GREENBRIER COMPANIES INC
Form 10-Q
April 03, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

for the quarterly period ended February 28, 2014

¨ **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 **(State of** **Incorporation)**	**93-0816972** **(I.R.S. Employer** **Identification No.)**
One Centerpointe Drive, Suite 200, Lake Oswego, OR **(Address of principal executive offices)**	**97035** **(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 x No ¨

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 x No ¨

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	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

The number of shares of the registrant s common stock, without par value, outstanding on March 28, 2014 was 27,586,915 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 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 leased railcars for syndication (sale of railcars with lease attached);
- ability to renew, maintain or obtain sufficient credit facilities and financial guarantees on acceptable terms;
- ability to utilize beneficial tax strategies;
- ability to grow our businesses;
- ability to obtain lease and sales contracts which provide adequate protection against changes in interest rates and 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-term 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 wheels, repair & 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 our labor force, third party labor providers and collective bargaining units representing our direct and indirect labor force;

steel and specialty component price fluctuations and availability, scrap surcharges, steel scrap prices and other commodity price fluctuations and availability 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, inefficiencies associated with expansion or the start-up of production lines or increased production rates, changing technologies, transfer of production between facilities or non-performance of alliance partners, subcontractors or suppliers;

interruption of our manufacturing operations as a result of lease termination or expiration;

ability to renew or replace expiring customer contracts on satisfactory terms;

ability to obtain and execute suitable contracts for leased railcars for syndication;

lower than anticipated lease renewal rates, earnings on utilization based leases or residual values for leased equipment;

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

physical damage or product or service liability claims that exceed our insurance coverage;

commencement of and ultimate resolution or outcome of pending or future litigation and investigations;

natural disasters or severe weather patterns that may affect either us, our suppliers or our customers;

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 or write-downs in carrying value of inventory, goodwill, intangibles 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 including potential environmental remediation obligations or changing tank car or other rail car regulation;

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 at a reasonable cost and with reasonable terms of employment;

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;

the impact of cybersecurity risks and the costs of mitigating and responding to a data security breach;

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;

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

changes in legislation and increased costs related to health care.

Any forward-looking statements should be considered in light of these factors. Words such as anticipates, believes, forecast, potential, goal, contemplates, expects, intends, plans, projects, hopes, seeks, estimates, strategy, could, would, should, likely, will, foreseeable future and similar 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.

PART I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

Consolidated Balance Sheets

(In thousands, unaudited)

	February 28, 2014	August 31, 2013
Assets		
Cash and cash equivalents	$ 143,929	$ 97,435
Restricted cash	8,964	8,807
Accounts receivable, net	148,810	154,848
Inventories	306,394	316,783
Leased railcars for syndication	84,657	68,480
Equipment on operating leases, net	282,328	305,468
Property, plant and equipment, net	204,804	201,533
Goodwill	57,416	57,416
Intangibles and other assets, net	77,173	78,971
	$ 1,314,475	$ 1,289,741
Liabilities and Equity		
Revolving notes	$ 26,738	$ 48,209
Accounts payable and accrued liabilities	319,611	315,938
Deferred income taxes	84,848	86,040
Deferred revenue	14,272	8,838
Notes payable	371,427	373,889
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; 27,807 and 28,084 shares outstanding at February 28, 2014 and August 31, 2013		
Additional paid-in capital	252,564	259,864
Retained earnings	205,817	174,842
Accumulated other comprehensive loss	(1,812)	(6,504)
Total equity - Greenbrier	456,569	428,202
Noncontrolling interest	41,010	28,625
Total equity	497,579	456,827
	$ 1,314,475	$ 1,289,741

The accompanying notes are an integral part of these financial statements

THE GREENBRIER COMPANIES, INC.

Consolidated Statements of Income

(In thousands, except per share amounts, unaudited)

	Three Months Ended February 28,		Six Months Ended February 28,	
	2014	2013	2014	2013
Revenue				
Manufacturing	$ 347,755	$ 294,047	$ 707,228	$ 579,416
Wheels, Repair & Parts	136,540	111,952	249,941	224,051
Leasing & Services	17,921	17,167	35,402	35,073
	502,216	423,166	992,571	838,540
Cost of revenue				
Manufacturing	306,572	262,650	618,012	521,142
Wheels, Repair & Parts	127,940	103,134	235,915	204,610
Leasing & Services	9,853	9,107	19,234	16,735
	444,365	374,891	873,161	742,487
Margin	57,851	48,275	119,410	96,053
Selling and administrative expense	28,125	24,942	54,234	51,042
Net gain on disposition of equipment	(5,416)	(3,076)	(9,067)	(4,484)
Restructuring charges	540		1,419	
Earnings from operations	34,602	26,409	72,824	49,495
Other costs				
Interest and foreign exchange	4,099	6,322	8,843	12,222
Earnings before income taxes and loss from unconsolidated affiliates	30,503	20,087	63,981	37,273
Income tax expense	(9,883)	(5,590)	(20,405)	(10,176)
Earnings before loss from unconsolidated affiliates	20,620	14,497	43,576	27,097
Loss from unconsolidated affiliates	(67)	(105)	(26)	(145)
Net earnings	20,553	14,392	43,550	26,952
Net earnings attributable to noncontrolling interest	(4,966)	(553)	(12,575)	(2,686)
Net earnings attributable to Greenbrier	$ 15,587	$ 13,839	$ 30,975	$ 24,266
Basic earnings per common share	$ 0.55	$ 0.51	$ 1.09	$ 0.89
Diluted earnings per common share	$ 0.50	$ 0.45	$ 0.98	$ 0.80
Weighted average common shares:				
Basic	28,300	27,210	28,359	27,177
Diluted	34,345	34,044	34,404	34,018

The accompanying notes are an integral part of these financial statements

THE GREENBRIER COMPANIES, INC.

Consolidated Statements of Comprehensive Income

(In thousands, unaudited)

	Three Months Ended February 28,