GREENBRIER COMPANIES INC
Form 10-Q
July 03, 2013

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 May 31, 2013

¨ **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 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 July 1, 2013 was 27,221,816 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 third party labor providers or collective bargaining units;

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 the start-up of production lines or increased production rates, 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 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 resulting in increased warranty costs or litigation;

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;

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, goal, contemplates, expects, intends, plans, projects, hopes, seeks, estimates, could, would, will, may, can, designed to, 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.

THE GREENBRIER COMPANIES, INC.

PART I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

Consolidated Balance Sheets

(In thousands, unaudited)

	May 31, 2013	August 31, 2012
Assets		
Cash and cash equivalents	$ 31,606	$ 53,571
Restricted cash	8,906	6,277
Accounts receivable, net	162,352	146,326
Inventories	344,168	316,741
Leased railcars for syndication	71,091	97,798
Equipment on operating leases, net	332,924	362,968
Property, plant and equipment, net	197,779	182,429
Goodwill	57,416	137,066
Intangibles and other assets, net	79,364	81,368
	$ 1,285,606	$ 1,384,544
Liabilities and Equity		
Revolving notes	$ 92,968	$ 60,755
Accounts payable and accrued liabilities	286,964	329,508
Deferred income taxes	86,229	95,363
Deferred revenue	16,203	17,194
Notes payable	372,942	428,079
Commitments and contingencies (Note 15)		
Equity:		
Greenbrier		
Preferred stock - without par value; 25,000 shares authorized; none outstanding		
Common stock - without par value; 50,000 shares authorized; 27,222 and 27,143 shares outstanding at May 31, 2013 and August 31, 2012		
Additional paid-in capital	258,282	252,256
Retained earnings	154,126	185,890
Accumulated other comprehensive loss	(7,701)	(6,369)
Total equity - Greenbrier	404,707	431,777
Noncontrolling interest	25,593	21,868
Total equity	430,300	453,645
	$ 1,285,606	$ 1,384,544

The accompanying notes are an integral part of these financial statements

THE GREENBRIER COMPANIES, INC.

Consolidated Statements of Operations

(In thousands, except per share amounts, unaudited)

	Three Months Ended May 31, 2013	Three Months Ended May 31, 2012	Nine Months Ended May 31, 2013	Nine Months Ended May 31, 2012
Revenue				
Manufacturing	$ 284,591	$ 364,930	$ 864,006	$ 947,792
Wheels, Repair & Parts	131,167	125,145	355,219	362,788
Leasing & Services	17,905	17,722	52,978	53,601
	433,663	507,797	1,272,203	1,364,181
Cost of revenue				
Manufacturing	253,360	325,424	774,502	852,464
Wheels, Repair & Parts	120,476	111,610	325,086	324,055
Leasing & Services	9,808	8,825	26,542	27,783
	383,644	445,859	1,126,130	1,204,302
Margin	50,019	61,938	146,073	159,879
Selling and administrative expense	25,322	28,784	76,364	76,998
Net gain on disposition of equipment	(5,131)	(2,585)	(9,615)	(8,897)
Goodwill impairment	76,900		76,900	
Earnings (loss) from operations	(47,072)	35,739	2,424	91,778
Other costs				
Interest and foreign exchange	5,905	6,560	18,127	18,574
Earnings (loss) before income taxes and earnings (loss) from unconsolidated affiliates	(52,977)	29,179	(15,703)	73,204
Income tax expense	(2,729)	(8,655)	(12,905)	(21,798)
Earnings (loss) before earnings (loss) from unconsolidated affiliates	(55,706)	20,524	(28,608)	51,406
Earnings (loss) from unconsolidated affiliates	82	201	(63)	(99)
Net earnings (loss)	(55,624)	20,725	(28,671)	51,307
Net earnings attributable to noncontrolling interest	(406)	(1,608)	(3,093)	(4)
Net earnings (loss) attributable to Greenbrier	$ (56,030)	$ 19,117	$ (31,764)	$ 51,303
Basic earnings (loss) per common share	$ (2.10)	$ 0.71	$ (1.20)	$ 1.94
Diluted earnings (loss) per common share	$ (2.10)	$ 0.61	$ (1.20)	$ 1.65
Weighted average common shares:				
Basic	26,619	26,981	26,510	26,378
Diluted	26,619	33,862	26,510	33,640

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Comprehensive Income (Loss)

(In thousands, unaudited)

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2013	2012	2013	2012
Net earnings (loss)	$ (55,624)	$ 20,725	$ (28,671)	$ 51,307
Other comprehensive income (loss)				
Translation adjustment	(1,761)	(4,551)	279	(6,084)
Reclassification of derivative financial instruments recognized in net earnings (loss) [1]	105	(5,028)	(790)	(4,168)
Unrealized gain (loss) on derivative financial instruments [2]	(1,325)	3,191	(817)	6,342
Other (net of tax effect)	5		5	
	(2,976)	(6,388)	(1,323)	(3,910)
Comprehensive income (loss)	(58,600)	14,337	(29,994)	47,397
Comprehensive (income) loss attributable to noncontrolling interest	(374)	(1,497)	(3,102)	168
Comprehensive income (loss) attributable to Greenbrier	$ (58,974)	$ 12,840	$ (33,096)	$ 47,565

1 Net of tax of effect of $0.1 million and $0.7 million for the three months ended May 31, 2013 and 2012 and $0.1 million and $1.0 million for the nine months ended May 31, 2013 and 2012.

2 Net of tax of effect of $0.3 million and $0.2 million for the three months ended May 31, 2013 and 2012 and $0.2 million and $1.2 million for the nine months ended May 31, 2013 and 2012.

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Equity

(In thousands, unaudited)

	Attributable to Greenbrier						
	Common Stock Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Attributable to Greenbrier	Attributable to Noncontrolling Interest	Total Equity
Balance September 1, 2012	27,143	$ 252,256	$ 185,890	$ (6,369)	$ 431,777	$ 21,868	$ 453,645
Net earnings (loss)			(31,764)		(31,764)	3,093	(28,671)
Other comprehensive income (loss), net				(1,332)	(1,332)	9	(1,323)
Noncontrolling interest adjustments						(1,954)	(1,954)
Investment by joint venture partner						2,577	2,577
Restricted stock awards (net of cancellations and expense)	27	8,436			8,436		8,436
Unamortized restricted stock		(8,444)			(8,444)		(8,444)
Restricted stock amortization		5,257			5,257		5,257
Excess tax benefit from restricted stock awards		777			777		777
Warrants exercised	52						
Balance May 31, 2013	27,222	$ 258,282	$ 154,126	$ (7,701)	$ 404,707	$ 25,593	$ 430,300

	Attributable to Greenbrier						
	Common Stock Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Attributable to Greenbrier	Attributable to Noncontrolling Interest	Total Equity
Balance September 1, 2011	25,186	$ 242,286	$ 127,182	$ (7,895)	$ 361,573	$ 14,328	$ 375,901
Net earnings			51,303		51,303	4	51,307
Other comprehensive loss, net				(3,738)	(3,738)	(172)	(3,910)
Investment by joint venture partner						410	410
Noncontrolling interest adjustments						2,796	2,796
Restricted stock awards (net of cancellations)	467	9,364			9,364		9,364
Unamortized restricted stock		(9,364)			(9,364)		(9,364)
Restricted stock amortization		6,353			6,353		6,353
Warrants exercised	1,496						
Excess tax benefit from restricted stock awards		2,670			2,670		2,670
Balance May 31, 2012	27,149	$ 251,309	$ 178,485	$ (11,633)	$ 418,161	$ 17,366	$ 435,527

The accompanying notes are an integral part of these financial statements

THE GREENBRIER COMPANIES, INC.

Consolidated Statements of Cash Flows

(In thousands, unaudited)

	Nine Months Ended May 31, 2013	Nine Months Ended May 31, 2012
Cash flows from operating activities		
Net earnings (loss)	$ (28,671)	$ 51,307
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Deferred income taxes	(9,391)	4,801
Depreciation and amortization	31,523	30,603
Net gain on disposition of equipment	(9,615)	(8,897)
Accretion of debt discount	2,455	2,416
Stock based compensation expense	4,843	6,724
Goodwill impairment	76,900	
Other	(1,895)	3,586
Decrease (increase) in assets:		
Accounts receivable	(15,499)	10,429
Inventories	(9,114)	(26,748)
Leased railcars for syndication	22,067	(43,561)
Other	338	(1,419)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(43,605)	12,401
Deferred revenue	(1,099)	11,991
Net cash provided by operating activities	19,237	53,633
Cash flows from investing activities		
Proceeds from sales of assets	39,611	33,253
Capital expenditures	(49,677)	(72,117)
Increase in restricted cash	(2,629)	(3,976)
Investment in and net advances to unconsolidated affiliates	(1,016)	(544)
Other	(3,582)	35
Net cash used in investing activities	(17,293)	(43,349)
Cash flows from financing activities		
Net change in revolving notes with maturities of 90 days or less	26,973	(49,114)
Proceeds from revolving notes with maturities longer than 90 days	31,847	56,644
Repayments of revolving notes with maturities longer than 90 days	(26,877)	(23,573)
Proceeds from issuance of notes payable		2,500
Repayments of notes payable	(57,592)	(6,028)
Investment by joint venture partner	2,577	410
Excess tax benefit from restricted stock awards	777	2,670
Other	(8)	
Net cash used in financing activities	(22,303)	(16,491)
Effect of exchange rate changes	(1,606)	900
Decrease in cash and cash equivalents	(21,965)	(5,307)
Cash and cash equivalents		
Beginning of period	53,571	50,222

End of period	$ 31,606	$ 44,915
Cash paid during the period for		
Interest	$ 13,844	$ 10,817
Income taxes, net	$ 16,404	$ 4,013
Non-cash activity		
Transfer of Leased railcars for syndication to Equipment on operating leases	$ 4,640	$
Transfer of Equipment on operating leases to Inventories	$ 17,762	$
Transfer of Property, plant and equipment, net to Intangibles and other assets, net	$ 1,194	$

The accompanying notes are an integral part of these financial statements

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 May 31, 2013, for the three and nine months ended May 31, 2013 and 2012 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 and nine months ended May 31, 2013 are not necessarily indicative of the results to be expected for the entire year ending August 31, 2013.

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 2012 Annual Report on Form 10-K.

During the three and nine months ended May 31, 2013, the Company recorded adjustments to certain balance sheet accounts which related to prior years activities. The adjustments related to one of the Company s Wheels, Repair & Parts locations. The Company determined that those adjustments were not material to either the prior years or the three and nine months ended May 31, 2013. The results for the three and nine months ended May 31, 2013 include a charge of $1.9 million ($1.6 million net of tax) within Cost of revenue in the Consolidated Statements of Operations to correct for the error.

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 the first quarter of 2013, the Company adopted an accounting standard update that increased the prominence of items reported in other comprehensive income. The standard eliminated the option of presenting other comprehensive income as part of the statement of equity and instead requires the Company to present other comprehensive income as either a single statement of comprehensive income combined with net income or as two separate but continuous statements. The adoption of this accounting standard update did impact the presentation of other comprehensive income, as the Company has elected to present two separate but consecutive statements, but did not have an impact on the Company s financial position, results of operations or cash flows.

In the first quarter of 2013, the Company adopted an accounting standard update regarding how entities test goodwill for impairment. This accounting standard update is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. This update impacts testing steps only and therefore the adoption did not have an effect on the Company s Consolidated Financial Statements.

Prospective Accounting Changes In July 2012, an accounting standard update was issued regarding the testing of indefinite-lived intangible assets for impairment. This update is intended to reduce the cost and complexity of testing indefinite-lived intangible assets for impairment by providing entities with an option to perform a qualitative assessment to determine whether further impairment testing is necessary. This update will be effective for the Company as of September 1, 2013. However, early adoption is permitted if an entity s financial statements for the most recent annual or interim period have not yet been issued. This update impacts testing steps only, and therefore adoption will not have an effect on the Company s Consolidated Financial Statements.

In February 2013, an accounting standard update was issued which amended prior reporting requirements with respect to comprehensive income by requiring additional disclosures about the amounts reclassified out of accumulated other comprehensive loss by component. This update will be effective for the Company as of September 1, 2013. As this accounting standard update impacts disclosure only, the adoption of this update is not expected to have an impact on the Company s financial position, results of operations or cash flows.

Note 2 Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. Work-in-process includes material, labor and overhead. The following table summarizes the Company s inventory balance:

(In thousands)	May 31, 2013	August 31, 2012
Manufacturing supplies and raw materials	$ 221,767	$ 228,092
Work-in-process	74,303	71,210
Finished goods	53,366	22,571
Excess and obsolete adjustment	(5,268)	(5,132)
	$ 344,168	$ 316,741

Note 3 Leased Railcars for Syndication

Leased railcars for syndication consist of newly-built railcars manufactured at one of the Company s facilities or railcars purchased from a third party, which have been placed on lease to a customer and which the Company intends to sell to an investor with the lease attached. These railcars are not depreciated and are anticipated to be sold within six months of delivery of the last railcar or six months from when the Company acquires the railcar from a third party. The Company does not believe any economic value of a railcar is lost in the first six months; therefore the Company does not depreciate these assets. In the event the railcars are not sold, the railcars are transferred to Equipment on operating leases and depreciated. As of May 31, 2013, Leased railcars for syndication were $71.1 million compared to $97.8 million as of August 31, 2012.

Note 4 Intangibles and Other Assets, net

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 and other assets balance:

(In thousands)	May 31, 2013	August 31, 2012
Intangible assets subject to amortization:		
Customer relationships	$ 66,288	$ 66,825
Accumulated amortization	(26,033)	(22,995)
Other intangibles	4,997	4,906
Accumulated amortization	(4,141)	(3,779)
	41,111	44,957
Intangible assets not subject to amortization	912	912
Prepaid and other assets	10,672	10,337
Debt issuance costs, net	8,346	10,194
Investment in unconsolidated affiliates	9,148	8,301
Nonqualified savings plan investments	7,981	6,667
Assets held for sale	1,194	
Total intangible and other assets	$ 79,364	$ 81,368

Amortization expense for the three and nine months ended May 31, 2013 was $1.0 million and $3.3 million and for the three and nine months ended May 31, 2012 was $1.1 million and $3.4 million. Amortization expense for the years ending August 31, 2013, 2014, 2015, 2016 and 2017 is expected to be $4.2 million, $4.0 million, $4.0 million, $4.0 million and $3.8 million.

Note 5 Goodwill

Changes in the carrying value of goodwill are as follows:

(In thousands)	Manufacturing	Wheels, Repair & Parts	Leasing & Services	Total
Balance August 31, 2012	$	$ 137,066	$	$ 137,066
Reductions [1]		(2,750)		(2,750)
Goodwill impairment [2]		(76,900)		(76,900)
Balance May 31, 2013	$	$ 57,416	$	$ 57,416

(1) Reduction in goodwill relates to the sale of the Company s roller bearing operations in Elizabethtown, Kentucky.

(2) Goodwill impairment relates to the non-cash goodwill impairment charge recognized as part of the Company s annual goodwill impairment analysis as further discussed below.

The Company performs a goodwill impairment test annually during the third quarter. Goodwill is also tested more frequently if changes in circumstances or the occurrence of events indicates that a potential impairment exists. The provisions of ASC 350, Intangibles Goodwill and Other, require the Company to perform a two-step impairment test on goodwill. The Company performed step one of the goodwill impairment test during the third quarter of 2013. In the first step, the Company compared the fair value of each reporting unit with its carrying value. The Company determined the fair value of the reporting unit based on a weighting of income and market approaches. Under the income approach, the Company calculated the fair value of a reporting unit based on the present value of estimated future cash flows. Under the market approach, the Company estimated the fair value based on observed market multiples for comparable businesses. Results of the step one analysis indicated that the carrying amounts related to Wheels, Repair & Parts were in excess of its fair value. Accordingly, the Company performed step two of the impairment analysis to determine the amount, if any, of goodwill impairment to be recorded.

In the second step, the Company compared the implied fair value of goodwill to its carrying value. The implied fair value of goodwill was determined by allocating the fair value of the reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities was considered the implied fair value of goodwill. A non-cash impairment loss was recorded to the extent that the carrying amount of the reporting unit goodwill exceeded the implied fair value of that goodwill. The impairment loss was primarily due to a reduction in market multiples for comparable businesses and updated estimated future cash flows. A pre-tax non-cash impairment charge of $76.9 million was recorded which relates to the Wheels, Repair & Parts segment.

Note 6 Revolving Notes

Senior secured credit facilities, consisting of three components, aggregated to $358.5 million as of May 31, 2013.

As of May 31, 2013, a $290.0 million revolving line of credit secured by substantially all the Company s assets in the U.S. not otherwise pledged as security for term loans and maturing June 2016, was available to provide working capital and interim financing of equipment, principally for the U.S. and Mexican operations. Advances under this facility bear interest at LIBOR plus 2.25% and Prime plus 1.25% depending on the type of borrowing. 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 fixed charges coverage ratios.

As of May 31, 2013, lines of credit totaling $18.5 million secured by certain of the Company s European assets, with various variable rates that range from Warsaw Interbank Offered Rate (WIBOR) plus 1.3% to WIBOR plus 1.5%, 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 December 2013 through June 2015.

As of May 31, 2013, the Company s Mexican joint venture had two lines of credit totaling $50.0 million. The first line of credit provides up to $20.0 million and is secured by certain of the joint venture s accounts receivable and inventory. Advances under this facility bear interest at LIBOR plus 2.5%. The Mexican joint venture will be able to draw amounts available under this facility through December 2013. The second line of credit provides up to $30.0 million and is fully guaranteed by each of the joint venture partners, including the Company. Advances under this facility bear interest at LIBOR plus 2.0%. The Mexican joint venture will be able to draw against this facility through February 2015.

As of May 31, 2013, outstanding borrowings under the senior secured credit facilities consisted of $6.8 million in letters of credit and $43.0 million in revolving notes outstanding under the North American credit facility and $50.0 million outstanding under the Mexican joint venture credit facilities.

Note 7 Accounts Payable and Accrued Liabilities

(In thousands)	May 31, 2013	August 31, 2012
Trade payables and other accrued liabilities	$ 214,883	$ 258,316
Accrued payroll and related liabilities	35,643	37,915
Income taxes payable	13,166	9,625
Accrued maintenance	10,951	11,475
Accrued warranty	9,983	9,221
Other	2,338	2,956
	$ 286,964	$ 329,508

Note 8 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 May 31,		Nine Months Ended May 31,	
(In thousands)	2013	2012	2013	2012
Balance at beginning of period	$ 10,289	$ 9,297	$ 9,221	$ 8,645
Charged to cost of revenue, net	667	1,848	3,279	3,243
Payments	(904)	(525)	(2,540)	(1,194)
Currency translation effect	(69)	(173)	23	(247)
Balance at end of period	$ 9,983	$ 10,447	$ 9,983	$ 10,447

Note 9 Notes Payable

The Company s Notes payable balance was $372.9 million as of May 31, 2013 which includes $14.9 million of Convertible senior notes, due 2026 (the Notes). On specified dates or in the event of certain fundamental changes, holders can require the Company to repurchase all or a portion of their Notes at a price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest (the Put Option).

In May 2013, the Company retired $52.9 million of its then $67.8 million outstanding Notes pursuant to a scheduled Put Option.

Note 10 Accumulated Other Comprehensive Loss

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

(In thousands)	Unrealized Loss on Derivative Financial Instruments	Foreign Currency Translation Adjustment	Other	Accumulated Other Comprehensive Loss
Balance, August 31, 2012	$ (93)	$ (5,951)	$ (325)	$ (6,369)
Year to date activity	(1,607)	270	5	(1,332)
Balance, May 31, 2013	$ (1,700)	$ (5,681)	$ (320)	$ (7,701)

Note 11 Earnings (Loss) Per Share

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

(In thousands)	Three Months Ended May 31, 2013	Three Months Ended May 31, 2012	Nine Months Ended May 31, 2013	Nine Months Ended May 31, 2012
Weighted average basic common shares outstanding (1)(3)	26,619	26,981	26,510	26,378
Dilutive effect of warrants (2)		836		1,217
Dilutive effect of restricted stock units (2)(3)				
Dilutive effect of convertible notes (2)(4)		6,045		6,045
Weighted average diluted common shares outstanding	26,619	33,862	26,510	33,640

(1) Restricted stock grants are treated as outstanding when issued and are included in weighted average basic common shares outstanding when the Company is in a net earnings position. Shares outstanding exclude shares of unvested restricted stock for the three and nine months ended May 31, 2013 due to a net loss.

(2) The dilutive effect of common stock equivalents is excluded from the share calculations for the three and nine months ended May 31, 2013 due to a net loss.

(3) Restricted stock units were granted during the three months ended May 31, 2013. Restricted stock units are not included in weighted average basic common shares outstanding. The dilutive effect of restricted stock units is included in the weighted average diluted common shares outstanding when the Company is in a net earnings position.

(4) The dilutive effect of the 2018 Convertible notes are included for the three and nine months ended May 31, 2012 as they were considered dilutive under the if converted method as further discussed below. The dilutive effect of the 2026 Convertible notes was excluded from the share calculations as the stock price for each period presented was less than the initial conversion price of $48.05 and therefore considered anti-dilutive.

Dilutive EPS for the three and nine months ended May 31, 2012 was calculated using the more dilutive of two approaches. The first approach includes the dilutive effect of outstanding warrants and shares underlying the 2026 Convertible notes in the share count using the treasury stock method. The second approach supplements the first by including the if converted effect of the 2018 Convertible notes issued in March 2011. Under the if converted method debt issuance and interest costs, both net of tax, associated with the convertible notes are added back to net earnings and the share count is increased by the shares underlying the convertible notes. The 2026 Convertible notes would only be included in the calculation of both approaches if the current stock price is greater than the initial conversion price of $48.05 using the treasury stock method.

The diluted earnings per share calculation below was not applicable for the three and nine months ended May 31, 2013 as the Company was in a net loss and the impact would be anti-dilutive.

	Three Months Ended May 31, 2012	Nine Months Ended May 31, 2012
Net earnings attributable to Greenbrier	$ 19,117	$ 51,303
Add back:		
Interest and debt issuance costs on the 2018 Convertible notes, net of tax	1,416	4,262
Earnings before interest and debt issuance costs on convertible notes	$ 20,533	$ 55,565
Weighted average diluted common shares outstanding	33,862	33,640
Diluted earnings per share	$ 0.61 (1)	$ 1.65 (1)

(1) Diluted earnings per share was calculated as follows:

Earnings before interest and debt issuance costs (net of tax) on convertible notes

Weighted average diluted common shares outstanding

Note 12 Stock Based Compensation

The value, at the date of grant, of restricted stock and restricted stock unit awards is amortized as compensation expense over the lesser of the vesting period or to the recipient s eligible retirement date.

For the three and nine months ended May 31, 2013, $2.0 million and $4.8 million in compensation expense was recorded for restricted stock and restricted stock unit grants. For the three and nine months ended May 31, 2012, $3.2 million and $6.7 million in compensation expense was recorded for restricted stock grants. Compensation expense related to restricted stock and restricted stock unit grants is recorded in Selling and administrative expense on the Consolidated Statements of Operations.

Note 13 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 in Euro. 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 effective portion of unrealized gains and losses are recorded in accumulated other comprehensive loss.

At May 31, 2013 exchange rates, forward exchange contracts for the purchase of Polish Zloty and the sale of Euro aggregated to $58.9 million. Adjusting the foreign currency exchange contracts to the fair value of the cash flow hedges at May 31, 2013 resulted in an unrealized pre-tax loss of $0.8 million that was recorded in accumulated other comprehensive loss. The fair value of the contracts is included in Accounts payable and accrued liabilities when there is a loss, or Accounts receivable, net when there is a gain, on the Consolidated Balance Sheets. As the contracts mature at various dates through February 2014, any such gain or loss remaining will be recognized in manufacturing revenue along with the related transactions when they occur. In the event that the underlying sales transaction does not occur or does not occur in the period designated at the inception of the hedge, the amount classified in accumulated other comprehensive loss would be reclassified to the current year s results of operations in Interest and foreign exchange.

At May 31, 2013, an interest rate swap agreement had a notional amount of $41.9 million and matures March 2014. The fair value of this cash flow hedge at May 31, 2013 resulted in an unrealized pre-tax loss of $1.7 million. The loss is included in Accumulated other comprehensive loss and the fair value of the contract 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 swap are reclassified from accumulated other comprehensive loss and charged or credited to interest expense. At May 31, 2013 interest rates, approximately $1.2 million would be reclassified to interest expense in the next 12 months.

Fair Values of Derivative Instruments

	Asset Derivatives			**Liability Derivatives**		
(In thousands)	Balance sheet location	May 31, 2013 Fair Value	August 31, 2012 Fair Value	Balance sheet location	May 31, 2013 Fair Value	August 31, 2012 Fair Value
Derivatives designated as hedging instruments						
Foreign forward exchange contracts	Accounts receivable	$ 1,058	$ 2,703	Accounts payable and accrued liabilities	$ 723	$ 182
Interest rate swap contract	Other assets			Accounts payable and accrued liabilities	1,659	2,861
		$ 1,058	$ 2,703		$ 2,382	$ 3,043