GREENBRIER COMPANIES INC
Form 10-Q
January 09, 2008

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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 November 30, 2007

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer þ Non-accelerated filer 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 January 3, 2008 was 16,183,863 shares.

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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)

	November 30, 2007	August 31, 2007
Assets		
Cash and cash equivalents	$ 6,685	$ 20,808
Restricted cash	2,910	2,693
Accounts receivable	137,839	157,038
Inventories	201,952	194,883
Assets held for sale	44,745	42,903
Equipment on operating leases	306,501	294,326
Investment in direct finance leases	8,950	9,040
Property, plant and equipment	114,894	112,813
Goodwill	169,001	168,987
Intangibles and other assets	68,833	69,258
	$ 1,062,310	$ 1,072,749
Liabilities and Stockholders Equity		
Revolving notes	$ 52,598	$ 39,568
Accounts payable and accrued liabilities	217,949	239,713
Participation	617	4,355
Deferred income taxes	64,102	61,410
Deferred revenue	13,447	18,052
Notes payable	459,927	460,915
Minority interest	5,643	5,146
Commitments and contingencies (Note 12)		
Stockholders equity:		
Preferred stock without par value; 25,000 shares authorized; none outstanding		
Common stock without par value; 50,000 shares authorized; 16,179 and 16,169 shares outstanding at November 30, 2007 and August 31, 2007	16	16
Additional paid-in capital	79,166	78,332
Retained earnings	166,618	165,408
Accumulated other comprehensive income (loss)	2,227	(166)
	248,027	243,590
	$ 1,062,310	$ 1,072,749

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 November 30,	
	2007	2006
Revenue		
Manufacturing	$ 159,194	$ 168,692
Refurbishment & parts	103,889	51,236
Leasing & services	23,295	26,695
	286,378	246,623
Cost of revenue		
Manufacturing	150,565	161,688
Refurbishment & parts	87,951	45,007
Leasing & services	11,925	10,811
	250,441	217,506
Margin	35,937	29,117
Other costs		
Selling and administrative	20,184	17,124
Interest and foreign exchange	10,419	9,641
Special charges	189	
	30,792	26,765
Earnings before income taxes, minority interest and equity in unconsolidated subsidiaries	5,145	2,352
Income tax expense	(2,956)	(580)
Earnings before minority interest and equity in unconsolidated subsidiaries	2,189	1,772
Minority interest	375	(2)
Equity in earnings of unconsolidated subsidiaries	78	100
Net earnings	$ 2,642	$ 1,870
Basic earnings per common share:	$ 0.16	$ 0.12
Diluted earnings per common share:	$ 0.16	$ 0.12
Weighted average common shares:		

Basic	16,172	15,961
Diluted	16,198	16,010

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)

	Three Months Ended November 30, 2007	Three Months Ended November 30, 2006
Cash flows from operating activities:		
Net earnings	$ 2,642	$ 1,870
Adjustments to reconcile net earnings to net cash used in operating activities:		
Deferred income taxes	2,692	303
Depreciation and amortization	8,256	7,526
Gain on sales of equipment	(780)	(3,222)
Special charges	189	
Other	(242)	40
Decrease (increase) in assets excluding acquisitions:		
Accounts receivable	23,564	(8,029)
Inventories	(232)	(1,379)
Assets held for sale	(8,501)	(15,342)
Other	503	351
Increase (decrease) in liabilities excluding acquisitions:		
Accounts payable and accrued liabilities	(27,005)	(17,547)
Participation	(3,738)	396
Deferred revenue	(6,118)	(6,906)
Net cash used in operating activities	(8,770)	(41,939)
Cash flows from investing activities:		
Acquisitions, net of cash acquired		(264,470)
Principal payments received under direct finance leases	88	229
Proceeds from sales of equipment	1,422	20,833
Investment in and net advances to unconsolidated subsidiaries	176	137
Increase (decrease) in restricted cash	140	(436)
Capital expenditures	(14,475)	(30,458)
Net cash used in investing activities	(12,649)	(274,165)
Cash flows from financing activities:		
Changes in revolving notes	6,677	186,608
Proceeds from issuance of notes payable		(69)
Repayments of notes payable	(1,331)	(931)
Repayments of subordinated debt		(821)
Investment by joint venture partner	600	1,200
Stock options and restricted stock awards exercised	783	877
Excess tax benefit of stock options exercised	51	869
Net cash provided by financing activities	6,780	187,733

Effect of exchange rate changes	516	(164)
Decrease in cash and cash equivalents	(14,123)	(128,535)
Cash and cash equivalents		
Beginning of period	20,808	142,894
End of period	$ 6,685	$ 14,359
Cash paid during the period for:		
Interest	$ 13,746	$ 11,929
Income taxes	$ 1,958	$ 48

The accompanying notes are an integral part of these statements.

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THE GREENBRIER COMPANIES, INC.

	Three Months Ended November 30, 2007	2006
Supplemental disclosure of non-cash activity:		
Assumption of Rail Car America capital lease obligation	$	$ 119
Seller receivable netted against acquisition note payable	$ 503	$
Supplemental disclosure of acquisitions (See Note 2):		
Assets acquired, net of cash	$	$ (303,608)
Liabilities assumed		33,085
Acquisition note payable		3,000
Cash acquired		3,053
Acquisitions, net of cash acquired	$	$ (264,470)

The accompanying notes are an integral part of these statements.

THE GREENBRIER COMPANIES, INC.

Notes to Consolidated Financial Statements
(Unaudited)

Note 1 Interim Financial Statements

The Consolidated Financial Statements of The Greenbrier Companies, Inc. and Subsidiaries (Greenbrier or the Company) as of November 30, 2007 and for the three months ended November 30, 2007 and 2006 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 months ended November 30, 2007 are not necessarily indicative of the results to be expected for the entire year ending August 31, 2008.

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 2007 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 July 2006, the Financial Accounting Standards Board (FASB) issued interpretation (FIN) No. 48, *Accounting for Uncertainties in Income Tax an Interpretation of FASB Statement No. 109*. This interpretation clarifies the accounting for uncertainties in income tax provisions. The Company adopted the provisions of FIN 48 on September 1, 2007. At the adoption date, the Company identified certain tax benefits taken for which a reserve for uncertain tax positions is required under FIN 48. The total amount of this reserve, including interest and penalties, is $11.8 million, of which $8.9 million is associated with purchase accounting adjustments on the acquisition of Meridian Rail Holdings Corp. These amounts had previously been reserved under Statement of Financial Accounting Standard (SFAS) 5 with the exception of $0.1 million which was recorded as an adjustment to retained earnings in the three months ended November 30, 2007. The Company recorded additional interest expense of $0.3 million relating to reserves for uncertain tax provisions in the first quarter. Interest and penalties related to income taxes are not classified as a component of income tax expense. When unrecognized tax benefits are realized, the benefit related to deductible differences attributable to ordinary operations will be recognized as a reduction of income tax expense. The benefit related to deductible differences attributable to purchase accounting may result in a reduction to goodwill. In the next 12 months, the Company does not expect a significant increase or decrease to these estimates of unrecognized tax benefits.

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. We are evaluating whether there will be any impact on the Consolidated Financial Statements from the adoption of SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* which is effective for the Company beginning September 1, 2008. SFAS No. 159 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. The Company is evaluating the alternatives allowed pursuant to the adoption of SFAS No. 159.

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. The Company is evaluating the impact of this statement on its Consolidated Financial Statements.

Note 2 Acquisitions

Rail Car America

On September 11, 2006, the Company purchased substantially all of the operating assets of Rail Car America (RCA), its American Hydraulics division and of Brandon Corp., its wholly owned subsidiary. RCA, a provider of intermodal and conventional railcar repair services in North America, operates from four repair facilities in the United States. RCA also reconditions and repairs end-of-railcar cushioning units through its American Hydraulics division and operates a switching line in Nebraska through Brandon Corp. The purchase price of the net assets included $29.1 million of cash and a $3.0 million promissory note due in September 2008. The financial results of these operations 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, proforma financial information has not been included.

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

(In thousands)	
Accounts receivable	$ 628
Inventories	7,830
Property, plant and equipment	22,053
Intangibles and other	4,102
Total assets acquired	34,613
Accounts payable and accrued liabilities	2,235
Notes payable	229
Total liabilities assumed	2,464
Net assets acquired	$ 32,149

Meridian Rail Holdings Corp.

On November 6, 2006, the Company acquired 100% of the stock of Meridian Rail Holdings Corp. (Meridian) for $237.9 million in cash which includes the purchase price of $227.5 million plus working capital adjustments. Meridian is a leading supplier of wheel maintenance services to the North American freight car industry. Operating out of six facilities, Meridian supplies replacement wheel sets and axles to approximately 170 freight car maintenance locations where worn or damaged wheels, axles, or bearings are reconditioned or replaced. Meridian also performs coupler reconditioning and railcar repair at other facilities. The financial results since the acquisition are reported in the Company s consolidated financial statements as part of the refurbishment & parts segment.

The fair value of the net assets acquired in the Meridian transaction was as follows:

(In thousands)	
Cash and cash equivalents	$ 3,053
Accounts receivable	20,221
Inventories	52,895
Property, plant and equipment	14,473
Goodwill	163,669
Intangibles and other	36,991
Total assets acquired	291,302
Accounts payable and accrued liabilities	40,013
Deferred income taxes	13,404
Total liabilities assumed	53,417
Net assets acquired	$ 237,885

As a result of the allocation of the purchase price among assets and liabilities, $163.7 million in goodwill was recorded in the consolidated financial statements.

The unaudited pro forma financial information presented below for the three months ended November 30, 2006 has been prepared to illustrate Greenbrier s consolidated results had the acquisition of Meridian occurred at the beginning of the period presented. The financial information for the three months ended November 30, 2007 is included for comparison purposes only.

(In thousands, except per share amounts)	Three Months Ended November 30,	
	2007	2006
Revenue	$ 286,378	$ 297,391
Net earnings	$ 2,642	$ 6,591
Basic earnings per common share	$ 0.16	$ 0.41
Diluted earnings per common share	$ 0.16	$ 0.41

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

<u>Other Acquisitions</u>

In April 2007, the Company acquired a leasing management services operation for $4.3 million whose operations were not material to the Company s consolidated results of operations; therefore, proforma financial information has not been included. As a result of the preliminary allocation of purchase price among assets and liabilities, $3.1 million in goodwill was recorded. The allocation of the purchase price among certain assets and liabilities is still in process. As a result, the allocation is preliminary and subject to further refinement upon completion of analyses and valuations.

Note 3 Special Charges

In April 2007, the Company s board of directors approved the permanent closure of the Canadian railcar manufacturing facility. As a result of the facility closure decision, special charges of $0.2 million were recorded during the three month ended November 30, 2007 consisting of severance costs and professional and other fees associated with the closure. We are actively marketing the assets and the disposition of the facility is expected to be completed by the end of 2008.

Note 4 Inventories

(In thousands)	November 30, 2007	August 31, 2007
Supplies and raw materials	$ 119,775	$ 111,957
Work-in-process	85,749	86,733
Lower of cost or market adjustment	(3,572)	(3,807)
	$ 201,952	$ 194,883

Note 5 Warranty Accruals

Warranty costs to cover a defined warranty period are estimated and charged to operations. The estimated warranty cost is based on historical warranty claims for each particular product type. For new product types without a warranty history, estimates are based on historical information for similar product types. The accrual, included in accounts payable and accrued liabilities on the Consolidated Balance Sheet, is periodically reviewed and updated based on warranty trends.

Warranty accrual activity:

(In thousands)	Three Months Ended November 30,	
	2007	2006
Balance at beginning of period	$ 15,911	$ 14,201
Charged to cost of revenue	911	943
Payments	(1,034)	(670)
Currency translation effect	602	203
Acquisitions		1,824
Balance at end of period	$ 16,390	$ 16,501

Note 6 Revolving Notes

All amounts originating in foreign currency have been translated at the November 30, 2007 exchange rate for the following discussion. Senior secured revolving credit facilities aggregated $342.9 million as of November 30, 2007, of which $52.6 million in revolving notes and $4.9 million in letters of credit are outstanding. Available borrowings are generally based on defined levels of inventory, receivables, and leased equipment, as well as total debt to consolidated capitalization and interest coverage ratios which at November 30, 2007 levels would provide for maximum additional borrowing of $230.6 million. A $290.0 million revolving line of credit is available through November 2011 to provide working capital and interim financing of equipment for the United States and Mexican operations. A $1.0 million line of credit was available through November 2011 for Canadian operations, however, this was terminated by the Company in December 2007. Advances under the U.S. and Canadian facilities bear interest at variable rates that depend on the type of borrowing and the defined ratio of debt to total capitalization. At November 30, 2007, there was $5.0 million in revolving notes and $3.9 million in letters of credit outstanding under the United States credit facility and a $1.0 million letter of credit outstanding under the Canadian credit facility. Lines of credit totaling $51.9 million are available for working capital needs of the European manufacturing operation. These European credit facilities have maturities that range from December 31, 2007 through August 28, 2008. As of November 30, 2007, the European credit facilities had $47.6 million outstanding.

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Note 7 Comprehensive Income (Loss)

The following is a reconciliation of net earnings to comprehensive income:

(In thousands)	Three Months Ended November 30, 2007	2006
Net earnings	$ 2,642	$ 1,870
Reclassification of derivative financial instruments recognized in net earnings during the three months (net of tax effect)	(24)	(399)
Unrealized gain (loss) on derivative financial instruments (net of tax effect)	(6)	37
Foreign currency translation adjustment (net of tax effect)	2,423	353
Comprehensive income	$ 5,035	$ 1,861

Accumulated other comprehensive income (loss), net of tax effect, consisted of the following:

(In thousands)	Unrealized Losses on Derivative Financial Instruments	SFAS 158 Adjustment	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Income (Loss)
Balance, August 31, 2007	$ (239)	$ (316)	$ 389	$ (166)
First quarter activity	(30)		2,423	2,393
Balance, November 30, 2007	$ (269)	$ (316)	$ 2,812	$ 2,227

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, 2007	2006
Weighted average basic common shares outstanding	16,172	15,961
Dilutive effect of employee stock options	26	49
Weighted average diluted common shares outstanding	16,198	16,010

Weighted average diluted common shares outstanding include the incremental shares that would be issued upon the assumed exercise of stock options. No options were anti-dilutive for the three months ended November 30, 2007 and 2006.

Note 9 Stock Based Compensation

All stock options were vested prior to September 1, 2005 and accordingly no compensation expense was recorded for stock options for the three months ended November 30, 2007 and 2006. The value of stock awarded under restricted stock grants is amortized as compensation expense over the vesting period of two to five years. For the three months ended November 30, 2007 and 2006 $0.8 million in compensation expense was recorded in each period related to restricted stock grants.

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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 utilized 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 unrealized gains and losses are recorded in accumulated other comprehensive income (loss). As of November 30, 2007 there were no cash flow forward contracts outstanding.

At November 30, 2007 exchange rates, interest rate swap agreements had a notional amount of $10.4 million and mature in March 2011. The fair value of these cash flow hedges at November 30, 2007 resulted in an unrealized pre-tax loss of $0.4 million. The loss is included in accumulated other comprehensive income (loss) and the fair value of the contracts is included in accounts payable and accrued liabilities on the Consolidated Balance Sheet. As interest expense on the underlying debt is recognized, amounts corresponding to the interest rate swaps are reclassified from accumulated other comprehensive income (loss) and charged or credited to interest expense. At November 30, 2007 interest rates, approximately $0.1 million would be reclassified to interest expense in the next 12 months.

Note 11 Segment Information

Greenbrier currently operates in three reportable segments: manufacturing, refurbishment & parts and leasing & services. The accounting policies of the segments are described in the summary of significant accounting policies in the Consolidated Financial Statements contained in the Company s 2007 Annual Report on Form 10-K. Performance is evaluated based on margin. Intersegment sales and transfers are accounted for at fair value as if the sales or transfers were to third parties. While intercompany transactions are treated like third-party transactions to evaluate segment performance, the revenues and related expenses are eliminated in consolidation and therefore do not impact consolidated results.

The information in the following table is derived directly from the segments internal financial reports used for corporate management purposes.

(In thousands)	Three Months Ended November 30,	
	2007	2006
Revenue:		
Manufacturing	$ 175,434	$ 184,419
Refurbishment & parts	105,277	53,014
Leasing & services	23,341	24,729
Intersegment eliminations	(17,674)	(15,539)
	$ 286,378	$ 246,623
Margin:		
Manufacturing	$ 8,629	$ 7,004
Refurbishment & parts	15,938	6,229
Leasing & services	11,370	15,884
	$ 35,937	$ 29,117

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THE GREENBRIER COMPANIES, INC.

	Three Months Ended November 30,	
	2007	2006