	
		2018	2017	2018	2017
Derivative Instruments Not Designated as Hedges:					
Cross-currency swap agreements, net [a]	Other income/(loss), net	$272	$(809)	$(2,490)	$(3,667)

(a) The three months ended June 30, 2018 represented a net loss of $2.8 million for the mark-to-market of the Swaps, partially offset by a net gain of $3.0 million for the mark-to-market of the GRail Intercompany Loan. The six months ended June 30, 2018 represented a net gain of $2.6 million for the mark-to-market of the Swaps, partially offset by a net loss of $5.1 million for the mark-to-market of the GRail Intercompany Loan. The three and six months ended June 30, 2017 represented a net gain of $11.2 million and $0.3 million, respectively, for the mark-to-market of the Swaps, partially offset by a net loss of $12.0 million and $4.0 million, respectively, for the mark-to-market of the GRail Intercompany Loan.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The Company applies the following three-level hierarchy of valuation inputs for measuring fair value:

- Level 1 - Quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date.
- Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations in which all significant inputs are observable market data.
- Level 3 - Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments held by the Company:

Financial Instruments Carried at Fair Value: Derivative instruments are recorded on the consolidated balance sheets as either assets or liabilities measured at fair value. During the reporting period, the Company's derivative financial instruments consisted of interest rate swap agreements, foreign currency forward contracts and cross-currency swap agreements. The Company estimated the fair value of its interest rate swap agreements based on Level 2 valuation inputs, including fixed interest rates, LIBOR and BBR implied forward interest rates and the remaining time to maturity. The Company estimated the fair value of its British pound forward contracts based on Level 2 valuation inputs, including LIBOR implied forward interest rates, British pound LIBOR implied forward interest rates and the remaining time to maturity. The Company estimated the fair value of its foreign currency forward contracts based on Level 2 valuation inputs, including BBR implied forward interest rates and the remaining time to maturity. The Company estimated the fair value of its cross-currency swap agreements based on Level 2 valuation inputs, including EURIBOR implied forward interest rates, BBR implied forward interest rates and the remaining time to maturity.

The Company's recurring fair value measurements using significant unobservable inputs (Level 3) relate to the Company's deferred consideration from the HOG acquisition in 2017. The fair value of the deferred consideration liabilities were estimated by discounting, to present value, contingent payments expected to be made.

Financial Instruments Carried at Historical Cost: Since the Company's long-term debt is not actively traded, fair value was estimated using a discounted cash flow analysis based on Level 2 valuation inputs, including borrowing rates the Company believes are currently available to it for loans with similar terms and maturities.

The following table presents the Company's financial instruments carried at fair value using Level 2 inputs as of June 30, 2018 and December 31, 2017 (dollars in thousands):

	June 30, 2018	December 31, 2017
Financial instruments carried at fair value using Level 2 inputs:		
Financial assets carried at fair value:		
Interest rate swap agreements	$569	$ —
Foreign currency forward contracts	411	—
British pound forward contracts	18,133	13,657
Cross-currency swap contracts	14,289	8,662
Total financial assets carried at fair value	$33,402	$ 22,319
Financial liabilities carried at fair value:		
Interest rate swap agreements	$2,252	$ 14,382
British pound forward contracts	419	829
Total financial liabilities carried at fair value	$2,671	$ 15,211

The following table presents the Company's financial instrument carried at fair value using Level 3 inputs as of June 30, 2018 and December 31, 2017 (amounts in thousands):

	June 30, 2018	December 31, 2017
Financial instrument carried at fair value using Level 3 inputs:		
Financial liabilities carried at fair value:		
Accrued deferred consideration - HOG	$ 6,231	$ 5,974

At the date of acquisition of HOG in 2017, the contingent liability represented the fair value of the deferred consideration payable to the sellers upon satisfaction of certain conditions, which the Company expects to be paid in 2021. See Note 2, Changes in Operations, for additional information regarding HOG.

The Company's contingent liability is adjusted each period to represent the fair value of the deferred consideration as of the balance sheet date. To do so, the Company recalculates HOG's deferred consideration based on the contractual formula as defined in the stock purchase agreement. This calculation effectively represents the present value of the expected payment to be made upon settlement of the deferred consideration. Accordingly, such recalculations will reflect both the impact of the time value of money and the impact of changes in the expected future performance of the acquired business, as applicable. During the three and six months ended June 30, 2018, the Company recognized $0.1 million and $0.3 million, respectively, as other expenses, net within the Company's consolidated statements of operations as a result of the change in the estimated fair value of the deferred consideration, which represented the time value of money. The Company expects to recognize future changes in the contingent liability for the estimated fair value of the deferred consideration through other expenses, net within the Company's consolidated statement of operations. This future change in the estimated fair value of the deferred consideration is not expected to be deductible for tax purposes.

The following table presents the carrying value and fair value using Level 2 inputs of the Company's financial instruments carried at historical cost as of June 30, 2018 and December 31, 2017 (dollars in thousands):

	June 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial liabilities carried at historical cost:				
United States term loan	$1,307,365	$1,310,829	$1,204,714	$1,208,657
U.K. term loan	338,358	340,276	124,747	126,480
Australian credit agreement	479,060	487,230	513,192	528,105
Australia subordinated shareholder loan from MIRA	176,083	172,500	186,085	184,750
Revolving credit facility	4,935	5,562	225,155	229,483

Other debt	2,381	2,362	2,419	2,426
Total	$2,308,182	$2,318,759	$2,256,312	$2,279,901

10. U.K. PENSION PLAN:

Through its Freightliner subsidiary, the Company has a defined benefit pension plan for Freightliner's eligible U.K. employees through a standalone shared cost arrangement within the Railways Pension Scheme (Pension Program). The Pension Program is managed and administered by a professional pension administration company and is overseen by trustees with professional advice from independent actuaries and other advisers. The Pension Program is a shared cost arrangement with required contributions shared between Freightliner and its participating members, with Freightliner contributing 60% and the remaining 40% contributed by active employees. The Company engages independent actuaries to compute the amounts of liabilities and expenses relating to the Pension Program subject to the assumptions that the Company selects.

The following tables summarize the components of the Pension Program related to the net benefit costs recognized in labor and benefits and other income/(loss), net in the Company's consolidated statements of operations for the three and six months ended June 30, 2018 and 2017 (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating expense:				
Service cost[a]	$3,770	$3,823	$7,625	$7,526
Nonoperating income, net:				
Interest cost	2,488	2,531	5,033	4,982
Expected return on plan assets	(4,775)	(4,232)	(9,659)	(8,329)
Total nonoperating income, net[b]	(2,287)	(1,701)	(4,626)	(3,347)
Net periodic benefit cost	$1,483	$2,122	$2,999	$4,179

(a) Included in labor and benefits within the Company’s consolidated statement of operations

(b) Included in other income/(loss), net within the Company’s consolidated statement of operations

During the six months ended June 30, 2018, the Company contributed £3.0 million (or $4.0 million at the June 30, 2018 exchange rate) to fund the Pension Program. The Company expects to contribute £4.2 million (or $5.6 million at the June 30, 2018 exchange rate) to the Pension Program for the remainder of 2018. The Pension Program's assets may undergo significant changes over time as a result of market conditions, and its assets and liabilities are formally valued on an independent actuarial basis every three years to assess the adequacy of funding levels. A key element of the valuation process is an assessment of the creditworthiness of the participating employer. In March 2018, the Company completed its triennial valuation based on the program's funding position as of December 31, 2016, which did not have and is not expected to have a material impact on its consolidated financial statements. In the event that the Pension Program's projected assets and liabilities reveal additional funding requirements, the shared cost arrangement generally means that the Company will be required to pay 60% of any additional contributions, with active members contributing the remaining 40%, in each case over an agreed recovery period. If the Pension Program was to be terminated and wound up, any deficit would fall entirely on the Company and could not be shared with active members. Currently, the Company has no intention of terminating the Pension Program.

11. INCOME TAXES:

The Company's provision for income taxes for the three months ended June 30, 2018 was $26.4 million, compared with $29.6 million for the three months ended June 30, 2017. Based on developments during the three months ended June 30, 2018, the Company recorded a reserve for uncertain tax positions of $4.8 million related to tax deductions on intercompany financing arrangements in the U.K., of which $0.7 million related to the three months ended June 30, 2018, $0.4 million related to the three months ended March 31, 2018 and $3.7 million related to the period from March 25, 2015, the date of the Freightliner acquisition when the arrangements were established, through December 31, 2017. The reserve for uncertain tax positions was included in the Company's provision for income taxes for the three months ended June 30, 2018. Excluding the prior period portion of the reserve for uncertain tax positions, the Company's effective income tax rate for the three months ended June 30, 2018 was 29.8%. The Company's effective income tax rate for the three months ended June 30, 2017 was 38.1%. The decrease in the Company's effective income tax rate was primarily a result of the Tax Cuts and Jobs Act of 2017 (TCJA), which decreased the United States federal corporate income tax rate from 35% to 21%. In addition, the Company's provision for income taxes for the three months ended June 30, 2017 included an increase to a valuation allowance of €0.7 million (or $0.6 million at the average exchange rate for the period) primarily associated with losses at ERS.

The Company's provision for income taxes for the six months ended June 30, 2018 was $10.6 million, compared with $51.5 million for the six months ended June 30, 2017. The provision for income taxes for the six months ended June 30, 2018 included a $31.6 million benefit from the retroactive extension of the United States Short Line Tax Credit. Based on developments during the six months ended June 30, 2018, the Company recorded a reserve for uncertain tax positions of $4.8 million related to tax deductions on intercompany financing arrangements in the U.K., of which $3.7 million related to the period from March 25, 2015, the date of the Freightliner acquisition when the arrangements were established, through December 31, 2017. Excluding the benefit from the retroactive extension and the prior period portion of the reserve for uncertain tax positions, the effective income tax rate for the six months ended June 30, 2018 was 28.5%. The Company's effective income tax rate for the six months ended June 30, 2017 was 40.6%. The decrease in the effective income tax rate was primarily a result of the TCJA, which decreased the United States federal corporate income tax rate from 35% to 21%. In addition, the provision for income taxes for the six months ended June 30, 2017 included an increase to a valuation allowance of €0.9 million (or $1.0 million at the average exchange rate for the period) primarily associated with losses at ERS.

The United States Short Line Tax Credit is an income tax track maintenance credit for Class II and Class III railroads to reduce their federal income tax based on qualified railroad track maintenance expenditures. Qualified expenditures include amounts incurred for maintaining track, including roadbed, bridges and related track structures owned or leased by a Class II or Class III railroad. The credit is equal to 50% of the qualified expenditures, subject to an annual limitation of $3,500 multiplied by the number of miles of railroad track owned or leased by the Class II or Class III railroad as of the end of its tax year. The United States Short Line Tax Credit was initially enacted for a three-year period, 2005 through 2007, and was subsequently extended a series of times with the last extension enacted in February 2018. The February 2018 extension provided a retroactive credit, solely for fiscal year 2017. Legislation is currently pending that seeks to make the United States Short Line Tax Credit permanent for fiscal year 2018 and beyond.

On December 22, 2017, the TCJA was enacted into law and the SEC's staff issued Staff Accounting Bulletin No.118 (SAB 118) to address the application of the TCJA on accounting for income taxes in the period which includes the enactment date. Specifically, when the initial accounting for items under the TCJA is incomplete, SAB 118 allows the Company to include provisional amounts when reasonable estimates can be made. SAB 118 provides for an up to one-year measurement period during which the tax effect of the TCJA can be recomputed based on additional guidance and analysis. Any adjustment will be recorded as a tax expense or benefit in the reporting period during which the amounts are determined. As of June 30, 2018, the Company believed that the provisional calculations for year-end 2017 resulted in a reasonable estimate of the one-time transition (toll) tax and therefore, has not made any measurement period adjustments. The Company will continue to refine its estimates as additional guidance and information is available including deferred taxes related to certain equity compensation arrangements.

12. COMMITMENTS AND CONTINGENCIES:

From time to time, the Company is a defendant in certain lawsuits and a party to certain arbitrations resulting from the Company's operations in the ordinary course as the nature of the Company's business exposes it to the potential for various claims and litigation, including those related to property damage, personal injury, freight loss, labor and employment, environmental and other matters. The Company maintains insurance policies to mitigate the financial risk associated with such claims. However, any material changes to pending litigation or a catastrophic rail accident or series of accidents involving material freight loss or property damage, personal injuries or environmental liability or other claims or disputes that are not covered by insurance could have a material adverse effect on the Company's results of operations, financial condition and liquidity. Management believes there are adequate provisions in the financial statements for any probable liabilities that may result from disposition of the pending lawsuits and arbitrations.

In November 2014, the Company received a notice from the United States Environmental Protection Agency (EPA) requesting information under the Clean Water Act related to the discharge of crude oil as a result of a derailment of an Alabama & Gulf Coast Railway LLC (AGR) freight train in November 2013 in the vicinity of Aliceville, Alabama. In

May 2018, the EPA notified the AGR of a maximum civil payment of up to $14.1 million, based on the amount of oil allegedly discharged and other relevant factors considered under the applicable regulation. The Company is evaluating its defenses, settlement options and the availability of insurance.

The Company is also involved in several arbitrations related to contractual disputes that are not covered by insurance. In March 2017, CSX Transportation, Inc. (CSXT) initiated arbitration against several of the Company's subsidiaries associated with freight revenue factors (or divisions) under certain operating agreements associated with leased railroads. CSXT is seeking to reduce certain of the Company's freight revenue factors for the time period after August 21, 2016. While the arbitration is not complete, the arbitration panel issued a Partial Final Award dated July 19, 2018 denying CSXT's request that the freight revenue factors at issue be reduced. The Company continues to believe that it has meritorious defenses against CSXT's remaining claims. In an unrelated matter, on May 3, 2017, the AGR initiated arbitration related to the collection of approximately $13 million of outstanding liquidated damages under a volume commitment (or take-or-pay) contract with a customer. The Company believes it will prevail in the collection of the outstanding liquidated damages. Although the Company expects to attain successful outcomes in each of these matters, arbitration is inherently uncertain, and it is possible that an unfavorable ruling could have an adverse effect on the Company's results of operations, financial condition and liquidity.

13. ACCUMULATED OTHER COMPREHENSIVE LOSS:

The following tables set forth the components of accumulated other comprehensive loss attributable to Genesee & Wyoming Inc. included in the consolidated balance sheets and consolidated statements of comprehensive income (dollars in thousands):

	Foreign Currency Translation Adjustment	Defined Benefit Plans		Net Unrealized Gain/(Loss) on Cash Flow Hedges		Accumulated Other Comprehensive Loss
Balance, December 31, 2017	$(74,617)	$(19,601)		$(11,316)		$(105,534)
Other comprehensive (loss)/income before reclassifications	(36,698)	—		9,736		(26,962)
Amounts reclassified from accumulated other comprehensive loss, net of tax (provision)/benefit of ($28) and $115, respectively	—	86	(a)	(290)	(b)	(204)
Current period change	(36,698)	86		9,446		(27,166)
Amounts reclassified from accumulated other comprehensive loss to retained earnings related to the United States Tax Cuts and Jobs Act	—	(132)		(2,838)		(2,970)
Balance, June 30, 2018	$(111,315)	$(19,647)		$(4,708)		$(135,670)

	Foreign Currency Translation Adjustment	Defined Benefit Plans		Net Unrealized Gain/(Loss) on Cash Flow Hedges		Accumulated Other Comprehensive Loss
Balance, December 31, 2016	$(163,642)	$(19,948)		$(13,726)		$(197,316)
Other comprehensive income/(loss) before reclassifications	53,482	(2,263)		(4,448)		46,771
Amounts reclassified from accumulated other comprehensive loss, net of tax (provision) of ($40) and ($3,381), respectively	—	76	(a)	5,029	(b)	5,105
Current period change	53,482	(2,187)		581		51,876
Balance, June 30, 2017	$(110,160)	$(22,135)		$(13,145)		$(145,440)

(a) Existing net gains realized were recorded in labor and benefits on the consolidated statements of operations.
(b)

Existing net gains/(losses) realized were recorded in interest expense on the consolidated statements of operations (see Note 8, Derivative Financial Instruments).

Comprehensive Income/(Loss) Attributable to Noncontrolling Interest

The following table sets forth comprehensive income attributable to noncontrolling interest for the three and six months ended June 30, 2018 and 2017 (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income attributable to noncontrolling interest	$4,443	$2,121	$5,370	$3,172
Other comprehensive income/(loss):				
Foreign currency translation adjustment	(8,825)	1,047	(12,843)	13,670
Net unrealized gain/(loss) on qualifying cash flow hedges, net of tax (provision)/benefit of ($67), $39, ($67), and $291, respectively	157	(90)	157	(679)
Comprehensive (loss)/income attributable to noncontrolling interest	$(4,225)	$3,078	$(7,316)	$16,163

14. STOCKHOLDERS' EQUITY:

The following tables reconcile the beginning and ending equity balance for the periods attributable to Genesee & Wyoming Inc. and to noncontrolling interest (dollars in thousands):

	Genesee & Wyoming Inc. Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance, December 31, 2017	$ 3,650,466	$ 245,626	$3,896,092
Net income	119,266	5,370	124,636
Other comprehensive loss	(27,166)	(12,686)	(39,852)
Value of shares repurchased under repurchase plan - 2,666,043 shares	(192,324)	—	(192,324)
Distribution to noncontrolling interest	—	(14,898)	(14,898)
Other	8,675	49	8,724
Balance, June 30, 2018	$ 3,558,917	$ 223,461	$3,782,378

	Genesee & Wyoming Inc. Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance, December 31, 2016	$ 2,966,514	$ 220,607	$3,187,121
Net income	72,245	3,172	75,417
Other comprehensive income	51,876	12,991	64,867
Other	11,192	(27)	11,165
Balance, June 30, 2017	$ 3,101,827	$ 236,743	$3,338,570

15. SIGNIFICANT NON-CASH INVESTING AND FINANCING ACTIVITIES:

As of June 30, 2018 and 2017, the Company had outstanding accounts receivable from outside parties for the funding of capital expenditures of $10.9 million and $10.0 million, respectively. As of June 30, 2018 and 2017, the Company also had $9.2 million and $10.5 million, respectively, of purchases of property and equipment that were not paid and, accordingly, were accrued in accounts payable in the normal course of business.

16. SEGMENT INFORMATION:

The Company presents the financial results of its nine operating regions as three reportable segments: North American Operations, Australian Operations and U.K./European Operations. The Company's seven North American regions are aggregated into one segment as a result of having similar economic and operating characteristics. Each of the Company's segments generates the following three categories of revenues from external customers: freight revenues, freight-related revenues and all other revenues.

The Company's Australian business underwent a transformational change on December 1, 2016, with the acquisition of GRail and the formation of the Australia Partnership, which the Company controls through its 51.1% interest. The GRail acquisition significantly expanded the Company's operations in New South Wales. In conjunction with the GRail acquisition, the Company issued a 48.9% equity stake in its Australian subsidiary, GWAHLP, to MIRA. The Company retained a 51.1% controlling interest in GWAHLP and continues to consolidate 100% of its Australian Operations in the Company's financial statements and reports a noncontrolling interest for MIRA’s 48.9% equity ownership. As a result, (1) 100% of the assets and liabilities of the Company's Australian Operations, after the elimination of intercompany balances, were included in the Company's consolidated balance sheets as of June 30, 2018 and December 31, 2017, with MIRA's 48.9% noncontrolling interest reflected in the equity section, (2) the Company's operating revenues and operating income for the three and six months ended June 30, 2018 and 2017 included 100% of the Australian Operations, while net income attributable to G&W reflected the Company's 51.1% ownership position in the Australian Operations since the formation of the partnership on December 1, 2016 and (3) 100% of the cash flows of the Australian Operations, after the elimination of intercompany items, were included in the Company's consolidated statements of cash flows for the six months ended June 30, 2018 and 2017. Accordingly, any payments between the Company's Australian Operations and its other businesses are eliminated in consolidation, while the Company's cash flows reflect 100% of any cash flows between the Australian Operations and MIRA.

In accordance with the Australia Partnership agreement, the cash and cash equivalents of the Company's Australian Operations can be used to make payments in the usual and regular course of business, to pay down debt of the Australia Partnership and to make distributions to the partners in proportion to their investments. During the six months ended June 30, 2018, the Australia Partnership made a A$40.0 million distribution, of which A$20.4 million (or $15.6 million at the exchange rate on June 5, 2018) and A$19.6 million (or $14.9 million at the exchange rate on June 5, 2018) were distributed to the Company and MIRA, respectively, while no such distributions were made for the six months ended June 30, 2017.

The results of operations of the Company's foreign entities are maintained in the respective local currency (the Australian dollar, the British pound, the Canadian dollar and the Euro) and then translated into United States dollars at the applicable exchange rates for inclusion in the consolidated financial statements. As a result, any appreciation or depreciation of these currencies against the United States dollar will impact the Company's results of operations.

The following tables reflect the balance sheet exchange rates as of June 30, 2018 and December 31, 2017 and the average exchange rates for the three and six months ended June 30, 2018 and 2017 used to translate the foreign entities respective local currency balance sheet and results of operations into United States dollars for the respective period:

	June 30, 2018	December 31, 2017
United States dollar per Australian dollar	$0.74	$ 0.78
United States dollar per British pound	$1.32	$ 1.35
United States dollar per Canadian dollar	$0.76	$ 0.80
United States dollar per Euro	$1.17	$ 1.20

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
United States dollar per Australian dollar	$0.76	$0.75	$0.77	$ 0.75
United States dollar per British pound	$1.36	$1.28	$1.38	$ 1.26
United States dollar per Canadian dollar	$0.77	$0.74	$0.78	$ 0.75
United States dollar per Euro	$1.19	$1.10	$1.21	$ 1.08

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The following tables set forth select financial data for the Company's reportable segments, including operating revenues by commodity group, for the three and six months ended June 30, 2018 and 2017 (dollars in thousands) (prior period revenue amounts have not been adjusted under the modified retrospective method):

	Three Months Ended June 30, 2018			
	North American Operations	Australian Operations	U.K./European Operations	Total Operations
Operating revenues:				
Freight revenues by commodity group:				
Agricultural Products	$29,693	$ 6,006	$ 785	$ 36,484
Autos & Auto Parts	5,806	—	—	5,806
Chemicals & Plastics	38,972	—	—	38,972
Coal & Coke	19,087	32,570	2,687	54,344
Food & Kindred Products	8,476	—	—	8,476
Intermodal	380	17,102	66,483	83,965
Lumber & Forest Products	23,810	—	—	23,810
Metallic Ores	3,670	8,125	—	11,795
Metals	32,493	—	—	32,493
Minerals & Stone	38,034	2,087	22,326	62,447
Petroleum Products	16,151	185	8	16,344
Pulp & Paper	29,514	—	—	29,514
Waste	7,339	—	—	7,339
Other	6,443	—	—	6,443
Total freight revenues	259,868	66,075	92,289	418,232
Freight-related revenues	63,467	11,515	67,420	142,402
All other revenues	16,222	1,439	16,695	34,356
Total operating revenues	$339,557	$ 79,029	$ 176,404	$ 594,990
Operating income/(loss)	$80,274	$ 25,896	$ (3,045)	$ 103,125
Depreciation and amortization	$41,247	$ 15,288	$ 9,210	$ 65,745
Interest expense, net	$11,778	$ 12,893	$ 3,685	$ 28,356
Provision for income taxes	$20,091	$ 3,901	$ 2,454	$ 26,446
Cash expenditures for additions to property & equipment, net of grants from outside parties	$48,924	$ 14,489	$ 4,726	$ 68,139

	Three Months Ended June 30, 2017			
	North American Operations	Australian Operations	U.K./European Operations	Total Operations
Operating revenues:				
Freight revenues by commodity group:				
Agricultural Products	$31,279	$ 5,932	$ 829	$ 38,040
Autos & Auto Parts	5,730	—	—	5,730
Chemicals & Plastics	37,400	—	—	37,400
Coal & Coke	15,382	27,758	1,719	44,859
Food & Kindred Products	8,325	—	—	8,325
Intermodal	238	17,234	60,793	78,265
Lumber & Forest Products	22,323	—	—	22,323
Metallic Ores	2,920	10,659	—	13,579
Metals	26,079	—	—	26,079
Minerals & Stone	34,562	2,016	17,688	54,266
Petroleum Products	15,844	154	—	15,998
Pulp & Paper	26,077	—	—	26,077
Waste	7,144	—	—	7,144
Other	5,070	—	—	5,070
Total freight revenues	238,373	63,753	81,029	383,155
Freight-related revenues	61,183	11,500	54,938	127,621
All other revenues	16,118	1,556	11,983	29,657
Total operating revenues	$315,674	$ 76,809	$ 147,950	$ 540,433
Operating income/(loss)	$79,679	$ 20,250	$ (196)	$ 99,733
Depreciation and amortization	$38,919	$ 14,970	$ 7,624	$ 61,513
Interest expense, net	$9,560	$ 13,835	$ 1,809	$ 25,204
Provision for/(benefit from) income taxes	$27,789	$ 1,931	$ (123)	$ 29,597
Cash expenditures for additions to property & equipment, net of grants from outside parties	$40,012	$ 3,714	$ 6,175	$ 49,901

	Six Months Ended June 30, 2018			
	North American Operations	Australian Operations	U.K./European Operations	Total Operations
Operating revenues:				
Freight revenues by commodity group:				
Agricultural Products	$61,065	$ 11,489	$ 2,020	$74,574
Autos & Auto Parts	11,173	—	—	11,173
Chemicals & Plastics	75,189	—	—	75,189
Coal & Coke	39,032	64,149	6,163	109,344
Food & Kindred Products	16,826	—	—	16,826
Intermodal	689	33,075	133,804	167,568
Lumber & Forest Products	46,249	—	—	46,249
Metallic Ores	7,243	15,856	—	23,099
Metals	60,887	—	—	60,887
Minerals & Stone	68,552	4,181	41,505	114,238
Petroleum Products	34,634	336	8	34,978
Pulp & Paper	58,385	—	—	58,385
Waste	13,227	—	—	13,227
Other	12,134	—	—	12,134
Freight revenues	505,285	129,086	183,500	817,871
Freight-related revenues	127,299	22,078	134,222	283,599
All other revenues	32,603	2,699	32,879	68,181
Total operating revenues	$665,187	$ 153,863	$ 350,601	$1,169,651
Operating income/(loss)	$153,434	$ 41,872	$ (5,268)	$190,038
Depreciation and amortization	$81,878	$ 31,295	$ 18,562	$131,735
Interest expense, net	$20,233	$ 26,134	$ 6,727	$53,094
Provision for income taxes	$606	$ 4,722	$ 5,228	$10,556
Cash expenditures for additions to property & equipment, net of grants from outside parties	$87,487	$ 19,751	$ 13,189	$120,427

	Six Months Ended June 30, 2017			
	North American Operations	Australian Operations	U.K./European Operations	Total Operations
Operating revenues:				
Freight revenues by commodity group:				
Agricultural Products	$64,257	$ 11,678	$ 2,568	$78,503
Autos & Auto Parts	10,940	—	—	10,940
Chemicals & Plastics	74,915	—	—	74,915
Coal & Coke	37,115	57,279	5,119	99,513
Food & Kindred Products	16,599	—	—	16,599
Intermodal	415	33,101	122,789	156,305
Lumber & Forest Products	42,699	—	—	42,699
Metallic Ores	6,816	18,290	—	25,106
Metals	52,673	—	—	52,673
Minerals & Stone	62,677	3,995	29,143	95,815
Petroleum Products	34,271	284	—	34,555
Pulp & Paper	51,555	—	—	51,555
Waste	12,338	—	—	12,338
Other	9,384	—	—	9,384
Freight revenues	$476,654	$ 124,627	$ 159,619	$760,900
Freight-related revenues	126,528	23,209	97,221	246,958
All other revenues	31,968	2,880	16,835	51,683
Total operating revenues	$635,150	$ 150,716	$ 273,675	$1,059,541
Operating income/(loss)	$147,342	$ 37,409	$ (9,118)	$175,633
Depreciation and amortization	$77,786	$ 30,162	$ 14,339	$122,287
Interest expense, net	$20,111	$ 27,822	$ 3,409	$51,342
Provision for/(benefit from) income taxes	$49,863	$ 2,792	$ (1,130)	$51,525
Cash expenditures for additions to property & equipment, net of grants from outside parties	$64,227	$ 5,176	$ 10,465	$79,868

The following tables set forth select balance sheet data for the Company's reportable segments as of June 30, 2018 and December 31, 2017 (dollars in thousands):

	June 30, 2018			
	North American Operations	Australian Operations	U.K./European Operations	Total Operations
Cash and cash equivalents	$14,458	$ 37,606	$ 17,638	$69,702
Property and equipment, net	$3,657,483	$ 631,919	$ 324,447	$4,613,849

	December 31, 2017			
	North American Operations	Australian Operations	U.K./European Operations	Total Operations
Cash and cash equivalents	$13,584	$ 52,407	$ 14,481	$80,472
Property and equipment, net	$3,657,801	$ 664,367	$ 334,753	$4,656,921

17. RECENTLY ISSUED ACCOUNTING STANDARDS:

Accounting Standards Not Yet Effective

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which will require lessees to recognize leases on their balance sheets as a right-of-use asset with a corresponding liability. Lessees are permitted to make an accounting policy election to not recognize an asset and liability for leases with a term of 12 months or less. Additional qualitative and quantitative disclosures, including significant judgments made by management, will also be required.

The new standard will become effective for the Company beginning January 1, 2019, and previously required the use of a modified retrospective adoption approach. In July 2018, the FASB approved another, optional, transition method that would instead allow companies to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company plans to elect the cumulative-effect adjustment transition method. The Company is currently implementing lease accounting software to assist in its assessment of the impact of adopting this guidance on its consolidated financial statements. At December 31, 2017, the Company disclosed approximately $615 million in aggregate future minimum operating lease payments and continues to evaluate those contracts as well as other existing arrangements to determine whether a right-of-use asset or lease liability will need to be recognized under the new standard and will assess new contracts entered into prior to the adoption of the new standard. The adoption of the new standard will result in a material increase to right of use assets and lease liabilities on the Company's consolidated balance sheet, primarily as a result of operating leases currently not recognized on the balance sheet. The Company, however, does not anticipate a material impact to net income as a result of the adoption of this new standard and is currently evaluating disclosure requirements.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment, which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The amendments will become effective for the Company beginning January 1, 2020. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In January 2018, the FASB issued ASU 2018-01, Leases (Topic 842), Land Easement Practical Expedient for Transition to Topic 842, which permits an entity to make an election not to apply Topic 842 to land easements that existed or expired before the effective date of Topic 842 provided that they were not previously assessed under ASC 840, Leases. Effective January 1, 2019, Topic 842 will be applied to new and modified land easements to determine whether the arrangement should be accounted for as a lease. The Company will apply this guidance upon the adoption of Topic 842 effective January 1, 2019. The Company is evaluating the impact of the new guidance on its consolidated financial statements and related disclosure.

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ITEM 2.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with our consolidated financial statements and related notes set forth in this Quarterly Report on Form 10-Q and our 2017 Annual Report on Form 10-K. Our consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

When comparing our results of operations from one reporting period to another, it is important to consider that we have historically experienced fluctuations in revenues and expenses due to acquisitions, changing economic conditions, commodity prices, competitive forces, changes in foreign currency exchange rates, rail network congestion, one-time freight moves, fuel price fluctuations, customer plant expansions and shutdowns, sales of property and equipment, derailments and weather-related conditions, such as hurricanes, cyclones, tornadoes, high winds, droughts, heavy snowfall, unseasonably hot or cold weather, freezing and flooding, among other factors. In periods when these events occur, our results of operations are not easily comparable from one period to another. Finally, certain of our railroads have commodity shipments that are sensitive to general economic conditions, global commodity prices and foreign exchange rates, such as steel products, iron ore, paper products, lumber and forest products and agricultural products, as well as product specific market conditions, such as the availability of lower priced alternative sources of power generation (coal) and energy commodity price differentials (crude oil and natural gas liquids) or congestion at ports (intermodal). Other shipments are relatively less affected by economic conditions and are more closely affected by other factors, such as winter weather (salt) and seasonal rainfall (agricultural products). As a result of these and other factors, our results of operations in any reporting period may not be directly comparable to our results of operations in other reporting periods.

When we discuss foreign exchange impact, we are referring to the change in our results due to the change in foreign currency exchange rates. We calculate foreign exchange impact by comparing the prior period results translated from local currency to United States dollars using current period exchange rates to the prior period results in United States dollars as reported. Constant currency, which is a non-GAAP measure, reflects the prior period results translated at the current period exchange rates. When we discuss results from existing operations or same railroad operations, we are referring to the change in our results, period-over-period, associated with operations that we managed in both periods (i.e., excluding the impact of acquisitions and divestitures).

Overview

We own or lease 121 freight railroads organized in nine locally managed operating regions with 8,000 employees serving 3,000 customers.

The financial results of our nine operating regions are reported in the following three reportable segments:

- North American Operations: Our seven North American regions serve 41 U.S. states and four Canadian provinces and include 115 short line and regional freight railroads with more than 13,000 track-miles.
- Australian Operations: Our Australia Region serves New South Wales, the Northern Territory, and South Australia and operates the 1,400-mile Tarcoola-to-Darwin rail line. The Australia Region is 51.1% owned by us and 48.9% owned by a consortium of funds and clients managed by Macquarie Infrastructure and Real Assets (MIRA).
- U.K./European Operations: Our U.K./European Region includes the United Kingdom's (U.K.) largest rail maritime intermodal operator and the second-largest freight rail provider, as well as regional rail services in Continental Europe.

Our subsidiaries and joint ventures also provide rail service at more than 40 major ports, rail-ferry service between the U.S. Southeast and Mexico, transload services, contract coal loading, and industrial railcar switching and repair.

Overview of Three-Month Results

Consolidated Results

Our operating revenues increased $54.6 million, or 10.1%, to $595.0 million for the three months ended June 30, 2018, compared with $540.4 million for the three months ended June 30, 2017. Operating income for the three months ended June 30, 2018 was $103.1 million, compared with $99.7 million for the three months ended June 30, 2017, an increase of $3.4 million, or 3.4%. Our operating ratio, defined as operating expenses divided by operating revenues, was 82.7% for the three months ended June 30, 2018, compared with 81.5% for the three months ended June 30, 2017.

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Net income attributable to G&W for the three months ended June 30, 2018 was $44.2 million, compared with net income of $46.0 million for the three months ended June 30, 2017. Our diluted earnings per common share (EPS) for the three months ended June 30, 2018 were $0.73 with 60.9 million weighted average shares outstanding, compared with diluted EPS of $0.74 with 62.4 million weighted average shares outstanding for the three months ended June 30, 2017.

Our provision for income taxes for the three months ended June 30, 2018 was $26.4 million, compared with our provision for income taxes for the three months ended June 30, 2017 of $29.6 million. Based on developments during the three months ended June 30, 2018, we recorded a reserve for uncertain tax positions of $4.8 million related to tax deductions on intercompany financing arrangements in the U.K., of which $0.7 million related to the three months ended June 30, 2018, $0.4 million related to the three months ended March 31, 2018 and $3.7 million related to the period from March 25, 2015, the date of the Freightliner Group Limited (Freightliner) acquisition when the arrangements were established, through December 31, 2017. The reserve for uncertain tax positions was included in our provision for income taxes for the three months ended June 30, 2018. Excluding the prior period portion of the reserve for uncertain tax positions, our effective income tax rate for the three months ended June 30, 2018 was 29.8%. Our effective income tax rate for the three months ended June 30, 2017 was 38.1%. The decrease in our effective income tax rate was primarily a result of the Tax Cuts and Jobs Act of 2017 (TCJA), which decreased the United States federal corporate income tax rate from 35% to 21%. See Note 11, Income Taxes, to our Consolidated Financial Statements set forth in "Part I Item 1. Financial Statements" of this quarterly report for additional information regarding the TCJA.

Items Affecting Comparability

Our results for the three months ended June 30, 2018 and 2017 included certain items affecting comparability between the periods that are set forth below (dollars in millions, except per share amounts):

	Income/(Loss) Before Taxes Impact	After-Tax Net Income/(Loss) Attributable to G&W Impact	Diluted Earnings/(Loss) Per Common Share Impact
Three Months Ended June 30, 2018			
Corporate development and related costs	$ (0.4)	$ (0.3)	$ —
Restructuring costs	$ (9.4)	$ (7.6)	$ (0.12)
Loss on sale of ERS	$ (1.4)	$ (1.4)	$ (0.02)
Gain on settlement	$ 6.3		