

GREENBRIER COMPANIES INC  
Form 10-Q  
January 08, 2014

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

**Form 10-Q**

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

**for the quarterly period ended November 30, 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**  
**(State of**

**Incorporation)**

**One Centerpointe Drive, Suite 200, Lake Oswego, OR**  
**(Address of principal executive offices)**

**(503) 684-7000**

**93-0816972**  
**(I.R.S. Employer**

**Identification No.)**

**97035**  
**(Zip Code)**

**(Registrant's telephone number, including area code)**

## Edgar Filing: GREENBRIER COMPANIES INC - Form 10-Q

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 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 ☒ 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 ☒

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 ☒

The number of shares of the registrant's common stock, without par value, outstanding on January 2, 2014 was 27,960,742 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;

## Edgar Filing: GREENBRIER COMPANIES INC - Form 10-Q

ability to maintain sufficient availability of credit facilities and to maintain compliance with or to obtain appropriate amendments to covenants under various credit agreements;

domestic and global economic conditions including such matters as embargoes or quotas;

U.S., Mexican and other global political or security conditions including such matters as terrorism, war, civil disruption and crime;

growth or reduction in the surface transportation industry;

ability to maintain good relationships with our labor force, third party labor providers and collective bargaining units representing our direct and indirect labor force;

steel and specialty component price fluctuations and availability, scrap surcharges, steel scrap prices and other commodity price fluctuations and availability and their impact on product demand and margin;

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

changes in product mix and the mix of revenue levels among reporting segments;

labor disputes, energy shortages or operating difficulties that might disrupt operations or the flow of cargo;

production difficulties and product delivery delays as a result of, among other matters, inefficiencies associated with the start-up of production lines or increased production rates, changing technologies, transfer of production between facilities or non-performance of alliance partners, subcontractors or suppliers;

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;

## Edgar Filing: GREENBRIER COMPANIES INC - Form 10-Q

expansion of warranty and product support terms beyond those which have traditionally prevailed in the rail supply industry;

availability of a trained work force at a reasonable cost and with reasonable terms of employment;

availability and/or price of essential raw materials, specialties or components, including steel castings, to permit manufacture of units on order;

failure to successfully integrate acquired businesses;

discovery of previously unknown liabilities associated with acquired businesses;

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

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

ability to replace maturing lease and management services revenue and earnings with revenue and earnings from new commercial transactions, including new railcar leases, additions to the lease fleet and new management services contracts;

credit limitations upon our ability to maintain effective hedging programs;

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

changes in legislation and increased costs related to health care.

Any forward-looking statements should be considered in light of these factors. Words such as anticipates, believes, forecast, potential, goal, contemplates, expects, intends, plans, projects, hopes, seeks, estimates, 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 31<sup>st</sup> unless otherwise noted.

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

	November 30, 2013	August 31, 2013
<b>Assets</b>		
Cash and cash equivalents	\$ 81,226	\$ 97,435
Restricted cash	8,975	8,807
Accounts receivable, net	174,745	154,848
Inventories	328,235	316,783
Leased railcars for syndication	61,282	68,480
Equipment on operating leases, net	293,291	305,468
Property, plant and equipment, net	201,353	201,533
Goodwill	57,416	57,416
Intangibles and other assets, net	76,055	78,971
	\$ 1,282,578	\$ 1,289,741
<b>Liabilities and Equity</b>		
Revolving notes	\$ 38,805	\$ 48,209
Accounts payable and accrued liabilities	293,041	315,938
Deferred income taxes	86,501	86,040
Deferred revenue	8,706	8,838
Notes payable	372,666	373,889
Commitments and contingencies (Note 13)		
<b>Equity:</b>		
Greenbrier		
Preferred stock - without par value; 25,000 shares authorized; none outstanding		
Common stock - without par value; 50,000 shares authorized; 28,043 and 28,084 shares outstanding at November 30, 2013 and August 31, 2013		
Additional paid-in capital	260,504	259,864
Retained earnings	190,230	174,842
Accumulated other comprehensive loss	(3,135)	(6,504)
Total equity - Greenbrier	447,599	428,202
Noncontrolling interest	35,260	28,625
Total equity	482,859	456,827
	\$ 1,282,578	\$ 1,289,741

*The accompanying notes are an integral part of these financial statements*

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

	Three Months Ended November 30,	
	2013	2012
<b>Revenue</b>		
Manufacturing	\$ 359,473	\$ 285,368
Wheels, Repair & Parts	113,401	112,100
Leasing & Services	17,481	17,906
	490,355	415,374
<b>Cost of revenue</b>		
Manufacturing	311,440	258,492
Wheels, Repair & Parts	107,975	101,476
Leasing & Services	9,381	7,627
	428,796	367,595
<b>Margin</b>	61,559	47,779
Selling and administrative expense	26,109	26,100
Net gain on disposition of equipment	(3,651)	(1,408)
Restructuring charges	879	
Earnings from operations	38,222	23,087
<b>Other costs</b>		
Interest and foreign exchange	4,744	5,900
Earnings before income taxes and earnings (loss) from unconsolidated affiliates	33,478	17,187
Income tax expense	(10,522)	(4,586)
Earnings before earnings (loss) from unconsolidated affiliates	22,956	12,601
Earnings (loss) from unconsolidated affiliates	41	(40)
Net earnings	22,997	12,561
Net earnings attributable to noncontrolling interest	(7,609)	(2,134)
<b>Net earnings attributable to Greenbrier</b>	\$ 15,388	\$ 10,427
Basic earnings per common share:	\$ 0.54	\$ 0.38
Diluted earnings per common share:	\$ 0.49	\$ 0.35
Weighted average common shares:		
Basic	28,417	27,144
Diluted	34,462	33,991

*The accompanying notes are an integral part of these financial statements*



**THE GREENBRIER COMPANIES, INC.****Consolidated Statements of Comprehensive Income***(In thousands, unaudited)*

	Three Months Ended November 30,	
	2013	2012
Net earnings	\$ 22,997	\$ 12,561
Other comprehensive income (loss)		
Translation adjustment	2,512	2,135
Reclassification of derivative financial instruments recognized in net earnings (loss) <sup>1</sup>	137	(616)
Unrealized gain on derivative financial instruments <sup>2</sup>	762	1,299
Other (net of tax effect)	(1)	
	3,410	2,818
Comprehensive income	26,407	15,379
Comprehensive income attributable to noncontrolling interest	(7,650)	(2,179)
Comprehensive income attributable to Greenbrier	\$ 18,757	\$ 13,200

<sup>1</sup> Net of tax of effect of \$0.1 million and \$0.04 million for the three months ended November 30, 2013 and 2012.

<sup>2</sup> Net of tax of effect of \$0.2 million and \$0.3 million for the three months ended November 30, 2013 and 2012.

*The accompanying notes are an integral part of these financial statements*

**THE GREENBRIER COMPANIES, INC.****Consolidated Statements of Equity***(In thousands, unaudited)*

	Attributable to Greenbrier				Total Attributable to Greenbrier	Attributable to Noncontrolling Interest	Total Equity
	Common Stock Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)			
<b>Balance September 1, 2013</b>	28,084	\$ 259,864	\$ 174,842	\$ (6,504)	\$ 428,202	\$ 28,625	\$ 456,827
Net earnings			15,388		15,388	7,609	22,997
Other comprehensive income, net				3,369	3,369	41	3,410
Noncontrolling interest adjustments						169	169
Investment by joint venture partner						419	419
Joint venture partner distribution declared						(1,603)	(1,603)
Restricted stock cancellations	(13)	(376)			(376)		(376)
Unamortized restricted stock		376			376		376
Restricted stock amortization		1,359			1,359		1,359
Excess tax benefit from restricted stock awards		152			152		152
Repurchase of stock	(28)	(871)			(871)		(871)
<b>Balance November 30, 2013</b>	28,043	\$ 260,504	\$ 190,230	\$ (3,135)	\$ 447,599	\$ 35,260	\$ 482,859

	Attributable to Greenbrier				Total Attributable to Greenbrier	Attributable to Noncontrolling Interest	Total Equity
	Common Stock Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)			
<b>Balance September 1, 2012</b>	27,143	\$ 252,256	\$ 185,890	\$ (6,369)	\$ 431,777	\$ 21,868	\$ 453,645
Net earnings			10,427		10,427	2,134	12,561
Other comprehensive income, net				2,773	2,773	45	2,818
Noncontrolling interest adjustments						(1,805)	(1,805)
Investment by joint venture partner						1,182	1,182
Restricted stock amortization		1,886			1,886		1,886
Excess tax benefit from restricted stock awards		217			217		217
Warrants exercised	52						
<b>Balance November 30, 2012</b>	27,195	\$ 254,359	\$ 196,317	\$ (3,596)	\$ 447,080	\$ 23,424	\$ 470,504

*The accompanying notes are an integral part of these financial statements*

**THE GREENBRIER COMPANIES, INC.****Consolidated Statements of Cash Flows***(In thousands, unaudited)*

	Three Months Ended November 30,	
	2013	2012
<b>Cash flows from operating activities</b>		
Net earnings	\$ 22,997	\$ 12,561
Adjustments to reconcile net earnings to net cash used in operating activities:		
Deferred income taxes	286	940
Depreciation and amortization	10,897	10,923
Net gain on disposition of equipment	(3,651)	(1,408)
Accretion of debt discount		849
Stock based compensation expense	1,359	1,886
Other	527	(1,705)
Decrease (increase) in assets:		
Accounts receivable	(19,305)	(15,515)
Inventories	(13,178)	(41,465)
Leased railcars for syndication	9,853	43,501
Other	2,069	945
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(25,137)	(48,036)
Deferred revenue	(172)	11,039
Net cash used in operating activities	(13,455)	(25,485)
<b>Cash flows from investing activities</b>		
Proceeds from sales of assets	14,051	10,086
Capital expenditures	(6,542)	(25,141)
Increase in restricted cash	(168)	(1,045)
Investment in and net advances to unconsolidated affiliates	(1,253)	(160)
Net cash provided by (used in) investing activities	6,088	(16,260)
<b>Cash flows from financing activities</b>		
Net change in revolving notes with maturities of 90 days or less		27,935
Proceeds from revolving notes with maturities longer than 90 days	7,474	9,195
Repayments of revolving notes with maturities longer than 90 days	(16,878)	(8,941)
Repayments of notes payable	(1,223)	(1,230)
Investment by joint venture partner	419	1,182
Repurchase of stock	(871)	
Excess tax benefit from restricted stock awards	152	217
Net cash provided by (used in) financing activities	(10,927)	28,358
Effect of exchange rate changes	2,085	1,100
<b>Decrease in cash and cash equivalents</b>	(16,209)	(12,287)
<b>Cash and cash equivalents</b>		
Beginning of period	97,435	53,571
End of period	\$ 81,226	\$ 41,284
<b>Cash paid during the period for</b>		

Edgar Filing: GREENBRIER COMPANIES INC - Form 10-Q

Interest	\$ 5,469	\$ 9,362
Income taxes, net	\$ 17,694	\$ 6,845
<b>Non-cash activity</b>		
Transfer of Inventories to Leased railcars for syndication	\$ 2,740	\$

*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 November 30, 2013, for the three months ended November 30, 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 months ended November 30, 2013 are not necessarily indicative of the results to be expected for the entire year ending August 31, 2014.

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 2013 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 the first quarter of 2014, the Company adopted an accounting standard update regarding the testing of indefinite-lived intangible assets for impairment. This update was 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 impacted testing steps only and therefore the adoption did not have an impact on the Company's Consolidated Financial Statements.

In the first quarter of 2014, the Company adopted an accounting standard update which amended prior reporting requirements with respect to comprehensive income by requiring additional disclosures by component about the amounts reclassified out of accumulated other comprehensive loss. The adoption of this accounting standard update did require additional disclosures, but did not have an impact on the Company's financial position, results of operations or cash flows.

**Share Repurchase Program** In October 2013, the Board of Directors authorized the Company to repurchase up to \$50 million of the Company's common stock. Under the share repurchase program, shares of common stock may be purchased on the open market or through privately negotiated transactions from time-to-time. The timing and amount of purchases will be based upon market conditions, securities law limitations and other factors. The share repurchase program does not obligate the Company to acquire any specific number of shares in any period. The share repurchase program expires April 30, 2015, but may be modified, suspended or discontinued at any time without prior notice. During the three months ended November 30, 2013, the Company repurchased a total of 28,610 shares for approximately \$0.9 million. Subsequent to November 30, 2013 and through January 6, 2014, the Company purchased an additional 81,794 shares for approximately \$2.5 million.

**Note 2 Restructuring**

During 2013, the Company implemented a restructuring plan to sell or close certain Wheels, Repair & Parts facilities to enhance margins and improve capital efficiency and anticipates completing the restructuring plan during 2014. Restructuring charges related to this plan, associated with the Company's Wheels, Repair & Parts segment, totaled \$0.9 million for the three months ended November 30, 2013 and were included in the Consolidated Statement of Income. The Company anticipates that there will be additional restructuring charges in 2014 as the Company completes the plan.

<i>(In thousands)</i>	Accrual at August 31, 2013	Charged to Expense	Paid or Settled	Accrual at November 30, 2013
Employee termination costs	\$ 1,409	\$ 843	\$ 1,952	\$ 300
Contract termination costs				
Other costs	299	36	130	205
	\$ 1,708	\$ 879	\$ 2,082	\$ 505

**Note 3 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:

<i>(In thousands)</i>	November 30, 2013	August 31, 2013
Manufacturing supplies and raw materials	\$ 203,165	\$ 217,182
Work-in-process	51,087	48,990
Finished goods	78,924	54,839
Excess and obsolete adjustment	(4,941)	(4,228)
	\$ 328,235	\$ 316,783

**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:

<i>(In thousands)</i>	November 30, 2013	August 31, 2013
Intangible assets subject to amortization:		
Customer relationships	\$ 66,288	\$ 66,288
Accumulated amortization	(28,551)	(26,964)
Other intangibles	5,046	4,967
Accumulated amortization	(4,279)	(4,162)
	38,504	40,129
Intangible assets not subject to amortization	912	912
Investment in unconsolidated affiliates	11,985	10,739
Prepaid and other assets	8,691	10,601
Nonqualified savings plan investments	8,202	7,687
Debt issuance costs, net	7,258	7,802
Assets held for sale	503	1,101
Total intangible and other assets	\$ 76,055	\$ 78,971

Amortization expense for the three months ended November 30, 2013 and 2012 was \$1.7 million and \$1.3 million. Amortization expense for the years ending August 31, 2014, 2015, 2016, 2017 and 2018 is expected to be \$4.5 million, \$3.8 million, \$3.8 million, \$3.7 million and \$3.4 million.

**THE GREENBRIER COMPANIES, INC.****Note 5 Revolving Notes**

Senior secured credit facilities, consisting of three components, aggregated to \$359.8 million as of November 30, 2013.

As of November 30, 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% or 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 November 30, 2013, lines of credit totaling \$19.8 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 2014 through June 2015.

As of November 30, 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%. Advances under this facility may be drawn through December 2013 and bear interest at LIBOR plus 2.5%. This line of credit is currently in the process of being renewed. The Mexican joint venture was able to draw amounts available under this facility through December 2013 and the line of credit is currently in the process of being renewed. Borrowings outstanding under this facility are due from January 2014 to May 2014. 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 November 30, 2013, outstanding borrowings under the senior secured credit facilities consisted of \$6.2 million in letters of credit under the North American credit facility and \$38.8 million outstanding under the Mexican joint venture credit facilities.

As of August 31, 2013, outstanding borrowings under the senior secured credit facilities consisted of \$6.8 million in letters of credit under the North American credit facility and \$48.2 million outstanding under the Mexican joint venture credit facilities.

**Note 6 Accounts Payable and Accrued Liabilities**

<i>(In thousands)</i>	November 30, 2013	August 31, 2013
Trade payables	\$ 161,845	\$ 163,490
Other accrued liabilities	58,809	70,691
Accrued payroll and related liabilities	40,163	42,047
Accrued maintenance	12,480	11,420
Accrued warranty	11,479	12,128
Income taxes payable	4,041	13,094
Other	4,224	3,068
	<b>\$ 293,041</b>	<b>\$ 315,938</b>



**Note 7 Warranty Accruals**

Warranty costs are estimated and charged to operations to cover a defined warranty period. The estimated warranty cost is based on the history of warranty claims for each particular product type. For new product types without a warranty history, preliminary estimates are based on historical information for similar product types. The warranty accruals, included in Accounts payable and accrued liabilities on the Consolidated Balance Sheets, are reviewed periodically and updated based on warranty trends and expirations of warranty periods.

Warranty accrual activity:

(In thousands)	Three Months Ended November 30,	
	2013	2012
Balance at beginning of period	\$ 12,128	\$ 9,221
Charged to cost of revenue, net	622	1,585
Payments	(1,472)	(801)
Currency translation effect	201	97
Balance at end of period	\$ 11,479	\$ 10,102

**Note 8 Accumulated Other Comprehensive Loss**

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

(In thousands)	Unrealized Income (Loss) on Derivative Financial Instruments	Foreign Currency Translation Adjustment	Other	Accumulated Other Comprehensive Income (Loss)
Balance, August 31, 2013	\$ (1,053)	\$ (4,923)	\$ (528)	\$ (6,504)
Other comprehensive income (loss) before reclassifications	762	2,471	(1)	3,232
Amounts reclassified from accumulated other comprehensive income (loss)	137			137
Balance, November 30, 2013	\$ (154)	\$ (2,452)	\$ (529)	\$ (3,135)

Details about Accumulated other comprehensive loss components	Amounts reclassified from Accumulated other comprehensive loss	Affected line in the statement where Net earnings is presented
Gain (loss) on derivative financial instruments:		
Foreign exchange contracts	\$ (150)	Revenue
Interest rate swap contracts	419	Interest and foreign exchange
	269	Total before tax
	(132)	Tax expense

\$ 137 Net of tax

**Note 9 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,	
	2013	2012
Weighted average basic common shares outstanding <sup>(1)</sup>	28,417	27,144
Dilutive effect of warrants		802
Dilutive effect of convertible notes <sup>(2)</sup>	6,045	6,045
Weighted average diluted common shares outstanding	34,462	33,991

(1) Restricted stock grants and restricted stock units, including some grants subject to certain performance criteria, are included in weighted average basic common shares outstanding when the Company is in a net earnings position.

(2) The dilutive effect of the 2018 Convertible notes are included 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 months ended November 30, 2013 and 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.

	Three Months Ended November 30,	
	2013	2012
Net earnings attributable to Greenbrier	\$ 15,388	\$ 10,427
Add back:		
Interest and debt issuance costs on the 2018 Convertible notes, net of tax	1,416	1,430
Earnings before interest and debt issuance costs on convertible notes	\$ 16,804	\$ 11,857
Weighted average diluted common shares outstanding	34,462	33,991
Diluted earnings per share <sup>(1)</sup>	\$ 0.49	\$ 0.35

(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 10 Stock Based Compensation**

## Edgar Filing: GREENBRIER COMPANIES INC - Form 10-Q

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. Awards are expensed upon grant when the recipient's eligible retirement date precedes the grant date.

For the three months ended November 30, 2013, \$1.4 million in compensation expense was recorded for restricted stock and restricted stock unit grants. For the three months ended November 30, 2012, \$1.9 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 Income.

**Note 11 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 income or loss.

At November 30, 2013 exchange rates, forward exchange contracts for the purchase of Polish Zloty and the sale of Euro aggregated \$58.1 million. Adjusting the foreign currency exchange contracts to the fair value of the cash flow hedges at November 30, 2013 resulted in an unrealized pre-tax gain of \$0.4 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 when there is a gain, on the Consolidated Balance Sheets. As the contracts mature at various dates through June 2015, 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 in Interest and foreign exchange.

At November 30, 2013, an interest rate swap agreement had a notional amount of \$41.2 million and matures March 2014. The fair value of this cash flow hedge at November 30, 2013 resulted in an unrealized pre-tax loss of \$0.8 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 Sheets. 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 November 30, 2013 interest rates, approximately \$0.8 million would be reclassified to interest expense in the next 12 months.

**Fair Values of Derivative Instruments**

	Asset Derivatives			Liability Derivatives		
	Balance sheet location	November 30, 2013 Fair Value	August 31, 2013 Fair Value	Balance sheet location	November 30, 2013 Fair Value	August 31, 2013 Fair Value
<i>(In thousands)</i>						
<b>Derivatives designated as hedging instruments</b>						
Foreign forward exchange contracts	Accounts receivable	\$ 770	\$ 819	Accounts payable and accrued liabilities	\$ 143	\$ 342
Interest rate swap contracts	Other assets			Accounts payable and accrued liabilities	829	1,250
		\$ 770	\$ 819		\$ 972	\$ 1,592
<b>Derivatives not designated as hedging instruments</b>						
Foreign forward exchange contracts	Accounts receivable	\$ 365	\$ 223	Accounts payable and accrued liabilities	\$	\$ 40

Derivatives in cash flow hedging relationships	Location of gain recognized in income on derivative	Gain recognized in income on derivative	
		Three months ended November 30,	
		2013	2012
Foreign forward exchange contract	Interest and foreign exchange	\$ 74	\$ 155

16

**THE GREENBRIER COMPANIES, INC.****Note 12 Segment Information**

Greenbrier operates in three reportable segments: Manufacturing; Wheels, Repair & 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 2013 Annual Report on Form 10-K. Performance for each of these segments is evaluated based on earnings (loss) from operations. Corporate includes selling and administrative costs not directly related to goods and services and certain costs that are intertwined among segments due to the Company's integrated business. Greenbrier's management does not allocate Interest and foreign exchange or Income tax benefit (expense) for either external or internal reporting purposes. Intersegment sales and transfers are valued as if the sales or transfers were to third parties. Related revenue and margin are eliminated in consolidation and therefore are not included in consolidated results in the Company's Consolidated Financial Statements.

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

For the three months ended November 30, 2013:

	External	Revenue Intersegment	Total	External	Earnings (loss) from operations Intersegment	Total
Manufacturing	\$ 359,473	\$	\$ 359,473	\$ 38,314	\$	\$ 38,314
Wheels, Repair & Parts	113,401	1,653	115,054	(374)	31	(343)
Leasing & Services	17,481	2,869	20,350	8,670	2,869	11,539
Eliminations		(4,522)	(4,522)		(2,900)	(2,900)
Corporate				(8,388)		(8,388)
	\$ 490,355	\$	\$ 490,355	\$ 38,222	\$	\$ 38,222

For the three months ended November 30, 2012:

	External	Revenue Intersegment	Total	External	Earnings (loss) from operations Intersegment	Total
Manufacturing	\$ 285,368	\$ 6,949	\$ 292,317	\$ 15,502	\$ (45)	\$ 15,457
Wheels, Repair & Parts	112,100	5,386	117,486	6,137	(63)	6,074
Leasing & Services	17,906	4,392	22,298	8,701	4,392	13,093
Eliminations		(16,727)	(16,727)		(4,284)	(4,284)
Corporate				(7,253)		(7,253)
	\$ 415,374	\$	\$ 415,374	\$ 23,087	\$	\$ 23,087

	Total assets	
	November 30, 2013	August 31, 2013
Manufacturing	\$ 461,096	\$ 401,630
Wheels, Repair & Parts	304,249	318,483
Leasing & Services	427,023	463,381
Unallocated	90,210	106,247
	\$ 1,282,578	\$ 1,289,741

**Note 13 Commitments and Contingencies**

The Company's Portland, Oregon manufacturing facility is located adjacent to the Willamette River. The Company has entered into a Voluntary Cleanup Agreement with the Oregon Department of Environmental Quality ( DEQ ) 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 into the environment. The Company is also conducting groundwater remediation relating to a historical spill on the property which preceded its ownership.

In December 2000, the U.S. Environmental Protection Agency (EPA) has classified portions of the river bed of the Portland Harbor, including the portion fronting the Company's manufacturing facility, as a federal National Priority List or Superfund site due to sediment contamination (the Portland Harbor Site ). The Company and more than 140 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 (the Lower Willamette Group or LWG ), have signed an Administrative Order on Consent ( AOC ) 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 EPA-mandated RI/FS is being conducted by the LWG and has cost over \$100 million during a 13-year period. The Company has agreed to initially bear a percentage of the total costs incurred by the LWG in connection with the investigation. The Company's aggregate expenditure has not been material during the 13-year period. Some or all of any such outlay may be recoverable from other responsible parties. The investigation is expected to continue for at least one more year.

Eighty-three parties, including the State of Oregon and the federal government, have entered into a non-judicial mediation process to try to allocate costs associated with the Portland Harbor site. Approximately 110 additional parties have signed tolling agreements related to such allocations. On April 23, 2009, the Company and the other AOC signatories filed suit against 69 other parties due to a possible limitations period for some such claims; Arkema Inc. et al v. A & C Foundry Products, Inc. et al, US District Court, District of Oregon, Case #3:09-cv-453-PK. All but 12 of these parties elected to sign tolling agreements and be dismissed without prejudice, and the case has now been stayed by the court, pending completion of the RI/FS. Although, as described below, the draft feasibility study has been submitted, the RI/FS will not be complete until the EPA approves it, which is not likely to occur until at least 2015.

A draft of the remedial investigation study was submitted to the EPA on October 27, 2009. The draft feasibility study was submitted to the EPA on March 30, 2012. The draft feasibility study evaluates several alternative cleanup approaches. The approaches submitted would take from 2 to 28 years with costs ranging from \$169 million to \$1.8 billion for cleanup of the entire Portland Harbor Site, depending primarily on the selected remedial action levels. The draft feasibility study suggests costs ranging from \$9 million to \$163 million for cleanup of the area of the Willamette River adjacent to the Company's Portland, Oregon manufacturing facility, depending primarily on the selected remedial action level.

The draft feasibility study does not address responsibility for the costs of clean-up or allocate such costs among the potentially responsible parties, or define precise boundaries for the cleanup. Responsibility for funding and implementing the EPA's selected cleanup will be determined after the issuance of the Record of Decision. Based on the investigation to date, the Company believes that it did not contribute in any material way to the damage of natural resources in the Portland Harbor Site and that the damage in the area of the Portland Harbor Site adjacent to its property precedes its ownership of the Portland, Oregon manufacturing facility. Because these environmental investigations are still underway, sufficient information is currently not available to determine the Company's liability, if any, for the cost of any required remediation of the Portland Harbor Site or to estimate a range of potential loss. Based on the results of the pending investigations and future assessments of natural resource damages, the Company 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 Consolidated Financial Statements, or the value of its Portland property.



*THE GREENBRIER COMPANIES, INC.*

We have also signed an Order on Consent with DEQ to finalize the investigation of potential onsite sources of contamination that may have a release pathway to the Willamette River. Interim precautionary measures are also required in the order and those are in the process of being completed. Our aggregate expenditure has not been material during the 13-year period. Some or all of any such outlay may be recoverable from other responsible parties.

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. 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.

In accordance with customary business practices in Europe, the Company has \$2.7 million in bank and third party warranty guarantee facilities, all of which have been utilized as of November 30, 2013. To date no amounts have been drawn under these guarantee facilities.

As of November 30, 2013, the Mexican joint venture had \$40.8 million of third party debt outstanding, for which the Company has guaranteed approximately \$32.9 million.

As of November 30, 2013, the Company had outstanding letters of credit aggregating \$6.2 million associated with facility leases and workers compensation insurance.

**Note 14 Fair Value Measures**

Certain assets and liabilities are reported at fair value on either a recurring or nonrecurring basis. Fair value, for this disclosure, is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, under a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

- Level 1 - observable inputs such as unadjusted quoted prices in active markets for identical instruments;
- Level 2 - inputs, other than the quoted market prices in active markets for similar instruments, which are observable, either directly or indirectly; and
- Level 3 - unobservable inputs for which there is little or no market data available, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value on a recurring basis as of November 30, 2013 are:

<i>(In thousands)</i>	Total	Level 1	Level 2 <sup>(1)</sup>	Level 3
<b>Assets:</b>				
Derivative financial instruments	\$ 1,135	\$	\$ 1,135	\$
Nonqualified savings plan				
investments	8,202	8,202		
Cash equivalents	1,005	1,005		
	\$ 10,342	\$ 9,207	\$ 1,135	\$
<b>Liabilities:</b>				
Derivative financial instruments	\$ 972	\$	\$ 972	\$

- (1) Level 2 assets and liabilities include derivative financial instruments which are valued based on observable inputs. See Note 11 Derivative Instruments for further discussion.

Assets and liabilities measured at fair value on a recurring basis as of August 31, 2013 are:

<i>(In thousands)</i>	Total	Level 1	Level 2	Level 3
<b>Assets:</b>				
Derivative financial instruments	\$ 1,042	\$	\$ 1,042	\$
Nonqualified savings plan				
investments	7,687	7,687		
Cash equivalents	1,004	1,004		
	\$ 9,733	\$ 8,691	\$ 1,042	\$
<b>Liabilities:</b>				
Derivative financial instruments	\$ 1,632	\$	\$ 1,632	\$

**Note 15 Variable Interest Entities**

March 2012 Agreement

In March 2012, the Company purchased a 1% interest in three trusts (the Trusts ) which are 99% owned by a third party. As of August 31, 2013, the Company had completed the sale of railcars to the Trusts for an aggregate value of \$99.6 million.

As of November 30, 2013, the carrying amount of the Company's investment in the Trusts is \$1.0 million, which is recorded in Intangibles and other assets, net on the Consolidated Balance Sheets.

May 2013 Agreement

In May 2013, the Company purchased an 8% interest in an entity that owns a portfolio of railcar assets that are leased to third parties, the remaining 92% is owned by a third party. In the first quarter of 2014, the Company sold 204 railcars to this entity for \$16.0 million resulting in a total of 468 railcars manufactured by the Company and subject to operating leases sold for \$39.2 million to this entity as of November 30, 2013.

As of November 30, 2013, the carrying amount of the Company's investment in this entity is \$3.1 million which is recorded in Intangibles and other assets, net on the Consolidated Balance Sheets.

**Note 16 Guarantor/Non-Guarantor**

The convertible senior notes due 2026 (the Notes) issued on May 22, 2006 are fully and unconditionally and jointly and severally guaranteed by substantially all of Greenbrier's material 100% owned U.S. 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 Holding Corp., Meridian Rail Acquisition Corp., Meridian Rail Mexico City Corp., Brandon Railroad LLC, Gunderson Specialty Products, LLC and Greenbrier Railcar Leasing, Inc. No other subsidiaries guarantee the Notes including Greenbrier Union Holdings I LLC, Greenbrier MUL Holdings I LLC, Greenbrier Leasing Limited, Greenbrier Europe B.V., Greenbrier Germany GmbH, WagonySwidnica S.A., Zaklad Naprawczy Taboru Kolejowego Olawa sp. z o.o., Zaklad Transportu Kolejowego SIARKOPOL sp. z o.o., Gunderson-Concarril, S.A. de C.V., Greenbrier Rail Services Canada, Inc., Mexico Meridianrail Services, S.A. de C.V., Greenbrier Railcar Services - Tierra Blanca S.A. de C.V., YSD Doors, S.A. de C.V., Gunderson-Gimsa S.A. de C.V., Greenbrier, S.A. de C.V. and Greenbrier-Gimsa, LLC.

The following represents the supplemental consolidating condensed financial information of Greenbrier and its guarantor and non-guarantor subsidiaries, as of November 30, 2013 and August 31, 2013, for the three months ended November 30, 2013 and 2012. 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 GREENBRIER COMPANIES, INC.**

The Greenbrier Companies, Inc.

Condensed Consolidating Balance Sheet

November 30, 2013

(In thousands, unaudited)

	Parent	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>					
Cash and cash equivalents	\$ 46,462	\$ 71	\$ 34,693	\$	\$ 81,226
Restricted cash		2,074	6,901		8,975
Accounts receivable, net	653	125,992	47,978	122	174,745
Inventories		152,244	176,094	(103)	328,235
Leased railcars for syndication		61,796		(514)	61,282
Equipment on operating leases, net		291,892	3,815	(2,416)	293,291
Property, plant and equipment, net	4,469	99,932	96,952		201,353
Goodwill		57,416			57,416
Intangibles and other assets, net	743,318	114,966	15,116	(797,345)	76,055
	\$ 794,902	\$ 906,383	\$ 381,549	\$ (800,256)	\$ 1,282,578
<b>Liabilities and Equity</b>					
Revolving notes	\$	\$	\$ 38,805	\$	\$ 38,805
Accounts payable and accrued					
liabilities	90,196	51,215	151,630		293,041
Deferred income taxes	12,135	83,674		(9,308)	86,501
Deferred revenue	116	8,201	345	44	8,706
Notes payable	244,856	125,842	1,968		372,666
Total equity - Greenbrier	447,599	637,451	154,366	(791,817)	447,599
Noncontrolling interest			34,435	825	35,260
<b>Total equity</b>	447,599	637,451	188,801	(790,992)	482,859
	\$ 794,902	\$ 906,383	\$ 381,549	\$ (800,256)	\$ 1,282,578

**THE GREENBRIER COMPANIES, INC.**

The Greenbrier Companies, Inc.

Condensed Consolidating Statement of Income

For the three months ended November 30, 2013

*(In thousands, unaudited)*

	Parent	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Revenue</b>					
Manufacturing	\$	\$ 186,004	\$ 312,311	\$ (138,842)	\$ 359,473
Wheels, Repair & Parts		114,721		(1,320)	113,401
Leasing & Services	390	16,935		156	17,481
	390	317,660	312,311	(140,006)	490,355
<b>Cost of revenue</b>					
Manufacturing		167,537	282,523	(138,620)	311,440
Wheels, Repair & Parts		109,287		(1,312)	107,975
Leasing & Services		9,402		(21)	9,381
		286,226	282,523	(139,953)	428,796
<b>Margin</b>	390	31,434	29,788	(53)	61,559
Selling and administrative	8,600	9,213	8,147	149	26,109
Net gain on disposition of equipment		(3,174)	(343)	(134)	(3,651)
Restructuring charges		879			879
<b>Earnings (loss) from operations</b>	(8,210)	24,516	21,984	(68)	38,222
<b>Other costs</b>					
Interest and foreign exchange	2,934	804	1,006		4,744
Earnings (loss) before income taxes					
and earnings (loss) from unconsolidated affiliates	(11,144)	23,712	20,978	(68)	33,478
Income tax (expense) benefit	3,154	(9,453)	(4,251)	28	(10,522)
Earnings (loss) before earnings (loss) from unconsolidated affiliates	(7,990)	14,259	16,727	(40)	22,956
Earnings (loss) from unconsolidated affiliates	23,378	802	32	(24,171)	41
Net earnings (loss)	15,388	15,061	16,759	(24,211)	22,997
Net (earnings) loss attributable to noncontrolling interest			(7,263)	(346)	(7,609)
<b>Net earnings (loss) attributable to Greenbrier</b>	\$ 15,388	\$ 15,061	\$ 9,496	\$ (24,557)	\$ 15,388

**THE GREENBRIER COMPANIES, INC.**

The Greenbrier Companies, Inc.

## Consolidating Statement of Comprehensive Income (Loss)

For the three months ended November 30, 2013

<i>(In thousands)</i>	Parent	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net earnings (loss)	\$ 15,388	\$ 15,061	\$ 16,759	\$ (24,211)	\$ 22,997
Other comprehensive income (loss)					
Translation adjustment		45	2,467		2,512
Reclassification of					
derivative financial					
instruments recognized in					
net earnings (loss)		259	(122)		137
Unrealized gain on					
derivative financial					
instruments		1	761		762
Other (net of tax effect)			(1)		(1)
		305	3,105		3,410
Comprehensive income (loss)	15,388	15,366	19,864	(24,211)	26,407
Comprehensive (income) loss attributable to noncontrolling interest			(7,304)	(346)	(7,650)
Comprehensive income (loss) attributable to Greenbrier	\$ 15,388	\$ 15,366	\$ 12,560	\$ (24,557)	\$ 18,757

**THE GREENBRIER COMPANIES, INC.**

The Greenbrier Companies, Inc.

## Condensed Consolidating Statement of Cash Flows

For the three months ended November 30, 2013

*(In thousands, unaudited)*

	Parent	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Cash flows from operating activities:</b>					
Net earnings (loss)	\$ 15,388	\$ 15,061	\$ 16,759	\$ (24,211)	\$ 22,997
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:					
Deferred income taxes	4,041	(2,935)	(792)	(28)	286
Depreciation and amortization	494	7,519	2,905	(21)	10,897
Net gain on disposition of equipment		(3,174)	(343)	(134)	(3,651)
Stock based compensation expense	1,359				1,359
Other		341	17	169	527
Decrease (increase) in assets:					
Accounts receivable	36,970	91,276	7,026	(154,577)	(19,305)
Inventories		(3,997)	(9,189)	8	(13,178)
Leased railcars for syndication		9,686		167	9,853
Other	(60)	1,742	2,060	(1,673)	2,069
Increase (decrease) in liabilities:					
Accounts payable and accrued liabilities	(14,200)	(159,156)	(6,231)	154,450	(25,137)
Deferred revenue	(39)	(393)	258	2	(172)
Net cash provided by (used in) operating activities	43,953	(44,030)	12,470	(25,848)	(13,455)
<b>Cash flows from investing activities:</b>					
Proceeds from sales of assets		13,592	459		14,051
Capital expenditures	(992)	(2,608)	(2,942)		(6,542)
Decrease (increase) in restricted cash		(167)	(1)		(168)
Investment in and net advances to unconsolidated affiliates	(25,051)	(797)	(1,253)	25,848	(1,253)
Net cash provided by (used in) investing activities	(26,043)	10,020	(3,737)	25,848	6,088
<b>Cash flows from financing activities:</b>					
Proceeds from revolving notes with maturities longer than 90 days			7,474		7,474
Repayment of revolving notes with maturities longer than 90 days			(16,878)		(16,878)
Intercompany advances	(33,902)	34,562	(660)		
Repayments of notes payable		(1,021)	(202)		(1,223)
Investment by joint venture partner			419		419
Repurchase of stock	(871)				(871)
Excess tax benefit from restricted stock awards	152				152
Net cash provided by (used in) financing activities	(34,621)	33,541	(9,847)		(10,927)



Edgar Filing: GREENBRIER COMPANIES INC - Form 10-Q

Effect of exchange rate changes		515	1,570	2,085
Increase (decrease) in cash and cash equivalents	(16,711)	46	456	(16,209)
<b>Cash and cash equivalents</b>				
Beginning of period	63,173	25	34,237	97,435
End of period	\$ 46,462	\$ 71	\$ 34,693	\$ 81,226

**THE GREENBRIER COMPANIES, INC.**

The Greenbrier Companies, Inc.

Condensed Consolidating Balance Sheet

August 31, 2013

(In thousands)

	Parent	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>					
Cash and cash equivalents	\$ 63,173	\$ 25	\$ 34,237	\$	\$ 97,435
Restricted cash		1,907	6,900		8,807
Accounts receivable, net	37,623	217,268	54,412	(154,455)	154,848
Inventories		151,023	165,855	(95)	316,783
Leased railcars for syndication		68,827		(347)	68,480
Equipment on operating leases, net		304,234	3,809	(2,575)	305,468
Property, plant and equipment, net	2,112	103,315	96,106		201,533
Goodwill		57,416			57,416
Intangibles and other assets, net	716,029	118,541	13,515	(769,114)	78,971
	\$ 818,937	\$ 1,022,556	\$ 374,834	\$ (926,586)	\$ 1,289,741
<b>Liabilities and Equity</b>					
Revolving notes	\$	\$	\$ 48,209	\$	\$ 48,209
Accounts payable and accrued liabilities	137,631	178,662	154,096	(154,451)	315,938
Deferred income taxes	8,093	86,610		(8,663)	86,040
Deferred revenue	155	8,546	98	39	8,838
Notes payable	244,856	126,863	2,170		373,889
Total equity - Greenbrier	428,202	621,875	141,945	(763,820)	428,202
Noncontrolling interest			28,316	309	28,625
<b>Total equity</b>	428,202	621,875	170,261	(763,511)	456,827
	\$ 818,937	\$ 1,022,556	\$ 374,834	\$ (926,586)	\$ 1,289,741

**THE GREENBRIER COMPANIES, INC.**

The Greenbrier Companies, Inc.

Condensed Consolidating Statement of Income

For the three months ended November 30, 2012

*(In thousands, unaudited)*

	Parent	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Revenue</b>					
Manufacturing	\$	\$ 133,511	\$ 229,508	\$ (77,651)	\$ 285,368
Wheels, Repair & Parts		116,224		(4,124)	112,100
Leasing & Services	91	17,823		(8)	17,906
	91	267,558	229,508	(81,783)	415,374
<b>Cost of revenue</b>					
Manufacturing		124,385	215,170	(81,063)	258,492
Wheels, Repair & Parts		105,659		(4,183)	101,476
Leasing & Services		7,650		(23)	7,627
		237,694	215,170	(85,269)	367,595
<b>Margin</b>	91	29,864	14,338	3,486	47,779
Selling and administrative	9,786	8,131	8,183		26,100
Gain on disposition of equipment		(1,044)		(364)	(1,408)
<b>Earnings (loss) from operations</b>	(9,695)	22,777	6,155	3,850	23,087
<b>Other costs</b>					
Interest and foreign exchange	3,616	902	1,498	(116)	5,900
Earnings (loss) before income taxes and earnings (loss) from unconsolidated affiliates	(13,311)	21,875	4,657	3,966	17,187
Income tax (expense) benefit	5,769	(8,081)	(1,423)	(851)	(4,586)
Earnings (loss) before earnings (loss) from unconsolidated affiliates	(7,542)	13,794	3,234	3,115	12,601
Earnings (loss) from unconsolidated affiliates	17,969	36	9	(18,054)	(40)
<b>Net earnings (loss)</b>	10,427	13,830	3,243	(14,939)	12,561
Net (earnings) loss attributable to noncontrolling interest			(535)	(1,599)	(2,134)
<b>Net earnings (loss) attributable to Greenbrier</b>	\$ 10,427	\$ 13,830	\$ 2,708	\$ (16,538)	\$ 10,427

**THE GREENBRIER COMPANIES, INC.**

The Greenbrier Companies, Inc.

Consolidating Statement of Comprehensive Income (Loss)

For the three months ended November 30, 2012

<i>(In thousands)</i>	Parent	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net earnings (loss)	\$ 10,427	\$ 13,830	\$ 3,243	\$ (14,939)	\$ 12,561
Other comprehensive income (loss)					
Translation adjustment		167	1,968		2,135
Reclassification of derivative financial instruments recognized in net earnings (loss)		259	(875)		(616)
Unrealized loss on derivative financial instruments		(17)	1,316		1,299
		409	2,409		2,818
Comprehensive income (loss)	10,427	14,239	5,652	(14,939)	15,379
Comprehensive (income) loss attributable to noncontrolling interest			(580)	(1,599)	(2,179)
Comprehensive income (loss) attributable to Greenbrier	\$ 10,427	\$ 14,239	\$ 5,072	\$ (16,538)	\$ 13,200

**THE GREENBRIER COMPANIES, INC.**

The Greenbrier Companies, Inc.

## Condensed Consolidating Statement of Cash Flows

For the three months ended November 30, 2012

	Parent	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Cash flows from operating activities:</b>					
Net earnings (loss)	\$ 10,427	\$ 13,830	\$ 3,243	\$ (14,939)	\$ 12,561
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:					
Deferred income taxes	2,481	(1,656)	(736)	851	940
Depreciation and amortization	576	7,922	2,448	(23)	10,923
Gain on sales of leased equipment		(1,044)		(364)	(1,408)
Accretion of debt discount	849				849
Stock based compensation	1,886				1,886
Other		98	1	(1,804)	(1,705)
Decrease (increase) in assets:					
Accounts receivable	915	(18,193)	1,676	87	(15,515)
Inventories		(39,095)	(2,384)	14	(41,465)
Leased railcars for syndication		45,243		(1,742)	43,501
Other	212	(141)	3,318	(2,444)	945
Increase (decrease) in liabilities:					
Accounts payable and accrued liabilities	(27,865)	(24,450)	4,277	2	(48,036)
Deferred revenue	(39)	11,506	(430)	2	11,039
Net cash provided by (used in) operating activities	(10,558)	(5,980)	11,413	(20,360)	(25,485)
<b>Cash flows from investing activities:</b>					
Proceeds from sales of equipment		10,086			10,086
Investment in and net advances to unconsolidated affiliates	(20,413)	(85)	(160)	20,498	(160)
Intercompany advances	4			(4)	
Decrease (increase) in restricted cash		57	(1,102)		(1,045)
Capital expenditures	(49)	(16,676)	(8,278)	(138)	(25,141)
Net cash provided by (used in) investing activities	(20,458)	(6,618)	(9,540)	20,356	(16,260)
<b>Cash flows from financing activities:</b>					
Net changes in revolving notes with maturities of 90 days or less	41,750		(13,815)		27,935
Proceeds from revolving notes with maturities longer than 90 days			9,195		9,195
Repayment of revolving notes with maturities longer than 90 days			(8,941)		(8,941)
Intercompany advances	(11,688)	12,944	(1,260)	4	
Repayments of notes payable		(1,028)	(202)		(1,230)
Investment by joint venture partner			1,182		1,182
Excess tax benefit from restricted stock awards	217				217
Net cash provided by (used in) financing activities	30,279	11,916	(13,841)	4	28,358

Edgar Filing: GREENBRIER COMPANIES INC - Form 10-Q

Effect of exchange rate changes		402	698	1,100
<b>Decrease in cash and cash equivalents</b>	(737)	(280)	(11,270)	(12,287)
Cash and cash equivalents				
Beginning of period	34,323	294	18,954	53,571
End of period	\$ 33,586	\$ 14	\$ 7,684	\$ 41,284

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Executive Summary**

We operate in three primary business segments: Manufacturing; Wheels, Repair & Parts; and Leasing & Services. These three business segments are operationally integrated. The Manufacturing segment, operating from facilities in the United States, Mexico and Poland, produces double-stack intermodal railcars, conventional railcars, tank cars, marine vessels and automotive railcar products. The Wheels, Repair & Parts segment performs wheel and axle servicing; railcar repair, refurbishment and maintenance activities; as well as production and reconditioning of a variety of parts for the railroad industry in North America. The Leasing & Services segment owns approximately 8,300 railcars and provides management services for approximately 231,000 railcars for railroads, shippers, carriers, institutional investors and other leasing and transportation companies in North America. We also produce rail castings through an unconsolidated joint venture.

Multi-year supply agreements are a part of rail industry practice. Customer orders may be subject to cancellations or modifications and contain terms and conditions customary in the industry. In most cases, little variation has been experienced between the quantity ordered and the quantity actually delivered.

Our total manufacturing backlog of railcar units as of November 30, 2013 was approximately 13,500 units with an estimated value of \$1.43 billion compared to 9,700 units with an estimated value of \$1.11 billion as of November 30, 2012. Currently, the entire backlog is expected to be sold to third parties, therefore no orders in our backlog are expected to be placed into our owned lease fleet. A portion of the orders included in backlog reflects an assumed product mix. Under terms of the orders, the exact mix will be determined in the future which may impact the dollar amount of backlog. Our backlog of railcar units and marine vessels is not necessarily indicative of future results of operations. Subsequent to quarter end we received new railcar orders for 1,100 units valued at approximately \$130 million. The new orders referenced are subject to customary documentation and completion of terms.

Marine backlog as of November 30, 2013 was approximately \$5 million compared to \$20 million as of November 30, 2012. During the fourth quarter of 2012 we became party to a letter of intent for 15 barges valued at \$60 million subject to significant permitting and other conditions.

During 2013, we implemented a restructuring plan to sell or close certain Wheels, Repair & Parts facilities to enhance margins and improve capital efficiency. Restructuring charges related to this plan were \$0.9 million (\$0.6 million, net of tax) for the three months ended November 30, 2013. We anticipate we will incur additional pre-tax cash restructuring charges of about \$1.0 - \$2.0 million in 2014. This range does not include future non-cash gains or losses from facilities reductions, as these amounts are not presently determinable.

We operate two manufacturing facilities in Sahagun, Mexico, one of which we own and one of which is leased. In September 2013, we were notified by the landlord of our leased facility that the landlord does not intend to renew the lease following the expiration of the lease term in November 2014. We have identified an alternative site to partially replace the manufacturing capacity of such facility and are also considering expanding production capacity at our owned facility in Sahagun, Mexico and at other manufacturing sites.

**Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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.

*Income taxes* - For financial reporting purposes, income tax expense is estimated based on planned tax return filings. The amounts anticipated to be reported in those filings may change between the time the financial statements are prepared and the time the tax returns are filed. Further, because tax filings are subject to review by taxing authorities, there is also the risk that a position taken in preparation of a tax return may be challenged by a taxing authority. If the taxing authority is successful in asserting a position different than that taken by us, differences in tax expense or between current and deferred tax items may arise in future periods. Such differences, which could have a material impact on our financial statements, would be reflected in the financial statements when management considers them probable of occurring and the amount is reasonably estimable. Valuation allowances reduce deferred tax assets to an amount that will more likely than not be realized. Our estimates of the realization of deferred tax assets is based on the information available at the time the financial statements are prepared and may include estimates of future income and other assumptions that are inherently uncertain.

*Maintenance obligations* - We are responsible for maintenance on a portion of the managed and owned lease fleet under the terms of maintenance obligations defined in the underlying lease or management agreement. The estimated maintenance liability is based on maintenance histories for each type and age of railcar. These estimates involve judgment as to the future costs of repairs and the types and timing of repairs required over the lease term. As we cannot predict with certainty the prices, timing and volume of maintenance needed in the future on railcars under long-term leases, this estimate is uncertain and could be materially different from maintenance requirements. The liability is periodically reviewed and updated based on maintenance trends and known future repair or refurbishment requirements. These adjustments could be material due to the inherent uncertainty in predicting future maintenance requirements.

*Warranty accruals* - Warranty costs to cover a defined warranty period are estimated and charged to operations. The estimated warranty cost is based on historical 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. These estimates are inherently uncertain as they are based on historical data for existing products and judgment for new products. If warranty claims are made in the current period for issues that have not historically been the subject of warranty claims and were not taken into consideration in establishing the accrual or if claims for issues already considered in establishing the accrual exceed expectations, warranty expense may exceed the accrual for that particular product. Conversely, there is the possibility that claims may be lower than estimates. The warranty accrual is periodically reviewed and updated based on warranty trends. However, as we cannot predict future claims, the potential exists for the difference in any one reporting period to be material.

*Environmental costs* - At times we may be involved in various proceedings related to environmental matters. We estimate future costs for known environmental remediation requirements and accrue for them when it is probable that we have incurred a liability and the related costs can be reasonably estimated based on currently available information. If further developments or resolution of an environmental matter result in facts and circumstances that are significantly different than the assumptions used to develop these reserves, the accrual for environmental remediation could be materially understated or overstated. Adjustments to these liabilities are made when additional information becomes available that affects the estimated costs to study or remediate any environmental issues or when expenditures for which reserves are established are made. Due to the uncertain nature of estimating potential environmental matters, there can be no assurance that we will not become involved in future litigation or other proceedings or, if we were found to be responsible or liable in any litigation or proceeding, that such costs would not be material to us.



---

**THE GREENBRIER COMPANIES, INC.**

*Revenue recognition* - Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured.

Railcars are generally manufactured, repaired or refurbished and wheels and parts produced under firm orders from third parties. Revenue is recognized when these products or services are completed, accepted by an unaffiliated customer and contractual contingencies removed. Certain leases are operated under car hire arrangements whereby revenue is earned based on utilization, car hire rates and terms specified in the lease agreement. Car hire revenue is reported from a third party source two months in arrears; however, such revenue is accrued in the month earned based on estimates of use from historical activity and is adjusted to actual as reported. These estimates are inherently uncertain as they involve judgment as to the estimated use of each railcar. Adjustments to actual have historically not been significant. Revenues from construction of marine barges are either recognized on the percentage of completion method during the construction period or on the completed contract method based on the terms of the contract. Under the percentage of completion method, judgment is used to determine a definitive threshold against which progress towards completion can be measured to determine timing of revenue recognition.

We will periodically sell railcars with leases attached to financial investors. In addition we will often perform management or maintenance services at market rates for these railcars. Pursuant to the guidance in ASC 840-20-40, we evaluate the terms of any remarketing agreements and any contractual provisions that represent retained risk and the level of retained risk based on those provisions. We determine whether the level of retained risk exceeds 10% of the individual fair value of the railcars delivered. For any contracts with multiple elements (i.e. railcars, maintenance, management services, etc.) we allocate revenue among the deliverables primarily based upon objective and reliable evidence of the fair value of each element in the arrangement. If objective and reliable evidence of fair value of any element is not available, we will use the element's estimated selling price for purposes of allocating the total arrangement consideration among the elements.

*Impairment of long-lived assets* - When changes in circumstances indicate the carrying amount of certain long-lived assets may not be recoverable, the assets are evaluated for impairment. If the forecast undiscounted future cash flows are less than the carrying amount of the assets, an impairment charge to reduce the carrying value of the assets to fair value is recognized in the current period. These estimates are based on the best information available at the time of the impairment and could be materially different if circumstances change. If the forecast undiscounted future cash flows exceeded the carrying amount of the assets it would indicate that the assets were not impaired.

*Goodwill and acquired intangible assets* - We periodically acquire businesses in purchase transactions in which the allocation of the purchase price may result in the recognition of goodwill and other intangible assets. The determination of the value of such intangible assets requires management to make estimates and assumptions. These estimates affect the amount of future period amortization and possible impairment charges.

Goodwill and indefinite-lived intangible assets are tested for impairment 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. When changes in circumstances, such as a decline in the market price of our common stock, changes in demand or in the numerous variables associated with the judgments, assumptions and estimates made in assessing the appropriate valuation of goodwill indicate the carrying amount of certain indefinite lived assets may not be recoverable, the assets are evaluated for impairment. Among other things, our assumptions used in the valuation of goodwill include growth of revenue and margins, market multiples, discount rates and increased cash flows over time. If actual operating results were to differ from these assumptions, it may result in an impairment of our goodwill.

***THE GREENBRIER COMPANIES, INC.***

The provisions of Accounting Standards Codification (ASC) 350, Intangibles - Goodwill and Other, require that we perform a two-step impairment test on goodwill. In the first step, we compare the fair value of each reporting unit with its carrying value. We determine the fair value of our reporting units based on a weighting of income and market approaches. Under the income approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. Under the market approach, we estimate the fair value based on observed market multiples for comparable businesses. The second step of the goodwill impairment test is required only in situations where the carrying value of the reporting unit exceeds its fair value as determined in the first step. In the second step we would compare the implied fair value of goodwill to its carrying value. The implied fair value of goodwill is determined by allocating the fair value of a 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 is the implied fair value of goodwill. An impairment loss is recorded to the extent that the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill.

**Three Months Ended November 30, 2013 Compared to Three Months Ended November 30, 2012****Overview**

Total revenue for the three months ended November 30, 2013 was \$490.4 million, an increase of \$75.0 million from revenues of \$415.4 million in the prior comparable period. The increase was primarily the result of higher revenues in the manufacturing segment of our business. Manufacturing segment revenues increased \$74.1 million which was primarily attributed to a higher volume of deliveries as compared to the prior comparable period.

Net earnings attributable to Greenbrier for the three months ended November 30, 2013 were \$15.4 million or \$0.49 per diluted common share compared to \$10.4 million or \$0.35 per diluted common share for the three months ended November 30, 2012. The increase in earnings was primarily attributed to an increase in manufacturing gross margin.

Revenue, margin and operating profit, presented below, include amounts from external parties and exclude intersegment activity that is eliminated in consolidation. Performance for our segments is evaluated based on operating profit. Corporate includes selling and administrative costs not directly related to goods and services and certain costs that are intertwined among segments due to our integrated business. Management does not allocate Interest and foreign exchange or Income tax expense for either external or internal reporting purposes.

(In thousands)	Three Months Ended November 30,	
	2013	2012
Revenue:		
Manufacturing	\$ 359,473	\$ 285,368
Wheels, Repair & Parts	113,401	112,100
Leasing & Services	17,481	17,906
	490,355	415,374
Margin:		
Manufacturing	48,033	26,876
Wheels, Repair & Parts	5,426	10,624
Leasing & Services	8,100	10,279
	61,559	47,779
Operating profit (loss):		
Manufacturing	38,314	15,502
Wheels, Repair & Parts	(374)	6,137
Leasing & Services	8,670	8,701
Corporate	(8,388)	(7,253)
Earnings from operations	38,222	23,087
Interest and foreign exchange	4,744	5,900
Earnings before income taxes and earnings (loss) from unconsolidated affiliates	33,478	17,187
Income tax expense	(10,522)	(4,586)
Earnings before loss from unconsolidated affiliates	22,956	12,601
Earnings (loss) from unconsolidated affiliates	41	(40)
Net earnings	22,997	12,561

Edgar Filing: GREENBRIER COMPANIES INC - Form 10-Q

Net earnings attributable to noncontrolling interest	(7,609)	(2,134)
Net earnings attributable to Greenbrier	\$ 15,388	\$ 10,427
Diluted earnings per common share	\$ 0.49	\$ 0.35

### **Manufacturing Segment**

Manufacturing revenue for the three months ended November 30, 2013 was \$359.5 million compared to \$285.4 million in the comparable period of the prior year, an increase of \$74.1 million. Railcar unit deliveries, which are the primary source of manufacturing revenue, were approximately 3,700 units in the current period compared to approximately 2,900 units in the prior comparable period. The increase in revenue was primarily attributed to a higher volume of tank car deliveries as compared to the prior comparable period.

Manufacturing margin as a percentage of revenue for the three months ended November 30, 2013 was 13.4% compared to a margin of 9.4% for the three months ended November 30, 2012. The increase in margin as a percentage of revenue was primarily attributed to a favorable change in product mix and improved production efficiencies.

Manufacturing operating profit was \$38.3 million and 10.7% of revenue for the three months ended November 30, 2013 compared to \$15.5 million and 5.4% for the three months ended November 30, 2012. The increase in operating profit as compared to the prior comparable period was primarily attributed to an increase in gross margin.

### **Wheels, Repair & Parts Segment**

Wheels, Repair & Parts revenue was \$113.4 million for the three months ended November 30, 2013 compared to \$112.1 million in the comparable period of the prior year. The increase of \$1.3 million was primarily attributed to a change in wheel set and component product mix and an increase in parts revenue. These were partially offset by a decrease in repair revenue primarily due to the closure of facilities as part of our previously disclosed restructuring plan to sell or close certain Wheels, Repair & Parts facilities to enhance margins and improve capital efficiency.

Wheels, Repair & Parts margin as a percentage of revenue was 4.8% for the three months ended November 30, 2013 compared to 9.5% for the three months ended November 30, 2012. The decrease in margin as a percentage of revenue was primarily the result of activities associated with fixing underperforming locations, a decrease in revenue from a metal scrapping program and increases in certain reserves and accruals.

Wheels, Repair & Parts operating loss was \$0.4 million and 0.3% of revenue for the three months ended November 30, 2013 compared to operating profit of \$6.1 million and 5.5% for the three months ended November 30, 2012. The decrease in operating profit as compared to the prior comparable period was primarily attributed to a decrease in gross margin and restructuring charges.

### **Leasing & Services Segment**

Leasing & Services revenue was \$17.5 million for the three months ended November 30, 2013 compared to \$17.9 million for the comparable period of the prior year. The decrease of \$0.4 million was primarily a result of a decrease in the size of the owned lease fleet and lower average volumes of rent-producing leased railcars for syndication. These were partially offset by an increase in management services revenue due to the addition of new management services agreements.

Leasing & Services margin as a percentage of revenue was 46.3% for the three months ended November 30, 2013 compared to 57.4% for the three months ended November 30, 2012. The decrease in gross margin as a percentage of revenue compared to the prior comparable period was primarily due to higher gross margin in the prior comparable period as a result of the reduction in the maintenance accrual on terminated maintenance management agreements during that period and lower average volumes of rent-producing leased railcars for syndication in the current year.

**THE GREENBRIER COMPANIES, INC.**

Leasing & Services operating profit was \$8.7 million and 49.6% of revenue for the three months ended November 30, 2013 compared to \$8.7 million and 48.6% for the three months ended November 30, 2012. The change in operating profit as a percentage of revenue as compared to the prior comparable period was primarily attributed to a decrease in gross margin partially offset by an increase in Net gain on disposition of equipment.

The percentage of owned units on lease as of November 30, 2013 was 97.0% compared to 95.2% at November 30, 2012.

**Selling and Administrative Expense**

Selling and administrative expense was \$26.1 million or 5.3% of revenue for the three months ended November 30, 2013 compared to \$26.1 million or 6.3% of revenue for the prior comparable period. The change for the three months ended November 30, 2013 compared to the prior comparable period was primarily attributed to an increase in employee related costs offset by a decrease in the revenue based fee paid to our joint venture partner in Mexico.

**Net Gain on Disposition of Equipment**

Net gain on disposition of equipment was \$3.7 million for the three months ended November 30, 2013, compared to \$1.4 million for the prior comparable period. Assets from Greenbrier's lease fleet are periodically sold in the normal course of business in order to take advantage of market conditions and manage risk and liquidity.

**Restructuring Charges**

During 2013, we implemented a restructuring plan to sell or close certain Wheels, Repair & Parts facilities to enhance margins and improve capital efficiency. Restructuring charges related to this plan totaled \$0.9 million for the three months ended November 30, 2013 and consisted of employee related termination costs and other expenses. We anticipate we will incur additional pre-tax cash restructuring charges of about \$1.0 - \$2.0 million in 2014. This range does not include future non-cash gains or losses from facilities reductions, as these amounts are not presently determinable.

**Other Costs**

Interest and foreign exchange expense was comprised of the following:

(In thousands)	Three Months Ended		Increase (Decrease)
	November 30, 2013	2012	
Interest and foreign exchange:			
Interest and other expense	\$ 4,396	\$ 4,331	\$ 65
Accretion of convertible debt discount		849	(849)
Foreign exchange (gain) loss	348	720	(372)
	\$ 4,744	\$ 5,900	\$ (1,156)

The decrease in interest and foreign exchange expense as compared to the prior comparable period was primarily attributed to the convertible note debt discount being fully amortized in the prior year.

**Income Tax**

The tax rate for the three months ended November 30, 2013 was 31.4% as compared to 26.7% in the prior comparable period. The provision for income taxes is based on projected consolidated results of operations and geographical mix of earnings for the entire year. The tax rate fluctuates from period to period due to a change in the geographical mix of pre-tax earnings and the impact of other discrete items including the one-time benefit in the first quarter of 2013 related to an IRS settlement.



**THE GREENBRIER COMPANIES, INC.****Noncontrolling Interest**

Net earnings attributable to noncontrolling interest was \$7.6 million for the three months ended November 30, 2013 compared to \$2.1 million in the prior comparable period. These amounts primarily represent our joint venture partner's share in the results of operations of our Mexican railcar manufacturing joint venture, adjusted for intercompany sales. The changes from year to year are primarily a result of operating at higher production rates, improved manufacturing efficiencies and lower intercompany activity.

**Liquidity and Capital Resources**

(In thousands)	Three Months Ended November 30,	
	2013	2012
Net cash used in operating activities	\$ (13,455)	\$ (25,485)
Net cash provided by (used in) investing activities	6,088	(16,260)
Net cash provided by (used in) financing activities	(10,927)	28,358
Effect of exchange rate changes	2,085	1,100
<b>Net decrease in cash and cash equivalents</b>	<b>\$ (16,209)</b>	<b>\$ (12,287)</b>

We have been financed through cash generated from operations, borrowings and issuance of stock. At November 30, 2013, cash and cash equivalents were \$81.2 million, a decrease of \$16.2 million from \$97.4 million at August 31, 2013.

Cash used in operating activities was \$13.5 million for the three months ended November 30, 2013 compared to \$25.5 million for the three months ended November 30, 2012. The change from the prior year was primarily due to a change in the timing of working capital needs.

Cash provided by or used in investing activities primarily related to capital expenditures net of proceeds from the sale of assets. Cash provided by investing activities for the three months ended November 30, 2013 was \$6.1 million compared to cash used in investing activities of \$16.3 million for the three months ended November 30, 2012.

Capital expenditures totaled \$6.6 million and \$25.1 million for the three months ended November 30, 2013 and 2012. Proceeds from the sale of assets, which primarily related to sales of railcars from our lease fleet within Leasing & Services, were approximately \$14.1 million and \$10.1 million for the three months ended November 30, 2013 and 2012.

Approximately \$1.1 million and \$15.1 million of capital expenditures for the three months ended November 30, 2013 and 2012 were attributable to Leasing & Services operations. Leasing & Services capital expenditures for 2014 are expected to be approximately \$10.0 million. Proceeds from sales of leased railcar equipment are expected to be approximately \$60.0 million for 2014. We regularly sell assets from our lease fleet.

Approximately \$3.9 million and \$8.3 million of capital expenditures for the three months ended November 30, 2013 and 2012 were attributable to Manufacturing operations. Capital expenditures for Manufacturing are expected to be approximately \$60.0 million in 2014 and primarily relate to enhancements to our manufacturing facilities and to replace certain manufacturing capacity.

Wheels, Repair & Parts capital expenditures for the three months ended November 30, 2013 and 2012 were \$1.6 million and \$1.7 million and are expected to be approximately \$10.0 million in 2014 for maintenance and improvement of existing facilities.

Cash used in financing activities was \$10.9 million for the three months ended November 30, 2013 compared to cash provided by financing activities of \$28.4 million for the three months ended November 30, 2012. Cash used in and provided by financing activities primarily related to proceeds from debt net of repayments.



***THE GREENBRIER COMPANIES, INC.***

In October 2013, the Board of Directors authorized the Company to repurchase up to \$50 million of our common stock. Under the share repurchase program, shares of common stock may be purchased on the open market or through privately negotiated transactions from time-to-time. The timing and amount of purchases will be based upon market conditions, securities law limitations and other factors. The share repurchase program does not obligate us to acquire any specific number of shares in any period. The share repurchase program expires April 30, 2015, but may be modified, suspended or discontinued at any time without prior notice. During the three months ended November 30, 2013, we repurchased a total of 28,610 shares for approximately \$0.9 million. Subsequent to November 30, 2013 and through January 6, 2014, we purchased an additional 81,794 shares for approximately \$2.5 million.

Senior secured credit facilities, consisting of three components, aggregated to \$359.8 million as of November 30, 2013. We had an aggregate of \$314.7 million available to draw down under the committed credit facilities as of November 30, 2013. This amount consists of \$283.7 million available on the North American credit facility, \$19.8 million on the European credit facilities and \$11.2 million on the Mexican joint venture credit facilities as of November 30, 2013.

As of November 30, 2013 a \$290.0 million revolving line of credit secured by substantially all of our assets in the U.S. not otherwise pledged as security for term loans, 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% or 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 November 30, 2013, lines of credit totaling \$19.8 million secured by certain of our 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 2014 through June 2015.

As of November 30, 2013 our 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 was able to draw amounts available under this facility through December 2013 and the line of credit is currently in the process of being renewed. Borrowings outstanding under this facility are due from January 2014 to May 2014. The second line of credit provides up to \$30.0 million and is fully guaranteed by each of the joint venture partners, including our 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 November 30, 2013 outstanding borrowings under the senior secured credit facilities consisted of \$6.2 million in letters of credit under the North American credit facility and \$38.8 million outstanding under the Mexican joint venture credit facilities.

The revolving and operating lines of credit, along with notes payable, contain covenants with respect to us and our various subsidiaries, the most restrictive of which, among other things, limit our ability to: incur additional indebtedness or guarantees; pay dividends or repurchase stock; enter into sale leaseback transactions; create liens; sell assets; engage in transactions with affiliates, including joint ventures and non U.S. subsidiaries, including but not limited to loans, advances, equity investments and guarantees; enter into mergers, consolidations or sales of substantially all our assets; and enter into new lines of business. The covenants also require certain maximum ratios of debt to total capitalization and minimum levels of fixed charges (interest plus rent) coverage.

*THE GREENBRIER COMPANIES, INC.*

We may from time to time seek to repurchase or otherwise retire or exchange securities, including outstanding borrowings and equity securities, and take other steps to reduce our debt or otherwise improve our balance sheet. These actions may include open market repurchases, unsolicited or solicited privately negotiated transactions or other retirements, repurchases or exchanges. Such repurchases or exchanges, if any, will depend on a number of factors, including, but not limited to, prevailing market conditions, trading levels of our debt, our liquidity requirements and contractual restrictions, if applicable.

We have operations in Mexico and Poland that conduct business in their local currencies as well as other regional currencies. To mitigate the exposure to transactions denominated in currencies other than the functional currency, we enter into foreign currency forward exchange contracts with established financial institutions to protect the margin on a portion of foreign currency sales in firm backlog primarily in Euro. No provision has been made for credit loss due to counterparty non-performance.

As of November 30, 2013, the Mexican joint venture had \$40.8 million of third party debt, of which we have guaranteed approximately \$32.9 million.

In accordance with customary business practices in Europe, we have \$2.7 million in bank and third party warranty and performance guarantee facilities as of November 30, 2013. To date no amounts have been drawn under these guarantee facilities.

Our borrowings maturing within the next year include a senior term note, secured by a pool of leased railcars, with a balloon payment of \$81.8 million due in March 2014. In the near future, we expect to refinance this debt along with a senior term note, also secured by a pool of leased railcars, with a current outstanding balance of \$42.6 million due in May 2015.

We expect existing funds and cash generated from operations, together with proceeds from financing activities including borrowings under existing credit facilities and long-term financings, to be sufficient to fund working capital needs, planned capital expenditures and expected debt repayments during the next twelve months.

#### **Off Balance Sheet Arrangements**

We do not currently have off balance sheet arrangements that have or are likely to have a material current or future effect on our Consolidated Financial Statements.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

*Foreign Currency Exchange Risk*

We have operations in Mexico and Poland that conduct business in their local currencies as well as other regional currencies. To mitigate the exposure to transactions denominated in currencies other than the functional currency of each entity, we enter into foreign currency forward exchange contracts to protect the margin on a portion of forecast foreign currency sales. At November 30, 2013, \$58.1 million of forecast sales in Europe were hedged by foreign exchange contracts. Because of the variety of currencies in which purchases and sales are transacted and the interaction between currency rates, it is not possible to predict the impact a movement in a single foreign currency exchange rate would have on future operating results.

In addition to exposure to transaction gains or losses, we are also exposed to foreign currency exchange risk related to the net asset position of our foreign subsidiaries. At November 30, 2013, net assets of foreign subsidiaries aggregated \$57.4 million and a 10% strengthening of the United States dollar relative to the foreign currencies would result in a decrease in equity of \$5.7 million, or 1.3% of Total equity - Greenbrier. This calculation assumes that each exchange rate would change in the same direction relative to the United States dollar.

*Interest Rate Risk*

We have managed a portion of our variable rate debt with interest rate swap agreements, effectively converting \$41.2 million of variable rate debt to fixed rate debt. As a result, we are exposed to interest rate risk relating to our revolving debt and a portion of term debt, which are at variable rates. At November 30, 2013, 70% of our outstanding debt had fixed rates and 30% had variable rates. At November 30, 2013, a uniform 10% increase in variable interest rates would result in approximately \$0.2 million of additional annual interest expense.

*THE GREENBRIER COMPANIES, INC.*

**Item 4. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

Our management has evaluated, under the supervision and with the participation of our President and Chief Executive Officer and our Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act). Based on that evaluation, our President and Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our President and Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

*Changes in Internal Control over Financial Reporting*

There have been no changes in our internal control over financial reporting during the quarter ended November 30, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

There is hereby incorporated by reference the information disclosed in Note 13 to Consolidated Financial Statements, Part I of this quarterly report.

### **Item 1A. Risk Factors**

This Form 10-Q should be read in conjunction with the risk factors and information disclosed in our Annual Report on Form 10-K for the year ended August 31, 2013. There have been no material changes in the risk factors described in our Annual Report on Form 10-K for the year ended August 31, 2013, except for the risk factor below.

***One of our two manufacturing facilities in Sahagun, Mexico is dependent on certain factors outside of our control. If we experience an interruption of our manufacturing operations in Sahagun, Mexico, our results of operations may be adversely affected.***

We operate two manufacturing facilities in Sahagun, Mexico, one of which we own and one which is leased. In the leased facility, we depend on the third-party landlord to provide us with labor services for our operations under a services agreement. All of the labor provided by the third party is subject to collective bargaining agreements, over which we have no control. If the third party fails to provide us with the services required by our agreement for any reason, including labor stoppages or strikes or a sale of facilities owned by the third party, our operations could be adversely affected. Additionally, we do not have an agreement to renew the lease on our leased Sahagun, Mexico, manufacturing facility, which expires in November 2014, and we have been informed that the third-party landlord does not intend to renew. We have identified an alternate location to partially replace some of such manufacturing capacity. We continue to pursue alternatives in the event we are unable to finalize negotiations for such location. If we are unable to negotiate acceptable terms for such location or unable to obtain sufficient alternative manufacturing capacity to replace the existing leased manufacturing facility, or to transfer manufacturing production in an efficient manner and without disrupting other operations, we could incur substantial expense and interruption of our manufacturing activities which would have an adverse effect on our financial condition and results of operations. In addition, if we are unable to fully vacate the premises by the expiration of the lease in November 2014, we may be subject to penalties imposed by the third-party landlord for overstaying the lease. Any interruption of our manufacturing operations in Mexico or decrease in our manufacturing operations or penalties in connection with overstaying our lease could adversely affect our financial condition and results of operations.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On October 31, 2013, the Board of Directors authorized the Company to repurchase up to \$50 million of the Company's common stock. Under the share repurchase program, shares of common stock may be purchased on the open market or through privately negotiated transactions from time-to-time. The timing and amount of purchases will be based upon market conditions, securities law limitations and other factors. The share repurchase program does not obligate the Company to acquire any specific number of shares in any period. The share repurchase program expires April 30, 2015, but may be modified, suspended or discontinued at any time without prior notice.

Shares repurchased under the Company's share repurchase program during the three months ended November 30, 2013 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share (Including Commissions)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
September 1, 2013 - September 30, 2013				\$
October 1, 2013 - October 31, 2013				\$ 50,000,000
November 1, 2013 - November 30, 2013	28,610	\$ 30.47	28,610	\$ 49,128,359
	28,610		28,610	

**Item 6. Exhibits**

(a) List of Exhibits:

- 10.1\* Amendment No. 1 to Form of Amended and Restated Employment Agreement between the Registrant and certain of its executive officers.
- 10.2\* Amendment No. 2 to the Greenbrier Companies, Inc. 2010 Amended and Restated Stock Incentive Plan.
- 31.1 Certification pursuant to Rule 13a-14 (a).
- 31.2 Certification pursuant to Rule 13a-14 (a).
- 32.1 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following financial information from the Company's Quarterly Report on Form 10-Q for the period ended November 30, 2013, formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income (Loss) (iv) the Consolidated Statements of Equity (v) the Consolidated Statements of Cash Flows; (vi) the Notes to Condensed Consolidated Financial Statements.

\* Management contract or compensatory plan or arrangement

*THE GREENBRIER COMPANIES, INC.*

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**THE GREENBRIER COMPANIES, INC.**

Date: January 8, 2014

By: /s/ Mark J. Rittenbaum  
Mark J. Rittenbaum  
Executive Vice President and

Chief Financial Officer

(Principal Financial Officer)

Date: January 8, 2014

By: /s/ Adrian J. Downes  
Adrian J. Downes  
Senior Vice President and

Chief Accounting Officer

(Principal Accounting Officer)