GREENBRIER COMPANIES INC
Form 10-Q
April 04, 2007

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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, 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 March 28, 2007 was 15,985,747 shares.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

Consolidated Balance Sheets

(In thousands, except per share amounts, unaudited)

	February 28, 2007	August 31, 2006
Assets		
Cash and cash equivalents	$ 6,169	$ 142,894
Restricted cash	2,602	2,056
Accounts and notes receivable	164,867	115,565
Inventories	230,287	163,151
Assets held for sale	82,152	35,216
Equipment on operating leases	305,148	301,009
Investment in direct finance leases	8,594	6,511
Property, plant and equipment	101,892	80,034
Goodwill	182,179	2,896
Intangibles and other assets	41,975	27,982
	$ 1,125,865	$ 877,314
Liabilities and Stockholders Equity		
Revolving notes	$ 242,925	$ 22,429
Accounts payable and accrued liabilities	239,212	204,793
Participation	2,736	11,453
Deferred income taxes	46,965	37,472
Deferred revenue	14,330	17,481
Notes payable	361,909	362,314
Subordinated debt	824	2,091
Minority interest	1,610	
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; 15,991 and 15,954 shares outstanding at February 28, 2007 and August 31, 2006	16	16
Additional paid-in capital	74,544	71,124
Retained earnings	141,784	148,542
Accumulated other comprehensive loss	(990)	(401)
	215,354	219,281
	$ 1,125,865	$ 877,314

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 February 28,		Six Months Ended February 28,	
	2007	2006	2007	2006
Revenue				
Manufacturing	$ 119,201	$ 184,818	$ 287,893	$ 326,652
Refurbishment & parts	95,311	24,104	146,546	46,866
Leasing & services	25,466	27,292	52,161	49,058
	239,978	236,214	486,600	422,576
Cost of revenue				
Manufacturing	115,822	164,491	277,509	287,522
Refurbishment & parts	80,114	20,869	125,121	40,869
Leasing & services	12,220	10,671	23,031	21,109
	208,156	196,031	425,661	349,500
Margin	31,822	40,183	60,939	73,076
Other costs				
Selling and administrative	18,800	17,092	35,925	32,633
Interest and foreign exchange	10,416	7,180	20,056	11,753
Special charges	16,485		16,485	
	45,701	24,272	72,466	44,386
Earnings (loss) before income taxes and equity in unconsolidated subsidiaries	(13,879)	15,911	(11,527)	28,690
Income tax benefit (expense)	8,229	(7,466)	7,649	(12,400)
Earnings (loss) before equity in unconsolidated subsidiaries	(5,650)	8,445	(3,878)	16,290
Minority interest	42		40	
Equity in earnings (loss) of unconsolidated subsidiaries	(463)	118	(363)	290
Net earnings (loss)	$ (6,071)	$ 8,563	$ (4,201)	$ 16,580
Basic earnings (loss) per common share	$ (0.38)	$ 0.55	$ (0.26)	$ 1.06

Diluted earnings (loss) per common share	$	(0.38)	$	0.54	$	(0.26)	$	1.04
Weighted average common shares:								
Basic		15,982		15,655		15,972		15,583
Diluted		16,022		15,911		16,016		15,880

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, 2007	Six Months Ended February 28, 2006
Cash flows from operating activities		
Net earnings (loss)	$ (4,201)	$ 16,580
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:		
Deferred income taxes	(2,587)	3,741
Depreciation and amortization	16,178	12,445
Gain on sales of equipment	(5,775)	(2,812)
Special charges	16,485	
Other	106	48
Decrease (increase) in assets (net of acquisitions):		
Accounts and notes receivable	(28,988)	21,693
Inventories	(23,533)	5,248
Assets held for sale	(32,224)	(47,856)
Intangibles and other	(2,057)	802
Increase (decrease) in liabilities (net of acquisitions):		
Accounts payable and accrued liabilities	3,884	(25,068)
Participation	(8,717)	(11,199)
Deferred revenue	(5,276)	3,158
Net cash used in operating activities	(76,705)	(23,220)
Cash flows from investing activities		
Principal payments received under direct finance leases	340	1,317
Proceeds from sales of equipment	64,662	8,793
Investment in and net advances to unconsolidated subsidiary	115	216
Acquisitions, net of cash acquired	(264,470)	
Increase in restricted cash	(481)	(1,442)
Capital expenditures	(78,352)	(61,624)
Net cash used in investing activities	(278,186)	(52,740)
Cash flows from financing activities		
Changes in revolving notes	219,777	5,108
Proceeds(expense) from notes payable	(71)	58,556
Repayments of notes payable	(3,246)	(4,276)
Repayment of subordinated debt	(1,267)	(2,507)
Dividends	(2,557)	(2,495)
Stock options exercised and restricted stock awards	1,648	3,622
Excess tax benefit of stock options exercised	1,772	1,299
Investment by joint venture partner	1,650	
Purchase of subsidiary shares subject to mandatory redemption		(4,636)
Net cash provided by financing activities	217,706	54,671

Effect of exchange rate changes	460	(250)
Decrease in cash and cash equivalents	(136,725)	(21,539)
Cash and cash equivalents		
Beginning of period	142,894	73,204
End of period	$ 6,169	$ 51,665
Cash paid during the period for		
Interest	$ 16,206	$ 11,843
Income taxes	$ 1,888	$ 12,963
Non-cash activity		
Transfer of railcars held for sale to equipment on operating leases	$	$ 23,954
Supplemental disclosure of non-cash activity:		
Assumption of Rail Car America capital lease obligation	$ 119	
Supplemental disclosure of acquisitions (see note 2)		
Assets acquired, net of cash	$ (309,396)	$
Liabilities assumed	41,926	
Acquisition note payable	3,000	
Cash paid for acquisitions	267,523	
Cash acquired	$ 3,053	$

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 February 28, 2007 and for the three and six months ended February 28, 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 and six months ended February 28, 2007 are not necessarily indicative of the results to be expected for the entire year ending August 31, 2007. Certain reclassifications have been made to the prior period s Consolidated Financial Statements to conform to the current year presentation.

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 2006 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.

Minority interest In October 2006, the Company formed a joint venture with Grupo Industrial Monclova (GIMSA) to build new railroad freight cars for the North American marketplace at GIMSA s existing manufacturing facility located in Monclova, Mexico. Each party maintains a 50% ownership. Production is anticipated to begin late in the Company s third quarter of 2007. The financial results of this operation are consolidated for financial reporting purposes. The minority interest reflected in the Company s consolidated financial statements represents the joint venture partner s investment in this venture.

Assets Held for Sale Assets held for sale consist of new railcars in transit to delivery point, finished goods, railcars on lease with the intent to sell, used railcars that will either be sold or refurbished, placed on lease and then sold and completed wheel sets.

Initial Adoption of Accounting Policies In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, *Accounting Changes and Error Corrections* which replaces Accounting Principles Board (APB) opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*. This statement requires retrospective application, unless impracticable, for changes in accounting principles in the absence of transition requirements specific to newly adopted accounting principles. This statement is effective for any accounting changes and corrections of errors made by the Company beginning September 1, 2006.

Prospective Accounting Changes In July 2006, the FASB issued FASB 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 taxes. It prescribes a recognition and measurement threshold for financial statement disclosure of tax positions taken or expected to be taken on a tax return. This interpretation is effective for the Company for the fiscal year beginning September 1, 2007. Management has not yet determined the impact on the Consolidated Financial Statements.

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Note 2 Acquisitions

On September 11, 2006, the Company purchased substantially all of the operating assets of Rail Car America (RCA), its American Hydraulics division and the assets of its wholly owned subsidiary, Brandon Corp. 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 was $29.1 million in cash and a $3.0 million promissory note due in September 2008. The financial results 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 results of operations; therefore, proforma financial information has not been included.

The allocation of the purchase price among certain assets and liabilities is still in process. As a result, the information shown below is preliminary and subject to further refinement upon completion of analyses.

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

(in thousands)

Accounts and notes receivable	$ 522
Inventories	7,937
Property, plant and equipment	22,066
Intangibles and other	3,728
Total assets acquired	$ 34,253
Accounts payable and accrued liabilities	1,985
Notes payable	119
Total liabilities assumed	2,104
Net assets acquired	$ 32,149

On November 6, 2006, the Company acquired 100% of the stock of Meridian Rail Holdings Corp. (Meridian) for $238.4 million in cash which includes the purchase price of $227.5 million plus preliminary 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 replaced. Meridian also performs coupler reconditioning and railcar repair at one of its facilities. The financial results since the acquisition are reported in the Company s consolidated financial statements as part of the refurbishment & parts segment.

The allocation of the purchase price among certain assets and liabilities is still in process. As a result, the information shown below is preliminary and subject to further refinement upon completion of analyses and valuations.

The preliminary fair value, based on historical costs, of the net assets acquired in the Meridian acquisition was as follows:

(in thousands)

Cash and cash equivalents	$ 3,053
Accounts and notes receivable	19,384
Inventories	51,839
Property, plant and equipment	15,074
Goodwill	179,918

Intangibles and other	8,928
Total assets acquired	$ 278,196
Accounts payable and accrued liabilities	27,863
Deferred income taxes	11,959
Total liabilities assumed	39,822
Net assets acquired	$ 238,374

As a result of the preliminary allocation of the purchase price among assets and liabilities, Greenbrier recorded $179.9 million in goodwill.

The unaudited pro forma financial information below for the three and six months ended February 28, 2007 and 2006 is consolidated for Greenbrier and was prepared as if the transaction to acquire Meridian had occurred at the beginning of each period presented:

(In thousands, except per share amounts)

	Three Months Ended February 28,		Six Months Ended February 28,	
	2007	2006	2007	2006
Revenue	$239,978	$288,970	$537,433	$521,107
Net earnings (loss)	$ (6,071)	$ 14,214	$ 580	$ 24,464
Basic earnings (loss) per share	$ (0.38)	$ 0.91	$ 0.04	$ 1.57
Diluted earnings (loss) per share	$ (0.38)	$ 0.89	$ 0.04	$ 1.54

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 may not be indicative of the results of future operations of the Company.

Note 3 Special Charges

The Company s Canadian railcar manufacturing facility has recently incurred operating losses as a result of high labor costs, manufacturing inefficiencies, transportation costs associated with a remote location and a strong Canadian currency coupled with a weakening of the market for the primary railcars produced by this entity. These factors have caused management to reassess the value of the assets at the facility in accordance with the Company s policy on impairment of long-lived assets. Based on an analysis of future undiscounted cash flows associated with these assets, management determined that the carrying value of the assets exceeded their fair market value. Accordingly a $16.5 million pre-tax impairment charge was recorded during the quarter ended February 28, 2007 as special charges on the Consolidated Statement of Operations. Impairment charges consist of $14.1 million associated with property, plant and equipment, $1.3 million related to inventory and $1.1 million write-off of goodwill and other. In addition, an $8.6 million tax benefit related to a write-off of the Company s investment in its Canadian subsidiary for tax purposes was recorded during the quarter.

Note 4 Inventories

(In thousands)

	February 28, 2007	August 31, 2006
Manufacturing supplies and raw materials	$ 109,800	$ 49,631
Work-in-process	129,538	118,555
Lower of cost or market adjustment	(9,051)	(5,035)
	$ 230,287	$ 163,151

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Note 5 Warranty Accruals

Warranty costs are estimated and charged to operations to cover a defined warranty period. 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 February 28,		Six Months Ended February 28,	
	2007	2006	2007	2006
Balance at beginning of period	$ 16,501	$ 14,942	$ 14,201	$ 15,037
Charged to cost of revenue	1,722	(1,011)	2,665	(85)
Payments	(988)	(2,337)	(1,658)	(3,398)
Currency translation effect	(194)	266	9	306
Acquisition			1,824	
Balance at end of period	$ 17,041	$ 11,860	$ 17,041	$ 11,860

Note 6 Revolving Notes

All amounts originating in foreign currency have been translated at the February 28, 2007 exchange rate for the following discussion. Senior secured credit facilities aggregated $330.6 million as of February 28, 2007. 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 February 28, 2007 levels would provide for maximum borrowing of $282.7 million of which $242.9 million in revolving notes and $3.5 million in letters of credit are outstanding. 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 $10.0 million line of credit is available through November 2011 for working capital for Canadian manufacturing operations. 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 February 28, 2007, there were $203.5 million and $9.0 million outstanding under the United States and Canadian credit facilities. Lines of credit totaling $30.6 million are available principally through June 2008 for working capital needs of the European manufacturing operation. The European credit facility had $30.4 million outstanding as of February 28, 2007.

Note 7 Comprehensive Income (Loss)

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

(In thousands)

	Three Months Ended February 28,		Six Months Ended February 28,	
	2007	2006	2007	2006
Net earnings (loss)	$ (6,071)	$ 8,563	$ (4,201)	$ 16,580
Reclassification of derivative financial instruments recognized in net earnings (net of tax)	(32)	(767)	(427)	(2,018)
Unrealized gain on derivative financial instruments (net of tax)	253	698	286	1,621
Foreign currency translation adjustment (net of tax)	(801)	851	(448)	1,478
Comprehensive income (loss)	$ (6,651)	$ 9,345	$ (4,790)	$ 17,661

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

(In thousands)

	Unrealized Losses on Derivative Financial Instruments	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Loss
Balance, August 31, 2006	$ (18)	$ (383)	$ (401)
Six months activity	(141)	(448)	(589)
Balance, February 28, 2007	$ (159)	$ (831)	$ (990)

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 February 28,		Six Months Ended February 28,	
	2007	2006	2007	2006
Weighted average basic common shares outstanding	15,982	15,655	15,972	15,583
Dilutive effect of employee stock options	40	256	44	297
Weighted average diluted common shares outstanding	16,022	15,911	16,016	15,880