GENESEE & WYOMING INC
Form 10-Q
November 06, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________
Commission File Number 001-31456

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

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

20 West Avenue, Darien, Connecticut 06820
(Address of principal executive offices)(Zip Code)
(203) 202-8900
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). x Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

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

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

Shares of common stock outstanding as of the close of business on November 1, 2018:

Class	Number of Shares Outstanding
Class A Common Stock	58,390,843
Class B Common Stock	541,138

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

Forward-Looking Statements

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

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

	September 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 74,067	$ 80,472
Accounts receivable, net	441,105	416,705
Materials and supplies	52,517	57,750
Prepaid expenses and other	54,292	34,606
Total current assets	621,981	589,533
PROPERTY AND EQUIPMENT, net	4,613,295	4,656,921
GOODWILL	1,128,580	1,165,587
INTANGIBLE ASSETS, net	1,466,137	1,567,038
DEFERRED INCOME TAX ASSETS, net	3,883	3,343
OTHER ASSETS	70,122	52,475
Total assets	$ 7,903,998	$ 8,034,897
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 25,138	$ 27,853
Accounts payable	271,539	253,993
Accrued expenses	171,011	185,935
Total current liabilities	467,688	467,781
LONG-TERM DEBT, less current portion	2,300,556	2,303,442
DEFERRED INCOME TAX LIABILITIES, net	866,821	873,194
DEFERRED ITEMS - grants from outside parties	323,370	321,592
OTHER LONG-TERM LIABILITIES	162,993	172,796
COMMITMENTS AND CONTINGENCIES		
EQUITY:		
Class A Common Stock, $0.01 par value, one vote per share; 180,000,000 shares authorized at September 30, 2018 and December 31, 2017; 75,199,229 and 74,808,305 shares issued and 58,737,895 and 61,946,078 shares outstanding (net of 16,461,334 and 12,862,227 shares in treasury) on September 30, 2018 and December 31, 2017, respectively	752	748
Class B Common Stock, $0.01 par value, ten votes per share; 30,000,000 shares authorized at September 30, 2018 and December 31, 2017; 541,138 and 701,138 shares issued and outstanding on September 30, 2018 and December 31, 2017, respectively	5	7
Additional paid-in capital	1,779,168	1,757,332
Retained earnings	2,426,690	2,234,864
Accumulated other comprehensive loss	(135,076)	(105,534)
Treasury stock, at cost	(510,245)	(236,951)
Total Genesee & Wyoming Inc. stockholders' equity	3,561,294	3,650,466
Noncontrolling interest	221,276	245,626
Total equity	3,782,570	3,896,092
Total liabilities and equity	$ 7,903,998	$ 8,034,897

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
OPERATING REVENUES	$603,304	$576,927	$1,772,955	$1,636,468
OPERATING EXPENSES:				
Labor and benefits	175,853	169,576	539,407	500,936
Equipment rents	35,325	33,291	104,214	100,399
Purchased services	53,717	68,562	178,864	176,358
Depreciation and amortization	65,392	64,222	197,127	186,509
Diesel fuel used in train operations	45,713	34,535	137,487	105,718
Electricity used in train operations	2,742	765	7,020	6,072
Casualties and insurance	9,912	10,624	32,862	33,346
Materials	32,744	30,664	97,589	77,861
Trackage rights	22,838	22,632	67,119	66,652
Net gain on sale and impairment of assets	(642)	(315)	(2,501)	(1,096)
Restructuring costs	3,286	2,628	12,931	8,744
Other expenses, net	28,604	29,901	82,978	89,494
Total operating expenses	475,484	467,085	1,455,097	1,350,993
OPERATING INCOME	127,820	109,842	317,858	285,475
Interest income	417	463	1,499	1,271
Interest expense	(26,429)	(28,281)	(80,605)	(80,431)
Other income/(loss), net	1,515	1,868	(237)	4,519
Income before income taxes	103,323	83,892	238,515	210,834
Provision for income taxes	(31,013)	(30,507)	(41,569)	(82,032)
Net income	$72,310	$53,385	$196,946	$128,802
Less: Net income attributable to noncontrolling interest	2,720	3,145	8,090	6,317
Net income attributable to Genesee & Wyoming Inc.	$69,590	$50,240	$188,856	$122,485
Basic earnings per common share attributable to Genesee & Wyoming Inc. common stockholders:	$1.18	$0.82	$3.13	$1.99
Weighted average shares – Basic	59,168	61,629	60,343	61,518
Diluted earnings per common share attributable to Genesee & Wyoming Inc. common stockholders:	$1.16	$0.80	$3.08	$1.96
Weighted average shares – Diluted	60,131	62,477	61,255	62,399

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 NINE MONTHS ENDED SEPTEMBER 30, 2018 and 2017 (Unaudited)
(dollars in thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
NET INCOME	$72,310	$53,385	$196,946	$128,802
OTHER COMPREHENSIVE INCOME/(LOSS):				
Foreign currency translation adjustment	(9,501)	32,902	(59,042)	100,054
Net unrealized gain on qualifying cash flow hedges, net of tax (provision) of ($1,583), ($303), ($4,612) and ($567), respectively	5,153	736	14,756	638
Changes in pension and other postretirement benefits, net of tax (provision)/benefit of ($14), ($20), ($42) and $887, respectively	43	38	129	(2,149)
Other comprehensive (loss)/income	(4,305)	33,676	(44,157)	98,543
COMPREHENSIVE INCOME	$68,005	$87,061	$152,789	$227,345
Less: Comprehensive (loss)/income attributable to noncontrolling interest	(2,179)	8,500	(9,495)	24,663
COMPREHENSIVE INCOME ATTRIBUTABLE TO GENESEE & WYOMING INC.	$70,184	$78,561	$162,284	$202,682

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

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GENESEE & WYOMING INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 and 2017 (Unaudited)
(dollars in thousands)

	G&W Stockholders							
	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Non-controlling Interest	Total Equity
BALANCE, December 31, 2016	$742	$ 8	$1,709,615	$1,685,813	$(197,316)	$(232,348)	$ 220,607	$3,187,121
Net income	—	—	—	122,485	—	—	6,317	128,802
Other comprehensive income	—	—	—	—	80,197	—	18,346	98,543
Conversion of 45,000 shares Class B Common Stock to Class A Common Stock	1	(1)	—	—	—	—	—	—
Value of stock issued for stock-based compensation - 296,580 shares Class A Common Stock	2	—	8,001	—	—	—	—	8,003
Settlement of deferred stock awards - 17,661 shares	—	—	738	—	—	—	—	738
Compensation cost related to stock-based compensation	—	—	13,309	—	—	—	—	13,309
Value of treasury stock repurchased - 44,114 shares	—	—	—	—	—	(3,275)	—	(3,275)
Other	—	—	444	—	—	—	(6)	438
BALANCE, September 30, 2017	$745	$ 7	$1,732,107	$1,808,298	$(117,119)	$(235,623)	$ 245,264	$3,433,679

	G&W Stockholders							
	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Non-controlling Interest	Total Equity
BALANCE, December 31, 2017	$748	$ 7	$1,757,332	$2,234,864	$(105,534)	$(236,951)	$ 245,626	$3,896,092
Net income	—	—	—	188,856	—	—	8,090	196,946
Other comprehensive loss	—	—	—	—	(26,572)	—	(17,585)	(44,157)
Conversion of 160,000 shares Class B Common Stock to	2	(2)	—	—	—	—	—	—

Class A Common Stock								
Value of stock issued for stock-based compensation - 209,357 shares Class A Common Stock	2	—	7,812	—	—	—	—	7,814
Settlement of deferred stock awards - 21,567 shares	—	—	995	—	—	—	—	995
Compensation cost related to stock-based compensation	—	—	13,029	—	—	—	—	13,029
Value of treasury stock repurchased - 3,599,107 shares	—	—	—	—	—	(273,294)	—	(273,294)
Distribution to noncontrolling interest	—	—	—	—	—	—	(14,898)	(14,898)
Amounts reclassified from accumulated other comprehensive loss to retained earnings related to the United States Tax Cuts and Jobs Act	—	—	—	2,970	(2,970)	—	—	—
Other	—	—	—	—	—	—	43	43
BALANCE, September 30, 2018	$752	$ 5	$1,779,168	$2,426,690	$(135,076)	$(510,245)	$ 221,276	$3,782,570

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 NINE MONTHS ENDED SEPTEMBER 30, 2018 and 2017 (Unaudited)
(dollars in thousands)

	Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$196,946	$128,802
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	197,127	186,509
Stock-based compensation	13,029	13,354
Deferred income taxes	7,978	51,231
Net gain on sale and impairment of assets	(2,501)	(1,096)
Changes in assets and liabilities which provided/(used) cash, net of effect of acquisitions:		
Accounts receivable, net	(50,143)	(18,020)
Materials and supplies	3,133	8,998
Prepaid expenses and other	(11,663)	14,257
Accounts payable and accrued expenses	33,818	(41,529)
Other assets and liabilities, net	9,750	7,883
Net cash provided by operating activities	397,474	350,389
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(194,132)	(149,105)
Grant proceeds from outside parties	16,696	15,998
Net cash paid for acquisitions, net of cash acquired	—	(107,586)
Proceeds from sale of business	7,927	—
Proceeds from sale of investment	—	2,100
Insurance proceeds for replacement of assets	2,780	1,406
Proceeds from disposition of property and equipment	3,710	4,238
Other investing activities	(2,921)	—
Net cash used in investing activities	(165,940)	(232,949)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on revolving line-of-credit, long-term debt and capital lease obligations	(766,713)	(498,925)
Proceeds from revolving line-of-credit and long-term borrowings	821,666	418,735
Debt amendment/issuance costs	(5,318)	—
Common share repurchases	(270,488)	—
Distribution to noncontrolling interest	(14,898)	—
Installment payments on Freightliner deferred consideration	(6,255)	—
Other financing related activities, net	5,006	4,728
Net cash used in financing activities	(237,000)	(75,462)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(939)	5,980
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(6,405)	47,958
CASH AND CASH EQUIVALENTS, beginning of period	80,472	32,319
CASH AND CASH EQUIVALENTS, end of period	$74,067	$80,277

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

1. PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION:

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

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

The interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2017 included in the Company's 2017 Annual Report on Form 10-K. Certain reclassifications and adjustments have been made to prior period balances to conform to the current year presentation as noted below.

On January 1, 2018, the Company adopted ASU 2017-07, Compensation-Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Prior to the adoption of ASU 2017-07, the Company presented net pension costs within operating income on the same line item as other compensation costs arising from services rendered by the applicable employees. ASU 2017-07 requires that net pension costs, other than service cost, be presented outside of operating income. The Company applied these changes retrospectively to its consolidated statement of operations which resulted in a $1.6 million and $4.8 million decrease in operating income and a corresponding change in other income/(loss), net for the three and nine months ended September 30, 2017, respectively. The adjustments had no impact on net income.

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

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

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

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

2. CHANGES IN OPERATIONS:

North American Operations

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

HOG was founded in 1999 and operates 219 miles of track that runs across the State of Georgia. The track is leased from the Georgia Department of Transportation. It connects with the Company’s Georgia Southwestern Railroad at Americus, Georgia, and with the Company’s Georgia Central Railway at Vidalia, Georgia. HOG serves an inland intermodal terminal at Cordele, Georgia, providing five days per week, direct rail service via the Georgia Central

Railway to the Port of Savannah for auto, agricultural products and other merchandise customers. HOG has Class I railroad connections with CSX Corp. at Cordele and with Norfolk Southern at Americus and Helena, Georgia. HOG transports approximately 7,000 annual carloads of agricultural products, feed, fertilizer, and lumber and forest products.

Australian Operations

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

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

In December 2017, the Company recovered $0.9 million of cash in relation to the Company's previous agreements with Arrium. During the three and nine months ended September 30, 2018, the Company recorded $0.9 million and $7.3 million, respectively, of gains on settlement from additional cash recoveries of pre-petition claims associated with Arrium, which were recognized as offsets to other expenses, net in the Company’s consolidated statement of operations.

U.K./European Operations

Continental Europe Intermodal Business: In 2017, the Company ceased all "open" train services from the port of Rotterdam, closed its Continental Europe intermodal business, ERS Railways B.V. (ERS), offices in Rotterdam and Frankfurt, and the ERS customer services function in Warsaw. The Company recorded restructuring charges of $0.7 million and $5.2 million for the three and nine months ended September 30, 2017, respectively, primarily related to severance costs and costs associated with surplus locomotive and railcar leases at ERS.

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

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

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

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

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

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

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

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

3. EARNINGS PER COMMON SHARE:

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Numerators:				
Net income attributable to Genesee & Wyoming Inc.	$69,590	$50,240	$188,856	$122,485
Denominators:				
Weighted average Class A common shares outstanding – Basic	59,168	61,629	60,343	61,518
Weighted average Class B common shares outstanding	664	723	679	743
Dilutive effect of employee stock-based awards	299	125	233	138
Weighted average shares – Diluted	60,131	62,477	61,255	62,399
Earnings per common share attributable to Genesee & Wyoming Inc. common stockholders:				
Basic earnings per common share	$1.18	$0.82	$3.13	$1.99