

GENESEE & WYOMING INC
Form 10-Q
August 07, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

or

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

For the transition period from _____ to _____

Commission File Number 001-31456

GENESEE & WYOMING INC.

(Exact name of registrant as specified in its charter)

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

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

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

Large accelerated filer Accelerated filer

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

Emerging growth company

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

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Exchange Act.

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

Shares of common stock outstanding as of the close of business on August 2, 2017:

Class	Number of Shares Outstanding
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Class A Common Stock	61,608,828
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Class B Common Stock	728,138
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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 SEC.

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 that 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 of acquisitions; 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 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 others 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 2016 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, 2017 and DECEMBER 31, 2016 (Unaudited)

(dollars in thousands, except per share and share amounts)

	June 30, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$83,743	\$ 32,319
Accounts receivable, net	379,939	363,923
Materials and supplies	60,438	43,621
Prepaid expenses and other	37,131	45,475
Total current assets	561,251	485,338
PROPERTY AND EQUIPMENT, net	4,590,740	4,503,319
GOODWILL	1,176,181	1,125,596
INTANGIBLE ASSETS, net	1,564,542	1,472,376
DEFERRED INCOME TAX ASSETS, net	2,772	2,671
OTHER ASSETS, net	40,444	45,658
Total assets	\$7,935,930	\$ 7,634,958
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 34,663	\$ 52,538
Accounts payable	255,097	266,867
Accrued expenses	155,645	159,705
Total current liabilities	445,405	479,110
LONG-TERM DEBT, less current portion	2,398,070	2,306,915
DEFERRED INCOME TAX LIABILITIES, net	1,228,393	1,162,221
DEFERRED ITEMS - grants from outside parties	308,946	301,383
OTHER LONG-TERM LIABILITIES	216,546	198,208
COMMITMENTS AND CONTINGENCIES		
EQUITY:		
Class A Common Stock, \$0.01 par value, one vote per share; 180,000,000 shares authorized at June 30, 2017 and December 31, 2016; 74,450,843 and 74,162,972 shares issued and 61,606,737 and 61,362,665 shares outstanding (net of 12,844,106 and 12,800,307 shares in treasury) on June 30, 2017 and December 31, 2016, respectively	745	742
Class B Common Stock, \$0.01 par value, ten votes per share; 30,000,000 shares authorized at June 30, 2017 and December 31, 2016; 728,138 and 758,138 shares issued and outstanding on June 30, 2017 and December 31, 2016, respectively	7	8
Additional paid-in capital	1,666,147	1,651,703
Retained earnings	1,758,058	1,685,813
Accumulated other comprehensive loss	(159,460)	(211,336)
Treasury stock, at cost	(235,602)	(232,348)
Total Genesee & Wyoming Inc. stockholders' equity	3,029,895	2,894,582
Noncontrolling interest	308,675	292,539
Total equity	3,338,570	3,187,121
Total liabilities and equity	\$7,935,930	\$ 7,634,958

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, 2017 and 2016 (Unaudited)
(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
OPERATING REVENUES	\$540,433	\$501,375	\$1,059,541	\$983,991
OPERATING EXPENSES:				
Labor and benefits	162,615	155,948	328,199	319,062
Equipment rents	33,237	38,426	67,108	76,856
Purchased services	56,795	51,632	107,796	98,134
Depreciation and amortization	61,513	50,924	122,287	100,254
Diesel fuel used in train operations	33,030	28,251	71,183	53,717
Electricity used in train operations	2,134	3,304	5,307	6,669
Casualties and insurance	10,179	9,442	22,722	19,562
Materials	26,651	21,393	47,197	42,984
Trackage rights	21,797	21,152	44,020	41,728
Net (gain)/loss on sale and impairment of assets	(354)	(308)	(781)	12,517
Restructuring costs	2,361	4,970	6,116	6,097
Other expenses	29,135	29,047	59,593	62,221
Total operating expenses	439,093	414,181	880,747	839,801
OPERATING INCOME	101,340	87,194	178,794	144,190
Interest income	581	336	808	411
Interest expense	(25,785)	(17,741)	(52,150)	(35,716)
Other income/(loss), net	1,589	722	(510)	1,453
Income before income taxes	77,725	70,511	126,942	110,338
Provision for income taxes	(29,597)	(22,112)	(51,525)	(34,920)
Net income	\$48,128	\$48,399	\$75,417	\$75,418
Less: Net income attributable to noncontrolling interest	2,121	—	3,172	—
Net income attributable to Genesee & Wyoming Inc.	\$46,007	\$48,399	\$72,245	\$75,418
Basic earnings per common share attributable to Genesee & Wyoming Inc. common stockholders:	\$0.75	\$0.85	\$1.18	\$1.32
Weighted average shares - Basic	61,551	57,187	61,472	57,106
Diluted earnings per common share attributable to Genesee & Wyoming Inc. common stockholders:	\$0.74	\$0.83	\$1.16	\$1.30
Weighted average shares - Diluted	62,415	58,117	62,371	58,036

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, 2017 and 2016 (Unaudited)
 (dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
NET INCOME	\$48,128	\$48,399	\$75,417	\$75,418
OTHER COMPREHENSIVE INCOME:				
Foreign currency translation adjustment	30,899	(32,611)	67,152	(1,491)
Net unrealized loss on qualifying cash flow hedges, net of tax benefit/(provision) of \$360, \$4,537, (\$264) and \$10,824 respectively	(604)	(6,806)	(98)	(16,237)
Changes in pension and other postretirement benefits, net of tax benefit/(provision) of \$458, (\$271), \$907 and (\$791), respectively	(1,294)	1,000	(2,187)	2,924
Other comprehensive income/(loss)	29,001	(38,417)	64,867	(14,804)
COMPREHENSIVE INCOME	\$77,129	\$9,982	\$140,284	\$60,614
Less: Comprehensive income attributable to noncontrolling interest	3,078	—	16,163	—
COMPREHENSIVE INCOME ATTRIBUTABLE TO GENESEE & WYOMING INC.	\$74,051	\$9,982	\$124,121	\$60,614

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, 2017 and 2016 (Unaudited)
(dollars in thousands)

	Six Months Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$75,417	\$75,418
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	122,287	100,254
Stock-based compensation	8,857	9,525
Deferred income taxes	34,320	16,336
Net (gain)/loss on sale and impairment of assets	(781)	12,517
Changes in assets and liabilities which provided/(used) cash, net of effect of acquisitions:		
Accounts receivable, net	10,066	(11,472)
Materials and supplies	2,198	(1,071)
Prepaid expenses and other	14,617	(2,078)
Accounts payable and accrued expenses	(48,282)	(46,236)
Other assets and liabilities, net	5,627	8,808
Net cash provided by operating activities	224,326	162,001
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(91,498)	(113,321)
Grant proceeds from outside parties	11,630	25,990
Cash paid for acquisitions, net of cash acquired	(102,655)	—
Proceeds from the sale of investment	2,100	—
Insurance proceeds for the replacement of assets	1,406	7,741
Proceeds from disposition of property and equipment	3,280	1,458
Net cash used in investing activities	(175,737)	(78,132)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on revolving line-of-credit, long-term debt and capital lease obligations	(322,446)	(311,930)
Proceeds from revolving line-of-credit and long-term borrowings	320,191	215,434
Proceeds from employee stock purchases	4,962	3,135
Treasury stock purchases	(3,254)	(2,593)
Net cash used in financing activities	(547)	(95,954)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	3,382	1,115
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	51,424	(10,970)
CASH AND CASH EQUIVALENTS, beginning of period	32,319	35,941
CASH AND CASH EQUIVALENTS, end of period	\$83,743	\$24,971

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

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GENESEE & WYOMING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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, 2017 and 2016 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 2016 was derived from the audited financial statements in the Company's 2016 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, 2016 included in the Company's 2016 Annual Report on Form 10-K. Certain reclassifications have been made to prior period balances to conform to the current year presentation, including changes to the statement of cash flows from the adoption of the Accounting Standards Update (ASU) noted below.

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, Compensation—Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based compensation arrangements, including the accounting for income taxes, forfeitures, statutory tax withholding requirements, as well as classification of related amounts within the statement of cash flows. The Company elected to account for forfeitures as they occur and elected the retrospective transition method in regards to the classification of tax-related cash flows from stock-based payments. The amendment became effective for the Company on January 1, 2017 and did not have a material impact on the consolidated financial statements for the three and six months ended June 30, 2017.

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 deep seaports (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 the outstanding shares of Atlantic Western Transportation, Inc., 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 statement of operations within the Company's North American Operations segment since the acquisition date.

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GENESEE & WYOMING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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.

Providence and Worcester Railroad Company: On November 1, 2016, the Company completed the acquisition of 100% of the outstanding common stock of Providence and Worcester Railroad Company (P&W) for \$25.00 per share, or \$126.2 million. The Company funded the acquisition with borrowings under the Company's Second Amended and Restated Senior Secured Syndicated Credit Facility Agreement, as amended (the Credit Agreement) (see Note 6, Long-Term Debt). The results of operations from P&W have been included in the Company's consolidated statement of operations within the Company's North American Operations segment since the acquisition date. The Company incurred \$2.8 million of integration costs associated with P&W during the six months ended June 30, 2017, of which \$2.4 million was included within labor and benefits expense primarily for severance costs and \$0.4 million was included within other expenses in the Company's consolidated statement of operations.

P&W is headquartered in Worcester, Massachusetts, and operates in Rhode Island, Massachusetts, Connecticut and New York. P&W is contiguous with the Company's New England Central Railroad (NECR) and Connecticut Southern Railroad (CSO). As of the acquisition date, rail service was provided by approximately 130 P&W employees with 32 locomotives across 163 miles of owned track and over approximately 350 track miles under track access agreements. P&W has exclusive freight access over Amtrak's Northeast Corridor between New Haven, Connecticut, and Providence, Rhode Island, and track rights over Metro-North Commuter Railroad, Amtrak and CSX Corp. between New Haven, Connecticut, and Queens, New York. P&W interchanges with the Company's NECR and CSO railroads, as well as with CSX Corp., Norfolk Southern, Pan Am Railways, Pan Am Southern, the Housatonic Railroad and the New York and Atlantic Railroad, and also connects to Canadian National and Canadian Pacific via NECR.

P&W serves a diverse mix of aggregates, auto, chemicals, metals and lumber customers in southeastern New England, handling approximately 44,000 carloads and intermodal units annually. In addition, P&W provides rail service to three ports (Providence, Davisville and New Haven) and to a United States Customs bonded intermodal terminal in Worcester, Massachusetts, that receives inbound intermodal containers for distribution in New England.

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 P&W were recorded at their acquisition-date fair values and were consolidated with those of the Company as of the acquisition date. The following acquisition-date fair values were assigned to the acquired net assets (dollars in thousands). The \$27.9 million of fair value assigned to goodwill will not be deductible for tax purposes.

	Amount
Cash and cash equivalents	\$ 1,529
Accounts receivable	4,011
Materials and supplies	1,048
Prepaid expenses and other	648
Property and equipment	129,473
Goodwill	27,938
Total Assets	164,647
Accounts payable and accrued expenses	9,759
Deferred income tax liabilities, net	27,464
Other long-term liabilities	1,273
Net assets	\$ 126,151

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GENESEE & WYOMING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Australian Operations

Glencore Rail (NSW) Pty Limited: On December 1, 2016, a subsidiary of the Company completed the acquisition of Glencore Rail (NSW) Pty Limited (GRail) for A\$1.14 billion (or approximately \$844.9 million at an exchange rate of \$0.74 for one Australian dollar) and concurrently issued a 48.9% equity 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 Macquarie Infrastructure and Real Assets (MIRA), a large private-equity infrastructure investment firm. The Company, through wholly-owned subsidiaries, retained a 51.1% ownership in GWAHLP. As the Company maintained control of its Australian Operations, it continues to consolidate 100% of the Company's Australian Operations in its financial statements and reports a noncontrolling interest for MIRA's 48.9% equity ownership. The acquisition of GRail was funded through a combination of third-party debt and contributions from the Company and MIRA in the form of equity and partner loans.

The Company and MIRA contributed a combined A\$1.3 billion in the form of cash, partner loans and contributed equity, and the Company's recently established subsidiary, GWI Acquisitions Pty Ltd (GWIA), entered into a five-year A\$690 million senior secured term loan facility that is non-recourse to the Company and to MIRA. The proceeds were used to acquire GRail for A\$1.14 billion, repay Genesee & Wyoming Australia's (GWA) existing A\$250 million term loan (under the Company's credit facility) and pay A\$19.8 million in debt issuance costs and A\$13.2 million of acquisition-related costs (collectively the GRail Transactions). The foreign exchange rate used to translate the transaction amounts to United States dollars (USD) was \$0.74 for one Australian dollar (AUD). GRail's coal haulage business was established in 2010 as an alternative rail service provider to the incumbent railroads in the Hunter Valley and has grown to be the third largest coal haulage business in Australia. The Company's Freightliner Australia subsidiary (acquired by the Company in March 2015) has been the rail operator of GRail since inception and presently provides haulage and logistics services for approximately 40 million tonnes per year of steam coal that is among the lowest cost and highest quality coal in the world sold principally to customers in Japan, Korea and Taiwan. These services have continued following the GRail transaction.

In conjunction with the GRail acquisition, the Company entered into a 20-year rail haulage contract with the seller, Glencore Coal Pty Limited (GC), to exclusively haul all coal produced at GC's existing mines in the Hunter Valley to the Port of Newcastle. The contract has minimum guaranteed volumes over the first 18 years.

The GRail transaction included the acquisition of nine train sets (30 locomotives and 894 railcars). Rail haulage service is operated on government-owned, open-access track that is coordinated by a neutral third party. Track access fees will continue to be paid directly by GC.

The Company paid GC, the seller of GRail, A\$1.14 billion in cash at closing and received A\$3.8 million (or \$2.9 million at the exchange rate on the date the cash was received) from the seller for the final working capital adjustment during the three months ended March 31, 2017. 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 GRail 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 \$0.74 for one Australian dollar, the exchange rate on December 1, 2016. The results of operations from GRail have been included in the Company's consolidated statement of operations since the December 1, 2016 acquisition date within the Company's Australian Operations segment.

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

	AUD	USD
Accounts receivable	A\$1,556	\$1,153
Materials and supplies	411	305
Property and equipment	279,592	207,206
Goodwill	415,959	308,267
Intangible assets	635,000	470,599
Total assets	1,332,518	987,530

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Accounts payable and accrued expenses	5,796	4,296
Deferred income tax liabilities, net	190,551	141,217
Net assets	A\$1,136,171	\$842,017

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GENESEE & WYOMING INC. AND SUBSIDIARIES

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The A\$635.0 million (or \$470.6 million at the exchange rate on December 1, 2016) of fair value assigned to intangible assets relates to an amortizable customer contract associated with the 20-year take-or-pay rail haulage contract with GC. The A\$416.0 million (or \$308.3 million at the exchange rate on December 1, 2016) of fair value assigned to goodwill will not be deductible for tax purposes.

Pro Forma Financial Results (Unaudited)

The following table summarizes the Company's unaudited pro forma operating results for the six months ended June 30, 2016 as if the GRail Transactions had been consummated as of January 1, 2015. As such, these results include pro forma results from the GRail Transactions for the period from January 1, 2016 through June 30, 2016. The following pro forma financial information does not include the impact of any costs to integrate the operations or the impact of derivative instruments that the Company has entered into or may enter into to mitigate foreign currency or interest rate risk (dollars in thousands, except per share amounts):

	Six Months Ended June 30, 2016
Operating revenues	\$1,011,874
Net income attributable to Genesee & Wyoming Inc.	\$69,821
Basic earnings per common share	\$1.22
Diluted earnings per common share	\$1.20

The unaudited pro forma operating results included the acquisition of GRail adjusted, net of tax, for depreciation and amortization expense resulting from the determination of fair values of the acquired property and equipment and amortizable intangible asset, the inclusion of interest expense related to borrowings used to fund the acquisition, the amortization of debt issuance costs related to the Australian Credit Agreement, noncontrolling interest related to MIRA's 48.9% ownership and the elimination of Australia's interest expense related to debt under the Credit Agreement. Prior to the GRail acquisition, the Company's Australian subsidiary, Freightliner Australia Pty Ltd (FLA), provided rail operator services to GRail, which has been eliminated in the pro forma financial results.

The unaudited pro forma operating results for the six months ended June 30, 2016 were based on the Company's consolidated statement of operations and GRail's historical operating results for the six months ended June 30, 2016. The foreign exchange rate used to translate GRail's 2016 historical operating results to United States dollars was \$0.73 for one Australian dollar (which was calculated based on the weighted average monthly exchange rates for the first six months of 2016).

The pro forma financial information does not purport to be indicative of the results that actually would have been obtained had the GRail Transactions been completed as of January 1, 2015 and for the periods presented and are not intended to be a projection of future results or trends.

Arrium Limited: Between 2011 and 2014, GWA invested a total of \$78 million to purchase locomotives and railcars, as well as to construct a standard gauge rolling-stock maintenance facility to support iron ore shipments from Arrium's Southern Iron mine and Whyalla-based operations, which include the Middleback Range iron ore mines and the Whyalla steelworks. Arrium mothballed its Southern Iron mine in April 2015, citing the significant decline in the price of iron ore, while the mines in the Middleback Range continued to operate.

On April 7, 2016, Arrium announced it had entered into voluntary administration. As a result, the Company recorded a \$13.0 million non-cash charge related to the impairment of GWA's now idle rolling-stock maintenance facility, which was recorded to net (gain)/loss on sale and impairment of assets within operating expenses, which represented the entire carrying value of these assets, and an allowance for doubtful accounts charge of \$8.1 million associated with accounts receivable from Arrium, which was recorded to other expenses within operating expenses, during the first quarter of 2016. Also, as a result of the voluntary administration, all payments to GWA associated with the Southern Iron rail haulage agreement ceased.

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On July 13, 2017, Arrium's Creditor Committee announced the approval of the sale of Arrium to GFG Alliance, following satisfaction of certain conditions. In the meantime, GWA continues to provide service and receive payments under the remaining rail haulage agreement with Arrium. Pursuant to the rail haulage agreement, GWA serves several iron ore mines in the Middleback Range and the Whyalla steelworks operations, which the Company expects will represent A\$40 million (or approximately \$31 million at the exchange rate on June 30, 2017) of annual revenue, prospectively. If GWA were to lose some or all of the revenue associated with the remaining rail haulage agreement, all or a portion of GWA's assets deployed to provide service under this agreement, which consist largely of narrow gauge locomotives and railcars, could be redeployed elsewhere in Australia.

U.K./European Operations

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 A P 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 Credit Agreement. The foreign exchange rate used to translate the total consideration to United States dollars was \$1.29 for one British pound (GBP).

Headquartered in Southampton, U.K., Pentalver operates off-dock container terminals (most under long-term lease) strategically placed at each of the four major seaports of Felixstowe, Southampton, London Gateway and Tilbury, as well as an inland terminal located at Cannock, in the U.K. 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 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 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 Company expects that the Pentalver acquisition will enable it to (i) enhance its U.K. services by providing rail and road transportation solutions, as well as offering storage options at the ports and inland, and (ii) unlock efficiencies from shared services and enhanced asset utilization from Pentalver's trucking fleet and Freightliner's existing fleet of approximately 200 trucks that currently provide local collection and delivery haulage from Freightliner's inland terminals. With approximately 600 employees, Pentalver will operate as part of the Company's U.K./Europe Region. The results of operations from Pentalver have been included in the Company's consolidated statement of operations since the May 3, 2017 acquisition date within the Company's U.K./European Operations segment. Pentalver contributed \$25.9 million of total revenues and \$1.9 million of operating income, which included \$0.9 million of depreciation and amortization expense, to the Company's consolidated results since the May 3, 2017 acquisition date. The Company incurred \$2.3 million of acquisition and integration costs related to Pentalver during the six months ended June 30, 2017, of which \$2.2 million was included within other expenses and \$0.1 million was included in labor and benefits expense in the Company's consolidated statement of operations.

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 preliminary acquisition-date fair values and were consolidated with those of the Company as of the acquisition date within the Company's U.K./European Operations segment. The preliminary acquisition date fair values are subject to further adjustment for the final determination of the acquisition date fair values of the acquired assets and liabilities. The foreign exchange rate used to translate the balance sheet to United States dollars was \$1.29 for one British pound.

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The preliminary 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	16,847	21,756
Materials and supplies	13,360	17,253
Prepaid expenses and other	3,238	4,182
Property and equipment	22,403	28,931
Goodwill	10,271	13,264
Intangible assets	41,000	52,947
Total assets	127,343	164,450
Accounts payable and accrued expenses	22,116	28,560
Deferred income tax liabilities, net	6,876	8,880
Deferred items-grants from outside parties	601	776
Net assets	£97,750	\$126,234

The \$52.9 million of intangible assets relate to amortizable operational rights with contractual terms spanning up to 50 years. The \$13.3 million of goodwill will not be deductible for tax purposes.

Continental Europe Intermodal Business: During 2016, the Company explored ways to enhance the long-term viability of ERS Railways B.V. (ERS), the Continental Europe intermodal business Freightliner acquired from Maersk, which the Company acquired in 2015 with the Freightliner acquisition. Due to its limited history of profitability and competitive dynamics in the market in which it operates, the Company ascribed little value to it at the time of acquisition.

Despite a significant and focused effort by the Company, the performance of ERS reached unsustainable levels during 2016 and a restructuring plan was initiated. In conjunction with that plan, in 2017, the Company ceased all "open" train services from the port of Rotterdam, closed the ERS offices in Rotterdam and Frankfurt and the ERS customer services function in Warsaw. The Company is in the process of redistributing ERS's leased locomotives and railcars, which have lease termination dates ranging from 2017 to 2019. These steps will enable the Company to focus on the deep-sea intermodal sector. The Company's subsidiary, Rotterdam Rail Feeding B.V., will continue its existing services and not be affected by the restructuring of ERS.

As a result of the ERS restructuring plan, the Company recorded impairment and related charges of \$21.5 million in December 2016. These charges primarily included \$14.5 million for an impairment of goodwill and \$4.1 million for an impairment of a customer-related intangible asset, which were both recorded to net (gain)/loss on sale and impairment of assets within operating expenses, which represented the entire carrying value of these assets. For the six months ended June 30, 2017, the Company recorded \$4.5 million of restructuring costs related to ERS, primarily for severance costs and costs associated with surplus locomotive and railcar leases.

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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, 2017 and 2016 (in thousands, except per share amounts):

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
Numerator:				
Net income attributable to Genesee & Wyoming Inc.	\$46,007	\$48,399	\$72,245	\$75,418
Denominators:				
Weighted average Class A common shares outstanding – Basic	61,551	57,187	61,472	57,106
Weighted average Class B common shares outstanding	747	793	753	793
Dilutive effect of employee stock-based awards	117	137	146	137
Weighted average shares – Diluted	62,415	58,117	62,371	58,036

Earnings per common share attributable to Genesee & Wyoming Inc. common stockholders:

Basic earnings per common share	\$0.75	\$0.85	\$1.18	\$1.32
Diluted earnings per common share	\$0.74	\$0.83	\$1.16	\$1.30

The Company's weighted average basic shares outstanding for the three and six months ended June 30, 2017 included 4,000,000 shares as a result of the Company's public offering of Class A Common Stock on December 13, 2016.

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 June 30, 2017		Six Months Ended June 30, 2016	
Antidilutive shares	1,475	1,339	1,271	1,340

4. ACCOUNTS RECEIVABLE:

Accounts receivable consisted of the following as of June 30, 2017 and December 31, 2016, (dollars in thousands):

	June 30, 2017	December 31, 2016
Accounts receivable – trade	\$371,990	\$ 353,347
Accounts receivable – grants from outside parties	9,981	10,652
Accounts receivable – insurance and other third-party claims	10,837	11,994
Total accounts receivable	392,808	375,993
Less: Allowance for doubtful accounts	(12,869)	(12,070)
Accounts receivable, net	\$379,939	\$ 363,923

The increase in the Company's trade accounts receivable balance resulted primarily from receivables of the newly acquired Pentalver. See Note 2, Changes in Operations, for additional information regarding the Pentalver acquisition.

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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 \$11.6 million and \$26.0 million for the six months ended June 30, 2017 and 2016, 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 months ended June 30, 2017 and 2016 (dollars in thousands):

	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Amortization of deferred grants	\$3,065	\$2,912	\$6,310	\$5,861

Insurance and Third-Party Claims

Accounts receivable from insurance and other third-party claims at June 30, 2017 included \$6.1 million from the Company's U.K./European Operations, \$4.4 million from the Company's North American Operations and \$0.3 million from the Company's Australian Operations. The balance from the Company's U.K./European Operations resulted primarily from the Company's anticipated insurance recoveries associated with a pre-acquisition rail-related collision in Germany in 2014. 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 Company received proceeds from insurance totaling \$1.4 million and \$7.7 million for the six months ended June 30, 2017 and 2016, respectively.

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5. GOODWILL:

The changes in the carrying amount of goodwill for the six months ended June 30, 2017 and for the year ended December 31, 2016 were as follows (dollars in thousands):

	North American Operations	Australian Operations	U.K./European Operations	Total Operations
Balance at January 1, 2017:				
Goodwill, gross	\$ 632,937	\$ 339,865	\$ 167,276	\$ 1,140,078
Accumulated impairment losses	—	—	(14,482)	(14,482)
Goodwill	\$ 632,937	\$ 339,865	\$ 152,794	\$ 1,125,596
Changes during the period:				
Goodwill acquired	4,083	—	13,264	17,347
Acquisition accounting adjustments	1,140	—	—	1,140
Currency translation adjustment	770	21,109	10,219	32,098
Balance at June 30, 2017:				
Goodwill, gross	\$ 638,930	\$ 360,974	\$ 190,759	\$ 1,190,663
Accumulated impairment losses	—	—	(14,482)	(14,482)
Goodwill	\$ 638,930	\$ 360,974	\$ 176,277	\$ 1,176,181
	North American Operations	Australian Operations	U.K./European Operations	Total Operations
Balance at January 1, 2016	\$ 605,234	\$ 39,312	\$ 182,029	\$ 826,575
Changes during the period:				
Goodwill acquired	26,969	308,267	—	335,236
Acquisition accounting adjustments	176	168	9,736	10,080
Goodwill impairment	—	—	(14,482)	(14,482)
Currency translation adjustment	558	(7,882)	(24,489)	(31,813)
Balance at December 31, 2016:				
Goodwill, gross	\$ 632,937	\$ 339,865	\$ 167,276	\$ 1,140,078
Accumulated impairment losses	—	—	(14,482)	(14,482)
Goodwill	\$ 632,937	\$ 339,865	\$ 152,794	\$ 1,125,596

The acquired goodwill for the six months ended June 30, 2017 was related to the acquisitions of Pentaver in our U.K./European Operations segment and HOG in our North American Operations segment. The acquired goodwill for the year ended December 31, 2016 was related to the acquisitions of P&W in our North American Operations and GRail in our Australian Operations segment. See Note 2, Changes in Operations, for additional information regarding the P&W, GRail, Pentaver and HOG acquisitions.

The goodwill impairment recorded for the year ended December 31, 2016 resulted from the write-off of goodwill ascribed to the Company's ERS business within its U.K./European Operations segment. See Note 2, Changes in Operations, for additional information regarding ERS.

6. LONG-TERM DEBT:

Credit Agreement

As of the March 20, 2015 closing, the Second Amended and Restated Senior Secured Syndicated Credit Facility Agreement (the Credit Agreement) was comprised of a \$1,782.0 million United States term loan, an A\$324.6 million (or \$252.5 million at the exchange rate on March 20, 2015) Australian term loan, a £101.7 million (or \$152.2 million at the exchange rate on March 20, 2015) 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 stated maturity date of each of the Company's credit facilities under the Credit Agreement is March 31, 2020.

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On October 20, 2016, the Company entered into Amendment No. 2 to the Credit Agreement (Amendment No. 2). Amendment No. 2 permitted, among other things, the Company to enter into the Australia Partnership transaction and the GRail Transactions (collectively, the Australian Reorganization). Amendment No. 2 also permitted the repayment in full and termination of the obligations of the Australia Partnership and its subsidiaries (the Australian Loan Parties) under the Credit Agreement (the Australian Refinancing). Following the Australian Refinancing and Australian Reorganization, the Australian Loan Parties became unrestricted subsidiaries under, ceased to be party to and have no obligations under the Credit Agreement.

As a result of the Australian Reorganization, on December 1, 2016, the \$625.0 million revolving credit facility under the Credit Agreement was reallocated and includes flexible sub-limits for revolving loans denominated in United States dollars, British pounds, Canadian dollars and Euros and provides for the ability to reallocate commitments among the sub-limits, provided that the total amount of all British pound, Canadian dollar, Euro or other designated currencies sub-limits cannot exceed a combined \$500.0 million. The Company also repaid in full the outstanding Australian term loan of A\$250.0 million (or \$185.3 million at the exchange rate on December 1, 2016 when the payment was made).

During the six months ended June 30, 2017, the Company made prepayments on its United States term loan of \$99.8 million. Since the Company applied all of its prepayments on the term loan to its quarterly installments, the Company's remaining principal balance of \$1.3 billion will be due at maturity on March 31, 2020.

During the six months ended June 30, 2017, the Company also made scheduled quarterly principal payments of \$5.2 million on its United States term loan and £2.5 million (or \$3.2 million at the exchange rate on the dates the payments were made) on its U.K. term loan.

The United States dollar-denominated and the British pound-denominated term loans began to amortize in quarterly installments during the three months ended September 30, 2016, with the remaining principal balance payable upon maturity, as set forth below (amounts in thousands):

Quarterly Payment Date	Principal Amount Due on Each Payment Date
British pound: September 30, 2017 through June 30, 2018	£ 1,271
September 30, 2018 through December 31, 2019	£ 2,542
Maturity date - March 31, 2020	£ 75,532

As of June 30, 2017, the Company had the following outstanding term loans under its Credit Agreement (amounts in thousands, except percentages):

	Local Currency	United States Dollar Equivalent	Interest Rate
United States dollar	\$1,323,000	\$1,323,000	2.98 %
British pound	£95,868	\$124,696	2.00 %

The Company's availability to draw from the unused borrowing capacity is subject to covenant limitations as discussed below. As of June 30, 2017, the Company had the following unused borrowing capacity under its revolving credit facility (dollars in thousands):

	2017
Total available borrowing capacity	\$625,000
Outstanding revolving loans	\$222,122
Outstanding letter of credit guarantees	\$2,672

Unused borrowing capacity \$400,206

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As of June 30, 2017, the Company had the following outstanding revolving loans under its revolving credit facility (amounts in thousands, except percentages):

	Local	United	Interest
	Currency	Dollar	Rate
		Equivalent	
British pound (swingline loan)	£ 4,000	\$ 5,203	1.97 %
British pound	£ 135,000	\$ 175,595	2.00 %
Canadian dollar	C\$7,500	\$ 5,774	2.66 %
Euro	€ 31,150	\$ 35,551	1.75 %

As of June 30, 2017, the Company was in compliance with the covenants under the Credit Agreement, as amended.

7. DERIVATIVE FINANCIAL INSTRUMENTS:

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, net, 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 (the effective portion) 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 portion of the changes in the fair value of derivatives used as cash flow hedges that is not offset by changes in the expected cash flows related to a recognized asset or liability (the ineffective portion) is immediately recognized in earnings 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.

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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):

Effective Date	Expiration Date	Notional Amount		Pay Fixed Rate	Receive Variable Rate
		Date	Amount		
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 3-month LIBOR to 1-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. The Company's effectiveness testing during the three and six months ended June 30, 2017 and 2016 resulted in no amount of gain or loss reclassified from accumulated other comprehensive loss into earnings due to ineffectiveness. 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. During the three and six months ended June 30, 2016, \$0.4 million and \$0.7 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, 2017, it expects to realize \$2.3 million of existing net losses that are reported in accumulated other comprehensive loss into earnings within the next 12 months. See Note 12, Accumulated Other Comprehensive Loss, for additional information regarding the Company's cash flow hedges.

Foreign Currency Exchange Rate Risk

As of June 30, 2017, 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.

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The Company is also exposed to foreign currency exchange rate risk related to its foreign subsidiaries, including non-functional currency intercompany debt, typically associated with intercompany debt from the Company's United States subsidiaries to its foreign subsidiaries, 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. 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.

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, 2017 of £17.5 million (or \$22.4 million at the exchange rate on June 30, 2017), 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. The Company's effectiveness testing during the three and six months ended June 30, 2017 and 2016 resulted in no amount of gain or loss reclassified from accumulated other comprehensive loss into earnings due to ineffectiveness. 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. During the three and six months ended June 30, 2016, \$0.3 million 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, 2017, it expects to realize \$0.6 million of existing net gains that are reported in accumulated other comprehensive loss into earnings within the next 12 months. See Note 12, 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
12/31/2016	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

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GENESEE & WYOMING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 loan is eliminated in consolidation. GWBV 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. EURIBOR is the Euro Interbank Offered Rate, which the Company believes is generally considered the Euro equivalent 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. As a result of the mark-to-market impact of the GRail Intercompany Loan compared to the Swaps, the Company realized a net expense of \$0.8 million and \$3.7 million within other (loss)/income, net for the three and six months ended June 30, 2017, respectively. Over the life of the Swaps, the Company expects the cumulative impact of net gains and losses from 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, 2017 and December 31, 2016 (dollars in thousands):

	Balance Sheet Location	Fair Value	
		June 30, 2017	December 31, 2016
Asset Derivatives:			
Derivatives designated as hedges:			
British pound forward contracts	Other assets, net	\$20,287	\$ 26,359
Total derivatives designated as hedges		\$20,287	\$ 26,359
Derivatives not designated as hedges:			
Cross-currency swap contract	Prepaid expenses and other	\$259	\$ 174
Cross-currency swap contract	Other assets, net	254	506
Total derivatives not designated as hedges		\$513	\$ 680
Liability Derivatives:			
Derivatives designated as hedges:			
Interest rate swap agreements	Accrued expenses	\$2,338	\$ 1,747
Interest rate swap agreements	Other long-term liabilities	15,493	13,411
British pound forward contracts	Other long-term liabilities	234	17
Total derivatives designated as hedges		\$18,065	\$ 15,175

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GENESEE & WYOMING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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, 2017 and 2016 in other comprehensive income (OCI) (dollars in thousands):

	Total Cash Flow Hedge OCI Activity, Net of Tax			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Derivatives Designated as Cash Flow Hedges:				
Effective portion of net changes in fair value recognized in OCI, net of tax:				
Interest rate swap agreements	\$(1,647)	\$(5,064)	\$(1,770)	\$(14,366)
British pound forward contracts, net ^(a)	1,043	(1,742)	1,672	(1,871)
	\$(604)	\$(6,806)	\$(98)	\$(16,237)

The three and six months ended June 30, 2017 represents 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 three and six months ended June 30, 2016 represents a net loss of \$8.7 million and \$11.4 million, respectively, for the mark-to-market of the U.K. intercompany loan, partially offset by a net gain of \$7.0 million and \$9.5 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, 2017 and 2016 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,	
		2017	2016	2017	2016
Derivative Instruments Not Designated as Hedges:					
Cross-currency swap agreements, net ^(a)	Other income/(loss), net	\$(809)	\$ —	\$ —	\$ —
		\$(809)	\$ —	\$ —	\$ —

The three months ended June 30, 2017 represents a net gain of \$11.2 million for the mark-to-market of the Swaps, partially offset by a net loss of \$12.0 million for the mark-to-market of the GRail Intercompany Loan. The six months ended June 30, 2017 represents a net loss of \$3.5 million for the mark-to-market of the Swaps and a net loss of \$0.2 million for the mark-to-market of the GRail Intercompany Loan.

8. 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 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.

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GENESEE & WYOMING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The Company's recurring fair value measurements using significant unobservable inputs (Level 3) relate to the Company's deferred consideration from the Freightliner acquisition in 2015 and 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, 2017 and December 31, 2016 (dollars in thousands):

	June 30, 2017	December 31, 2016
Financial instruments carried at fair value using Level 2 inputs:		
Financial assets carried at fair value:		
British pound forward contracts	\$20,287	\$ 26,359
Cross-currency swap contracts	513	680
Total financial assets carried at fair value	\$20,800	\$ 27,039
Financial liabilities carried at fair value:		
Interest rate swap agreements	\$17,831	\$ 15,158
British pound forward contracts	234	17
Total financial liabilities carried at fair value	\$18,065	\$ 15,175

The following table presents the Company's financial instruments carried at fair value using Level 3 inputs as of June 30, 2017 and December 31, 2016 (amounts in thousands):

	June 30, 2017		December 31, 2016	
	Local	United States	Local	United States
	Currency	Dollar	Currency	Dollar
	Equivalent		Equivalent	
Financial instrument carried at fair value using Level 3 inputs:				
Financial liabilities carried at fair value:				
Accrued deferred consideration - Freightliner	£27,110	\$ 35,263	£25,882	\$ 31,933
Accrued deferred consideration - HOG	\$5,676	\$ 5,676	\$—	\$ —

At the date of acquisition of Freightliner in 2015, the contingent liability represented the aggregate fair value of the shares transferred to the Company by the Management Shareholders in exchange for the right to receive cash consideration for the representative economic interest of approximately 6% in Freightliner in the future (deferred consideration). Each of the Management Shareholders may elect to receive one third of their respective deferred consideration valued as of March 31, 2018, 2019 and 2020. The remaining portion of the deferred consideration will be valued as of March 31, 2020 and paid by the end of 2020.

The Freightliner 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 the estimated fair value of the deferred consideration in each reporting period until it is paid in full by using a contractual formula designed to estimate the economic value of the Management Shareholders' retained interest in a manner consistent with that used to derive the Freightliner acquisition price per share on the acquisition date. 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 months ended June 30, 2017 and 2016, the Company recognized \$0.8 million and \$1.0 million, respectively, and \$1.5 million and \$1.1 million, respectively, during the six months ended June 30, 2017 and 2016, through other expenses within the Company's consolidated statements of operations as

a result