GREENBRIER COMPANIES INC
Form 10-Q
April 05, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the quarterly period ended February 28, 2017

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 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 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	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

The number of shares of the registrant s common stock, without par value, outstanding on March 29, 2017 was 28,400,305 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 attempted modifications or cancellations, 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 obtain and execute lease syndication 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 and for wheels, repair services and parts;
- delays in receipt of orders, risks that contracts may be canceled or modified during their term, not renewed, 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 international economic conditions including such matters as embargoes, quotas, tariffs, or modifications to existing trade agreements;
- domestic and international political and security conditions in the U.S., Europe, Latin America, the Gulf Cooperation Council (GCC) and other areas including such matters as terrorism, war, civil disruption and crime;
- the policies and priorities of the federal government regarding international trade and infrastructure;

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

growth or reduction in the surface transportation industry, or the enactment of policies favoring other types of surface transportation over rail transportation;

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 lease 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, costs or inefficiencies associated with expansion, start-up, or changing of production lines or changes in 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 or unusual 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 layoffs, 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 changing tank car or other rail car regulations;
potential environmental remediation obligations;
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 or complete previously announced transactions, including our proposed transaction with Astra Rail Management GmbH (Astra) and our pending incremental investment in our Brazil operations;
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;

increased costs or other impacts on us or our customers due to changes in legislation, taxes, regulations or accounting pronouncements;

changes to government policies or priorities in all areas where we do business; 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 place undue reliance on any forward-looking statements, which reflect management s opinions only as of the date hereof. 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)

	February 28, 2017	August 31, 2016
Assets		
Cash and cash equivalents	$ 545,752	$ 222,679
Restricted cash	8,696	24,279
Accounts receivable, net	295,844	232,517
Inventories	381,439	365,805
Leased railcars for syndication	98,398	144,932
Equipment on operating leases, net	298,269	306,266
Property, plant and equipment, net	325,325	329,990
Investment in unconsolidated affiliates	90,762	98,682
Intangibles and other assets, net	68,228	67,359
Goodwill	43,265	43,265
	$ 2,155,978	$ 1,835,774
Liabilities and Equity		
Accounts payable and accrued liabilities	$ 372,321	$ 369,754
Deferred income taxes	65,589	51,619
Deferred revenue	85,441	95,721
Notes payable, net	532,596	301,853
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; 28,400 and 28,205 shares outstanding at February 28, 2017 and August 31, 2016		
Additional paid-in capital	305,992	282,886
Retained earnings	665,442	618,178
Accumulated other comprehensive loss	(29,350)	(26,753)
Total equity Greenbrier	942,084	874,311
Noncontrolling interest	157,947	142,516

Total equity	1,100,031	1,016,827
	$ 2,155,978	$ 1,835,774

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Income

(In thousands, except per share amounts, unaudited)

	Three Months Ended February 28, 2017	Three Months Ended February 29, 2016	Six Months Ended February 28, 2017	Six Months Ended February 29, 2016
Revenue				
Manufacturing	$ 445,504	$ 454,531	$ 899,537	$ 1,153,192
Wheels & Parts	82,714	90,458	152,349	169,187
Leasing & Services	38,064	124,090	66,710	149,089
	566,282	669,079	1,118,596	1,471,468
Cost of revenue				
Manufacturing	346,653	361,827	703,208	894,860
Wheels & Parts	75,497	81,388	140,475	154,390
Leasing & Services	25,207	105,973	43,237	117,562
	447,357	549,188	886,920	1,166,812
Margin	118,925	119,891	231,676	304,656
Selling and administrative expense	39,495	38,244	80,708	74,793
Net gain on disposition of equipment	(2,090)	(10,746)	(3,212)	(11,015)
Earnings from operations	81,520	92,393	154,180	240,878
Other costs				
Interest and foreign exchange	5,673	1,417	7,397	6,853
Earnings before income taxes and earnings (loss) from unconsolidated affiliates	75,847	90,976	146,783	234,025
Income tax expense	(24,858)	(25,734)	(45,244)	(70,453)
Earnings before earnings (loss) from unconsolidated affiliates	50,989	65,242	101,539	163,572
Earnings (loss) from unconsolidated affiliates	(1,988)	974	(4,572)	1,357
Net earnings	49,001	66,216	96,967	164,929
Net earnings attributable to noncontrolling interest	(14,465)	(21,348)	(37,469)	(50,628)
Net earnings attributable to Greenbrier	$ 34,536	$ 44,868	$ 59,498	$ 114,301
Basic earnings per common share	$ 1.19	$ 1.54	$ 2.04	$ 3.91
Diluted earnings per common share	$ 1.09	$ 1.41	$ 1.88	$ 3.55
Weighted average common shares:				
Basic	29,130	29,098	29,113	29,244

Diluted	32,427	32,360	32,423	32,542
Dividends declared per common share	$ 0.21	$ 0.20	$ 0.42	$ 0.40

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Comprehensive Income

(In thousands, unaudited)

	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Net earnings	$ 49,001	$ 66,216	$ 96,967	$ 164,929
Other comprehensive income (loss)				
Translation adjustment	4,010	(1,165)	(2,710)	(5,132)
Reclassification of derivative financial instruments recognized in net earnings [1]	2,828	559	3,151	1,051
Unrealized gain (loss) on derivative financial instruments [2]	2,716	(1,478)	(2,188)	(7,530)
Other (net of tax effect)	(849)	(6)	(850)	(6)
	8,705	(2,090)	(2,597)	(11,617)
Comprehensive income	57,706	64,126	94,370	153,312
Comprehensive income attributable to noncontrolling interest	(14,465)	(21,359)	(37,469)	(50,566)
Comprehensive income attributable to Greenbrier	$ 43,241	$ 42,767	$ 56,901	$ 102,746

1 Net of tax effect of $0.8 million and $0.2 million for the three months ended February 28, 2017 and February 29, 2016 and $0.9 million and $0.5 million for the six months ended February 28, 2017 and February 29, 2016.

2 Net of tax effect of $0.8 million and $0.9 million for the three months ended February 28, 2017 and February 29, 2016 and $0.2 million and $2.4 million for the six months ended February 28, 2017 and February 28, 2016.

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, 2016	28,205	$ 282,886	$ 618,178	$ (26,753)	$ 874,311	$ 142,516	$ 1,016,827
Net earnings			59,498		59,498	37,469	96,967
Other comprehensive loss, net				(2,597)	(2,597)		(2,597)
Noncontrolling interest adjustments						(3,255)	(3,255)
Joint venture partner distribution declared						(18,783)	(18,783)
Restricted stock awards (net of cancellations)	195	(1,876)			(1,876)		(1,876)
Unamortized restricted stock		(1,105)			(1,105)		(1,105)
Restricted stock amortization		8,437			8,437		8,437
Tax deficiency from restricted stock awards		(2,453)			(2,453)		(2,453)
Cash dividends			(12,234)		(12,234)		(12,234)
2024 Convertible Senior Notes equity component, net of tax		20,818			20,818		20,818
2024 Convertible Senior Notes issuance costs equity component, net of tax		(715)			(715)		(715)
Balance February 28, 2017	28,400	$ 305,992	$ 665,442	$ (29,350)	$ 942,084	$ 157,947	$ 1,100,031

	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, 2015	28,907	$ 295,444	$ 458,599	$ (21,205)	$ 732,838	$ 130,651	$ 863,489
Net earnings			114,301		114,301	50,628	164,929
Other comprehensive loss, net				(11,555)	(11,555)	(62)	(11,617)
Noncontrolling interest adjustments						2,815	2,815
Purchase of noncontrolling interest						(4)	(4)
Joint venture partner distribution declared						(52,774)	(52,774)
Restricted stock awards (net of cancellations)	242	(3,306)			(3,306)		(3,306)
Unamortized restricted stock		(789)			(789)		(789)
Restricted stock amortization		10,740			10,740		10,740
Excess tax benefit from restricted stock awards		2,786			2,786		2,786
Cash dividends			(11,702)		(11,702)		(11,702)
Repurchase of stock	(1,055)	(32,373)			(32,373)		(32,373)
Balance February 29, 2016	28,094	$ 272,502	$ 561,198	$ (32,760)	$ 800,940	$ 131,254	$ 932,194

The accompanying notes are an integral part of these financial statements

THE GREENBRIER COMPANIES, INC.

Consolidated Statements of Cash Flows

(In thousands, unaudited)

	Six Months Ended February 28, 2017	Six Months Ended February 29, 2016
Cash flows from operating activities		
Net earnings	$ 96,967	$ 164,929
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Deferred income taxes	2,272	(5,287)
Depreciation and amortization	30,580	27,842
Net gain on disposition of equipment	(3,212)	(11,015)
Accretion of debt discount	330	
Stock based compensation expense	10,854	10,740
Noncontrolling interest adjustments	(3,255)	2,815
Other	548	491
Decrease (increase) in assets:		
Accounts receivable, net	(67,271)	(30,356)
Inventories	(17,673)	21,922
Leased railcars for syndication	37,903	(15,391)
Other	5,550	(3,717)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(1,263)	(55,448)
Deferred revenue	(10,468)	41,790
Net cash provided by operating activities	81,862	149,315
Cash flows from investing activities		
Proceeds from sales of assets	19,898	80,541
Capital expenditures	(21,194)	(27,974)
Decrease (increase) in restricted cash	15,583	(8)
Investment in and advances to unconsolidated affiliates	(550)	(5,140)
Other	550	2,640
Net cash provided by investing activities	14,287	50,059
Cash flows from financing activities		
Net change in revolving notes with maturities of 90 days or less		26,000
Proceeds from revolving notes with maturities longer than 90 days		
Repayments of revolving notes with maturities longer than 90 days		(1,888)
Proceeds from issuance of notes payable	275,000	
Repayments of notes payable	(3,719)	(3,730)
Debt issuance costs	(9,450)	(4,149)

Repurchase of stock		(33,246)
Dividends	(12,138)	(11,575)
Cash distribution to joint venture partner	(19,486)	(53,543)
Excess tax benefit (deficiency) from restricted stock awards	(2,453)	2,786
Other		(6)
Net cash provided by (used in) financing activities	227,754	(79,351)
Effect of exchange rate changes	(830)	(9,412)
Increase in cash and cash equivalents	323,073	110,611
Cash and cash equivalents		
Beginning of period	222,679	172,930
End of period	$ 545,752	$ 283,541
Cash paid during the period for		
Interest	$ 4,944	$ 6,928
Income taxes, net	$ 18,818	$ 63,050
Non-cash activity		
Transfer from Leased railcars for syndication to Equipment on operating leases, net	$ 6,082	$ 45,615
Capital expenditures accrued in Accounts payable and accrued liabilities	$ 4,783	$ 6,430
Change in Accounts payable and accrued liabilities associated with cash distributions to joint venture partner	$ 703	$ 769
Change in Accounts payable and accrued liabilities associated with dividends declared	$ (96)	$ (127)
Change in Accounts payable and accrued liabilities associated with repurchase of stock	$	$ 873

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 its subsidiaries (Greenbrier or the Company) as of February 28, 2017, for the three and six months ended February 28, 2017 and for the three and six months ended February 29, 2016 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 six months ended February 28, 2017 are not necessarily indicative of the results to be expected for the entire year ending August 31, 2017.

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 2016 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.

Initial Adoption of Accounting Policies In the first quarter of 2017, the Company adopted 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. As the adoption of this new guidance only amended presentation and disclosure requirements and did not impact its recognition and measurement, the adoption did not affect the Company s financial position, results of operations or cash flows. As ASU 2015-03 requires retrospective application, the Company reclassified $2.1 million of debt issuance costs included in Intangibles and other assets, net to Notes payable, net at August 31, 2016.

In the first quarter of 2017, the Company adopted Accounting Standards Update 2015-15, *Interest-Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line of Credit Arrangements* (ASU 2015-15). This update was released because the guidance within ASU 2015-03 for debt issuance costs does not address presentation or subsequent measurement of debt issuance costs related to line of credit arrangements. The SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line of credit arrangement, regardless of whether there are any outstanding borrowings on the line of credit arrangement. Upon adoption, the Company continued to present debt issuance costs related to line of credit arrangements as an asset. The adoption of this new guidance did not affect the Company s financial position, results of operations or cash flows.

In the second quarter of 2017, the Company adopted Accounting Standards Update 2017-04, *Simplifying the Test for Goodwill Impairment* (ASU 2017-04) which was issued by the FASB in January 2017. This update simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the new guidance, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit s fair value. However, the loss should not exceed the total amount of goodwill allocated to that reporting unit. This new guidance is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The early adoption of ASU 2017-04 by the Company reduced the complexity surrounding the evaluation of its goodwill for impairment and did not have a material impact on its consolidated financial statements.

Prospective Accounting Changes In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). The issued guidance converges the criteria for reporting revenue, and requires 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 effect adjustment as of the date of adoption. The FASB issued a one year deferral and the new standard is effective for fiscal years and interim periods within those years beginning after December 15, 2017. The Company plans to adopt this guidance beginning September 1, 2018. The Company is evaluating the impact of this standard as well as its method of adoption on its consolidated financial statements and disclosures.

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases* (ASU 2016-02). The new guidance supersedes existing guidance on accounting for leases in Topic 840 and is intended to increase the transparency and comparability of accounting for lease transactions. ASU 2016-02 requires most leases to be recognized on the balance sheet. Lessees will need to recognize a right-of-use asset and a lease liability for virtually all leases. The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Lessor accounting remains similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. The ASU will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. The Company plans to adopt this guidance beginning September 1, 2019. The Company is currently evaluating the impact of this standard on its consolidated financial statements and disclosures.

In March 2016, the FASB issued Accounting Standards Update 2016-09, *Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). This update will change how companies account for certain aspects of share-based payments to employees. Excess tax benefits or deficiencies related to vested awards, previously recognized in stockholders equity, will be required to be recognized in the income statement when the awards vest. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016, with early adoption permitted. The Company plans to adopt this guidance beginning September 1, 2017. The effect of adopting this standard will result in volatility in the provision for income taxes depending on fluctuations in the price of the Company s stock.

In December 2016, the FASB issued Accounting Standards Update 2016-18, *Restricted Cash* (ASU 2016-18). This update requires additional disclosure and that the Statement of Cash Flow explain the change during the period in the total cash, cash equivalents and amounts generally described as restricted cash. Therefore, amounts generally described as restricted cash should be included with cash & cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Statement of Cash Flows. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 with early adoption permitted. The Company plans to adopt this guidance beginning September 1, 2018.

Share Repurchase Program Since October 2013, the Board of Directors has authorized the Company to repurchase in aggregate up to $225 million of the Company s common stock. The program may be modified, suspended or discontinued at any time without prior notice. Under the share repurchase program, 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 program does not obligate the Company to acquire any specific number of shares in any period.

The Company did not repurchase any shares during the six months ended February 28, 2017. As of February 28, 2017, the Company had cumulatively repurchased 3,206,226 shares for approximately $137.0 million and had $88.0 million available under the share repurchase program with an expiration date of January 1, 2018.

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)	February 28, 2017	August 31, 2016
Manufacturing supplies and raw materials	$ 231,770	$ 240,865
Work-in-process	79,382	68,727
Finished goods	73,455	59,470
Excess and obsolete adjustment	(3,168)	(3,257)
	$ 381,439	$ 365,805

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)	February 28, 2017	August 31, 2016
Intangible assets subject to amortization:		
Customer relationships	$ 64,521	$ 65,023
Accumulated amortization	(38,456)	(37,251)
Other intangibles	4,976	6,298
Accumulated amortization	(4,078)	(5,967)
	26,963	28,103
Intangible assets not subject to amortization	912	912
Prepaid and other assets	13,200	14,891
Nonqualified savings plan investments	20,056	15,864
Revolving notes issuance costs, net	3,052	3,481
Assets held for sale	4,045	4,108
Total Intangible and other assets, net	$ 68,228	$ 67,359

Amortization expense for the three and six months ended February 28, 2017 was $0.9 million and $2.6 million and for the three and six months ended February 29, 2016 was $2.5 million and $3.8 million. Amortization expense for the years ending August 31, 2017, 2018, 2019, 2020 and 2021 is expected to be $4.4 million, $3.8 million, $3.4 million, $3.7 million and $3.4 million.

Note 4 Revolving Notes

Senior secured credit facilities, consisting of three components, aggregated to $615.0 million as of February 28, 2017.

As of February 28, 2017, a $550.0 million revolving line of credit, maturing October 2020, 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 1.75% or Prime plus 0.75% 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 February 28, 2017, lines of credit totaling $15.0 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 April 2017 through June 2017.

As of February 28, 2017, the Company s Mexican railcar manufacturing joint venture had two lines of credit totaling $50.0 million. The first line of credit provides up to $30.0 million and is fully guaranteed by the Company and its joint venture partner. Advances under this facility bear interest at LIBOR plus 2.0%. The Mexican railcar manufacturing joint venture will be able to draw against this facility through January 2019. The second line of credit provides up to $20.0 million, of which the Company and its joint venture partner have each guaranteed 50%. Advances under this facility bear interest at LIBOR plus 2.0%. The Mexican railcar manufacturing joint venture will be able to draw amounts available under this facility through August 2017.

As of February 28, 2017, the Company had no borrowings outstanding under our senior secured credit facilities and outstanding commitments consisted of $79.2 million in letters of credit under the North American credit facility.

As of August 31, 2016, the Company had no borrowings outstanding under our senior secured credit facilities and outstanding commitments consisted of $81.3 million in letters of credit under the North American credit facility.

Note 5 Accounts Payable and Accrued Liabilities

(In thousands)	February 28, 2017	August 31, 2016
Trade payables	$ 173,441	$ 182,334
Other accrued liabilities	68,594	71,260
Accrued payroll and related liabilities	65,042	76,058
Accrued maintenance	18,404	18,646
Accrued warranty	14,582	12,159
Income taxes payable	27,564	3,991
Other	4,694	5,306
	$ 372,321	$ 369,754

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		Six Months Ended	
(In thousands)	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Balance at beginning of period	$ 11,737	$ 11,609	$ 12,159	$ 11,512
Charged to cost of revenue, net	3,288	1,463	3,645	2,884
Payments	(495)	(952)	(1,132)	(2,181)
Currency translation effect	52	27	(90)	(68)
Balance at end of period	$ 14,582	$ 12,147	$ 14,582	$ 12,147