GREENBRIER COMPANIES INC
Form 10-Q
January 07, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

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

for the quarterly period ended November 30, 2015

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

for the transition period from __________ to __________

Commission File No. 1-13146

THE GREENBRIER COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Oregon	**93-0816972**
(State	**(I.R.S. Employer**
of Incorporation)	**Identification No.)**
One Centerpointe Drive, Suite 200, Lake Oswego, OR	**97035**
(Address of principal executive offices)	**(Zip Code)**

(503) 684-7000

(Registrant s telephone number, including area code)

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

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

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

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

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

The number of shares of the registrant s common stock, without par value, outstanding on December 31, 2015 was 28,596,821 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 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;

fluctuations in demand 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 global economic conditions including such matters as embargoes or quotas;

global political or security conditions in the U.S., Europe, Latin America and the Middle East including such matters as terrorism, war, civil disruption and crime;

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

growth or reduction in the surface transportation industry;

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

ability to maintain good relationships with our customers and suppliers;

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

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

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

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

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

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

production difficulties and product delivery delays as a result of, among other matters, 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 weather patterns that may affect either us, our suppliers or our customers;

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

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

industry overcapacity and our manufacturing capacity utilization;

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

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

changes in future maintenance or warranty requirements;

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

changes in interest rates and financial impacts from interest rates;

ability and cost to maintain and renew operating permits;

actions or failures to act by various regulatory agencies including 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;

discovery of previously unknown liabilities associated with acquired businesses;

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

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

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

credit limitations upon our ability to maintain effective hedging programs;

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

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

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

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

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

PART I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

Consolidated Balance Sheets

(In thousands, unaudited)

	November 30, 2015	August 31, 2015
Assets		
Cash and cash equivalents	$ 197,633	$ 172,930
Restricted cash	9,818	8,869
Accounts receivable, net	237,213	196,029
Inventories	444,023	445,535
Leased railcars for syndication	238,911	212,534
Equipment on operating leases, net	252,641	255,391
Property, plant and equipment, net	307,196	303,135
Investment in unconsolidated affiliates	86,658	87,270
Intangibles and other assets, net	76,157	65,554
Goodwill	43,265	43,265
	$ 1,893,515	$ 1,790,512
Liabilities and Equity		
Revolving notes	$ 163,888	$ 50,888
Accounts payable and accrued liabilities	384,670	455,213
Deferred income taxes	63,483	60,657
Deferred revenue	42,351	33,836
Notes payable	324,668	326,429
Commitments and contingencies (Note 12)		
Equity:		
Greenbrier		
Preferred stock without par value; 25,000 shares authorized; none outstanding		
Common stock without par value; 50,000 shares authorized; 28,597 and 28,907 shares outstanding at November 30, 2015 and August 31, 2015		
Additional paid-in capital	280,422	295,444
Retained earnings	522,182	458,599
Accumulated other comprehensive loss	(30,659)	(21,205)
Total equity Greenbrier	771,945	732,838
Noncontrolling interest	142,510	130,651
Total equity	914,455	863,489

	$ 1,893,515	$ 1,790,512

The accompanying notes are an integral part of these financial statements

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THE GREENBRIER COMPANIES, INC.

Consolidated Statements of Income

(In thousands, except per share amounts, unaudited)

	Three Months Ended November 30, 2015	2014
Revenue		
Manufacturing	$ 698,661	$ 379,949
Wheels & Parts	78,729	86,624
Leasing & Services	24,999	28,485
	802,389	495,058
Cost of revenue		
Manufacturing	533,033	316,037
Wheels & Parts	73,002	76,872
Leasing & Services	11,589	14,081
	617,624	406,990
Margin	184,765	88,068
Selling and administrative expense	36,549	33,729
Net gain on disposition of equipment	(269)	(83)
Earnings from operations	148,485	54,422
Other costs		
Interest and foreign exchange	5,436	3,141
Earnings before income taxes and earnings from unconsolidated affiliates	143,049	51,281
Income tax expense	(44,719)	(16,054)
Earnings before earnings from unconsolidated affiliates	98,330	35,227
Earnings from unconsolidated affiliates	383	755
Net earnings	98,713	35,982
Net earnings attributable to noncontrolling interest	(29,280)	(3,196)
Net earnings attributable to Greenbrier	$ 69,433	$ 32,786
Basic earnings per common share:	$ 2.36	$ 1.19
Diluted earnings per common share:	$ 2.15	$ 1.01
Weighted average common shares:		
Basic	29,391	27,665
Diluted	32,578	33,713
Dividends declared per common share	$ 0.20	$ 0.15

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Comprehensive Income

(In thousands, unaudited)

	Three Months Ended November 30,	
	2015	2014
Net earnings	$ 98,713	$ 35,982
Other comprehensive income (loss)		
Translation adjustment	(3,967)	(3,450)
Reclassification of derivative financial instruments recognized in net earnings [1]	492	289
Unrealized loss on derivative financial instruments [2]	(6,052)	(306)
Other (net of tax effect)		(2)
	(9,527)	(3,469)
Comprehensive income	89,186	32,513
Comprehensive income attributable to noncontrolling interest	(29,207)	(3,148)
Comprehensive income attributable to Greenbrier	$ 59,979	$ 29,365

[1] Net of tax effect of $0.2 million and $0.2 million for the three months ended November 30, 2015 and 2014.

[2] Net of tax effect of $1.5 million and $0.4 million for the three months ended November 30, 2015 and 2014.

The accompanying notes are an integral part of these financial statements

THE GREENBRIER COMPANIES, INC.

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, 2015	28,907	$ 295,444	$ 458,599	$ (21,205)	$ 732,838	$ 130,651	$ 863,489
Net earnings			69,433		69,433	29,280	98,713
Other comprehensive loss, net				(9,454)	(9,454)	(73)	(9,527)
Noncontrolling interest adjustments						262	262
Purchase of noncontrolling interest						(4)	(4)
Joint venture partner distribution declared						(17,606)	(17,606)
Restricted stock awards (net of cancellations)	212	(3,469)			(3,469)		(3,469)
Unamortized restricted stock		(603)			(603)		(603)
Restricted stock amortization		5,301			5,301		5,301
Excess tax benefit from restricted stock awards		2,827			2,827		2,827
Cash dividends			(5,850)		(5,850)		(5,850)
Repurchase of stock	(522)	(19,078)			(19,078)		(19,078)
Balance November 30, 2015	28,597	$ 280,422	$ 522,182	$ (30,659)	$ 771,945	$ 142,510	$ 914,455

	Attributable to Greenbrier						
	Common Stock Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Attributable to Greenbrier	Attributable to Noncontrolling Interest	Total Equity
Balance September 1, 2014	27,364	$ 235,763	$ 282,559	$ (6,932)	$ 511,390	$ 62,331	$ 573,721
Net earnings			32,786		32,786	3,196	35,982

Other comprehensive income, net				(3,421)	(3,421)	(48)	(3,469)
Noncontrolling interest adjustments						12,952	12,952
Joint venture partner distribution declared						(2,147)	(2,147)
Restricted stock cancellations	(96)	(1,936)			(1, 936)		(1, 936)
Unamortized restricted stock		1, 936			1, 936		1, 936
Restricted stock amortization		3,411			3,411		3,411
Excess tax benefit from restricted stock awards		2,970			2,970		2,970
Conversion of convertible notes	1	25			25		25
Cash dividends			(4,170)		(4,170)		(4,170)
Repurchase of stock	(379)	(23,107)			(23,107)		(23,107)
Balance November 30, 2014	26,890	$ 219,062	$ 311,175	$ (10,353)	$ 519,884	$ 76,284	$ 596,168

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Cash Flows

(In thousands, unaudited)

	Three Months Ended November 30, 2015	2014
Cash flows from operating activities		
Net earnings	$ 98,713	$ 35,982
Adjustments to reconcile net earnings to net cash used in operating activities:		
Deferred income taxes	3,019	607
Depreciation and amortization	12,974	12,050
Net gain on disposition of equipment	(269)	(83)
Stock based compensation expense	5,301	3,411
Noncontrolling interest adjustments	262	12,952
Other	637	152
Decrease (increase) in assets:		
Accounts receivable, net	(40,889)	7,806
Inventories	(274)	(67,642)
Leased railcars for syndication	(61,059)	(54,732)
Other	(3,578)	2,211
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(77,605)	(13,032)
Deferred revenue	(723)	6,488
Net cash used in operating activities	(63,491)	(53,830)
Cash flows from investing activities		
Proceeds from sales of assets	41,353	2,073
Capital expenditures	(15,595)	(31,314)
Increase in restricted cash	(949)	(30)
Cash distribution from unconsolidated affiliates	616	
Investment in and advances to unconsolidated affiliates	(1,866)	(2,500)
Net cash provided by (used in) investing activities	23,559	(31,771)
Cash flows from financing activities		
Net change in revolving notes with maturities of 90 days or less	113,000	15,000
Proceeds from revolving notes with maturities longer than 90 days		23,056
Repayments of revolving notes with maturities longer than 90 days		(4,610)
Repayments of notes payable	(1,761)	(1,758)
Debt issuance costs	(4,493)	
Decrease in restricted cash		11,000
Cash distribution to joint venture partner	(17,654)	(2,275)

Repurchase of stock	(20,203)	(21,730)
Dividends	(105)	
Excess tax benefit from restricted stock awards	2,827	2,970
Other	(6)	
Net cash provided by financing activities	71,605	21,653
Effect of exchange rate changes	(6,970)	(2,010)
Increase (decrease) in cash and cash equivalents	24,703	(65,958)
Cash and cash equivalents		
Beginning of period	172,930	184,916
End of period	$ 197,633	$ 118,958
Cash paid during the period for		
Interest	$ 4,058	$ 5,736
Income taxes, net	$ 48,349	$ 28,487
Non-cash activity		
Dividends declared and accrued in Accounts payable and accrued liabilities	$ 5,745	$ 4,170
Capital expenditures accrued in Accounts payable and accrued liabilities	$ 5,931	$ 2,957
Transfer from Leased railcars for syndication to Equipment on operating leases, net	$ 31,568	$ 3,313

The accompanying notes are an integral part of these financial statements

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1 Interim Financial Statements

The Condensed Consolidated Financial Statements of The Greenbrier Companies, Inc. and Subsidiaries (Greenbrier or the Company) as of November 30, 2015 and for the three months ended November 30, 2015 and 2014 have been prepared without audit and reflect all adjustments (consisting of normal recurring accruals) that, in the opinion of management, are necessary for a fair presentation of the financial position, operating results and cash flows for the periods indicated. The results of operations for the three months ended November 30, 2015 are not necessarily indicative of the results to be expected for the entire year ending August 31, 2016.

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 2015 Annual Report on Form 10-K.

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

Prospective Accounting Changes In May 2014, the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) jointly issued a converged standard on the recognition of revenue from contracts with customers. The issued guidance converges the criteria for reporting revenue, 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 April 2015, the FASB issued Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). The FASB issued this update to simplify the presentation of debt issuance costs related to a recognized debt liability to present the debt issuance costs as a direct deduction from the carrying value of the debt liability rather than showing the debt issuance costs as an asset. The guidance is limited to the presentation of debt issuance costs and does not impact its recognition and measurement. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015, with early adoption permitted, and is required to be applied on a retrospective basis. The Company plans to adopt ASU 2015-03 beginning September 1, 2016. As the adoption of this new accounting standard will only amend presentation and disclosure requirements, the adoption will not affect the Company s financial position, results of operations or cash flows.

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.

During the three months ended November 30, 2015 and 2014, the Company purchased a total of 521,626 and 378,695 shares for approximately $19.1 million and $23.1 million, respectively. As of November 30, 2015 the Company had cumulatively repurchased 2,673,165 shares for approximately $123.7 million and had $101.3 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)	November 30, 2015	August 31, 2015
Manufacturing supplies and raw materials	$ 275,343	$ 311,880
Work-in-process	51,342	75,032
Finished goods	120,264	61,302
Excess and obsolete adjustment	(2,926)	(2,679)
	$ 444,023	$ 445,535

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)	November 30, 2015	August 31, 2015
Intangible assets subject to amortization:		
Customer relationships	$ 64,504	$ 65,023
Accumulated amortization	(34,165)	(33,828)
Other intangibles	5,959	3,422
Accumulated amortization	(3,204)	(3,121)
	33,094	31,496
Intangible assets not subject to amortization	912	912
Prepaid and other assets	17,021	13,111
Nonqualified savings plan investments	13,481	11,815
Debt issuance costs, net	7,252	3,823
Assets held for sale	4,397	4,397
Total Intangible and other assets, net	$ 76,157	$ 65,554

Amortization expense for the three months ended November 30, 2015 and 2014 was $1.2 million and $0.9 million. Amortization expense for the years ending August 31, 2016, 2017, 2018, 2019 and 2020 is expected to be $4.6 million, $3.5 million, $3.4 million, $3.4 million and $3.4 million.

Note 4 Revolving Notes

Senior secured credit facilities, consisting of three components, aggregated to $625.1 million as of November 30, 2015.

As of November 30, 2015, 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 November 30, 2015, lines of credit totaling $15.1 million secured by certain of the Company s European assets, with various variable rates that range from Warsaw Interbank Offered Rate (WIBOR) plus 1.2% to WIBOR plus 1.3%, were available for working capital needs of the European manufacturing operation. European credit facilities are continually being renewed. Currently these European credit facilities have maturities that range from February 2016 through June 2017.

As of November 30, 2015, the Company s Mexican joint venture has three lines of credit totaling $60.0 million. The first line of credit provides up to $10.0 million and is secured by certain of the joint venture s accounts receivable and inventory. Advances under this facility bear interest at LIBOR plus 2.5%. The Mexican joint venture will be able to draw amounts available under this facility through June 2016. The second line of credit provides up to $30.0 million and is fully guaranteed by the Company and its joint venture partner. Advances under this facility bear interest at LIBOR plus 2.0%. The Mexican joint venture will be able to draw against this facility through January 2019. The third 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 joint venture will be able to draw amounts available under this facility through August 2017.

As of November 30, 2015, outstanding commitments under the senior secured credit facilities consisted of $80.1 million in letters of credit and $162.0 million in revolving notes under the North American credit facility and $1.9 million outstanding in revolving notes under the Mexican joint venture credit facilities.

As of August 31, 2015, outstanding commitments under the senior secured credit facilities consisted of $47.2 million in letters of credit and $49.0 million in revolving notes under the North American credit facility and $1.9 million outstanding in revolving notes under the Mexican joint venture credit facilities.

Note 5 Accounts Payable and Accrued Liabilities

(In thousands)	November 30, 2015	August 31, 2015
Trade payables	$ 201,955	$ 263,665
Other accrued liabilities	70,440	64,584
Accrued payroll and related liabilities	57,576	70,836
Accrued maintenance	18,693	18,642
Income taxes payable	13,411	22,465
Accrued warranty	11,609	11,512
Other	10,986	3,509
	$ 384,670	$ 455,213

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 November 30,	
(In thousands)	2015	2014
Balance at beginning of period	$ 11,512	$ 9,340
Charged to cost of revenue, net	1,421	647
Payments	(1,229)	(974)
Currency translation effect	(95)	(117)
Balance at end of period	$ 11,609	$ 8,896

Note 7 Accumulated Other Comprehensive Loss

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

(In thousands)	Unrealized Loss on Derivative Financial Instruments	Foreign Currency Translation Adjustment	Other	Accumulated Other Comprehensive Loss
Balance, August 31, 2015	$ (2,194)	$ (18,666)	$ (345)	$ (21,205)
Other comprehensive loss before reclassifications	(6,052)	(3,894)		(9,946)
Amounts reclassified from accumulated other comprehensive loss	492			492
Balance, November 30, 2015	$ (7,754)	$ (22,560)	$ (345)	$ (30,659)

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

(In thousands)	Three Months Ended November 30, 2015	2014	Financial Statement Location
Loss on derivative financial instruments:			
Foreign exchange contracts	$ 267	$ 8	Revenue
Interest rate swap contracts	445	456	Interest and foreign exchange
	712	464	Total before tax
	(220)	(175)	Tax expense
	$ 492	$ 289	Net of tax

Note 8 Earnings Per Share

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

(In thousands)	Three Months Ended November 30, 2015	2014
Weighted average basic common shares outstanding *(1)*	29,391	27,665
Dilutive effect of 2018 Convertible notes *(2)*	3,177	6,044
Dilutive effect of 2026 Convertible notes *(3)*		4
Dilutive effect of performance based restricted stock units *(4)*	10	
Weighted average diluted common shares outstanding	32,578	33,713

(1) Restricted stock grants and restricted stock units, including some grants subject to certain performance criteria, are included in weighted average basic common shares outstanding when the Company is in a net earnings position.

(2) The dilutive effect of the 2018 Convertible notes was included for the three months ended November 30, 2015 and 2014 as they were considered dilutive under the if converted method as further discussed below.

(3) The dilutive effect of the 2026 Convertible notes was excluded for the three months ended November 30, 2015 as the average stock price was less than $48.05 and therefore was considered anti-dilutive. The effect of the 2026 Convertible notes was included for the three months ended November 30, 2014 as the average stock price was greater than $48.05, as further described below.

(4) Restricted stock units that are subject to performance criteria, for which actual levels of performance above target have been achieved, are included in weighted average diluted common shares outstanding when the Company is in a net earnings position.

Dilutive EPS is calculated using the more dilutive of two approaches. The first approach includes the dilutive effect, using the treasury stock method, associated with shares underlying the 2026 Convertible notes and performance based restricted stock units that are subject to performance criteria, for which actual levels of performance above target have been achieved. The second approach supplements the first by including the if converted effect of the 2018 Convertible notes issued in March 2011. Under the if converted method, debt issuance and interest costs, both net of tax, associated with the convertible notes are added back to net earnings and the share count is increased by the shares underlying the convertible notes. The 2026 Convertible notes are included in the calculation of both approaches using the treasury stock method when the average stock price is greater than the conversion price of $48.05.

	Three Months Ended November 30, 2015	2014

Net earnings attributable to Greenbrier	$ 69,433	$ 32,786
Add back:		
Interest and debt issuance costs on the 2018 Convertible notes, net of tax	496	1,416
Earnings before interest and debt issuance costs on convertible notes	$ 69,929	$ 34,202
Weighted average diluted common shares outstanding	32,578	33,713
Diluted earnings per share [(1)]	$ 2.15	$ 1.01

(1) Diluted earnings per share was calculated as follows:

$$\frac{\text{Earnings before interest and debt issuance costs (net of tax) on convertible notes}}{\text{Weighted average diluted common shares outstanding}}$$

Note 9 Stock Based Compensation

The value of restricted stock and restricted stock unit awards is amortized as compensation expense from the date of grant through the earlier of the vesting period or the recipient s eligible retirement date. Awards are expensed upon grant when the recipient s eligible retirement date precedes the grant date.

Compensation expense for restricted stock and restricted stock unit grants was $5.3 million and $3.4 million for the three months ended November 30, 2015 and 2014, respectively. Compensation expense related to restricted stock and restricted stock unit grants is recorded in Selling and administrative expense and Cost of revenue on the Consolidated Statements of Income.

Note 10 Derivative Instruments

Foreign operations give rise to market risks from changes in foreign currency exchange rates. Foreign currency forward exchange contracts with established financial institutions are utilized to hedge a portion of that risk. Interest rate swap agreements are used to reduce the impact of changes in interest rates on certain debt. The Company s foreign currency forward exchange contracts and interest rate swap agreements are designated as cash flow hedges, and therefore the effective portion of unrealized gains and losses is recorded in accumulated other comprehensive income or loss.

At November 30, 2015 exchange rates, forward exchange contracts for the purchase of Polish Zloty and the sale of Euro and U.S. Dollar, and for the purchase of U.S. Dollars and the sale of Saudi Riyal aggregated to $458.8 million. The fair value of the contracts is included on the Consolidated Balance Sheets as Accounts payable and accrued liabilities when there is a loss, or as Accounts receivable, net when there is a gain. As the contracts mature at various dates through September 2018, any such gain or loss remaining will be recognized in manufacturing revenue along with the related transactions. In the event that the underlying sales transaction does not occur or does not occur in the period designated at the inception of the hedge, the amount classified in accumulated other comprehensive loss would be reclassified to the results of operations in Interest and foreign exchange at the time of occurrence.

At November 30, 2015, an interest rate swap agreement maturing in March 2020 had a notional amount of $94.8 million. The fair value of the contract is included in Accounts payable and accrued liabilities on the Consolidated Balance Sheets. As interest expense on the underlying debt is recognized, amounts corresponding to the interest rate swap are reclassified from Accumulated other comprehensive loss and charged or credited to interest expense. At November 30, 2015 interest rates, approximately $1.7 million would be reclassified to interest expense in the next 12 months.

Fair Values of Derivative Instruments

	Asset Derivatives			**Liability Derivatives**		
		November 30, 2015	August 31, 2015		November 30, 2015	August 31, 2015
(In thousands)	Balance sheet location	Fair Value	Fair Value	Balance sheet location	Fair Value	Fair Value
Derivatives designated as hedging instruments						

Foreign forward exchange contracts	Accounts receivable, net	$	6,940	$	1,820	Accounts payable and accrued liabilities	$	7,213	$	737
Interest rate swap contracts	Intangibles and other assets, net					Accounts payable and accrued liabilities		2,514		2,393
		$	6,940	$	1,820		$	9,727	$	3,130
Derivatives not designated as hedging instruments										
Foreign forward exchange contracts	Accounts receivable, net	$	56	$	93	Accounts payable and accrued liabilities	$	108	$	76

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The Effect of Derivative Instruments on the Statements of Income

Derivatives in cash flow hedging relationships	Location of gain (loss) recognized in income on derivatives	Gain (loss) recognized in income on derivatives three months ended November 30,	
		2015	2014
Foreign forward exchange contract			