GREENBRIER COMPANIES INC
Form 10-Q
July 01, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

for the quarterly period ended May 31, 2015

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

for the transition period from __________ to __________

Commission File No. 1-13146

THE GREENBRIER COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Oregon	**93-0816972**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

One Centerpointe Drive, Suite 200, Lake Oswego, OR 97035

(Address of principal executive offices) (Zip Code)

(503) 684-7000

(Registrant s telephone number, including area code)

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

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

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

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

The number of shares of the registrant s common stock, without par value, outstanding on June 25, 2015 was 29,400,115 shares.

Forward-Looking Statements

From time to time, The Greenbrier Companies, Inc. and its subsidiaries (Greenbrier or the Company) or their representatives have made or may make forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements as to expectations, beliefs and strategies regarding the future. Such forward-looking statements may be included in, but not limited to, press releases, oral statements made with the approval of an authorized executive officer or in various filings made by us with the Securities and Exchange Commission, including this Quarterly Report on Form 10-Q. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements rely on a number of assumptions concerning future events and include statements relating to:

- availability of financing sources and borrowing base for working capital, other business development activities, capital spending and leased railcars for syndication (sale of railcars with lease attached);
- ability to renew, maintain or obtain sufficient credit facilities and financial guarantees on acceptable terms;
- ability to utilize beneficial tax strategies;
- ability to grow our businesses;
- ability to obtain lease and sales contracts which provide adequate protection against changes in interest rates and increased costs of materials and components;
- ability to obtain adequate insurance coverage at acceptable rates;
- ability to convert backlog of railcar orders and lease commitments;
- ability to obtain adequate certification and licensing of products; and
- short-term and long-term revenue and earnings effects of the above items.

The following factors, among others, could cause actual results or outcomes to differ materially from the forward-looking statements:

fluctuations in demand for newly manufactured railcars or marine barges;

fluctuations in demand for wheels, repair & parts;

delays in receipt of orders, risks that contracts may be canceled or modified during their term, not renewed, may be unenforceable or breached by the customer and that customers may not purchase the amount of products or services under the contracts as anticipated;

ability to maintain sufficient availability of credit facilities and to maintain compliance with or to obtain appropriate amendments to covenants under various credit agreements;

domestic and global economic conditions including such matters as embargoes or quotas;

U.S., Mexican and other global political or security conditions including such matters as terrorism, war, civil disruption and crime;

sovereign risk related to international governments that includes, but is not limited to, governments stopping payments or repudiating their contracts, nationalizing private businesses and assets or altering foreign exchange regulations;

growth or reduction in the surface transportation industry;

ability to maintain good relationships with our labor force, third party labor providers and collective bargaining units representing our direct and indirect labor force;

ability to maintain good relationships with our customers and suppliers;

ability to renew or replace expiring customer contracts on satisfactory terms;

ability to obtain and execute suitable contracts for leased railcars for syndication;

steel and specialty component price fluctuations and availability, scrap surcharges, steel scrap prices and other commodity price fluctuations and availability and their impact on product demand and margin;

delay or failure of acquired businesses or joint ventures, assets, start-up operations, or new products or services to compete successfully;

changes in product mix and the mix of revenue levels among reporting segments;

labor disputes, energy shortages or operating difficulties that might disrupt operations or the flow of cargo;

production difficulties and product delivery delays as a result of, among other matters, inefficiencies associated with expansion or the start-up of production lines and new facilities or increased production rates, equipment failures, changing technologies, transfer of production between facilities or non-performance of alliance partners, subcontractors or suppliers;

lower than anticipated lease renewal rates, earnings on utilization based leases or residual values for leased equipment;

discovery of defects in railcars or services resulting in increased warranty costs or litigation;

physical damage, business interruption or product or service liability claims that exceed our insurance coverage;

commencement of and ultimate resolution or outcome of pending or future litigation and investigations;

natural disasters or severe weather patterns that may affect either us, our suppliers or our customers;

loss of business from, or a decline in the financial condition of, any of the principal customers that represent a significant portion of our total revenues;

competitive factors, including introduction of competitive products, new entrants into certain of our markets, price pressures, limited customer base, and competitiveness of our manufacturing facilities and products;

industry overcapacity and our manufacturing capacity utilization;

decreases or write-downs in carrying value of inventory, goodwill, intangibles or other assets due to impairment;

severance or other costs or charges associated with lay-offs, shutdowns, or reducing the size and scope of operations;

changes in future maintenance or warranty requirements;

ability to adjust to the cyclical nature of the industries in which we operate;

changes in interest rates and financial impacts from interest rates;

ability and cost to maintain and renew operating permits;

actions or failures to act by various regulatory agencies including potential environmental remediation obligations or changing tank car or other rail car regulation;

changes in commodity prices, including oil and gas;

risks associated with our intellectual property rights or those of third parties, including infringement, maintenance, protection, validity, enforcement and continued use of such rights;

expansion of warranty and product support terms beyond those which have traditionally prevailed in the rail supply industry;

availability of a trained work force at a reasonable cost and with reasonable terms of employment;

availability and/or price of essential raw materials, specialties or components, including steel castings, to permit manufacture of units on order;

failure to successfully integrate joint ventures or acquired businesses;

discovery of previously unknown liabilities associated with acquired businesses;

failure of or delay in implementing and using new software or other technologies;

the impact of cybersecurity risks and the costs of mitigating and responding to a data security breach;

ability to replace maturing lease and management services revenue and earnings with revenue and earnings from new commercial transactions, including new railcar leases, additions to the lease fleet and new management services contracts;

credit limitations upon our ability to maintain effective hedging programs;

financial impacts from currency fluctuations and currency hedging activities in our worldwide operations;

changes in legislation and increased costs related to health care; and

fraud, misconduct by employees and potential exposure to liabilities under the Foreign Corrupt Practices Act and other anti-corruption laws and regulations.

Any forward-looking statements should be considered in light of these factors. Words such as anticipates, believes, forecast, potential, goal, contemplates, expects, intends, plans, projects, hopes, seeks, estimates, would, should, likely, will, may, can, designed to, future, foreseeable future and similar expressions forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements. Many of the important factors that will determine these results and values are beyond our ability to control or predict. You are cautioned not to put undue reliance on any forward-looking statements. Except as otherwise required by law, we do not assume any obligation to update any forward-looking statements.

All references to years refer to the fiscal years ended August 31st unless otherwise noted.

PART I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements
Consolidated Balance Sheets

(In thousands, unaudited)

	May 31, 2015	August 31, 2014
Assets		
Cash and cash equivalents	$ 122,783	$ 184,916
Restricted cash	8,912	20,140
Accounts receivable, net	214,890	199,679
Inventories	426,655	305,656
Leased railcars for syndication	213,197	125,850
Equipment on operating leases, net	257,962	258,848
Property, plant and equipment, net	285,570	243,698
Investment in unconsolidated affiliates	91,217	69,359
Goodwill	43,265	43,265
Intangibles and other assets, net	62,664	65,757
	$ 1,727,115	$ 1,517,168
Liabilities and Equity		
Revolving notes	$ 92,507	$ 13,081
Accounts payable and accrued liabilities	405,544	383,289
Deferred income taxes	75,572	81,383
Deferred revenue	24,209	20,603
Notes payable	346,279	445,091
Commitments and contingencies (Note 13)		
Equity:		
Greenbrier		
Preferred stock - without par value; 25,000 shares authorized; none outstanding		
Common stock - without par value; 50,000 shares authorized; 28,925 and 27,364 shares outstanding at May 31, 2015 and August 31, 2014		
Additional paid-in capital	293,407	235,763
Retained earnings	396,250	282,559
Accumulated other comprehensive loss	(17,261)	(6,932)
Total equity Greenbrier	672,396	511,390
Noncontrolling interest	110,608	62,331

Total equity	783,004	573,721
	$ 1,727,115	$ 1,517,168

The accompanying notes are an integral part of these financial statements

THE GREENBRIER COMPANIES, INC.

Consolidated Statements of Income

(In thousands, except per share amounts, unaudited)

	Three Months Ended May 31, 2015	Three Months Ended May 31, 2014	Nine Months Ended May 31, 2015	Nine Months Ended May 31, 2014
Revenue				
Manufacturing	$ 593,376	$ 425,583	$ 1,478,566	$ 1,132,811
Wheels & Parts	97,407	140,663	286,671	390,604
Leasing & Services	23,823	27,039	74,576	62,441
	714,606	593,285	1,839,813	1,585,856
Cost of revenue				
Manufacturing	465,658	351,829	1,184,922	969,841
Wheels & Parts	89,645	129,825	259,285	365,740
Leasing & Services	10,017	14,856	32,942	34,090
	565,320	496,510	1,477,149	1,369,671
Margin	149,286	96,775	362,664	216,185
Selling and administrative expense	45,595	34,800	112,223	89,034
Net gain on disposition of equipment	(720)	(5,619)	(924)	(14,686)
Restructuring charges		56		1,475
Earnings from operations	104,411	67,538	251,365	140,362
Other costs				
Interest and foreign exchange	4,285	5,437	9,355	14,280
Earnings before income taxes and earnings from unconsolidated affiliates	100,126	62,101	242,010	126,082
Income tax expense	(30,783)	(16,303)	(76,209)	(36,708)
Earnings before earnings from unconsolidated affiliates	69,343	45,798	165,801	89,374
Earnings from unconsolidated affiliates	982	298	1,552	272
Net earnings	70,325	46,096	167,353	89,646
Net earnings attributable to noncontrolling interest	(27,514)	(12,508)	(41,405)	(25,083)
Net earnings attributable to Greenbrier	$ 42,811	$ 33,588	$ 125,948	$ 64,563
Basic earnings per common share	$ 1.54	$ 1.20	$ 4.58	$ 2.29
Diluted earnings per common share	$ 1.33	$ 1.03	$ 3.91	$ 2.01
Weighted average common shares:				
Basic	27,842	27,956	27,514	28,223

Diluted		33,000		34,001		33,262		34,268
Dividends declared per common share	$	0.15	$		$	0.45	$	

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Comprehensive Income

(In thousands, unaudited)

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2015	2014	2015	2014
Net earnings	$ 70,325	$ 46,096	$ 167,353	$ 89,646
Other comprehensive income				
Translation adjustment	(1,299)	80	(10,990)	3,402
Reclassification of derivative financial instruments recognized in net earnings [1]	(254)	4	417	321
Unrealized gain (loss) on derivative financial instruments [2]	107	(659)	(7)	454
Other (net of tax effect)	93	(4)	99	(3)
	(1,353)	(579)	(10,481)	4,174
Comprehensive income	68,972	45,517	156,872	93,820
Comprehensive income attributable to noncontrolling interest	(27,497)	(12,501)	(41,253)	(25,137)
Comprehensive income attributable to Greenbrier	$ 41,475	$ 33,016	$ 115,619	$ 68,683

[1] Net of tax of effect of $0.04 million and $0.1 million for the three months ended May 31, 2015 and 2014 and $0.4 million and $0.4 million for the nine months ended May 31, 2015 and 2014.

[2] Net of tax of effect of $0.1 million and $0.5 million for the three months ended May 31, 2015 and 2014 and $0.6 million and $0.2 million for the nine months ended May 31, 2015 and 2014.

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Equity

(In thousands, unaudited)

	Attributable to Greenbrier						
	Common Stock Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Attributable to Greenbrier	Attributable to Noncontrolling Interest	Total Equity
Balance September 1, 2014	27,364	$ 235,763	$ 282,559	$ (6,932)	$ 511,390	$ 62,331	$ 573,721
Net earnings			125,948		125,948	41,405	167,353
Other comprehensive loss, net				(10,329)	(10,329)	(152)	(10,481)
Noncontrolling interest adjustments						20,371	20,371
Purchase of noncontrolling interest						(80)	(80)
Joint venture partner distribution declared						(13,267)	(13,267)
Restricted stock awards (net of cancellations)	(19)	22,600			22,600		22,600
Unamortized restricted stock		(24,394)			(24,394)		(24,394)
Restricted stock amortization		13,176			13,176		13,176
Excess tax benefit from restricted stock awards		2,964			2,964		2,964
Conversion of convertible notes, net of debt issuance costs	2,471	91,749			91,749		91,749
Cash dividends			(12,257)		(12,257)		(12,257)
Repurchase of stock	(891)	(48,451)			(48,451)		(48,451)
Balance May 31, 2015	28,925	$ 293,407	$ 396,250	$ (17,261)	$ 672,396	$ 110,608	$ 783,004

	Attributable to Greenbrier						
	Common Stock Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Attributable to Greenbrier	Attributable to Noncontrolling Interest	Total Equity
	28,084	$ 259,864	$ 174,842	$ (6,504)	$ 428,202	$ 28,625	$ 456,827

Balance September 1, 2013							
Net earnings			64,563		64,563	25,083	89,646
Other comprehensive income, net				4,120	4,120	54	4,174
Noncontrolling interest adjustments						2,953	2,953
Investment by joint venture partner						419	419
Joint venture partner distribution declared						(5,077)	(5,077)
Restricted stock awards (net of cancellations and expense)	46	11,599			11,599		11,599
Unamortized restricted stock		(12,610)			(12,610)		(12,610)
Restricted stock amortization		6,455			6,455		6,455
Excess tax benefit from restricted stock awards		109			109		109
Repurchase of stock	(641)	(26,293)			(26,293)		(26,293)
Balance May 31, 2014	27,489	$ 239,124	$ 239,405	$ (2,384)	$ 476,145	$ 52,057	$ 528,202

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Cash Flows

(In thousands, unaudited)

	Nine Months Ended May 31, 2015	Nine Months Ended May 31, 2014
Cash flows from operating activities		
Net earnings	$ 167,353	$ 89,646
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Deferred income taxes	(5,245)	(6,745)
Depreciation and amortization	33,258	30,824
Net gain on disposition of equipment	(924)	(14,686)
Stock based compensation expense	13,176	6,454
Noncontrolling interest adjustments	20,371	2,953
Other	1,008	388
Increase in assets:		
Accounts receivable, net	(8,769)	(26,226)
Inventories	(124,906)	(21,722)
Leased railcars for syndication	(90,914)	(25,420)
Other	(1,666)	(2,491)
Increase in liabilities:		
Accounts payable and accrued liabilities	23,135	36,507
Deferred revenue	3,680	12,258
Net cash provided by operating activities	29,557	81,740
Cash flows from investing activities		
Proceeds from sales of assets	4,628	39,515
Capital expenditures	(75,892)	(34,522)
Decrease (increase) in restricted cash	228	(661)
Investment in and advances to unconsolidated affiliates	(29,923)	(1,253)
Other	715	
Net cash provided by (used in) investing activities	(100,244)	3,079
Cash flows from financing activities		
Net change in revolving notes with maturities of 90 days or less	73,000	
Proceeds from revolving notes with maturities longer than 90 days	42,563	34,674
Repayments of revolving notes with maturities longer than 90 days	(36,137)	(64,801)
Proceeds from issuance of notes payable		200,000
Repayments of notes payable	(5,504)	(126,821)
Debt issuance costs		(382)
Repurchase of stock	(48,451)	(26,293)

Dividends	(12,069)	
Decrease in restricted cash	11,000	
Cash distribution to joint venture partner	(12,489)	(3,109)
Investment by joint venture partner		419
Excess tax benefit from restricted stock awards	2,964	109
Other	(248)	
Net cash provided by financing activities	14,629	13,796
Effect of exchange rate changes	(6,075)	2,442
Increase (decrease) in cash and cash equivalents	(62,133)	101,057
Cash and cash equivalents		
Beginning of period	184,916	97,435
End of period	$ 122,783	$ 198,492
Cash paid during the period for		
Interest	$ 13,509	$ 12,816
Income taxes, net	$ 87,829	$ 41,643
Non-cash activity		
Conversion of convertible notes, net of debt issuance costs	$ 91,749	$
Dividends declared and accrued in Accounts payable and accrued liabilities	$ 188	$
Transfer from Leased railcars for syndication to Equipment on operating leases, net	$ 3,313	$
Capital expenditures accrued in Accounts payable and accrued liabilities	$ 2,304	$
Transfer of Inventories to Leased railcars for syndication	$	$ 2,691

The accompanying notes are an integral part of these financial statements

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1 Interim Financial Statements

The Condensed Consolidated Financial Statements of The Greenbrier Companies, Inc. and Subsidiaries (Greenbrier or the Company) as of May 31, 2015 and for the three and nine months ended May 31, 2015 and 2014 have been prepared without audit and reflect all adjustments (consisting of normal recurring accruals) that, in the opinion of management, are necessary for a fair presentation of the financial position, operating results and cash flows for the periods indicated. The results of operations for the three and nine months ended May 31, 2015 are not necessarily indicative of the results to be expected for the entire year ending August 31, 2015.

Certain notes and other information have been condensed or omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with the Consolidated Financial Statements contained in the Company s 2014 Annual Report on Form 10-K.

Management Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires judgment on the part of management to arrive at estimates and assumptions on matters that are inherently uncertain. These estimates may affect the amount of assets, liabilities, revenue and expenses reported in the financial statements and accompanying notes and disclosure of contingent assets and liabilities within the financial statements. Estimates and assumptions are periodically evaluated and may be adjusted in future periods. Actual results could differ from those estimates.

Prospective Accounting Changes In May 2014, the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) jointly issued a converged standard on the recognition of revenue from contracts with customers. The issued guidance converges the criteria for reporting revenue, as well as requiring disclosures sufficient to describe the nature, amount, timing, and uncertainty of revenue and cash flows arising from these contracts. Companies can transition to the standard either retrospectively or as a cumulative effective adjustment as of the date of adoption. The Company plans to adopt this guidance beginning September 1, 2017. The Company is evaluating the impact of this standard as well as its method of adoption on its consolidated financial statements and disclosures.

In April 2015, the FASB issued Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). The FASB issued this update to simplify the presentation of debt issuance costs related to a recognized debt liability to present the debt issuance costs as a direct deduction from the carrying value of the debt liability rather than showing the debt issuance costs as an asset. The guidance is limited to the presentation of debt issuance costs and does not impact the recognition and measurement. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015 with early adoption permitted and is required to be applied on a retrospective basis. The Company plans to adopt ASU 2015-03 beginning September 1, 2016. As the adoption of this new accounting standard will only amend presentation and disclosure requirements, the adoption will not affect the Company s financial position or results of operations.

Share Repurchase Programs In October 2013, the Board of Directors authorized the Company to repurchase up to $50 million of the Company s common stock. The Company completed this share repurchase program in October 2014. In October 2014, the Board of Directors authorized a new share repurchase program for the Company to repurchase up to an additional $50 million of the Company s common stock. In January 2015, the Board of Directors authorized a $25 million increase to the October 2014 share repurchase program, bringing the total to $75 million. The new share repurchase program expires June 30, 2016, but may be modified, suspended or discontinued at any time without prior notice. Under the share repurchase programs, shares of common stock may be purchased on the open market or through privately negotiated transactions from time-to-time. The timing and amount of purchases will be based upon market conditions, securities law limitations and other factors. The share repurchase programs do not obligate the Company to acquire any specific number of shares in any period.

During the three and nine months ended May 31, 2015, the Company purchased a total of 28,363 and 891,041 shares for approximately $1.5 million and $48.5 million, respectively, under these share repurchase programs. As of May 31, 2015 the Company had $42.1 million available under the $75 million share repurchase program.

Note 2 Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. Work-in-process includes material, labor and overhead. The following table summarizes the Company s inventory balance:

(In thousands)	May 31, 2015	August 31, 2014
Manufacturing supplies and raw materials	$ 323,164	$ 235,903
Work-in-process	62,668	48,853
Finished goods	44,143	23,766
Excess and obsolete adjustment	(3,320)	(2,866)
	$ 426,655	$ 305,656

Note 3 Intangibles and Other Assets, net

Intangible assets that are determined to have finite lives are amortized over their useful lives. Intangible assets with indefinite useful lives are not amortized and are periodically evaluated for impairment.

The following table summarizes the Company s identifiable intangible and other assets balance:

(In thousands)	May 31, 2015	August 31, 2014
Intangible assets subject to amortization:		
Customer relationships	$ 65,023	$ 65,023
Accumulated amortization	(32,886)	(30,282)
Other intangibles	3,426	3,699
Accumulated amortization	(3,084)	(3,156)
	32,479	35,284
Intangible assets not subject to amortization	912	912
Nonqualified savings plan investments	12,666	10,223
Prepaid and other assets	12,063	11,736
Debt issuance costs, net	4,544	7,602
Total Intangible and other assets, net	$ 62,664	$ 65,757

Amortization expense for the three and nine months ended May 31, 2015 was $0.9 million and $2.7 million and for the three and nine months ended May 31, 2014 was $1.0 million and $3.6 million. Amortization expense for the years ending August 31, 2015, 2016, 2017, 2018 and 2019 is expected to be $3.6 million, $3.6 million, $3.6 million, $3.4 million and $3.4 million.

Note 4 Revolving Notes

Senior secured credit facilities, consisting of three components, aggregated to $346.2 million as of May 31, 2015.

As of May 31, 2015, a $290.0 million revolving line of credit, maturing June 2016, secured by substantially all the Company s assets in the U.S. not otherwise pledged as security for term loans, was available to provide working capital and interim financing of equipment, principally for the U.S. and Mexican operations. Advances under this facility bear interest at LIBOR plus 2.25% or Prime plus 1.25% depending on the type of borrowing. Available borrowings under the credit facility are generally based on defined levels of inventory, receivables, property, plant and equipment and leased equipment, as well as total debt to consolidated capitalization and fixed charges coverage ratios.

As of May 31, 2015, lines of credit totaling $16.2 million secured by certain of the Company s European assets, with various variable rates that range from Warsaw Interbank Offered Rate (WIBOR) plus 1.2% to WIBOR plus 1.3%, were available for working capital needs of the European manufacturing operation. European credit facilities are continually being renewed. Currently these European credit facilities have maturities that range from February 2016 through June 2017.

The Company s Mexican joint venture has two lines of credit totaling $40.0 million. The first line of credit provides up to $10.0 million and is secured by certain of the joint venture s accounts receivable and inventory. Advances under this facility bear interest at LIBOR plus 2.5%. The Mexican joint venture will be able to draw amounts available under this facility through June 2016. The second line of credit provides up to $30.0 million and is fully guaranteed by each of the joint venture partners, including the Company. Advances under this facility bear interest at LIBOR plus 2.0%. The Mexican joint venture will be able to draw against this facility through January 2019.

As of May 31, 2015, outstanding commitments under the senior secured credit facilities consisted of $49.8 million in letters of credit and $73.0 million in revolving notes under the North American credit facility and $19.5 million outstanding in revolving notes under the Mexican joint venture credit facilities.

As of August 31, 2014, outstanding commitments under the senior secured credit facilities consisted of $9.6 million in letters of credit under the North American credit facility and $13.1 million outstanding in revolving notes under the Mexican joint venture credit facilities.

Note 5 Accounts Payable and Accrued Liabilities

(In thousands)	May 31, 2015	August 31, 2014
Trade payables	$ 251,634	$ 204,744
Other accrued liabilities	64,189	66,421
Accrued payroll and related liabilities	57,839	64,959
Accrued maintenance	17,965	14,329
Accrued warranty	10,198	9,340
Income taxes payable	163	19,709
Other	3,556	3,787
	$ 405,544	$ 383,289

Note 6 Warranty Accruals

Warranty costs are estimated and charged to operations to cover a defined warranty period. The estimated warranty cost is based on the history of warranty claims for each particular product type. For new product types without a warranty history, preliminary estimates are based on historical information for similar product types. The warranty accruals, included in Accounts payable and accrued liabilities on the Consolidated Balance Sheets, are reviewed periodically and updated based on warranty trends and expirations of warranty periods.

Warranty accrual activity:

	Three Months Ended May 31,		Nine Months Ended May 31,	
(In thousands)	2015	2014	2015	2014
Balance at beginning of period	$ 9,188	$ 10,673	$ 9,340	$ 12,128
Charged to cost of revenue, net	2,036	170	3,982	1,418
Payments	(994)	(1,208)	(2,797)	(4,191)
Currency translation effect	(32)	83	(327)	363
Balance at end of period	$ 10,198	$ 9,718	$ 10,198	$ 9,718

Note 7 Notes Payable

The Company s 3.5% convertible senior notes will mature on April 1, 2018, unless repurchased earlier by the Company or converted in accordance with their terms. Holders may convert at their option at any time prior to the business day immediately preceding the stated maturity date. During 2015, $93.1 million in principal of the original $230.0 million was converted into 2.5 million shares of the Company s common stock which resulted in a principal balance of $136.9 million as of May 31, 2015. Associated debt issuance costs of $1.3 million were removed from Intangibles and other assets, net and charged against additional paid in capital.

In March 2014, the Company refinanced approximately $125 million of existing senior term debt, due in March 2014 and May 2015, secured by a pool of leased railcars with new 6-year $200 million senior term debt also secured by a pool of leased railcars. The new debt bears a floating interest rate of LIBOR plus 1.75% with principal of $1.75 million paid quarterly in arrears and a balloon payment of $160 million due at maturity. An interest rate swap agreement was entered into on 50% of the initial balance to swap the floating interest rate of LIBOR plus 1.75% to a fixed rate of 3.7375%.

Note 8 Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss, net of tax effect as appropriate, consisted of the following:

(In thousands)	Unrealized Loss on Derivative Financial Instruments	Foreign Currency Translation Adjustment	Other	Accumulated Other Comprehensive Loss
Balance, August 31, 2014	$ (1,601)	$ (4,813)	$ (518)	$ (6,932)
Other comprehensive income (loss) before reclassifications	(7)	(10,838)[1]	99	(10,746)
Amounts reclassified from accumulated other comprehensive loss	417			417
Balance, May 31, 2015	$ (1,191)	$ (15,651)	$ (419)	$ (17,261)

[1] Primarily relates to the foreign currency translation of the Company s Zloty functional currency operations in Poland to US Dollars.

The amounts reclassified out of Accumulated other comprehensive loss into the Consolidated Statements of Income, with presentation location, were as follows:

	Three Months Ended May 31,		Nine Months Ended May 31,		
(In thousands)	2015	2014	2015	2014	Financial Statement Location
(Gain) loss on derivative financial instruments:					
Foreign exchange contracts	$ (652)	$ (335)	$ (518)	$ (575)	Revenue
Interest rate swap contracts	442	446	1,349	1,275	Interest and foreign exchange
	(210)	111	831	700	Total before tax
	(44)	(107)	(414)	(379)	Tax expense
	$ (254)	$ 4	$ 417	$ 321	Net of tax

Note 9 Earnings Per Share

The shares used in the computation of the Company s basic and diluted earnings per common share are reconciled as follows:

	Three Months Ended May 31,		Nine Months Ended May 31,	
(In thousands)	2015	2014	2015	2014
Weighted average basic common shares outstanding (1)	27,842	27,956	27,514	28,223
Dilutive effect of 2018 Convertible notes (2)	5,155	6,045	5,745	6,045
Dilutive effect of 2026 Convertible notes (3)	3		3	
Weighted average diluted common shares outstanding	33,000	34,001		