GREENBRIER COMPANIES INC
Form 10-Q
April 09, 2009

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

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
for the quarterly period ended February 28, 2009

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 No. 1-13146

THE GREENBRIER COMPANIES, INC.
(Exact name of registrant as specified in its charter)

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

One Centerpointe Drive, Suite 200, Lake Oswego, OR 97035
(Address of principal executive offices) (Zip Code)
(503) 684-7000
(Registrant s telephone number, including area code)

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

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares of the registrant s common stock, without par value, outstanding on March 28, 2009 was 16,713,984 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 the Private Securities Litigation Reform Act of 1995, 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. 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 railcar warehousing activities;
- ability to maintain compliance with or obtain appropriate amendments to covenants in various credit agreements;
- ability to renew or obtain sufficient lines of credit and performance guarantees on acceptable terms;
- ability to utilize beneficial tax strategies;
- ability to grow our refurbishment & parts and lease fleet and management services businesses;
- ability to obtain sales contracts which contain provisions for the escalation of prices due to increased costs of materials and components;
- ability to obtain adequate certification and licensing of products; and
- short- and long-term revenue and earnings effects of the above items.

Forward-looking statements are subject to a number of uncertainties and other factors outside Greenbrier s control. The following are among the factors that could cause actual results or outcomes to differ materially from the forward-looking statements:

- a delay or failure of acquired businesses, start-up operations, products or services to compete successfully;
- decreases in carrying value of inventory, goodwill 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;
- fluctuations in demand for newly manufactured railcars or failure to obtain orders as anticipated in developing forecasts;
- effects of local statutory accounting;
- domestic and global business conditions and growth or reduction in the surface transportation industry;
- ability to maintain good relationships with third party labor providers or collective bargaining units;
- steel price fluctuations, scrap surcharges, steel scrap prices and other commodity price fluctuations and their impact on railcar and wheel demand and margin;

ability to deliver railcars in accordance with customer specifications;

changes in product mix and the mix among reporting segments;

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

production difficulties and product delivery delays as a result of, among other matters, changing technologies or non-performance of alliance partners, subcontractors or suppliers;

ability to obtain suitable contracts for railcars held for sale;

lower than anticipated residual values for leased equipment;

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

resolution or outcome of pending or future litigation and investigations;

the ability to consummate expected sales;

delays in receipt of orders, risks that contracts may be canceled during their term or not renewed and that customers may not purchase as much equipment under the contracts as anticipated;

financial condition of principal customers;

market acceptance of products;

ability to determine and obtain adequate levels of insurance and at acceptable rates;

disputes arising from creation, use, licensing or ownership of intellectual property in the conduct of the Company s business;

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competitive factors, including introduction of competitive products, price pressures, limited customer base and competitiveness of our manufacturing facilities and products;

industry overcapacity and our manufacturing capacity utilization;

changes in industry demand for railcar products;

domestic and global political, regulatory or economic conditions including such matters as terrorism, war, embargoes or quotas;

ability to adjust to the cyclical nature of the railcar industry;

the effects of car hire deprescription on leasing revenue;

changes in interest rates and financial impacts from interest rates;

actions by various regulatory agencies;

changes in fuel and/or energy prices;

risks associated with intellectual property rights of Greenbrier or 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 and 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 acquired businesses;

ability to maintain sufficient availability of credit facilities and compliance with financial covenants;

discovery of unknown liabilities associated with acquired businesses;

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

ability to replace maturing lease revenue and earnings with revenue and earnings from additions to the lease fleet and management services; and

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

Any forward-looking statements should be considered in light of these factors. Greenbrier assumes no obligation to update or revise any forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements or if Greenbrier later becomes aware that these assumptions are not likely to be achieved, except as required under securities laws.

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THE GREENBRIER COMPANIES, INC.

PART I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

Consolidated Balance Sheets

(In thousands, except per share amounts, unaudited)

	February 28, 2009	August 31, 2008
Assets		
Cash and cash equivalents	$ 41,066	$ 5,957
Restricted cash	516	1,231
Accounts receivable	137,358	181,857
Inventories	204,218	252,048
Assets held for sale	45,289	52,363
Equipment on operating leases	315,884	319,321
Investment in direct finance leases	8,221	8,468
Property, plant and equipment	128,670	136,506
Goodwill	192,733	200,148
Intangibles and other assets	93,743	99,061
	$ 1,167,698	$ 1,256,960
Liabilities and Stockholders Equity		
Revolving notes	$ 101,474	$ 105,808
Accounts payable and accrued liabilities	228,238	274,322
Losses in excess of investment in de-consolidated subsidiary	15,313	15,313
Deferred income taxes	77,872	74,329
Deferred revenue	19,995	22,035
Notes payable	488,073	496,008
Minority interest	9,158	8,618
Commitments and contingencies (Note 17)		
Stockholders equity:		
Preferred stock without par value; 25,000 shares authorized; none outstanding		
Common stock without par value; 50,000 shares authorized; 16,714 and 16,606 shares outstanding at February 28, 2009 and August 31, 2008	17	17
Additional paid-in capital	84,676	82,262
Retained earnings	167,345	179,553
Accumulated other comprehensive loss	(24,463)	(1,305)
	227,575	260,527
	$ 1,167,698	$ 1,256,960

The accompanying notes are an integral part of these statements.

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THE GREENBRIER COMPANIES, INC.

Consolidated Statements of Operations

(In thousands, except per share amounts, unaudited)

	Three Months Ended		Six Months Ended	
	February 28, 2009	February 29, 2008	February 28, 2009	February 29, 2008
Revenue				
Manufacturing	$ 145,574	$ 123,394	$ 248,292	$ 282,588
Refurbishment & Parts	121,681	112,576	253,960	216,466
Leasing & Services	19,877	23,603	41,010	46,898
	287,132	259,573	543,262	545,952
Cost of revenue				
Manufacturing	152,003	118,225	258,926	268,790
Refurbishment & Parts	107,427	94,396	226,754	182,347
Leasing & Services	11,547	12,279	23,476	24,204
	270,977	224,900	509,156	475,341
Margin	16,155	34,673	34,106	70,611
Other costs				
Selling and administrative	16,265	21,000	32,245	41,184
Interest and foreign exchange	8,192	9,854	19,038	20,273
Special charges		2,112		2,302
	24,457	32,966	51,283	63,759
Earnings (loss) before income taxes, minority interest and equity in unconsolidated subsidiaries	(8,302)	1,707	(17,177)	6,852
Income tax benefit (expense)	1,324	(1,904)	5,868	(4,859)
Earnings (loss) before minority interest and equity in unconsolidated subsidiaries	(6,978)	(197)	(11,309)	1,993
Minority interest	351	1,367	919	1,741
Equity in earnings (loss) of unconsolidated subsidiaries	(251)	253	183	331
Net earnings (loss)	$ (6,878)	$ 1,423	$ (10,207)	$ 4,065
Basic earnings (loss) per common share	$ (0.41)	$ 0.09	$ (0.61)	$ 0.25
Diluted earnings (loss) per common share	$ (0.41)	$ 0.09	$ (0.61)	$ 0.25

Weighted average common shares:				
Basic	16,694	16,290	16,694	16,230
Diluted	16,694	16,311	16,694	16,254

The accompanying notes are an integral part of these statements.

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THE GREENBRIER COMPANIES, INC.

Consolidated Statements of Cash Flows
(In thousands, unaudited)

	Six Months Ended	
	February 28, 2009	February 29, 2008
Cash flows from operating activities		
Net earnings (loss)	$ (10,207)	$ 4,065
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Deferred income taxes	3,543	3,996
Depreciation and amortization	18,984	16,519
Gain on sales of equipment	(358)	(2,006)
Special charges		2,302
Minority interest	(860)	(1,681)
Other	217	(120)
Decrease (increase) in assets:		
Accounts receivable	28,702	(12,269)
Inventories	28,622	(2,639)
Assets held for sale	8,561	(66,960)
Other	135	(3,168)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(22,079)	(4,888)
Deferred revenue	562	(4,082)
Net cash provided by (used in) operating activities	55,822	(70,931)
Cash flows from investing activities		
Principal payments received under direct finance leases	211	179
Proceeds from sales of equipment	1,400	6,414
Investment in and net advances to unconsolidated subsidiary		347
Decrease in restricted cash	244	547
Capital expenditures	(15,148)	(15,998)
Net cash used in investing activities	(13,293)	(8,511)
Cash flows from financing activities		
Changes in revolving notes	11,283	64,259
Proceeds from issuance of notes payable		12
Repayments of notes payable	(7,394)	(4,183)
Dividends	(2,001)	(2,605)
Stock options and restricted stock awards exercised	2,414	1,743
Excess tax benefit (expense) of stock options exercised		(3)
Investment by joint venture partner	1,400	4,650
Net cash provided by financing activities	5,702	63,873

Effect of exchange rate changes	(13,122)	1,195
Increase (decrease) in cash and cash equivalents	35,109	(14,374)
Cash and cash equivalents		
Beginning of period	5,957	20,808
End of period	$ 41,066	$ 6,434
Cash paid during the period for		
Interest	$ 17,100	$ 17,134
Income taxes	$ 1,340	$ 2,125
Supplemental disclosure of non-cash activity:		
Seller receivable netted against acquisition note	$	$ 503
Pension plan adjustment	$	$ 6,913
Adjustment to tax reserve	$ 7,415	$

The accompanying notes are an integral part of these statements.

THE GREENBRIER COMPANIES, INC.

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 February 28, 2009 and for the three and six months ended February 28, 2009 and February 29, 2008 have been prepared without audit and reflect all adjustments (consisting of normal recurring accruals except for special charges) which, in the opinion of management, are necessary for a fair presentation of the financial position and operating results for the periods indicated. The results of operations for the three and six months ended February 28, 2009 are not necessarily indicative of the results to be expected for the entire year ending August 31, 2009.

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 2008 Annual Report on Form 10-K.

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

Initial Adoption of Accounting Policies In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* which permits entities to choose to measure many financial assets and financial liabilities at fair value rather than historical value. Unrealized gains and losses on items for which the fair value option is elected are reported in earnings. This statement was effective for the Company beginning September 1, 2008 and the Company has not elected the fair value option for any additional financial assets and liabilities beyond those already prescribed by generally accepted accounting principles.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of SFAS No. 133*. This statement changes the presentation of the disclosure of the Company s derivative and hedging activity and was effective for the Company beginning September 1, 2008.

Prospective Accounting Changes In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. The measurement and disclosure requirements are effective for the Company for the fiscal year beginning September 1, 2008. The adoption did not have an effect on the Company. In January 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2 to defer SFAS No. 157 s effective date for all non-financial assets and liabilities, except those items recognized or disclosed at fair value on an annual or more frequently recurring basis. In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*. This FSP provides examples to illustrate key considerations in determining fair value of a financial asset when the market for that financial asset is not active. This position is effective for the Company beginning September 1, 2009. Management is evaluating whether there will be any impact on the Consolidated Financial Statements from the adoption of FSP 157-2 and 157-3.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations*. This statement establishes the principles and requirements for how an acquirer: recognizes and measures the assets acquired, liabilities assumed, and non-controlling interest; recognizes and measures goodwill; and identifies disclosures. This statement is effective for the Company for business combinations entered into on or after September 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51*. This statement establishes reporting standards for non-controlling interests in

subsidiaries. This standard is effective for the Company beginning September 1, 2009. Management is evaluating the impact of this statement on its Consolidated Financial Statements.
In May 2008, the FASB issued FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement).* This FSP specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This FSP is effective for the Company beginning September 1, 2009 with respect to its $100.0 million of outstanding convertible debt. This FSP cannot be early adopted and requires retrospective adjustments for all periods the Company had the convertible debt. On September 1, 2009 the Company expects to record, on its Consolidated Balance Sheet, a debt discount of $17.0 million, a deferred tax liability of $6.7 million and a $10.3 million increase to equity. The debt discount will be amortized through May 2013 and the amortization expense is expected to be included in Interest and foreign exchange on the Consolidated Statements of Operations. The pre-tax amortization is expected to be approximately $4.1 million in fiscal year 2010, $4.5 million in fiscal year 2011, $4.8 million in fiscal year 2012 and $3.6 million in fiscal year 2013.

Note 2 Acquisitions

Roller Bearing Industries

On April 4, 2008 the Company purchased substantially all of the operating assets of Roller Bearing Industries, Inc. (RBI) for $7.8 million in cash. The purchase price was paid from existing cash balances and credit facilities. RBI operates a railcar bearings reconditioning business in Elizabethtown, Kentucky. These bearings are used in the reconditioning of railcar wheelsets. The financial results of this operation since the acquisition are reported in the Company s Consolidated Financial Statements as part of the Refurbishment & Parts segment. The impact of this acquisition was not material to the Company s consolidated results of operations; therefore, pro forma financial information has not been included.
The fair value of the net assets acquired from RBI was as follows:

(In thousands)	
Accounts receivable	$ 479
Inventories	2,963
Property, plant and equipment	1,644
Intangibles and other	1,178
Goodwill	1,742
Total assets acquired	8,006
Accounts payable and accrued liabilities	165
Total liabilities assumed	165
Net assets acquired	$ 7,841

American Allied Railway Equipment Company

On March 28, 2008 the Company purchased substantially all of the operating assets of American Allied Railway Equipment Company and its affiliates (AARE) for $83.3 million in cash. The purchase price was paid from existing cash balances and credit facilities. AARE s two wheel facilities in Washington, Illinois and Macon, Georgia, supply new and reconditioned wheelsets to freight car maintenance locations as well as new railcar manufacturing facilities. AARE also operates a parts reconditioning business in Peoria, Illinois, where it reconditions railcar yokes, couplers, side frames and bolsters. The financial results since the acquisition are reported in the Company s Consolidated

Financial Statements as part of the Refurbishment & Parts segment.

On January 31, 2009, the wheel facility in Washington Illinois was extensively damaged by fire. Substantially all the work scheduled to be completed at this facility has been shifted to other wheel facilities in the Refurbishment & Parts network, with no significant disruptions in service to our customers. The Company believes it is adequately covered by insurance for this loss.

The fair value of the net assets acquired from AARE was as follows:

(In thousands)

Accounts receivable	$ 10,228
Inventories	12,966
Property, plant and equipment	8,377
Intangibles and other	27,800
Goodwill	29,405
Total assets acquired	88,776
Accounts payable and accrued liabilities	5,451
Total liabilities assumed	5,451
Net assets acquired	$ 83,325

The unaudited pro forma financial information presented below for the three and six months ended February 29, 2008 has been prepared to illustrate Greenbrier s consolidated results had the acquisition of AARE occurred at the beginning of each period presented. The financial information for the three and six months ended February 28, 2009 is included for comparison purposes only.

(In thousands except per share amounts)

	Three Months Ended		Six Months Ended	
	February 28, 2009	February 29, 2008	February 28, 2009	February 29, 2008
Revenue	$287,132	$281,812	$543,262	$589,794
Net earnings (loss)	$ (6,878)	$ 2,622	$ (10,207)	$ 4,886
Basic earnings (loss) per share	$ (0.41)	$ 0.16	$ (0.61)	$ 0.30
Diluted earnings (loss) per share	$ (0.41)	$ 0.16	$ (0.61)	$ 0.30

The unaudited pro forma financial information is not necessarily indicative of what the actual results would have been had the transaction occurred at the beginning of the fiscal year, and may not be indicative of the results of future operations of the Company.

Note 3 Special Charges

In April 2007, the Company s board of directors approved the permanent closure of the Company s Canadian railcar manufacturing facility, TrentonWorks Limited (TrentonWorks). As a result of the facility closure decision, special charges of $2.1 million and $2.3 million were recorded during the three and six months ended February 29, 2008 consisting of severance costs and professional and other fees associated with the closure.

Note 4 De-consolidation of Subsidiary

On March 13, 2008 TrentonWorks filed for bankruptcy with the Office of the Superintendent of Bankruptcy Canada whereby the assets of TrentonWorks are being administered and liquidated by an appointed trustee. The Company has not guaranteed any obligations of TrentonWorks and does not believe it will be liable for any of TrentonWorks liabilities. Under generally accepted accounting principles, consolidation is generally required for investments of more than 50% ownership, except when control is not held by the majority owner. Under these principles, bankruptcy represents a condition which may preclude consolidation in instances where control rests with the bankruptcy court and trustee, rather than the majority owner. As a result, the Company discontinued consolidating TrentonWorks financial statements beginning on March 13, 2008 and began reporting its investment in TrentonWorks using the cost method. Under the cost method, the investment is reflected as a single amount on the Company s Consolidated Balance Sheet. De-consolidation resulted in a negative investment in the subsidiary of $15.3 million which is included as a liability on the Company s Consolidated Balance Sheet titled Losses in excess of investment in de-consolidated subsidiary. In addition, a $3.4 million loss is included in Accumulated other comprehensive loss. The Company may recognize up to $11.9 million of income with the reversal of the $15.3 million liability, net of the $3.4 million other comprehensive loss, when the bankruptcy is resolved and the Company is legally released from any future obligations.

Note 5 Inventories

(In thousands)

	February 28, 2009	August 31, 2008
Supplies and raw materials	$ 116,422	$ 150,505
Work-in-process	91,423	106,542
Lower of cost or market adjustment	(3,627)	(4,999)
	$ 204,218	$ 252,048

Note 6 Assets Held for Sale

(In thousands)

	February 28, 2009	August 31, 2008
Finished goods parts	$ 20,102	$ 22,017
Railcars held for sale	17,588	23,559
Railcars in transit to customer	7,599	6,787
	$ 45,289	$ 52,363

Note 7 Goodwill

The Company periodically acquires businesses in purchase transactions in which the allocation of the purchase price may result in the recognition of goodwill. Goodwill is evaluated annually for impairment unless a qualifying event triggers interim testing.

Changes in the carrying value of goodwill for the six months ended February 28, 2009 are as follows:

(In thousands)

	Manufacturing	Refurbishment & Parts	Leasing & Services	Total
Balance August 31, 2008	$ 1,287	$ 195,790	$ 3,071	$ 200,148
Reserve reversal		(7,415)		(7,415)
Balance February 28, 2009	$ 1,287	$ 188,375	$ 3,071	$ 192,733