

GREENBRIER COMPANIES INC
Form 10-Q
January 09, 2009

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

Form 10-Q

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

for the quarterly period ended November 30, 2008

**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 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 the definitions 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 Non-accelerated filer Smaller reporting company
(Do not check if a 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

The number of shares of the registrant's common stock, without par value, outstanding on January 5, 2009 was 16,664,232 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 the Private Securities Litigation Reform Act of 1995, 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. 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 warehousing activities;

ability to renew or obtain sufficient lines of credit and performance guarantees on acceptable terms;

ability to utilize beneficial tax strategies;

ability to grow our refurbishment & parts and lease fleet and management services businesses;

ability to obtain sales contracts which contain provisions for the escalation of prices due to increased costs of materials and components;

ability to obtain adequate certification and licensing of products; and

short- and long-term revenue and earnings effects of the above items.

Forward-looking statements are subject to a number of uncertainties and other factors outside Greenbrier's control. The following are among the factors that could cause actual results or outcomes to differ materially from the forward-looking statements:

a delay or failure of acquired businesses, start-up operations, products or services to compete successfully;

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;

fluctuations in demand for newly manufactured railcars or failure to obtain orders as anticipated in developing forecasts;

effects of local statutory accounting;

domestic and global business conditions and growth or reduction in the surface transportation industry;

ability to maintain good relationships with third party labor providers or collective bargaining units;

steel price fluctuations, scrap surcharges, steel scrap prices and other commodity price fluctuations and their impact on railcar and wheel demand and margin;

ability to deliver railcars in accordance with customer specifications;

changes in product mix and the mix among reporting segments;

labor disputes, energy shortages or operating difficulties that might disrupt manufacturing 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 obtain suitable contracts for railcars held for sale;

lower than anticipated 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;

the ability to consummate expected sales;

delays in receipt of orders, risks that contracts may be canceled during their term or not renewed and that customers may not purchase as much equipment under the contracts as anticipated;

financial condition of principal customers;

market acceptance of products;

ability to determine and obtain adequate levels of insurance and at acceptable rates;

disputes arising from creation, use, licensing or ownership of intellectual property in the conduct of the Company's business;

competitive factors, including introduction of competitive products, price pressures, limited customer base and competitiveness of our manufacturing facilities and products;

industry overcapacity and our manufacturing capacity utilization;

changes in industry demand for railcar products;

domestic and global political, regulatory or economic conditions including such matters as terrorism, war, embargoes or quotas;

ability to adjust to the cyclical nature of the railcar industry;

the effects of car hire depreciation on leasing revenue;

changes in interest rates and financial impacts from interest rates;

actions by various regulatory agencies;

changes in fuel and/or energy prices;

risks associated with intellectual property rights of Greenbrier or 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;

ability to maintain sufficient availability of credit facilities and compliance with financial covenants;

discovery of unknown liabilities associated with acquired businesses;

failure of or delay in implementing and using new software or other technologies;

ability to replace maturing lease revenue and earnings with revenue and earnings from additions to the lease fleet and management services; 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. Greenbrier assumes no obligation to update or revise any forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements or if Greenbrier later becomes aware that these assumptions are not likely to be achieved, except as required under securities laws.

THE GREENBRIER COMPANIES, INC.**PART I. FINANCIAL INFORMATION****Item 1. Condensed Financial Statements****Consolidated Balance Sheets***(In thousands, unaudited)*

	November 30, 2008	August 31, 2008
Assets		
Cash and cash equivalents	\$ 18,765	\$ 5,957
Restricted cash	524	1,231
Accounts receivable	152,733	181,857
Inventories	256,123	252,048
Assets held for sale	63,182	52,363
Equipment on operating leases	318,864	319,321
Investment in direct finance leases	8,328	8,468
Property, plant and equipment	134,060	136,506
Goodwill	192,733	200,148
Intangibles and other assets	95,747	99,061
	\$ 1,241,059	\$ 1,256,960
Liabilities and Stockholders Equity		
Revolving notes	\$ 146,323	\$ 105,808
Accounts payable and accrued liabilities	234,541	274,322
Losses in excess of investment in de-consolidated subsidiary	15,313	15,313
Deferred income taxes	76,851	74,329
Deferred revenue	22,053	22,035
Notes payable	491,279	496,008
Minority interest	9,509	8,618
Commitments and contingencies (Note 17)		
Stockholders equity:		
Preferred stock without par value; 25,000 shares authorized; none outstanding		
Common stock without par value; 50,000 shares authorized; 16,664 and 16,606 shares outstanding at November 30, 2008 and August 31, 2008	17	17
Additional paid-in capital	83,414	82,262
Retained earnings	174,892	179,553
Accumulated other comprehensive loss	(13,133)	(1,305)
	245,190	260,527
	\$ 1,241,059	\$ 1,256,960

The accompanying notes are an integral part of these statements

THE GREENBRIER COMPANIES, INC.**Consolidated Statements of Operations***(In thousands, except per share amounts, unaudited)*

	Three Months Ended November 30,	
	2008	2007
Revenue		
Manufacturing	\$ 102,717	\$ 159,194
Refurbishment & Parts	132,279	103,889
Leasing & Services	21,133	23,295
	256,129	286,378
Cost of revenue		
Manufacturing	106,923	150,565
Refurbishment & Parts	119,326	87,951
Leasing & Services	11,929	11,925
	238,178	250,441
Margin	17,951	35,937
Other costs		
Selling and administrative	15,980	20,184
Interest and foreign exchange	10,846	10,419
Special charges		189
	26,826	30,792
Earnings (loss) before income taxes, minority interest and equity in unconsolidated subsidiaries	(8,875)	5,145
Income tax benefit (expense)	4,544	(2,956)
Earnings (loss) before minority interest and equity in unconsolidated subsidiaries	(4,331)	2,189
Minority interest	568	375
Equity in earnings of unconsolidated subsidiaries	434	78
Net earnings (loss)	\$ (3,329)	\$ 2,642
Basic earnings (loss) per common share:	\$ (0.20)	\$ 0.16
Diluted earnings (loss) per common share:	\$ (0.20)	\$ 0.16
Weighted average common shares:		
Basic	16,629	16,172

Diluted

16,629

16,198

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,	
	2008	2007
Cash flows from operating activities:		
Net earnings (loss)	\$ (3,329)	\$ 2,642
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:		
Deferred income taxes	2,522	2,692
Depreciation and amortization	9,556	8,256
Gain on sales of equipment	(289)	(780)
Special charges		189
Minority interest	(509)	(103)
Other	139	(139)
Decrease (increase) in assets:		
Accounts receivable	18,845	23,564
Inventories	(15,260)	(232)
Assets held for sale	(10,883)	(8,501)
Other	469	503
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(25,347)	(30,743)
Deferred revenue	1,712	(6,118)
Net cash used in operating activities	(22,374)	(8,770)
Cash flows from investing activities:		
Principal payments received under direct finance leases	105	88
Proceeds from sales of equipment	306	1,422
Investment in and net advances to unconsolidated Subsidiaries		176
Decrease in restricted cash	433	140
Capital expenditures	(8,473)	(14,475)
Net cash used in investing activities	(7,629)	(12,649)
Cash flows from financing activities:		
Changes in revolving notes	51,062	6,677
Repayments of notes payable	(4,189)	(1,331)
Investment by joint venture partner	1,400	600
Stock options and restricted stock awards exercised	1,152	783
Excess tax benefit of stock options exercised		51
Net cash provided by financing activities	49,425	6,780
Effect of exchange rate changes	(6,614)	516
Increase (decrease) in cash and cash equivalents	12,808	(14,123)

Cash and cash equivalents

Beginning of period	5,957	20,808
End of period	\$ 18,765	\$ 6,685

Cash paid during the period for:

Interest	\$ 13,699	\$ 13,746
Income taxes	\$ 687	\$ 1,958

Supplemental disclosure of non-cash activity:

Adjustment to tax reserves	\$ 7,415	\$
Seller receivable netted against acquisition note payable	\$	\$ 503

The accompanying notes are an integral part of these statements

THE GREENBRIER COMPANIES, INC.**Notes to Consolidated Financial Statements***(Unaudited)***Note 1 Interim Financial Statements**

The Consolidated Financial Statements of The Greenbrier Companies, Inc. and Subsidiaries (Greenbrier or the Company) as of November 30, 2008 and for the three months ended November 30, 2008 and 2007 have been prepared without audit and reflect all adjustments (consisting of normal recurring accruals except for special charges) which, in the opinion of management, are necessary for a fair presentation of the financial position and operating results for the periods indicated. The results of operations for the three months ended November 30, 2008 are not necessarily indicative of the results to be expected for the entire year ending August 31, 2009.

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 2008 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 February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* which permits entities to choose to measure many financial assets and financial liabilities at fair value rather than historical value. Unrealized gains and losses on items for which the fair value option is elected are reported in earnings. This statement was effective for the Company beginning September 1, 2008 and the Company has not elected the fair value option for any additional financial assets and liabilities beyond those already prescribed by generally accepted accounting principles.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of SFAS No. 133. This statement changes the presentation of the disclosure of the Company's derivative and hedging activity and was effective for the Company beginning September 1, 2008.

Prospective Accounting Changes In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. The measurement and disclosure requirements are effective for the Company for the fiscal year beginning September 1, 2008. The adoption did not have an effect on the Company. In January 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2 to defer SFAS No. 157's effective date for all non-financial assets and liabilities, except those items recognized or disclosed at fair value on an annual or more frequently recurring basis. In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*. This FSP provides examples to illustrate key considerations in determining fair value of a financial asset when the market for that financial asset is not active. This position is effective for the Company beginning September 1, 2009. Management is evaluating whether there will be any impact on the Consolidated Financial Statements from the adoption of FSP 157-2 and 157-3.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations*. This statement establishes the principles and requirements for how an acquirer: recognizes and measures the assets acquired, liabilities assumed, and non-controlling interest; recognizes and measures goodwill; and identifies disclosures. This statement is effective for the Company for business combinations entered into on or after September 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of ARB No. 51. This statement establishes reporting standards for non-controlling interests in subsidiaries. This standard is effective for the Company beginning September 1, 2009. Management is evaluating the impact of this statement on its Consolidated Financial Statements.

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In May 2008, the FASB issued FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. This FSP specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This FSP is effective for the Company beginning September 1, 2009. Management is evaluating the impact of this FSP on its Consolidated Financial Statements.

Note 2 Acquisitions**Roller Bearing Industries**

On April 4, 2008 the Company purchased substantially all of the operating assets of Roller Bearing Industries, Inc. (RBI) for \$7.8 million in cash. The purchase price was paid from existing cash balances and credit facilities. RBI operates a railcar bearings reconditioning business in Elizabethtown, Kentucky. Reconditioned bearings are used in the refurbishment of railcar wheelsets. The financial results of these operations since the acquisition are reported in the Company's Consolidated Financial Statements as part of the Refurbishment & Parts segment. The impact of this acquisition was not material to the Company's consolidated results of operations; therefore, pro forma 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 allocation is preliminary and subject to further refinement upon completion of analyses and valuations.

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

(In thousands)

Accounts receivable	\$ 479
Inventories	2,963
Property, plant and equipment	1,644
Intangibles and other	1,178
Goodwill	1,742
 Total assets acquired	 8,006
 Accounts payable and accrued liabilities	 165
 Total liabilities assumed	 165
 Net assets acquired	 \$ 7,841

American Allied Railway Equipment Company

On March 28, 2008 the Company purchased substantially all of the operating assets of American Allied Railway Equipment Company and its affiliates (AARE) for \$83.3 million in cash. The purchase price was paid from existing cash balances and credit facilities. AARE's two wheel facilities in Washington, Illinois and Macon, Georgia, supply new and reconditioned wheelsets to freight car maintenance locations as well as new railcar manufacturing facilities. AARE also operates a parts reconditioning business in Peoria, Illinois, where it reconditions railcar yokes, couplers, side frames and bolsters. 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.

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

(In thousands)

Accounts receivable	\$ 10,228
Inventories	12,966
Property, plant and equipment	8,377
Intangibles and other	27,800
Goodwill	29,405
 Total assets acquired	 88,776
 Accounts payable and accrued liabilities	 5,451
 Total liabilities assumed	 5,451
 Net assets acquired	 \$ 83,325

The unaudited pro forma financial information presented below for the three months ended November 30, 2007 has been prepared to illustrate Greenbrier's consolidated results had the acquisition of AARE occurred at the beginning of each period presented. The financial information for the three months ended November 30, 2008 is included for comparison purposes only.

<i>(In thousands, except per share amounts)</i>	Three Months Ended	
	2008	November 30, 2007
Revenue	\$256,129	\$307,980
Net earnings (loss)	\$ (3,329)	\$ 2,264
Basic earnings (loss) per common share	\$ (0.20)	\$ 0.14
Diluted earnings per (loss) common share	\$ (0.20)	\$ 0.14

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

In April 2007, the Company's board of directors approved the permanent closure of the Company's Canadian railcar manufacturing facility, TrentonWorks Limited. As a result of the facility closure decision, special charges of \$0.2 million were recorded during the three months ended November 30, 2007 consisting of severance costs and professional and other expenses.

Note 4 De-consolidation of Subsidiary

On March 13, 2008 TrentonWorks Limited (TrentonWorks) filed for bankruptcy with the Office of the Superintendent of Bankruptcy Canada whereby the assets of TrentonWorks are being administered and liquidated by an appointed trustee. The Company has not guaranteed any obligations of TrentonWorks and does not believe it will be liable for any of TrentonWorks' liabilities. Under generally accepted accounting principles, consolidation is generally required for investments of more than 50% ownership, except when control is not held by the majority owner. Under these principles, bankruptcy represents conditions which may preclude consolidation in instances where control rests with the bankruptcy court and trustee, rather than the majority owner. As a result, the Company discontinued consolidating TrentonWorks' financial statements beginning on March 13, 2008 and began reporting its investment in TrentonWorks

using the cost method. Under the cost method, the investment is reflected as a single amount on the Company's Consolidated Balance Sheet. De-consolidation resulted in a negative investment in the subsidiary of \$15.3 million which is included as a liability on the Company's Consolidated Balance Sheet titled losses in excess of investment in de-consolidated subsidiary. In addition, a \$3.4 million loss is included in other comprehensive loss. The Company may recognize up to \$11.9 million of income with the reversal of the \$15.3 million liability, net of the \$3.4 million other comprehensive loss, when the bankruptcy is resolved.

THE GREENBRIER COMPANIES, INC.**Note 5 Inventories**

<i>(In thousands)</i>	November 30, 2008	August 31, 2008
Supplies and raw materials	\$ 133,282	\$ 150,505
Work-in-process	127,508	106,542
Lower of cost or market adjustment	(4,667)	(4,999)
	\$ 256,123	\$ 252,048

Note 6 Assets Held for Sale

<i>(In thousands)</i>	November 30, 2008	August 31, 2008
Railcars held for sale	\$ 37,501	\$ 23,559
Railcars in transit to customer	5,866	6,787
Finished goods parts	19,815	22,017
	\$ 63,182	\$ 52,363

Note 7 Goodwill

Changes in the carrying value of goodwill for the three months ended November 30, 2008 are as follows:

<i>(In thousands)</i>	Manufacturing	Refurbishment & Parts	Leasing & Services	Total
Balance August 31, 2008	\$ 1,287	\$ 195,790	\$ 3,071	\$ 200,148
Reserve reversal		(7,415)		(7,415)
Balance November 30, 2008	\$ 1,287	\$ 188,375	\$ 3,071	\$ 192,733

The reduction in goodwill of \$7.4 million relates to a release of a tax reserve that was recorded as a purchase accounting adjustment on the acquisition of Meridian Rail Holdings Corp. The contingency requiring this reserve lapsed in the first quarter of fiscal year 2009.

The Company completed its annual testing of goodwill during the third quarter of 2008 and determined that goodwill was not impaired. The Company completed an interim test of goodwill impairment during the first quarter of 2009 as a result of a significant decline in the Company's stock price since fiscal year end. In accordance with the provision of SFAS 142, *Goodwill and Other Intangible Assets*, the Company performed Step 1 of the SFAS 142 analysis as of October 31, 2008 using a third party valuation provider and determined that the fair value of its reporting units with goodwill was in excess of the carrying value of those reporting units, and as such Step 2 was not necessary. In reaching this conclusion, the Company also considered the premium of the implied value of its reporting units over the current market value of its stock, and concluded that such premium was reasonable. This analysis included an equity

test whereby the fair value of each reporting unit's total equity is compared to the carrying value of equity and an asset test whereby the fair value of each reporting unit's total assets was estimated and compared to the carrying value of assets. Greenbrier's reporting units for this test are the same as its segments. The fair value of the Company's reporting units was determined based on a weighting of income and market approaches. Under the income approach, the fair value of a reporting unit is based on the present value of estimated future cash flows. Under the market approach, the fair value is based on observed market multiples for comparable businesses and guideline transactions.

THE GREENBRIER COMPANIES, INC.**Note 8 Intangibles and other assets**

Intangible assets with indefinite useful lives are not amortized and are periodically evaluated for impairment.

Intangible assets that are determined to have finite lives are amortized over their useful lives.

The following table summarizes the Company's identifiable intangible assets balance:

<i>(In thousands)</i>	November 30, 2008	August 31, 2008
Intangible assets subject to amortization:		
Customer relationships	\$ 66,825	\$ 66,825
Accumulated amortization	(6,434)	(5,395)
Other intangibles	5,151	5,713
Accumulated amortization	(1,816)	(1,737)
	63,726	65,406
Intangible assets not subject to amortization:	912	912
Prepaid and other assets	31,109	32,743
	63,726	65,406
Total intangible and other assets	\$ 95,747	\$ 99,061

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, 2008 and 2007 was \$1.2 million and \$0.7 million.

Note 9 Revolving Notes

All amounts originating in foreign currency have been translated at the November 30, 2008 exchange rate for the following discussion. Senior secured revolving credit facilities, consisting of two components, aggregated \$321.7 million as of December 31, 2008. A \$290.0 million revolving line of credit is available through November 2011 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. In addition, current lines of credit totaling \$31.7 million, with various variable rates, are available for working capital needs of the European manufacturing operation. Currently these European credit facilities have maturities that range from February 28, 2009 through August 2009. European credit facility renewals are continually under negotiation and the Company expects the available credit facilities to be approximately \$30.0 million as of February 28, 2009 and \$25.0 million as of May 31, 2009, but dependent on the outcome of negotiations, these amounts could be reduced to \$20.0 million as of February 28, 2009 and \$15.0 million as of May 31, 2009.

As of November 30, 2008 outstanding borrowings under our facilities aggregated \$146.3 million in revolving notes and \$3.7 million in letters of credit. This consists of \$120.1 million in revolving notes and \$3.7 million in letters of credit outstanding under the United States credit facility and \$26.2 million in revolving notes under the European credit facilities. Available borrowings for all credit facilities 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 as of November 30, 2008 levels would provide for maximum additional borrowing of \$97.8 million.

THE GREENBRIER COMPANIES, INC.**Note 10 Accounts Payable and Accrued Liabilities**

<i>(In thousands)</i>	November 30, 2008	August 31, 2008
Trade payables	\$ 182,989	\$ 207,173
Accrued payroll and related liabilities	20,546	25,478
Accrued maintenance	16,805	17,067
Accrued warranty	11,077	11,873
Other	3,124	12,731
	\$ 234,541	\$ 274,322

Note 11 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 accrual, included in accounts payable and accrued liabilities on the Consolidated Balance Sheet, are reviewed periodically and updated based on warranty trends.

Warranty accrual activity:

<i>(In thousands)</i>	Three Months Ended November 30,	
	2008	2007
Balance at beginning of period	\$ 11,873	\$ 15,911
Charged to cost of revenue	205	911
Payments	(497)	(1,034)
Currency translation effect	(504)	602
Balance at end of period	\$ 11,077	\$ 16,390

THE GREENBRIER COMPANIES, INC.**Note 12 Comprehensive Income (Loss)**

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

(In thousands)

	Three Months Ended November 30,	
	2008	2007
Net earnings (loss)	\$ (3,329)	\$ 2,642
Reclassification of derivative financial instruments recognized in net earnings (loss) during the three months (net of tax effect)	(52)	(24)
Unrealized loss on derivative financial instruments (net of tax effect)	(6,325)	(6)
Foreign currency translation adjustment (net of tax effect)	(5,451)	2,423
 Comprehensive income (loss)	 \$ (15,157)	 \$ 5,035

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

(In thousands)

	Unrealized Losses			
	on Derivative		Foreign Currency	Accumulated Other
	Financial	Pension	Translation	Comprehensive
	Instruments	Plan	Adjustment	Income (Loss)
		Adjustment		
Balance, August 31, 2008	\$ 571	\$ (7,118)	\$ 5,242	\$ (1,305)
First quarter activity	(6,377)		(5,451)	(11,828)
 Balance, November 30, 2008	 \$ (5,806)	 \$ (7,118)	 \$ (209)	 \$ (13,133)

Note 13 Earnings Per Share

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

(In thousands)

	Three Months Ended November 30,	
	2008	2007
Weighted average basic common shares outstanding	16,629	16,172
Dilutive effect of employee stock options (1)		26
 Weighted average diluted common shares outstanding	 16,629	 16,198

- (1) Dilutive effect
of common
stock
equivalents
excluded from
per share
calculation in
2008 due to net
loss

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

Note 14 Stock Based Compensation

All stock options were vested prior to September 1, 2005 and accordingly no compensation expense was recorded for stock options for the three months ended November 30, 2008 and 2007. The value of stock awarded under restricted stock grants is amortized as compensation expense over the vesting period, which is generally between two to five years. For the three months ended November 30, 2008 and 2007, \$1.1 million and \$0.8 million in compensation expense was recorded in each period related to restricted stock grants.

THE GREENBRIER COMPANIES, INC.**Note 15 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 Pound Sterling and 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 unrealized gains and losses are recorded in accumulated other comprehensive loss.

At November 30, 2008 exchange rates, forward exchange contracts for the sale of Euro aggregated \$52.6 million and sale of Pound Sterling aggregated \$9.0 million which qualify for hedge accounting under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*. Adjusting the foreign currency exchange contracts to the fair value of the cash flow hedges at November 30, 2008 resulted in an unrealized pre-tax loss of \$3.6 million that was recorded in accumulated other comprehensive loss. The fair value of the contracts is included in accounts payable and accrued liabilities on the Consolidated Balance Sheet. As the contracts mature at various dates through November 2010, any such gain or loss remaining will be recognized in manufacturing revenue along with the related transactions. 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. At November 30, 2008 exchange rates, forward exchange contracts for the sale of Euro aggregated \$11.8 million which do not qualify for hedge accounting treatment. Any adjustments to the fair value of these contracts will flow through the Consolidated Statement of Operations, and during the quarter ended November 30, 2008 a pre-tax loss of \$1.2 million was recorded in interest and foreign exchange.

At November 30, 2008 exchange rates, interest rate swap agreements had a notional amount of \$55.1 million and mature at various dates through March 2014. The fair value of these cash flow hedges at November 30, 2008 resulted in an unrealized pre-tax loss of \$3.7 million. The loss is included in accumulated other comprehensive loss and the fair value of the contracts is included in accounts payable and accrued liabilities on the Consolidated Balance Sheet. As interest expense on the underlying debt is recognized, amounts corresponding to the interest rate swaps are reclassified from accumulated other comprehensive loss and charged or credited to interest expense. At November 30, 2008 interest rates, approximately \$0.1 million would be reclassified to interest expense in the next 12 months.

(In thousands)

Cash Flow Hedges	Loss recognized in other comprehensive loss (OCI) November 30, 2008	Location of loss reclassified from accumulated OCI into expense	Amount of loss reclassified from accumulated OCI into expense Three Months Ended November 30, 2008
Foreign forward exchange contracts	\$ (3,579)	Interest and foreign exchange	\$ (1,039)
Interest rate swap contracts	(3,662)	Interest and foreign exchange	
	\$ (7,241)		\$ (1,039)

Derivatives not designated	Location of loss recognized	Amount of loss recognized Three Months Ended
as hedging instrument		November 30, 2008
Foreign forward exchange contracts	Interest and foreign exchange	\$ (1,200)
	14	

THE GREENBRIER COMPANIES, INC.**Note 16 Segment Information**

Greenbrier operates in three reportable segments: Manufacturing, Refurbishment & Parts and Leasing & Services. The accounting policies of the segments are described in the summary of significant accounting policies in the Consolidated Financial Statements contained in the Company's 2008 Annual Report on Form 10-K. Performance is evaluated based on margin. Intersegment sales and transfers are generally accounted for at fair value as if the sales or transfers were to third parties. While intercompany transactions are treated like third-party transactions to evaluate segment performance, the revenues and related expenses are eliminated in consolidation and therefore do not impact consolidated results.

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

(In thousands)

	Three Months Ended November 30,	
	2008	2007
Revenue:		
Manufacturing	\$ 120,045	\$ 175,434
Refurbishment & Parts	133,613	105,277
Leasing & Services	21,421	23,341
Intersegment eliminations	(18,950)	(17,674)
	\$ 256,129	\$ 286,378
Margin:		
Manufacturing	\$ (4,206)	\$ 8,629
Refurbishment & Parts	12,953	15,938
Leasing & Services	9,204	11,370
Segment margin total	17,951	35,937
Less: unallocated expenses:		
Selling and administrative	15,980	20,184
Interest and foreign exchange	10,846	10,419
Special charges		189
Earnings (loss) before income tax expense, minority interest and equity in unconsolidated subsidiary	\$ (8,875)	\$ 5,145

Note 17 Commitments and Contingencies

Environmental studies have been conducted of the Company's owned and leased properties that indicate additional investigation and some remediation on certain properties may be necessary. The Company's Portland, Oregon manufacturing facility is located adjacent to the Willamette River. The United States Environmental Protection Agency (EPA) has classified portions of the river bed, including the portion fronting Greenbrier's facility, as a federal National Priority List or Superfund site due to sediment contamination (the Portland Harbor Site). Greenbrier and more than 80 other parties have received a General Notice of potential liability from the EPA relating to the Portland Harbor Site. The letter advised the Company that it may be liable for the costs of investigation and remediation (which liability may be joint and several with other potentially responsible parties) as well as for natural resource damages resulting from releases of hazardous substances to the site. At this time, ten private and public entities, including the Company, have signed an Administrative Order of Consent to perform a remedial investigation/feasibility study

(RI/FS) of the Portland Harbor Site under EPA oversight, and several additional entities have not signed such consent, but are nevertheless contributing money to the effort. The study is expected to be completed in 2010. In February 2008, the EPA sought information from over 200 additional entities, including other federal agencies in order to determine whether additional General Notice letters were warranted. In addition, the Company has entered into a Voluntary Clean-Up Agreement with the Oregon Department of Environmental Quality in which the Company agreed to conduct an investigation of whether, and to what extent, past or present operations at the Portland property may have released hazardous substances to the environment. The Company is also conducting groundwater remediation relating to a historical spill on the property which antedates its ownership.

THE GREENBRIER COMPANIES, INC.

Because these environmental investigations are still underway, the Company is unable to determine the amount of ultimate liability relating to these matters. Based on the results of the pending investigations and future assessments of natural resource damages, Greenbrier may be required to incur costs associated with additional phases of investigation or remedial action, and may be liable for damages to natural resources. In addition, the Company may be required to perform periodic maintenance dredging in order to continue to launch vessels from its launch ways in Portland Oregon, on the Willamette River, and the river's classification as a Superfund site could result in some limitations on future dredging and launch activities. Any of these matters could adversely affect the Company's business and results of operations, or the value of its Portland property.

From time to time, Greenbrier is involved as a defendant in litigation in the ordinary course of business, the outcome of which cannot be predicted with certainty. The most significant litigation is as follows:

On April 20, 2004, BC Rail Partnership initiated litigation against the Company and TrentonWorks in the Supreme Court of Nova Scotia, alleging breach of contract and negligent manufacture and design of railcars which were involved in a 1999 derailment. No trial date has been set.

Greenbrier and a customer, SEB Finans AB (SEB), have raised performance concerns related to a component that the Company installed on 372 railcar units with an aggregate sales value of approximately \$20.0 million produced under a contract with SEB. On December 9, 2005, SEB filed a Statement of Claim in an arbitration proceeding in Stockholm, Sweden, against Greenbrier alleging that the cars were defective and could not be used for their intended purpose. A settlement agreement was entered into effective February 28, 2007 pursuant to which the railcar units previously delivered were to be repaired and the remaining units completed and delivered to SEB. Greenbrier is proceeding with repairs of the railcars in accordance with terms of the settlement agreement. Current estimates of potential costs of such repairs do not exceed amounts accrued in warranty.

When the Company acquired the assets of the Freight Wagon Division of DaimlerChrysler in January 2000, it acquired a contract to build 201 freight cars for Okombi GmbH, a subsidiary of Rail Cargo Austria AG. Subsequently, Okombi made breach of warranty and late delivery claims against the Company which grew out of design and certification problems. All of these issues were settled as of March 2004. Recently, new allegations have been made, the most serious of which involve cracks to the structure of the cars. Okombi has been required to remove all 201 freight cars from service, and a formal claim has been made against the Company. Legal and commercial evaluations are on-going to determine what obligations the Company might have, if any, to remedy the alleged defects.

Management intends to vigorously defend its position in each of the open foregoing cases. While the ultimate outcome of such legal proceedings cannot be determined at this time, management believes that the resolution of these actions will not have a material adverse effect on the Company's Consolidated Financial Statements.

The Company has entered into contingent rental assistance agreements, aggregating \$6.0 million, on certain railcars subject to leases that have been sold to third parties. These agreements guarantee the purchasers a minimum lease rental, subject to a maximum defined rental assistance amount, over remaining periods of up to five years. A liability is established and revenue is reduced in the period during which a determination can be made that it is probable that a rental shortfall will occur and the amount can be estimated. For the three months ended November 30, 2008 no accrual was made to cover estimated obligations as management determined no additional rental shortfall was probable. For the three months ended November 30, 2007 an accrual of \$0.6 million was recorded to cover future obligations. The remaining balance of the accrued liability was \$0.2 million as November 30, 2008. All of these agreements were entered into prior to December 31, 2002 and have not been modified since. The accounting for any future rental assistance agreements will comply with the guidance required by FASB Interpretation (FIN) 45 which pertains to contracts entered into or modified subsequent to December 31, 2002.

THE GREENBRIER COMPANIES, INC.

A portion of leasing & services revenue is derived from car hire which is a fee that a railroad pays for the use of railcars owned by other railroads or third parties. Car hire earned by a railcar is usually made up of hourly and mileage components. Railcar owners and users have the right to negotiate car hire rates. If the railcar owner and railcar user cannot come to an agreement on a car hire rate then either party has the right to call for arbitration. In arbitration either the owner's or user's rate is selected and that rate becomes effective for a one-year period. There is some risk that car hire rates could be negotiated or arbitrated to lower levels in the future. This could reduce future car hire revenue for the Company which amounted to \$5.9 million and \$6.6 million for the three months ended November 30, 2008 and 2007.

In accordance with customary business practices in Europe, the Company has \$11.2 million in bank and third party performance, advance payment and warranty guarantee facilities, all of which have been utilized as of November 30, 2008. To date no amounts have been drawn under these performance, advance payment and warranty guarantee facilities.

At November 30, 2008, an unconsolidated subsidiary had \$4.2 million of third party debt, for which the Company has guaranteed 33% or approximately \$1.4 million. In the event that there is a change in control or insolvency by any of the three 33% investors that have guaranteed the debt, the remaining investors' share of the guarantee will increase proportionately.

The Company has outstanding letters of credit aggregating \$3.7 million associated with facility leases and payroll.

Note 18 Guarantor/Non Guarantor

The \$235 million combined senior unsecured notes (the Notes) issued on May 11, 2005 and November 21, 2005 and \$100 million of convertible senior notes issued on May 22, 2006 are fully and unconditionally and jointly and severally guaranteed by substantially all of Greenbrier's material wholly owned United States subsidiaries: Autostack Company LLC, Greenbrier-Concarril, LLC, Greenbrier Leasing Company LLC, Greenbrier Leasing Limited Partner, LLC, Greenbrier Management Services, LLC, Greenbrier Leasing, L.P., Greenbrier Railcar LLC, Gunderson LLC, Gunderson Marine LLC, Gunderson Rail Services LLC, Meridian Rail Holdings Corp., Meridian Rail Acquisition Corp., Meridian Rail Mexico City Corp., Brandon Railroad LLC and Gunderson Specialty Products, LLC. No other subsidiaries guarantee the Notes including Greenbrier Europe B.V., Greenbrier Germany GmbH, WagonySwidnica S.A., Gunderson-Concarril, S.A. de C.V., Greenbrier-Gimsa, LLC and Gunderson-Gimsa S de RL de CV.

The following represents the supplemental consolidated condensed financial information of Greenbrier and its guarantor and non guarantor subsidiaries, as of November 30, 2008 and August 31, 2008 and for the three months ended November 30, 2008 and 2007. The information is presented on the basis of Greenbrier accounting for its ownership of its wholly owned subsidiaries using the equity method of accounting. The equity method investment for each subsidiary is recorded by the parent in intangibles and other assets. Intercompany transactions of goods and services between the guarantor and non guarantor subsidiaries are presented as if the sales or transfers were at fair value to third parties and eliminated in consolidation.

The condensed consolidating statement of cash flows for the three months ended November 30, 2007 has been restated to correct the presentation of transactions that are settled on a net basis through the Company's intercompany payables and receivables. The Company had previously presented intercompany advances and investment in subsidiaries between the parent and its guarantor and non-guarantor subsidiaries as operating activities. These transactions should have been presented in financing and investing activities. As any changes in the classification between operating, investing and financing are eliminated in consolidation, there is no impact to the Consolidated Statement of Cash Flows for the three months ended November 30, 2007.

THE GREENBRIER COMPANIES, INC.

The Greenbrier Companies, Inc.
Condensed Consolidating Balance Sheet
November 30, 2008
(In thousands)

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 13,151	\$	\$ 5,614	\$	\$ 18,765
Restricted cash			524		524
Accounts and notes receivable	211,044	(61,359)	2,154	894	152,733
Inventories		150,988	105,135		256,123
Assets held for sale		56,903	6,279		63,182
Equipment on operating leases		320,824		(1,960)	318,864
Investment in direct finance leases		8,328			8,328
Property, plant and equipment	4,383	88,384	41,293		134,060
Goodwill		192,597		136	192,733
Intangibles and other	503,029	114,847	2,969	(525,098)	95,747
	\$ 731,607	\$ 871,512	\$ 163,968	\$ (526,028)	\$ 1,241,059
Liabilities and Stockholders Equity					
Revolving notes	\$ 120,100	\$	\$ 26,223	\$	\$ 146,323
Accounts payable and accrued liabilities	4,298	150,624	79,607	12	234,541
Losses in excess of investment in de-consolidated subsidiary	15,313				15,313
Deferred income taxes	6,830	73,374	(2,604)	(749)	76,851
Deferred revenue	892	19,202	1,959		22,053
Notes payable	338,984	149,113	3,182		491,279
Minority interest			(48)	9,557	9,509
Stockholders Equity	245,190	479,199	55,649	(534,848)	245,190
	\$ 731,607	\$ 871,512	\$ 163,968	\$ (526,028)	\$ 1,241,059

THE GREENBRIER COMPANIES, INC.

The Greenbrier Companies, Inc.
 Condensed Consolidating Statement of Operations
 For the quarter ended November 30, 2008
(In thousands)

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue					
Manufacturing	\$	\$ 41,643	\$ 84,861	\$ (23,787)	\$ 102,717
Refurbishment & Parts		132,259	20		132,279
Leasing & Services	364	21,119		(350)	21,133
	364	195,021	84,881	(24,137)	256,129
Cost of revenue					
Manufacturing		44,556	85,979	(23,612)	106,923
Refurbishment & Parts		119,303	23		119,326
Leasing & Services		11,946		(17)	11,929
		175,805	86,002	(23,629)	238,178
Margin	364	19,216	(1,121)	(508)	17,951
Other costs					
Selling and administrative expense	6,493	7,097	2,390		15,980
Interest and foreign exchange	7,027	1,530	2,640	(351)	10,846
	13,520	8,627	5,030	(351)	26,826
Earnings (loss) before income taxes, minority interest and equity in unconsolidated subsidiaries	(13,156)	10,590	(6,151)	(157)	(8,875)
Income tax (expense) benefit	7,241	(4,437)	1,338	402	4,544
	(5,915)	6,152	(4,813)	245	(4,331)
Minority interest			28	540	568
Equity in earnings (loss) of unconsolidated subsidiaries	2,586	(1,485)		(667)	434
Net earnings (loss)	\$ (3,329)	\$ 4,667	\$ (4,785)	\$ 118	\$ (3,329)

THE GREENBRIER COMPANIES, INC.

The Greenbrier Companies, Inc.
Condensed Consolidating Statement of Cash Flows
For the quarter ended November 30, 2008
(In thousands)

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net earnings (loss)	\$ (3,329)	\$ 4,667	\$ (4,785)	\$ 118	\$ (3,329)
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:					
Deferred income taxes	444	1,657	602	(181)	2,522
Depreciation and amortization	310	7,209	2,054	(17)	9,556
Gain on sales of equipment		(289)			(289)
Minority interest			1,178	(1,687)	(509)
Other		135	4		139
Decrease (increase) in assets					
Accounts receivable	(2,320)	1,197	20,861	(893)	18,845
Inventories		(7,431)	(7,829)		(15,260)
Assets held for sale		(11,762)	879		(10,883)
Other	294	1,073	(402)	(496)	469
Increase (decrease) in liabilities					
Accounts payable and accrued liabilities	10,452	(29,429)	(7,077)	707	(25,347)
Deferred revenue	(39)	3,215	(1,464)		1,712
Net cash provided by (used in) operating activities	5,812	(29,758)	4,021	(2,449)	(22,374)
Cash flows from investing activities:					
Principal payments received under direct finance leases		105			105
Proceeds from sales of equipment		306			306
Investment in and advances to unconsolidated subsidiaries	(4,281)	1,919		2,362	
Decrease in restricted cash			433		433
Capital expenditures	(691)	(5,066)	(2,803)	87	(8,473)
Net cash provided by (used in) investing activities	(4,972)	(2,736)	(2,370)	2,449	(7,629)

Cash flows from financing activities:

Changes in revolving notes	55,100		(4,038)	51,062
Intercompany advances	(43,605)	37,557	6,048	
Repayments of notes payable	(355)	(3,543)	(291)	(4,189)
Investment by joint venture partner			1,400	1,400
Stock options exercised and restricted stock awards	1,152			1,152
Excess tax benefit of stock options exercised				
Net cash provided by (used in) Financing activities	12,292	34,014	3,119	49,425
Effect of exchange rate changes	19	(3,113)	(3,520)	(6,614)
Increase in cash and cash equivalents	13,151	(1,593)	1,250	12,808
Cash and cash equivalents Beginning of period		1,593	4,364	&nb