GREENBRIER COMPANIES INC
Form 10-Q
January 07, 2011

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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, 2010

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 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 o 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 definition 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 January 6, 2011 was 24,880,820 shares.

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THE GREENBRIER COMPANIES, INC.

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 filing 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 railcar and marine warehousing activities;
- ability to renew, maintain or obtain sufficient lines of credit and performance guarantees on acceptable terms;
- ability to utilize beneficial tax strategies;
- ability to grow our wheel services, refurbishment and parts, and lease fleet and management services businesses;
- ability to obtain sales contracts which provide adequate protection against increased costs of materials and components;
- ability to obtain adequate insurance coverage at acceptable rates;
- ability to obtain adequate certification and licensing of products; and
- short- 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 wheel services, refurbishment and parts;
- delays in receipt of orders, risks that contracts may be canceled during their term or not renewed 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;
- U.S., Mexican and other global political or security conditions including such matters as terrorism, war, civil disruption and crime;
- growth or reduction in the surface transportation industry;
- ability to maintain good relationships with third party labor providers or collective bargaining units;
- steel and specialty component price fluctuations, scrap surcharges, steel scrap prices and other commodity price fluctuations and their impact on product demand and margin;
- delay or failure of acquired businesses, 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, changing technologies or non-performance of alliance partners, subcontractors or suppliers;
ability to renew or replace expiring customer contracts on satisfactory terms;
ability to obtain and execute suitable contracts for railcars held for sale;
lower than anticipated lease renewal rates, earnings on utilization based leases or 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;
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 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;
- 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 by various regulatory agencies;
- changes in fuel and/or energy prices;
- 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 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;
- discovery of previously unknown liabilities associated with acquired businesses;
- failure of or delay in implementing and using new software or other technologies;
- 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; 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. Words such as anticipates, believes, forecast, potential, contemplates, expects, intends, plans, seeks, estimates, could, would, will, expressions identify 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.

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THE GREENBRIER COMPANIES, INC.

PART I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

Consolidated Balance Sheets

(In thousands, unaudited)

	November 30, 2010	August 31, 2010
Assets		
Cash and cash equivalents	$ 49,247	$ 98,864
Restricted cash	2,637	2,525
Accounts receivable	95,051	89,252
Inventories	225,203	185,604
Assets held for sale	75,690	31,826
Equipment on operating leases, net	298,803	302,663
Investment in direct finance leases	139	1,795
Property, plant and equipment, net	138,650	132,614
Goodwill	137,066	137,066
Intangibles and other assets	86,790	90,679
	$ 1,109,276	$ 1,072,888
Liabilities and Equity		
Revolving notes	$ 9,902	$ 2,630
Accounts payable and accrued liabilities	210,341	181,638
Deferred income taxes	80,723	81,136
Deferred revenue	12,480	11,377
Notes payable	499,264	498,700
Commitments and contingencies (Note 13)		
Equity:		
Greenbrier		
Preferred stock without par value; 25,000 shares authorized; none outstanding		
Common stock without par value; 50,000 shares authorized; 21,881 and 21,875 shares outstanding at November 30, 2010 and August 31, 2010	22	22
Additional paid-in capital	173,753	172,404
Retained earnings	118,412	120,716
Accumulated other comprehensive loss	(7,342)	(7,204)
Total equity Greenbrier	284,845	285,938
Noncontrolling interest	11,721	11,469
Total equity	296,566	297,407
	$ 1,109,276	$ 1,072,888

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, 2010	Three Months Ended November 30, 2009
Revenue		
Manufacturing	$ 85,440	$ 60,078
Wheel Services, Refurbishment & Parts	97,145	92,983
Leasing & Services	18,859	18,632
	201,444	171,693
Cost of revenue		
Manufacturing	79,747	55,847
Wheel Services, Refurbishment & Parts	86,411	83,286
Leasing & Services	9,120	10,918
	175,278	150,051
Margin	26,166	21,642
Other costs		
Selling and administrative	17,938	16,208
Interest and foreign exchange	10,304	11,112
	28,242	27,320
Loss before income taxes and loss from unconsolidated affiliates	(2,076)	(5,678)
Income tax benefit	611	2,500
Loss before loss from unconsolidated affiliates	(1,465)	(3,178)
Loss from unconsolidated affiliates	(587)	(183)
Net loss	(2,052)	(3,361)
Net (earnings) loss attributable to noncontrolling interest	(252)	117
Net loss attributable to Greenbrier	$ (2,304)	$ (3,244)
Basic loss per common share:	$ (0.11)	$ (0.19)
Diluted loss per common share:	$ (0.11)	$ (0.19)
Weighted average common shares:		

Basic	21,879	17,087
Diluted	21,879	17,087

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, 2010	2009
Cash flows from operating activities:		
Net loss	$ (2,052)	$ (3,361)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Deferred income taxes	(413)	(1,227)
Depreciation and amortization	9,319	9,392
Gain on sales of equipment	(633)	(851)
Accretion of debt discount	1,798	2,116
Stock based compensation expense	1,281	1,368
Other	64	(1,111)
Decrease (increase) in assets:		
Accounts receivable	(5,462)	16,088
Inventories	(39,492)	(11,565)
Assets held for sale	(44,530)	(3,218)
Other	2,965	2,451
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	28,508	(3,156)
Deferred revenue	1,201	(1,829)
Net cash provided by (used in) operating activities	(47,446)	5,097
Cash flows from investing activities:		
Principal payments received under direct finance leases	36	115
Proceeds from sales of equipment	4,054	2,667
Investment in unconsolidated affiliates	(279)	(450)
Increase in restricted cash	(112)	(2,317)
Capital expenditures	(11,536)	(11,939)
Net cash used in investing activities	(7,837)	(11,924)
Cash flows from financing activities:		
Net change in revolving notes with maturities of 90 days or less	1,055	(3,896)
Proceeds from revolving notes with maturities longer than 90 days	6,194	
Net proceeds from issuance of notes payable		1,712
Repayments of notes payable	(1,234)	(1,247)
Other	26	
Net cash provided by (used in) financing activities	6,041	(3,431)
Effect of exchange rate changes	(375)	(536)

Decrease in cash and cash equivalents	(49,617)	(10,794)
Cash and cash equivalents		
Beginning of period	98,864	76,187
End of period	$ 49,247	$ 65,393
Cash paid during the period for:		
Interest	$ 12,525	$ 12,854
Income taxes paid, net of refunds	$ 82	$ 250

The accompanying notes are an integral part of these statements

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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 November 30, 2010 and for the three months ended November 30, 2010 and 2009 have been prepared without audit and reflect all adjustments (consisting of normal recurring accruals) which, in the opinion of management, are necessary for a fair presentation of the financial position and operating results and cash flows for the periods indicated. The results of operations for the three months ended November 30, 2010 are not necessarily indicative of the results to be expected for the entire year ending August 31, 2011.

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 2010 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 June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 167, *Amendments to FASB Interpretation No. 46(R)* which provides guidance with respect to consolidation of variable interest entities. This statement retains the scope of Interpretation 46(R) with the addition of entities previously considered qualifying special-purpose entities, as the concept of these entities was eliminated in SFAS No. 166, *Accounting for Transfers of Financial Assets*. This statement replaces the quantitative-based risks and rewards calculation for determining the primary beneficiary of a variable interest entity. The approach focuses on identifying which enterprise has the power to direct activities that most significantly impact the entity s economic performance and the obligation to absorb the losses or receive the benefits from the entity. It is possible that application of this revised guidance will change an enterprise s assessment of involvement with variable interest entities. This statement, which has been codified within ASC 810, *Consolidations,* was effective for the Company as of September 1, 2010. The initial adoption did not have an effect on the Company s Consolidated Financial Statements.

Note 2 Inventories

(In thousands)	November 30, 2010	August 31, 2010
Manufacturing supplies and raw materials	$ 130,945	$ 119,306
Work-in-process	98,159	70,394
Lower of cost or market adjustment	(3,901)	(4,096)
	$ 225,203	$ 185,604

THE GREENBRIER COMPANIES, INC.

Note 3 Assets Held for Sale

(In thousands)	November 30, 2010	August 31, 2010
Assets held for sale	$ 51,985	$ 12,804
Railcars in transit to customer	6,307	2,451
Finished goods parts	17,398	16,571
	$ 75,690	$ 31,826

Note 4 Intangibles and other assets

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 assets balance:

(In thousands)	November 30, 2010	August 31, 2010
Intangible assets subject to amortization:		
Customer relationships	$ 66,825	$ 66,825
Accumulated amortization	(14,739)	(13,701)
Other intangibles	5,019	5,003
Accumulated amortization	(3,000)	(2,845)
	54,105	55,282
Intangible assets not subject to amortization	912	912
Prepaid and other assets	31,773	34,485
Total intangible and other assets	$ 86,790	$ 90,679

Intangible assets with finite lives are amortized using the straight line method over their estimated useful lives and include the following: proprietary technology, 10 years; trade names, 5 years; patents, 11 years; and long-term customer agreements, 5 to 20 years. Amortization expense for the three months ended November 30, 2010 and 2009 was $1.2 million for each period. Amortization expense for the years ending August 31, 2011, 2012, 2013, 2014 and 2015 is expected to be $4.7 million, $4.5 million, $4.4 million, $4.3 million and $4.3 million.

Note 5 Revolving Notes

All amounts originating in foreign currency have been translated at the November 30, 2010 exchange rate for the following discussion. As of November 30, 2010 senior secured credit facilities, consisting of three components, aggregated $121.2 million. As of November 30, 2010 a $100.0 million revolving line of credit secured by substantially all the Company s assets in the United States not otherwise pledged as security for term loans, maturing November 2011, was available to provide working capital and interim financing of equipment, principally for the United States and Mexican operations. Advances under this facility bear interest at variable rates that depend on the type of borrowing and the defined ratio of debt to total capitalization. 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 interest coverage ratios. In addition, as of November 30, 2010, lines of credit totaling $11.2 million secured by substantially all of the Company s European assets, with various variable rates, 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 April 2011 through June 2011. The Company s Mexican joint venture obtained a line of credit of up to $10.0 million secured by certain of the joint venture s accounts receivable and inventory. Advances under this facility bear interest at LIBOR plus 2.5% and are due 180 days after the date of borrowing. Currently the outstanding borrowings have maturities that range from April 2011 to May 2011. The joint venture will be able to draw against the facility through August 2011.

As of November 30, 2010 outstanding borrowings under these facilities consists of $3.6 million in letters of credit outstanding under the North American credit facility, $3.7 million in revolving notes outstanding under the European credit facilities and $6.2 million outstanding under the joint venture credit facility.

Note 6 Accounts Payable and Accrued Liabilities

(In thousands)	November 30, 2010	August 31, 2010
Trade payables	$ 170,007	$ 141,767
Accrued payroll and related liabilities	20,595	19,025
Accrued maintenance	11,300	12,460
Accrued warranty	6,284	6,304
Other	2,155	2,082
	$ 210,341	$ 181,638

Note 7 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)	2010	2009
Balance at beginning of period	$ 6,304	$ 8,184
Charged to cost of revenue	149	102
Payments	(173)	(495)
Currency translation effect	4	23
Balance at end of period	$ 6,284	$ 7,814

Note 8 Comprehensive Income (Loss)

The following is a reconciliation of net loss to comprehensive income (loss):

	Three Months Ended November 30,	
(In thousands)	2010	2009
Net loss	$ (2,052)	$ (3,361)
Reclassification of derivative financial instruments recognized in net loss during the three months (net of tax effect)	(9)	(277)
Unrealized loss on derivative financial instruments (net of tax effect)	(478)	(285)
Foreign currency translation adjustment	349	917
Comprehensive loss	(2,190)	(3,006)
Comprehensive income (loss) attributable to noncontrolling interest	(252)	117
Comprehensive loss attributable to Greenbrier	$ (2,442)	$ (2,889)

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

(In thousands)	Unrealized Loss on Derivative Financial Instruments	Pension Plan Adjustment	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Loss
Balance, August 31, 2010	$ (2,899)	$ (188)	$ (4,117)	$ (7,204)
First quarter activity	(487)		349	(138)
Balance, November 30, 2010	$ (3,386)	$ (188)	$ (3,768)	$ (7,342)

Note 9 Loss Per Share

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

	Three Months Ended November 30,	
(In thousands)	2010	2009
Weighted average basic common shares outstanding		