GREENBRIER COMPANIES INC
Form 10-Q
July 02, 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 May 31, 2014

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

for the transition period from _________ to _________

Commission File No. 1-13146

THE GREENBRIER COMPANIES, INC.

(Exact name of registrant as specified in its charter)

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

(503) 684-7000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The number of shares of the registrant s common stock, without par value, outstanding on June 26, 2014 was 27,485,046 shares.

Forward-Looking Statements

From time to time, The Greenbrier Companies, Inc. and its subsidiaries (Greenbrier or the Company) or their representatives have made or may make forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements as to expectations, beliefs and strategies regarding the future. Such forward-looking statements may be included in, but not limited to, press releases, oral statements made with the approval of an authorized executive officer or in various filings made by us with the Securities and Exchange Commission, including this filing on Form 10-Q. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements rely on a number of assumptions concerning future events and include statements relating to:

- availability of financing sources and borrowing base for working capital, other business development activities, capital spending and leased railcars for syndication (sale of railcars with lease attached);
- ability to renew, maintain or obtain sufficient credit facilities and financial guarantees on acceptable terms;
- ability to utilize beneficial tax strategies;
- ability to grow our businesses;
- ability to obtain lease and sales contracts which provide adequate protection against changes in interest rates and increased costs of materials and components;
- ability to obtain adequate insurance coverage at acceptable rates;
- ability to obtain adequate certification and licensing of products; and
- short-term and long-term revenue and earnings effects of the above items.

The following factors, among others, could cause actual results or outcomes to differ materially from the forward-looking statements:

- fluctuations in demand for newly manufactured railcars or marine barges;
- fluctuations in demand for wheels, repair & parts;
- delays in receipt of orders, risks that contracts may be canceled during their term or not renewed and that customers may not purchase the amount of products or services under the contracts as anticipated;

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

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

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

growth or reduction in the surface transportation industry;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

loss of business from, or a decline in the financial condition of, any of the principal customers that represent a significant portion of our total revenues;

competitive factors, including introduction of competitive products, new entrants into certain of our markets, price pressures, limited customer base, and competitiveness of our manufacturing facilities and products;

industry overcapacity and our manufacturing capacity utilization;

decreases or write-downs in carrying value of inventory, goodwill, intangibles or other assets due to impairment;

severance or other costs or charges associated with lay-offs, shutdowns, or reducing the size and scope of operations;

changes in future maintenance or warranty requirements;

ability to adjust to the cyclical nature of the industries in which we operate;

changes in interest rates and financial impacts from interest rates;

ability and cost to maintain and renew operating permits;

actions or failures to act by various regulatory agencies including potential environmental remediation obligations or changing tank car or other rail car regulation;

changes in fuel and/or energy prices;

risks associated with our intellectual property rights or those of third parties, including infringement, maintenance, protection, validity, enforcement and continued use of such rights;

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

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

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

failure to successfully integrate joint ventures or acquired businesses;

discovery of previously unknown liabilities associated with acquired businesses;

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

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

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

credit limitations upon our ability to maintain effective hedging programs;

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

changes in legislation and increased costs related to health care.

Any forward-looking statements should be considered in light of these factors. Words such as anticipates, believes, forecast, potential, goal, contemplates, expects, intends, plans, projects, hopes, seeks, estimates, strategy, could, would, should, likely, will, foreseeable future and similar expressions identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements. Many of the important factors that will determine these results and values are beyond our ability to control or predict. You are cautioned not to put undue reliance on any forward-looking statements. Except as otherwise required by law, we do not assume any obligation to update any forward-looking statements.

All references to years refer to the fiscal years ended August 31st unless otherwise noted.

THE GREENBRIER COMPANIES, INC.

PART I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

Consolidated Balance Sheets

(In thousands, unaudited)

	May 31, 2014	August 31, 2013
Assets		
Cash and cash equivalents	$ 198,492	$ 97,435
Restricted cash	9,468	8,807
Accounts receivable, net	181,850	154,848
Inventories	337,197	316,783
Leased railcars for syndication	96,332	68,480
Equipment on operating leases, net	274,863	305,468
Property, plant and equipment, net	215,942	201,533
Goodwill	57,416	57,416
Intangibles and other assets, net	79,012	78,971
	$ 1,450,572	$ 1,289,741
Liabilities and Equity		
Revolving notes	$ 18,082	$ 48,209
Accounts payable and accrued liabilities	356,541	315,938
Deferred income taxes	79,526	86,040
Deferred revenue	21,153	8,838
Notes payable	447,068	373,889
Commitments and contingencies (Note 14)		
Equity:		
Greenbrier		
Preferred stock - without par value; 25,000 shares authorized; none outstanding		
Common stock - without par value; 50,000 shares authorized; 27,489 and 28,084 shares outstanding at May 31, 2014 and August 31, 2013		
Additional paid-in capital	239,124	259,864
Retained earnings	239,405	174,842
Accumulated other comprehensive loss	(2,384)	(6,504)
Total equity - Greenbrier	476,145	428,202
Noncontrolling interest	52,057	28,625
Total equity	528,202	456,827
	$ 1,450,572	$ 1,289,741

The accompanying notes are an integral part of these financial statements

THE GREENBRIER COMPANIES, INC.

Consolidated Statements of Operations

(In thousands, except per share amounts, unaudited)

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2014	2013	2014	2013
Revenue				
Manufacturing	$ 425,583	$ 284,591	$ 1,132,811	$ 864,006
Wheels, Repair & Parts	140,663	131,167	390,604	355,219
Leasing & Services	27,039	17,905	62,441	52,978
	593,285	433,663	1,585,856	1,272,203
Cost of revenue				
Manufacturing	351,829	253,360	969,841	774,502
Wheels, Repair & Parts	129,825	120,476	365,740	325,086
Leasing & Services	14,856	9,808	34,090	26,542
	496,510	383,644	1,369,671	1,126,130
Margin	96,775	50,019	216,185	146,073
Selling and administrative expense	34,800	25,322	89,034	76,364
Net gain on disposition of equipment	(5,619)	(5,131)	(14,686)	(9,615)
Goodwill impairment		76,900		76,900
Restructuring charges	56		1,475	
Earnings (loss) from operations	67,538	(47,072)	140,362	2,424
Other costs				
Interest and foreign exchange	5,437	5,905	14,280	18,127
Earnings (loss) before income taxes and earnings (loss) from unconsolidated affiliates	62,101	(52,977)	126,082	(15,703)
Income tax expense	(16,303)	(2,729)	(36,708)	(12,905)
Earnings (loss) before earnings (loss) from unconsolidated affiliates	45,798	(55,706)	89,374	(28,608)
Earnings (loss) from unconsolidated affiliates	298	82	272	(63)
Net earnings (loss)	46,096	(55,624)	89,646	(28,671)
Net earnings attributable to noncontrolling interest	(12,508)	(406)	(25,083)	(3,093)
Net earnings (loss) attributable to Greenbrier	$ 33,588	$ (56,030)	$ 64,563	$ (31,764)
Basic earnings (loss) per common share	$ 1.20	$ (2.10)	$ 2.29	$ (1.20)
Diluted earnings (loss) per common share	$ 1.03	$ (2.10)	$ 2.01	$ (1.20)
Weighted average common shares:				
Basic	27,956	26,619	28,223	26,510
Diluted	34,001	26,619	34,268	26,510

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Comprehensive Income (Loss)

(In thousands, unaudited)

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2014	2013	2014	2013
Net earnings (loss)	$ 46,096	$ (55,624)	$ 89,646	$ (28,671)
Other comprehensive income (loss)				
Translation adjustment	80	(1,761)	3,402	279
Reclassification of derivative financial instruments recognized in net earnings (loss) [1]	4	105	321	(790)
Unrealized gain (loss) on derivative financial instruments [2]	(659)	(1,325)	454	(817)
Other (net of tax effect)	(4)	5	(3)	5
	(579)	(2,976)	4,174	(1,323)
Comprehensive income (loss)	45,517	(58,600)	93,820	(29,994)
Comprehensive income attributable to noncontrolling interest	(12,501)	(374)	(25,137)	(3,102)
Comprehensive income (loss) attributable to Greenbrier	$ 33,016	$ (58,974)	$ 68,683	$ (33,096)

1 Net of tax of effect of $0.1 million and $0.1 million for the three months ended May 31, 2014 and 2013 and $0.4 million and $0.1 million for the nine months ended May 31, 2014 and 2013.

2 Net of tax of effect of $0.5 million and $0.3 million for the three months ended May 31, 2014 and 2013 and $0.2 million and $0.2 million for the nine months ended May 31, 2014 and 2013.

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						
	Common Stock Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Attributable to Greenbrier	Attributable to Noncontrolling Interest	Total Equity
Balance September 1, 2013	28,084	$ 259,864	$ 174,842	$ (6,504)	$ 428,202	$ 28,625	$ 456,827
Net earnings			64,563		64,563	25,083	89,646
Other comprehensive income, net				4,120	4,120	54	4,174
Noncontrolling interest adjustments						2,953	2,953
Investment by joint venture partner						419	419
Joint venture partner distribution declared						(5,077)	(5,077)
Restricted stock awards (net of cancellations and expense)	46	11,599			11,599		11,599
Unamortized restricted stock		(12,610)			(12,610)		(12,610)
Restricted stock amortization		6,455			6,455		6,455
Excess tax benefit from restricted stock awards		109			109		109
Repurchase of stock	(641)	(26,293)			(26,293)		(26,293)
Balance May 31, 2014	27,489	$ 239,124	$ 239,405	$ (2,384)	$ 476,145	$ 52,057	$ 528,202

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

The accompanying notes are an integral part of these financial statements

THE GREENBRIER COMPANIES, INC.

Consolidated Statements of Cash Flows

(In thousands, unaudited)

	Nine Months Ended May 31, 2014	Nine Months Ended May 31, 2013
Cash flows from operating activities		
Net earnings (loss)	$ 89,646	$ (28,671)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Deferred income taxes	(6,745)	(9,391)
Depreciation and amortization	30,824	31,523
Net gain on disposition of equipment	(14,686)	(9,615)
Accretion of debt discount		2,455
Stock based compensation expense	6,454	4,843
Goodwill impairment		76,900
Other	3,341	(1,895)
Decrease (increase) in assets:		
Accounts receivable	(26,226)	(15,499)
Inventories	(21,722)	(9,114)
Leased railcars for syndication	(25,420)	22,067
Other	(2,491)	338
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	36,507	(43,605)
Deferred revenue	12,258	(1,099)
Net cash provided by operating activities	81,740	19,237
Cash flows from investing activities		
Proceeds from sales of assets	39,515	39,611
Capital expenditures	(34,522)	(49,677)
Increase in restricted cash	(661)	(2,629)
Investment in and net advances to unconsolidated affiliates	(1,253)	(1,016)
Other		(3,582)
Net cash provided by (used in) investing activities	3,079	(17,293)
Cash flows from financing activities		
Net change in revolving notes with maturities of 90 days or less		26,973
Proceeds from revolving notes with maturities longer than 90 days	34,674	31,847
Repayments of revolving notes with maturities longer than 90 days	(64,801)	(26,877)
Proceeds from issuance of notes payable	200,000	
Repayments of notes payable	(126,821)	(57,592)
Debt issuance costs	(382)	
Repurchase of stock	(26,293)	
Cash distribution to joint venture partner	(3,109)	
Investment by joint venture partner	419	2,577
Excess tax benefit from restricted stock awards	109	777
Other		(8)
Net cash provided by (used in) financing activities	13,796	(22,303)
Effect of exchange rate changes	2,442	(1,606)
Increase (decrease) in cash and cash equivalents	101,057	(21,965)

Cash and cash equivalents		
Beginning of period	97,435	53,571
End of period	$ 198,492	$ 31,606
Cash paid during the period for		
Interest	$ 12,816	$ 13,844
Income taxes, net	$ 41,643	$ 16,404
Non-cash activity		
Transfer of Inventories to Leased railcars for syndication	$ 2,691	$
Transfer of Leased railcars for syndication to Equipment on operating leases	$	$ 4,640
Transfer of Equipment on operating leases to Inventories	$	$ 17,762
Transfer of Property, plant and equipment, net to Intangibles and other assets, net	$	$ 1,194

The accompanying notes are an integral part of these financial statements

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1 Interim Financial Statements

The Condensed Consolidated Financial Statements of The Greenbrier Companies, Inc. and Subsidiaries (Greenbrier or the Company) as of May 31, 2014, for the three and nine months ended May 31, 2014 and 2013 have been prepared without audit and reflect all adjustments (consisting of normal recurring accruals) that, in the opinion of management, are necessary for a fair presentation of the financial position and operating results and cash flows for the periods indicated. The results of operations for the three and nine months ended May 31, 2014 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 that 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.

Prospective Accounting Changes In May 2014, the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) issued a jointly converged standard on the recognition of revenue from contracts with customers. The issued guidance converges the criteria for reporting revenue, as well as requiring disclosures sufficient to describe the nature, amount, timing, and uncertainty of revenue and cash flows arising from these contracts. Companies can transition to the standard either retrospectively or as a cumulative effective adjustment as of the date of adoption. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company plans to adopt this guidance beginning September 1, 2017. The Company is evaluating the impact of this standard on its consolidated financial statements and disclosures.

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 and nine months ended May 31, 2014, the Company repurchased a total of 352,000 shares and 641,327 shares for approximately $16.0 million and $26.3 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. Restructuring charges related to this plan, associated with the Company s Wheels, Repair & Parts segment, totaled $0.1 million and $1.5 million for the three and nine months ended May 31, 2014 and were included in the Consolidated Statement of Operations.

(In thousands)	Accrual at August 31, 2013	Charged to Expense	Paid or Settled	Accrual at May 31, 2014
Employee termination costs	$ 1,409	$ 1,290	$ 2,699	$
Other costs	299	185	484	
	$ 1,708	$ 1,475	$ 3,183	$

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:

(In thousands)	May 31, 2014	August 31, 2013
Manufacturing supplies and raw materials	$ 238,867	$ 217,182
Work-in-process	62,316	48,990
Finished goods	40,073	54,839
Excess and obsolete adjustment	(4,059)	(4,228)
	$ 337,197	$ 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:

(In thousands)	May 31, 2014	August 31, 2013
Intangible assets subject to amortization:		
Customer relationships	$ 66,288	$ 66,288
Accumulated amortization	(30,347)	(26,964)
Other intangibles	5,071	4,967
Accumulated amortization	(4,415)	(4,162)
	36,597	40,129
Intangible assets not subject to amortization	912	912
Investment in unconsolidated affiliates	12,129	10,739
Prepaid and other assets	10,685	10,601
Nonqualified savings plan investments	10,086	7,687
Debt issuance costs, net	8,214	7,802
Assets held for sale	389	1,101
Total intangible and other assets	$ 79,012	$ 78,971

Amortization expense for the three and nine months ended May 31, 2014 was $1.0 million and $3.6 million and for the three and nine months ended May 31, 2013 was $1.0 million and $3.3 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.

Note 5 Revolving Notes

Senior secured credit facilities, consisting of three components, aggregated to $360.0 million as of May 31, 2014.

As of May 31, 2014, 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 May 31, 2014, lines of credit totaling $20.0 million secured by certain of the Company s European assets, with various variable rates that range from Warsaw Interbank Offered Rate (WIBOR) plus 1.2% 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 May 31, 2014, the Company s Mexican joint venture had two lines of credit totaling $50.0 million. The first line of credit provides up to $20.0 million and is secured by certain of the joint venture s accounts receivable and inventory. Advances under this facility bear interest at LIBOR plus 2.5%. The Mexican joint venture will be able to draw amounts available under this facility through January 2015. 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 January 2015.

As of May 31, 2014, outstanding borrowings under the senior secured credit facilities consisted of $6.9 million in letters of credit under the North American credit facility and $18.1 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

(In thousands)	May 31, 2014	August 31, 2013
Trade payables	$ 205,805	$ 163,490
Other accrued liabilities	62,104	70,691
Accrued payroll and related liabilities	50,128	42,047
Accrued maintenance	13,382	11,420
Income taxes payable	11,945	13,094
Accrued warranty	9,718	12,128
Other	3,459	3,068
	$ 356,541	$ 315,938

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:

	Three Months Ended May 31,		Nine Months Ended May 31,	
(In thousands)	2014	2013	2014	2013
Balance at beginning of period	$ 10,673	$ 10,289	$ 12,128	$ 9,221
Charged to cost of revenue, net	170	667	1,418	3,279
Payments	(1,208)	(904)	(4,191)	(2,540)
Currency translation effect	83	(69)	363	23
Balance at end of period	$ 9,718	$ 9,983	$ 9,718	$ 9,983

Note 8 Notes Payable

In March 2014, the Company refinanced approximately $125 million of existing senior term debt, due in March 2014 and May 2015, secured by a pool of leased railcars with new 6-year $200 million senior term debt also secured by a pool of leased railcars. The new debt bears a floating interest rate of LIBOR plus 1.75% with principal of $1.75 million paid quarterly in arrears and a balloon payment of $160 million due at maturity. An interest rate swap agreement was entered into on 50% of the initial balance to swap the floating interest rate of LIBOR plus 1.75% to a fixed rate of 3.7375%.

Note 9 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	454	3,348	(3)	3,799
Amounts reclassified from accumulated other comprehensive income (loss)	321			321
Balance, May 31, 2014	$ (278)	$ (1,575)	$ (531)	$ (2,384)

The amounts reclassified out of Accumulated other comprehensive loss into the Consolidated Statements of Operations, with presentation location, was as follows:

(In thousands)	Three Months Ended May 31, 2014	Nine Months Ended May 31, 2014	Location
(Gain) loss on derivative financial instruments:			
Foreign exchange contracts	$ (335)	$ (575)	Revenue
Interest rate swap contracts	446	1,275	Interest and foreign exchange
	111	700	Total before tax
	(107)	(379)	Tax expense
	$ 4	$ 321	Net of tax

Note 10 Earnings (Loss) Per Share

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

(In thousands)	Three Months Ended May 31, 2014	Three Months Ended May 31, 2013	Nine Months Ended May 31, 2014	Nine Months Ended May 31, 2013
Weighted average basic common shares outstanding *(1)*	27,956	26,619	28,223	26,510
Dilutive effect of 2018 Convertible notes *(2)*	6,045		6,045	
Weighted average diluted common shares outstanding *(3)*	34,001	26,619	34,268	26,510

(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. Shares outstanding exclude shares of unvested restricted stock and restricted stock units for the three and nine months ended May 31, 2013 due to a net loss.

(2) The dilutive effect of the 2018 Convertible notes are included for the three and nine months ended May 31, 2014 as they were considered dilutive under the if converted method as further discussed below. The dilutive effect of warrants and the 2018 Convertible notes were excluded for the three and nine months ended May 31, 2013 due to a net loss.

(3) The dilutive effect of the 2026 Convertible notes was included for the three months ended May 31, 2014 as the average stock price was greater than $48.05 however the dilutive impact was inconsequential. The dilutive effect of the 2026 Convertible notes was excluded for the nine months ended May 31, 2014 and the three and nine months ended May 31, 2013 as the stock price was less than $48.05 and therefore is considered anti-dilutive.

Dilutive EPS for the three and nine months ended May 31, 2014 was calculated using the more dilutive of two approaches. The first approach includes the dilutive effect of 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 are included in the calculation of both approaches using the treasury stock method when the average stock price is greater than the initial conversion price of $48.05.

	Three Months Ended May 31, 2014	Nine Months Ended May 31, 2014
Net earnings attributable to Greenbrier	$ 33,588	$ 64,563
Add back:		
Interest and debt issuance costs on the 2018 Convertible notes, net of tax	1,416	4,248
Earnings before interest and debt issuance costs on convertible notes	$ 35,004	$ 68,811
Weighted average diluted common shares outstanding	34,001	34,268
Diluted earnings per share	$ 1.03[(1)]	$ 2.01[(1)]

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

<u>Earnings before interest and debt issuance costs (net of tax) on convertible notes</u>

Weighted average diluted common shares outstanding

Note 11 Stock Based Compensation

The value of restricted stock and restricted stock unit awards is amortized as compensation expense from the date of grant through the earlier of the vesting period or the recipient s eligible retirement date. Awards are expensed upon grant when the recipient s eligible retirement date precedes the grant date.

Compensation expense for restricted stock and restricted stock unit grants was $3.6 million and $6.5 million for the three and nine months ended May 31, 2014 and $2.0 million and $4.8 million for the three and nine months ended May 31, 2013. Compensation expense related to restricted stock and restricted stock unit grants is recorded in Selling and administrative expense and Cost of revenue on the Consolidated Statements of Operations.

Note 12 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 is recorded in accumulated other comprehensive income or loss.

At May 31, 2014 exchange rates, forward exchange contracts for the purchase of Polish Zloty and the sale of Euro aggregated $66.0 million. Adjusting the foreign currency exchange contracts to the fair value of the cash flow hedges at May 31, 2014 resulted in an unrealized pre-tax gain of $0.6 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 October 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 May 31, 2014, an interest rate swap agreement had a notional amount of $100.0 million and matures March 2020. The fair value of this cash flow hedge at May 31, 2014 resulted in an unrealized pre-tax loss of $1.3 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 May 31, 2014 interest rates, approximately $1.8 million would be reclassified to interest expense in the next 12 months.

Fair Values of Derivative Instruments

	Asset Derivatives			Liability Derivatives		
(In thousands)	Balance sheet location	May 31, 2014 Fair Value	August 31, 2013 Fair Value	Balance sheet location	May 31, 2014 Fair Value	August 31, 2013 Fair Value
Derivatives designated as hedging instruments						
Foreign forward exchange contracts	Accounts receivable	$ 838	$ 819	Accounts payable and accrued liabilities	$ 4	$ 342
Interest rate swap contracts	Other assets			Accounts payable and accrued liabilities	1,256	1,250
		$ 838	$ 819		$ 1,260	$ 1,592
Derivatives not designated as hedging instruments						
Foreign forward exchange contracts	Accounts receivable	$ 244	$ 223	Accounts payable and accrued liabilities	$	$ 40

The Effect of Derivative Instruments on the Statement of Operations

Derivatives in cash flow hedging relationships	Location of gain (loss) recognized in income on derivative	Gain (loss) recognized in income on derivative nine months ended May 31, 2014	2013
Foreign forward exchange contract	Interest and foreign exchange	$ 230	$ (108)

Derivatives in cash flow hedging relationships	Gain (loss) recognized in OCI on derivatives (effective portion) nine months ended May 31, 2014	2013	Location of gain (loss) reclassified from accumulated OCI into income	Gain (loss) reclassified from accumulated OCI into income (effective portion) nine months ended May 31, 2014	2013	Location of gain in income on derivative (ineffective portion and amount excluded from effectiveness testing)	Gain recognized on derivative (ineffective portion and amount excluded from effectiveness testing) nine months ended May 31, 2014	2013
Foreign forward exchange contracts	$ 1,558	$ (997)	Revenue	$ 575	$ 1,927	Interest and foreign exchange	$ 684	$ 2,088
Interest rate swap contracts	(1,281)	(47)	Interest and foreign exchange	(1,275)	(1,250)	Interest and foreign exchange		
	$ 277	$ (1,044)		$ (700)	$ 677		$ 684	$ 2,088

Note 13 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 May 31, 2014:

	Revenue			Earnings (loss) from operations		
	External	Intersegment	Total	External	Intersegment	Total
Manufacturing	$ 425,583	$	$ 425,583	$ 61,116	$	$ 61,116
Wheels, Repair & Parts	140,663	3,783	144,446	5,524	473	5,997
Leasing & Services	27,039	9,334	36,373	14,582	9,334	23,916
Eliminations		(13,117)	(13,117)		(9,807)	(9,807)
Corporate				(13,684)		(13,684)
	$ 593,285	$	$ 593,285	$ 67,538	$	$ 67,538

For the nine months ended May 31, 2014:

	Revenue			Earnings (loss) from operations		
	External	Intersegment	Total	External	Intersegment	Total
Manufacturing	$ 1,132,811	$	$ 1,132,811	$ 129,542	$	$ 129,542
Wheels, Repair & Parts	390,604	7,743	398,347	8,724	546	9,270
Leasing & Services	62,441	17,623	80,064	32,888	17,623	50,511
Eliminations		(25,366)	(25,366)		(18,169)	(18,169)
Corporate				(30,792)		(30,792)
	$ 1,585,856	$	$ 1,585,856	$ 140,362	$	$ 140,362

For the three months ended May 31, 2013:

	Revenue			Earnings (loss) from operations		
	External	Intersegment	Total	External	Intersegment	Total
Manufacturing	$ 284,591	$ 27	$ 284,618	$ 21,551	$	$ 21,551
Wheels, Repair & Parts [(1)]	131,167	2,548	133,715	(70,242)	29	(70,213)
Leasing & Services	17,905	2,853	20,758	9,427	2,851	12,278
Eliminations		(5,428)	(5,428)		(2,880)	(2,880)
Corporate				(7,808)		(7,808)
	$ 433,663	$	$ 433,663	$ (47,072)	$	$ (47,072)

For the nine months ended May 31, 2013:

	Revenue			Earnings (loss) from operations		
	External	Intersegment	Total	External	Intersegment	Total
Manufacturing	$ 864,006	$ 7,229	$ 871,235	$ 58,595	$ (30)	$ 58,565
Wheels, Repair & Parts [(1)]	355,219	11,632	366,851	(60,858)	(225)	(61,083)
Leasing & Services	52,978	9,700	62,678	27,164	9,697	36,861
Eliminations		(28,561)	(28,561)		(9,442)	(9,442)
Corporate				(22,477)		(22,477)
	$ 1,272,203	$	$ 1,272,203	$ 2,424	$	$ 2,424

Total assets

	May 31, 2014	August 31, 2013
Manufacturing	$ 500,434	$ 401,630
Wheels, Repair & Parts	316,416	318,483
Leasing & Services	425,751	463,381
Unallocated	207,971	106,247
	$ 1,450,572	$ 1,289,741

(1) The three and nine months ended May 31, 2013 for Wheels, Repair & Parts includes a pre-tax non-cash impairment charge of $76.9 million.

Note 14 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 $110 million during a 14-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 14-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.

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 14-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 $4.0 million in bank and third party warranty and performance guarantee facilities, all of which have been utilized as of May 31, 2014. To date no amounts have been drawn under these guarantee facilities.

As of May 31, 2014, the Mexican joint venture had $19.8 million of third party debt outstanding, for which the Company had guaranteed approximately $15.9 million.

As of May 31, 2014, the Company had outstanding letters of credit aggregating $6.9 million associated with facility leases and workers compensation insurance.

Note 15 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 that 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 May 31, 2014 were:

(In thousands)	Total	Level 1	Level 2 [1]	Level 3
Assets:				
Derivative financial instruments	$ 1,082	$	$ 1,082	$
Nonqualified savings plan investments	10,086	10,086		
Cash equivalents	20,016	20,016		
	$ 31,184	$ 30,102	$ 1,082	$
Liabilities:				
Derivative financial instruments	$ 1,260	$	$ 1,260	$

(1) Level 2 assets and liabilities include derivative financial instruments which are valued based on observable inputs. See Note 12 Derivative Instruments for further discussion.

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

(In thousands)	Total	Level 1	Level 2	Level 3
Assets:				
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	$
Liabilities:				
Derivative financial instruments	$ 1,632	$	$ 1,632	$

Note 16 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 May 31, 2014, the carrying amount of the Company s investment in the Trusts is $0.9 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 May 31, 2014.

As of May 31, 2014, 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 17 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 May 31, 2014 and August 31, 2013, for the three and nine months ended May 31, 2014 and 2013. 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.

Condensed Consolidating Balance Sheet

May 31, 2014

(In thousands, unaudited)

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ 160,223	$ 60	$ 38,209	$	$ 198,492
Restricted cash		2,567	6,901		9,468
Accounts receivable, net	1,050	400,877	54,494	(274,571)	181,850
Inventories		127,876	209,464	(143)	337,197
Leased railcars for syndication		99,630		(3,298)	96,332
Equipment on operating leases, net		273,241	3,821	(2,199)	274,863
Property, plant and equipment, net	6,087	100,320	109,535		215,942
Goodwill		57,416			57,416
Intangibles and other assets, net	811,751	121,980	16,727	(871,446)	79,012
	$ 979,111	$ 1,183,967	$ 439,151	$ (1,151,657)	$ 1,450,572
Liabilities and Equity					
Revolving notes	$	$	$ 18,082	$	$ 18,082
Accounts payable and accrued liabilities	254,171	185,047	193,521	(276,198)	356,541
Deferred income taxes	3,900	84,820		(9,194)	79,526
Deferred revenue	39	19,393	1,677	44	21,153
Notes payable	244,856	200,463	1,749		447,068
Total equity - Greenbrier	476,145	694,244	173,048	(867,292)	476,145
Noncontrolling interest			51,074	983	52,057
Total equity	476,145	694,244	224,122	(866,309)	528,202
	$ 979,111	$ 1,183,967	$ 439,151	$ (1,151,657)	$ 1,450,572

The Greenbrier Companies, Inc.

Condensed Consolidating Statement of Operations

For the three months ended May 31, 2014

(In thousands, unaudited)

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue					
Manufacturing	$	$ 211,921	$ 363,401	$ (149,739)	$ 425,583
Wheels, Repair & Parts		142,625		(1,962)	140,663
Leasing & Services	108	26,771		160	27,039
	108	381,317	363,401	(151,541)	593,285
Cost of revenue					
Manufacturing		184,870	315,398	(148,439)	351,829
Wheels, Repair & Parts		131,769		(1,944)	129,825
Leasing & Services		14,876		(20)	14,856
		331,515	315,398	(150,403)	496,510
Margin	108	49,802	48,003	(1,138)	96,775
Selling and administrative	13,987	10,645	10,016	152	34,800
Net gain on disposition of equipment		(5,411)	(205)	(3)	(5,619)
Restructuring charges		56			56
Earnings (loss) from operations	(13,879)	44,512	38,192	(1,287)	67,538
Other costs					
Interest and foreign exchange	2,918	1,417	1,102		5,437
Earnings (loss) before income taxes					
and earnings (loss) from unconsolidated affiliates	(16,797)	43,095	37,090	(1,287)	62,101
Income tax (expense) benefit	3,337	(11,506)	(8,388)	254	(16,303)
Earnings (loss) before earnings (loss) from unconsolidated affiliates	(13,460)	31,589	28,702	(1,033)	45,798
Earnings (loss) from unconsolidated affiliates	47,048	5,412	44	(52,206)	298
Net earnings (loss)	33,588	37,001	28,746	(53,239)	46,096
Net (earnings) loss attributable to noncontrolling interest			(12,830)	322	(12,508)
Net earnings (loss) attributable to Greenbrier	$ 33,588	$ 37,001	$ 15,916	$ (52,917)	$ 33,588

The Greenbrier Companies, Inc.

Condensed Consolidating Statement of Operations

For the nine months ended May 31, 2014

(In thousands, unaudited)

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue					
Manufacturing	$	$ 617,120	$ 981,040	$ (465,349)	$ 1,132,811
Wheels, Repair & Parts		395,537		(4,933)	390,604
Leasing & Services	865	61,101	1	474	62,441
	865	1,073,758	981,041	(469,808)	1,585,856
Cost of revenue					
Manufacturing		552,871	876,395	(459,425)	969,841
Wheels, Repair & Parts		370,626		(4,886)	365,740
Leasing & Services		34,152		(62)	34,090
		957,649	876,395	(464,373)	1,369,671
Margin	865	116,109	104,646	(5,435)	216,185
Selling and administrative	31,698	29,802	27,083	451	89,034
Net gain on disposition of equipment		(13,556)	(820)	(310)	(14,686)
Restructuring charges		1,475			1,475
Earnings (loss) from operations	(30,833)	98,388	78,383	(5,576)	140,362
Other costs					
Interest and foreign exchange	8,751	3,180	2,349		14,280
Earnings (loss) before income taxes					
and earnings (loss) from unconsolidated affiliates	(39,584)	95,208	76,034	(5,576)	126,082
Income tax (expense) benefit	10,772	(31,059)	(18,044)	1,623	(36,708)
Earnings (loss) before earnings (loss) from unconsolidated affiliates	(28,812)	64,149	57,990	(3,953)	89,374
Earnings (loss) from unconsolidated affiliates	93,375	7,857	121	(101,081)	272
Net earnings (loss)	64,563	72,006	58,111	(105,034)	89,646
Net (earnings) loss attributable to noncontrolling interest			(27,362)	2,279	(25,083)
Net earnings (loss) attributable to Greenbrier	$ 64,563	$ 72,006	$ 30,749	$ (102,755)	$ 64,563

The Greenbrier Companies, Inc.

Consolidating Statement of Comprehensive Income (Loss)

For the three months ended May 31, 2014

(In thousands)	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net earnings (loss)	$ 33,588	$ 37,001	$ 28,746	$ (53,239)	$ 46,096
Other comprehensive income (loss)					
Translation adjustment		73	7		80
Reclassification of derivative financial instruments recognized in net earnings (loss)		276	(272)		4
Unrealized gain (loss) on derivative financial instruments		139	(798)		(659)
Other (net of tax effect)			(4)		(4)
		488	(1,067)		(579)
Comprehensive income (loss)	33,588	37,489	27,679	(53,239)	45,517
Comprehensive (income) loss attributable to noncontrolling interest			(12,823)	322	(12,501)
Comprehensive income (loss) attributable to Greenbrier	$ 33,588	$ 37,489	$ 14,856	$ (52,917)	$ 33,016

The Greenbrier Companies, Inc.

Consolidating Statement of Comprehensive Income (Loss)

For the nine months ended May 31, 2014

(In thousands)	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net earnings (loss)	$ 64,563	$ 72,006	$ 58,111	$ (105,034)	$ 89,646
Other comprehensive income (loss)					
Translation adjustment		86	3,316		3,402
Reclassification of derivative financial instruments recognized in net earnings (loss)		787	(466)		321
Unrealized gain (loss) on derivative financial instruments		1,245	(791)		454
Other (net of tax effect)			(3)		(3)
		2,118	2,056		4,174
Comprehensive income (loss)	64,563	74,124	60,167	(105,034)	93,820
Comprehensive (income) loss attributable to noncontrolling interest			(27,416)	2,279	(25,137)
Comprehensive income (loss) attributable to Greenbrier	$ 64,563	$ 74,124	$ 32,751	$ (102,755)	$ 68,683

The Greenbrier Companies, Inc.

Condensed Consolidating Statement of Cash Flows

For the nine months ended May 31, 2014

(In thousands, unaudited)

(In thousands)	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net earnings (loss)	$ 64,563	$ 72,006	$ 58,111	$ (105,034)	$ 89,646
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:					
Deferred income taxes	(4,194)	(1,789)	(762)		(6,745)
Depreciation and amortization	1,427	20,713	8,746	(62)	30,824
Net gain on disposition of equipment		(13,556)	(820)	(310)	(14,686)
Stock based compensation expense	6,454				6,454
Other		372	16	2,953	3,341
Decrease (increase) in assets:					
Accounts receivable	36,573	(43,867)	694	(19,626)	(26,226)
Inventories		20,456	(42,225)	47	(21,722)
Leased railcars for syndication		(28,371)		2,951	(25,420)
Other	(1,220)	81	(2,788)	1,436	(2,491)
Increase (decrease) in liabilities:					
Accounts payable and accrued liabilities	(22,404)	9,143	31,774	17,994	36,507
Deferred revenue	(116)	10,798	1,574	2	12,258
Net cash provided by (used in) operating activities	81,083	45,986	54,320	(99,649)	81,740
Cash flows from investing activities:					
Proceeds from sales of assets		38,509	1,006		39,515
Capital expenditures	(3,543)	(9,929)	(21,050)		(34,522)
Decrease (increase) in restricted cash		(660)	(1)		(661)
Investment in and net advances to unconsolidated affiliates	(91,939)	(7,710)	(1,253)	99,649	(1,253)
Net cash provided by (used in) investing activities	(95,482)	20,210	(21,298)	99,649	3,079
Cash flows from financing activities:					
Net changes in revolving notes with maturities of 90 days or less					
Proceeds from revolving notes with maturities longer than 90 days			34,674		34,674
Repayment of revolving notes with maturities longer than 90 days			(64,801)		(64,801)
Intercompany advances	137,633	(139,741)	2,108		
Proceeds from notes payable		200,000			200,000
Repayments of notes payable		(126,400)	(421)		(126,821)
Debt issuance costs		(382)			(382)
Repurchase of stock	(26,293)				(26,293)
Cash distribution to joint venture partner			(3,109)		(3,109)
Investment by joint venture partner			419		419
Excess tax benefit from restricted stock awards	109				109

Net cash provided by (used in) financing activities	111,449	(66,523)	(31,130)		13,796
Effect of exchange rate changes		362	2,080		2,442
Increase in cash and cash equivalents	97,050	35	3,972		101,057
Cash and cash equivalents					
Beginning of period	63,173	25	34,237		97,435
End of period	$ 160,223	$ 60	$ 38,209	$	$ 198,492

The Greenbrier Companies, Inc.

Condensed Consolidating Balance Sheet

August 31, 2013

(In thousands)

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
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
Liabilities and Equity					
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
Total equity	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.

Condensed Consolidating Statement of Operations

For the three months ended May 31, 2013

(In thousands, unaudited)

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue					
Manufacturing	$	$ 143,411	$ 251,120	$ (109,940)	$ 284,591
Wheels, Repair & Parts		133,069		(1,902)	131,167
Leasing & Services	310	17,596	(1)		17,905
	310	294,076	251,119	(111,842)	433,663
Cost of revenue					
Manufacturing		129,348	234,390	(110,378)	253,360
Wheels, Repair & Parts		122,316		(1,840)	120,476
Leasing & Services		9,830		(22)	9,808
		261,494	234,390	(112,240)	383,644
Margin	310	32,582	16,729	398	50,019
Selling and administrative	9,903	7,771	7,648		25,322
Net gain on disposition of equipment		(4,214)	(723)	(194)	(5,131)
Goodwill impairment		76,900			76,900
Earnings (loss) from operations	(9,593)	(47,875)	9,804	592	(47,072)
Other costs					
Interest and foreign exchange	4,124	1,001	780		5,905
Earnings (loss) before income taxes and earnings (loss) from unconsolidated affiliates	(13,717)	(48,876)	9,024	592	(52,977)
Income tax (expense) benefit	3,960	(4,716)	(1,568)	(405)	(2,729)
Earnings (loss) before earnings (loss) from unconsolidated affiliates	(9,757)	(53,592)	7,456	187	(55,706)
Earnings (loss) from unconsolidated affiliates	(46,273)	3,317	11	43,027	82
Net earnings (loss)	(56,030)	(50,275)	7,467	43,214	(55,624)
Net (earnings) loss attributable to noncontrolling interest			(383)	(23)	(406)
Net earnings (loss) attributable to Greenbrier	$ (56,030)	$ (50,275)	$ 7,084	$ 43,191	$ (56,030)

The Greenbrier Companies, Inc.

Condensed Consolidating Statement of Operations

For the nine months ended May 31, 2013

(In thousands)

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue					
Manufacturing	$	$ 473,213	$ 690,319	$ (299,526)	$ 864,006
Wheels, Repair & Parts		363,799		(8,580)	355,219
Leasing & Services	787	52,208		(17)	52,978
	787	889,220	690,319	(308,123)	1,272,203
Cost of revenue					
Manufacturing		431,221	646,924	(303,643)	774,502
Wheels, Repair & Parts		333,823		(8,737)	325,086
Leasing & Services		26,617		(75)	26,542
		791,661	646,924	(312,455)	1,126,130
Margin	787	97,559	43,395	4,332	146,073
Selling and administrative	30,014	23,309	23,041		76,364
Net gain on disposition of equipment		(7,781)	(1,276)	(558)	(9,615)
Goodwill impairment		76,900			76,900
Earnings (loss) from operations	(29,227)	5,131	21,630	4,890	2,424
Other costs					
Interest and foreign exchange	12,207	2,870	3,251	(201)	18,127
Earnings (loss) before income taxes and earnings (loss) from unconsolidated affiliates	(41,434)	2,261	18,379	5,091	(15,703)
Income tax (expense) benefit	16,645	(24,086)	(3,964)	(1,500)	(12,905)
Earnings (loss) before earnings (loss) from unconsolidated affiliates	(24,789)	(21,825)	14,415	3,591	(28,608)
Earnings (loss) from unconsolidated affiliates	(6,975)	3,755	27	3,130	(63)
Net earnings (loss)	(31,764)	(18,070)	14,442	6,721	(28,671)
Net (earnings) loss attributable to noncontrolling interest			(1,570)	(1,523)	(3,093)
Net earnings (loss) attributable to Greenbrier	$ (31,764)	$ (18,070)	$ 12,872	$ 5,198	$ (31,764)

The Greenbrier Companies, Inc.

Consolidating Statement of Comprehensive Income (Loss)

For the three months ended May 31, 2013

(In thousands)	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net earnings (loss)	$ (56,030)	$ (50,275)	$ 7,467	$ 43,214	$ (55,624)
Other comprehensive income (loss)					
Translation adjustment		81	(1,842)		(1,761)
Reclassification of derivative financial instruments recognized in net earnings (loss)		260	(155)		105
Unrealized loss on derivative financial instruments		(16)	(1,309)		(1,325)
Other (net of tax effect)			5		5
		325	(3,301)		(2,976)
Comprehensive income (loss)	(56,030)	(49,950)	4,166	43,214	(58,600)
Comprehensive income attributable to noncontrolling interest			(351)	(23)	(374)
Comprehensive income (loss) attributable to Greenbrier	$ (56,030)	$ (49,950)	$ 3,815	$ 43,191	$ (58,974)

The Greenbrier Companies, Inc.

Consolidating Statement of Comprehensive Income (Loss)

For the nine months ended May 31, 2013

(In thousands)	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net earnings (loss)	$ (31,764)	$ (18,070)	$ 14,442	$ 6,721	$ (28,671)
Other comprehensive income (loss)					
Translation adjustment		303	(24)		279
Reclassification of derivative financial instruments recognized in net earnings (loss)		771	(1,561)		(790)
Unrealized loss on derivative financial instruments		(29)	(788)		(817)
Other (net of tax effect)			5		5
		1,045	(2,368)		(1,323)
Comprehensive income (loss)	(31,764)	(17,025)	12,074	6,721	(29,994)
Comprehensive income attributable to noncontrolling interest			(1,579)	(1,523)	(3,102)
Comprehensive income (loss) attributable to Greenbrier	$ (31,764)	$ (17,025)	$ 10,495	$ 5,198	$ (33,096)

The Greenbrier Companies, Inc.

Condensed Consolidating Statement of Cash Flows

For the nine months ended May 31, 2013

(In thousands)	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net earnings (loss)	$ (31,764)	$ (18,070)	$ 14,442	$ 6,721	$ (28,671)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:					
Deferred income taxes	(5,373)	(5,585)	67	1,500	(9,391)
Depreciation and amortization	1,651	22,918	7,030	(76)	31,523
Net gain on disposition of equipment		(7,780)	(1,277)	(558)	(9,615)
Accretion of debt discount	2,455				2,455
Stock based compensation	4,843				4,843
Goodwill impairment		76,900			76,900
Other		128	(69)	(1,954)	(1,895)
Decrease (increase) in assets:					
Accounts receivable	(2,062)	(43,032)	29,985	(390)	(15,499)
Inventories		(9,185)	198	(127)	(9,114)
Leased railcars for syndication		24,331		(2,264)	22,067
Other	(650)	1,351	25,904	(26,267)	338
Increase (decrease) in liabilities:					
Accounts payable and accrued liabilities	7,580	(14,813)	(36,373)	1	(43,605)
Deferred revenue	(116)	(533)	(460)	10	(1,099)
Net cash provided by (used in) operating activities	(23,436)	26,630	39,447	(23,404)	19,237
Cash flows from investing activities:					
Proceeds from sales of assets		38,817	794		39,611
Capital expenditures	(371)	(24,555)	(25,022)	271	(49,677)
Decrease (increase) in restricted cash		40	(2,669)		(2,629)
Investment in and net advances to unconsolidated affiliates	712	(23,845)	(1,016)	23,133	(1,016)
Intercompany advances	1,261			(1,261)	
Other			(3,582)		(3,582)
Net cash provided by (used in) investing activities	1,602	(9,543)	(31,495)	22,143	(17,293)
Cash flows from financing activities:					
Net changes in revolving notes with maturities of 90 days or less	43,000		(16,027)		26,973
Proceeds from revolving notes with maturities longer than 90 days			31,847		31,847
Repayment of revolving notes with maturities longer than 90 days			(26,877)		(26,877)
Intercompany advances	16,374	(15,274)	(2,361)	1,261	
Repayments of notes payable	(52,868)	(3,069)	(1,655)		(57,592)
Investment by joint venture partner			2,577		2,577

Excess tax benefit from restricted stock awards	777				777
Other	(8)				(8)
Net cash provided by (used in) financing activities	7,275	(18,343)	(12,496)	1,261	(22,303)
Effect of exchange rate changes	4	1,018	(2,628)		(1,606)
Increase (decrease) in cash and cash equivalents	(14,555)	(238)	(7,172)		(21,965)
Cash and cash equivalents					
Beginning of period	34,323	294	18,954		53,571
End of period	$ 19,768	$ 56	$ 11,782	$	$ 31,606

Note 18 Subsequent Events

In June 2014, the Company announced a potential railcar repair joint venture with Watco Companies, LLC (Watco). The joint venture forms GBW Railcar Services, LLC (GBW) which will own and operate Greenbrier s and Watco s railcar repair, refurbishment and maintenance businesses.

Closing of the new joint venture is subject to customary conditions, including the negotiation and execution of definitive transaction documents, receipt of all necessary approvals and other conditions. Subject to the completion of all required documents and the fulfillment of all conditions, the closing is currently expected to occur before the Company s fiscal year end.

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 235,000 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 May 31, 2014 was approximately 26,400 units with an estimated value of $2.75 billion compared to 14,200 units with an estimated value of $1.57 billion as of May 31, 2013. 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. Subsequent to quarter end we received new railcar orders for 2,700 units valued at approximately $320 million. The new orders referenced are subject to customary documentation and completion of terms.

Marine backlog as of May 31, 2014 was approximately $110 million compared to $1.6 million as of May 31, 2013. In addition, 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. Our backlog of railcar units and marine vessels is not necessarily indicative of future results of operations.

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 $0.1 million ($0.04 million, net of tax) and $1.5 million ($1.0 million, net of tax) for the three and nine months ended May 31, 2014.

We operate two manufacturing facilities in Sahagun, Mexico, one of which we own and one of which is leased with a lease expiration date of November 2014. We are in the process of replacing this leased capacity with an alternative site and expanding capacity, particularly for tank car production, at our other manufacturing facilities in Mexico including our joint venture facility in northern Mexico. In conjunction with these activities, we have reached agreement with our joint venture partner to extend the term of our joint venture through 2029.

In June 2014, we announced a potential railcar repair joint venture with Watco Companies, LLC (Watco). The joint venture forms GBW Railcar Services, LLC (GBW) which will own and operate our company s and Watco s railcar repair, refurbishment and maintenance businesses. Closing of the new joint venture is subject to customary conditions, including the negotiation and execution of definitive transaction documents, receipt of all necessary approvals and other conditions. Subject to the completion of all required documents and the fulfillment of all conditions, the closing is currently expected to occur before our fiscal year end.

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 amounts anticipated to be reported on tax return filings. Those anticipated amounts may change from when the financial statements are prepared to when the tax returns are filed. Further, because tax filings are subject to review by taxing authorities, there is risk that a position taken in preparation of a tax return may be challenged by a taxing authority. If a challenge is successful, differences in tax expense or between current and deferred tax items may arise in future periods. Any material effect of such differences would be reflected in the financial statements when management considers the effect probable of occurring and the amount reasonably estimable. Valuation allowances reduce deferred tax assets to amounts more likely than not be realized based on information available when the financial statements are prepared. This information 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.

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 with leases attached that are 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 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. The goodwill balance as of May 31, 2014 of $57.4 million relates to the Wheels, Repair & Parts segment. Goodwill was tested during the third quarter of 2014 and we concluded that goodwill was not impaired.

We anticipate that upon closing of our potential railcar repair joint venture with Watco, management will reevaluate whether changes are necessary to our reportable segments and reporting units. In addition, the closing of this transaction may result in a triggering event for purposes of evaluating goodwill and indefinite-lived intangible assets for impairment.

Three Months Ended May 31, 2014 Compared to Three Months Ended May 31, 2013

Overview

Total revenue for the three months ended May 31, 2014 was $593.3 million, an increase of $159.6 million from revenues of $433.7 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 $141.0 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 May 31, 2014 were $33.6 million or $1.03 per diluted common share compared to Net loss attributable to Greenbrier of $56.0 million or $2.10 per diluted common share for the three months ended May 31, 2013. The increase in earnings was primarily attributed to an increase in manufacturing gross margin in the current year and a non-cash goodwill impairment charge of $71.8 million, net of tax, in the prior year.

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.

	Three Months Ended May 31,	
(In thousands)	2014	2013
Revenue:		
Manufacturing	$ 425,583	$ 284,591
Wheels, Repair & Parts	140,663	131,167
Leasing & Services	27,039	17,905
	593,285	433,663
Margin:		
Manufacturing	73,754	31,231
Wheels, Repair & Parts	10,838	10,691
Leasing & Services	12,183	8,097
	96,775	50,019
Operating profit (loss):		
Manufacturing	61,116	21,551
Wheels, Repair & Parts (1)	5,524	(70,242)
Leasing & Services	14,582	9,427
Corporate	(13,684)	(7,808)
Earnings (loss) from operations	67,538	(47,072)
Interest and foreign exchange	5,437	5,905
Earnings (loss) before income taxes and earnings from unconsolidated affiliates	62,101	(52,977)
Income tax expense	(16,303)	(2,729)
Earnings (loss) before earnings from unconsolidated affiliates	45,798	(55,706)
Earnings from unconsolidated affiliates	298	82

Net earnings (loss)	46,096	(55,624)
Net earnings attributable to noncontrolling interest	(12,508)	(406)
Net earnings (loss) attributable to Greenbrier	$ 33,588	$ (56,030)
Diluted earnings (loss) per common share	$ 1.03	$ (2.10)

(1) The three months ended May 31, 2013 for Wheels, Repair & Parts includes a pre-tax non-cash impairment charge of $76.9 million.

Manufacturing Segment

Manufacturing revenue for the three months ended May 31, 2014 was $425.6 million compared to $284.6 million in the comparable period of the prior year, an increase of $141.0 million. The increase in revenue was primarily attributed to a higher volume of deliveries. Railcar unit deliveries, which are the primary source of manufacturing revenue, were approximately 4,300 units in the current period compared to approximately 2,500 units in the prior comparable period.

Manufacturing margin as a percentage of revenue for the three months ended May 31, 2014 was 17.3% compared to a margin of 11.0% for the three months ended May 31, 2013. The increase in margin as a percentage of revenue was primarily attributed to a favorable change in product mix, higher volumes of syndication of new railcars with leases attached, and improved production efficiencies and overhead absorption.

Manufacturing operating profit was $61.1 million and 14.4% of revenue for the three months ended May 31, 2014 compared to $21.6 million and 7.6% for the three months ended May 31, 2013. The increase in operating profit as compared to the prior comparable period was primarily attributed to higher margins.

Wheels, Repair & Parts Segment

Wheels, Repair & Parts revenue was $140.7 million for the three months ended May 31, 2014 compared to $131.2 million in the comparable period of the prior year. The increase of $9.5 million was primarily attributed to an increase in wheel set and component volumes as a result of increased demand and an increase in scrap metal pricing and volumes. In addition, there was a change in wheel set and component product mix, resulting in a higher average selling price. 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 7.7% for the three months ended May 31, 2014 compared to 8.2% for the three months ended May 31, 2013. The decrease in margin as a percentage of revenue was primarily the result of operating inefficiencies at certain of our repair facilities and a change in wheel product mix. These were partially offset by a more favorable parts product mix and an increase in scrap metal pricing.

Wheels, Repair & Parts operating profit was $5.5 million and 3.9% of revenue for the three months ended May 31, 2014 compared to operating loss of $70.2 million for the three months ended May 31, 2013. The increase in operating profit as compared to the prior comparable period was primarily attributed to a pre-tax non-cash goodwill impairment charge of $76.9 million in the prior year.

Leasing & Services Segment

Leasing & Services revenue was $27.0 million for the three months ended May 31, 2014 compared to $17.9 million in the comparable period of the prior year. The increase of $9.1 million was primarily a result of a syndication of railcars purchased from a third party. These railcars were not manufactured by the company, but rather purchased from a third party with a lease attached, with the intent to sell them. The gross proceeds from the sale of these railcars with leases attached were recorded as revenue and the cost of purchasing these railcars from a third party were recorded in cost of sales. The increase in revenue as compared to the prior year was also a result of higher average volumes of rent-producing leased railcars for syndication. These were partially offset by a decline in leasing revenue resulting from a smaller owned lease fleet as compared to the prior year.

Leasing & Services margin as a percentage of revenue was 45.1% for the three months ended May 31, 2014 compared to 45.2% for the three months ended May 31, 2013.

Leasing & Services operating profit was $14.6 million and 53.9% of revenue for the three months ended May 31, 2014 compared to $9.4 million and 52.7% for the three months ended May 31, 2013. The increase in operating profit as compared to the prior comparable period was primarily attributed to the syndication of railcars purchased from a third party and from higher average volumes of rent-producing leased railcars for syndication.

The percentage of owned units on lease as of both May 31, 2014 and 2013 was 97.9%.

Selling and Administrative Expense

Selling and administrative expense was $34.8 million or 5.9% of revenue for the three months ended May 31, 2014 compared to $25.3 million or 5.8% of revenue for the prior comparable period. The change for the three months ended May 31, 2014 compared to the prior comparable period was primarily attributed to an increase in employee related costs, including incentive compensation, associated with increased levels of activity and profitability. The increase was also attributed to an increase in legal and consulting costs associated with the potential formation of our new joint venture and union defense.

Net Gain on Disposition of Equipment

Net gain on disposition of equipment was $5.6 million for the three months ended May 31, 2014, compared to $5.1 million for the prior comparable period. Assets from our 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 the fourth quarter of 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 $0.1 million for the three months ended May 31, 2014 and consisted of employee related termination costs.

Other Costs

Interest and foreign exchange expense was comprised of the following:

	Three Months Ended May 31,		Increase
(In thousands)	2014	2013	(Decrease)
Interest and foreign exchange:			
Interest and other expense	$ 4,861	$ 4,983	$ (122)
Accretion of convertible debt discount		730	(730)
Foreign exchange loss	576	192	384
	$ 5,437	$ 5,905	$ (468)

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

Our tax rate for the three months ended May 31, 2014 was 26.3%. The calculation of the tax rate is based on full-year projected foreign and domestic earnings and on specific items for which tax effects are booked discretely within the interim period. As such, the tax rate can fluctuate significantly from quarter-to-quarter depending on the projected annual mix of foreign and domestic earnings and on the magnitude of the discrete items. The tax rate of 5.2% for the three months ended May 31, 2013 was greatly affected by such a discrete item, the impairment of nondeductible goodwill; without it, last year s rate would have been 33.8%. The annual tax rate for 2014 is projected to be approximately 29%.

The earnings attributable to Greenbrier-Gimsa, a partnership in which we are a 50% partner, can cause a significant reduction of the tax rate when those earnings are significant. This has been the case for 2014. The reduction in tax rate can occur because the Earnings (loss) before income taxes and earnings (loss) from unconsolidated affiliates includes 100% of Greenbrier-Gimsa s pre-tax earnings, whereas the Income tax expense includes only our 50% share of the tax on those earnings. Earnings and taxes are presented this way because Greenbrier-Gimsa is a non-taxpaying domestic partnership for which taxes are payable by the partners rather than the partnership. Net earnings attributable to noncontrolling interest includes our partner s 50% share of Greenbrier-Gimsa s pre-tax earnings.

The tax rates both this year and last year would have been approximately 33% to 35% had Greenbrier-Gimsa not been a partnership and had nondeductible goodwill not been impaired last year.

Noncontrolling Interest

Net earnings attributable to noncontrolling interest was $12.5 million for the three months ended May 31, 2014 compared to $0.4 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 change from prior year is primarily a result of operating at higher production rates, improved manufacturing efficiencies and lower intercompany activity in the current year.

Nine Months Ended May 31, 2014 Compared to Nine Months Ended May 31, 2013

Overview

Total revenue for the nine months ended May 31, 2014 was $1.6 billion, an increase of $0.3 billion from revenues of $1.3 billion 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 $269 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 nine months ended May 31, 2014 were $64.6 million or $2.01 per diluted common share compared to Net loss attributable to Greenbrier of $31.8 million or $1.20 per diluted common share for the nine months ended May 31, 2013. The increase in earnings was primarily attributed to an increase in manufacturing gross margin and a non-cash goodwill impairment charge of $71.8 million, net of tax, in the prior year.

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)	Nine Months Ended May 31, 2014	Nine Months Ended May 31, 2013
Revenue:		
Manufacturing	$ 1,132,811	$ 864,006
Wheels, Repair & Parts	390,604	355,219
Leasing & Services	62,441	52,978
	1,585,856	1,272,203
Margin:		
Manufacturing	162,970	89,504
Wheels, Repair & Parts	24,864	30,133
Leasing & Services	28,351	26,436
	216,185	146,073
Operating profit:		
Manufacturing	129,542	58,595
Wheels, Repair & Parts [1]	8,724	(60,858)
Leasing & Services	32,888	27,164
Corporate	(30,792)	(22,477)
Earnings from operations	140,362	2,424
Interest and foreign exchange	14,280	18,127
Earnings (loss) before income taxes and earnings (loss) from unconsolidated affiliates	126,082	(15,703)
Income tax expense	(36,708)	(12,905)
Earnings (loss) before earnings (loss) from unconsolidated affiliates	89,374	(28,608)
Earnings (loss) from unconsolidated affiliates	272	(63)

Net earnings (loss)	89,646	(28,671)
Net earnings attributable to noncontrolling interest	(25,083)	(3,093)
Net earnings (loss) attributable to Greenbrier	$ 64,563	$ (31,764)
Diluted earnings (loss) per common share	$ 2.01	$ (1.20)

(1) The nine months ended May 31, 2013 for Wheels, Repair & Parts includes a pre-tax non-cash impairment charge of $76.9 million.

Manufacturing Segment

Manufacturing revenue for the nine months ended May 31, 2014 was $1.133 billion compared to $864.0 million in the comparable period of the prior year, an increase of $269 million. The increase in revenue was primarily attributed to a higher volume of deliveries. Railcar unit deliveries, which are the primary source of manufacturing revenue, were approximately 11,400 units in the current period compared to approximately 8,100 units in the prior comparable period.

Manufacturing margin as a percentage of revenue for the nine months ended May 31, 2014 was 14.4% compared to a margin of 10.4% for the nine months ended May 31, 2013. The increase in margin as a percentage of revenue was primarily attributed to a favorable change in product mix, higher volumes of syndication of new railcars with leases attached and improved production efficiencies and overhead absorption.

Manufacturing operating profit was $129.5 million and 11.4% of revenue for the nine months ended May 31, 2014 compared to $58.6 million and 6.8% for the nine months ended May 31, 2013. The increase in operating profit as compared to the prior comparable period was primarily attributed to higher margins.

Wheels, Repair & Parts Segment

Wheels, Repair & Parts revenue was $390.6 million for the nine months ended May 31, 2014 compared to $355.2 million in the comparable period of the prior year. The increase of $35.4 million was primarily attributed to an increase in wheel set, component and parts volumes as a result of increased demand. In addition, there was a change in wheel set and component product mix, resulting in a higher average selling price. 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 6.4% for the nine months ended May 31, 2014 compared to 8.5% for the nine months ended May 31, 2013. The decrease in margin as a percentage of revenue was primarily the result of operating inefficiencies at certain of our repair facilities, a less favorable parts product mix and a change in wheel product mix.

Wheels, Repair & Parts operating profit was $8.7 million and 2.2% of revenue for the nine months ended May 31, 2014 compared to an operating loss of $60.9 million for the nine months ended May 31, 2013. The increase in operating profit as compared to the prior comparable period was primarily attributed to a pre-tax non-cash goodwill impairment charge of $76.9 million in the prior year.

Leasing & Services Segment

Leasing & Services revenue was $62.4 million for the nine months ended May 31, 2014 compared to $53.0 million in the comparable period of the prior year. The increase of $9.4 million was primarily a result of a syndication of railcars purchased from a third party. These railcars were not manufactured by the company, but rather purchased from a third party with a lease attached, with the intent to sell them. The gross proceeds from the sale of these railcars with leases attached were recorded as revenue and the cost of purchasing these railcars from a third party were recorded in cost of sales. The increase in revenue as compared to the prior year was also a result of higher average volumes of rent-producing leased railcars for syndication and an increase in management services revenue due to the addition of new management service agreements. These were partially offset by a decline in leasing revenue resulting from a smaller owned lease fleet as compared to the prior year.

Leasing & Services margin as a percentage of revenue was 45.4% for the nine months ended May 31, 2014 compared to 49.9% for the nine months ended May 31, 2013. The decrease in gross margin as a percentage of revenue compared to the prior comparable period was primarily due to a syndication of railcars purchased from a third party and the reduction in the maintenance accrual on terminated maintenance management agreements during the prior year. These were partially offset by higher average volumes of rent-producing leased railcars for syndication as compared to the prior year.

Leasing & Services operating profit was $32.9 million and 52.7% of revenue for the nine months ended May 31, 2014 compared to $27.2 million and 51.3% for the nine months ended May 31, 2013. The increase in operating profit as compared to the prior comparable period was primarily attributed to an increase in Net gain on disposition of equipment and an increase in gross margin.

Selling and Administrative Expense

Selling and administrative expense was $89.0 million or 5.6% of revenue for the nine months ended May 31, 2014 compared to $76.4 million or 6.0% of revenue for the prior comparable period. The change for the nine months ended May 31, 2014 compared to the prior comparable period was primarily attributed to an increase in employee related costs, including incentive compensation, associated with increased levels of activity and profitability. The increase was also attributed to an increase in legal and consulting costs associated with the potential formation of our new joint venture and union defense.

Net Gain on Disposition of Equipment

Net gain on disposition of equipment was $14.7 million for the nine months ended May 31, 2014, compared to $9.6 million for the prior comparable period. Assets from our lease fleet are periodically sold in the normal course of business in order to take advantage of market conditions and manage risk and liquidity.

The current year s gain included $14.3 million that was realized on the disposition of leased assets and $0.4 million on the disposition of equipment related to our restructuring plan to sell or close certain Wheels, Repair & Parts facilities to enhance margins and improve capital efficiency. The prior year s gain included $10.3 million in gains realized on the disposition of leased assets, a $0.6 million other gain and a $1.3 million loss related to the sale of certain assets from our roller bearing operation in Elizabethtown, Kentucky.

Restructuring Charges

During the fourth quarter of 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 $1.5 million for the nine months ended May 31, 2014 and consisted of employee related termination costs and other expenses.

Other Costs

Interest and foreign exchange expense was comprised of the following:

	Nine Months Ended May 31,		Increase
(In thousands)	2014	2013	(Decrease)
Interest and foreign exchange:			
Interest and other expense	$ 13,522	$ 14,479	$ (957)
Accretion of convertible debt discount		2,455	(2,455)
Foreign exchange loss	758	1,193	(435)
	$ 14,280	$ 18,127	$ (3,847)

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

Income Tax

Our tax rate for the nine months ended May 31, 2014 was 29.1%. The calculation of the tax rate is based on full-year projected foreign and domestic earnings and on specific items for which tax effects are booked discretely within the interim period. As such, the tax rate can fluctuate significantly from quarter-to-quarter depending on the projected annual mix of foreign and domestic earnings and on the magnitude of the discrete items. The tax rate of 82.8% for the nine months ended May 31, 2013 was greatly affected by such a discrete item, the impairment of nondeductible goodwill; without it, last year s rate would have been 33.8%. The annual tax rate for 2014 is projected to be approximately 29%.

The earnings attributable to Greenbrier-Gimsa, a partnership in which we are a 50% partner, can cause a significant reduction of the tax rate when those earnings are significant. This has been the case for 2014. The reduction in tax rates can occur because the Earnings (loss) before income taxes and earnings (loss) from unconsolidated affiliates includes 100% of Greenbrier-Gimsa s pre-tax earnings, whereas the income tax expense includes only our 50% share of the tax on those earnings. Earnings and taxes are presented this way because Greenbrier-Gimsa is a non-taxpaying domestic partnership for which taxes are payable by the partners rather than the partnership. Earnings attributable to noncontrolling interest includes our partner s 50% share of Greenbrier-Gimsa s pre-tax earnings.

The tax rates both this year and last year would have been approximately 33% to 35% had Greenbrier-Gimsa not been a partnership and had nondeductible goodwill not been impaired last year.

Noncontrolling Interest

Net earnings attributable to noncontrolling interest was $25.1 million for the nine months ended May 31, 2014 compared to $3.1 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 change from prior year is primarily a result of operating at higher production rates, improved manufacturing efficiencies and lower intercompany activity in the current year.

Liquidity and Capital Resources

(In thousands)	Nine Months Ended May 31, 2014	Nine Months Ended May 31, 2013
Net cash provided by operating activities	$ 81,740	$ 19,237
Net cash provided by (used in) investing activities	3,079	(17,293)
Net cash provided by (used in) financing activities	13,796	(22,303)
Effect of exchange rate changes	2,442	(1,606)
Net increase in cash and cash equivalents	$ 101,057	$ (21,965)

We have been financed through cash generated from operations and borrowings. At May 31, 2014, cash and cash equivalents were $198.5 million, an increase of $101.1 million from $97.4 million at August 31, 2013.

Cash provided by operating activities was $81.7 million for the nine months ended May 31, 2014 compared to $19.2 million for the nine months ended May 31, 2013. The change from the prior year was primarily due to a change in the timing of working capital needs and timing of sales of leased railcars for syndication as well as billings in excess of costs, which are recorded in deferred revenue, for our marine barges recorded under the percentage of completion method.

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 nine months ended May 31, 2014 was $3.1 million compared to cash used in investing activities of $17.3 million for the nine months ended May 31, 2013.

Capital expenditures totaled $34.5 million and $49.7 million for the nine months ended May 31, 2014 and 2013. Proceeds from the sale of assets, which primarily related to sales of railcars from our lease fleet within Leasing & Services, were approximately $39.5 million and $36.5 million for the nine months ended May 31, 2014 and 2013.

Approximately $4.0 million and $15.6 million of capital expenditures for the nine months ended May 31, 2014 and 2013 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 $50.0 million for 2014. We regularly sell assets from our lease fleet.

Approximately $24.7 million and $28.2 million of capital expenditures for the nine months ended May 31, 2014 and 2013 were attributable to Manufacturing operations. Capital expenditures for Manufacturing are expected to be approximately $70.0 million in 2014 and primarily relate to enhancements to our manufacturing facilities and replacement of certain leased manufacturing capacity in Mexico with an alternative site and expansion of capacity, particularly for tank car production, at our other manufacturing facilities in Mexico.

Wheels, Repair & Parts capital expenditures for the nine months ended May 31, 2014 and 2013 were $5.8 million and $5.9 million and are expected to be approximately $10.0 million in 2014 for maintenance and improvement of existing facilities.

Cash provided by financing activities was $13.8 million for the nine months ended May 31, 2014 compared to cash used in financing activities $22.3 million for the nine months ended May 31, 2013. Cash provided by and used in financing activities primarily related to proceeds from debt, net of repayments, and repurchase of stock.

In March 2014, we refinanced approximately $125 million of existing senior term debt, due in March 2014 and May 2015, secured by a pool of leased railcars with new 6-year $200 million senior term debt also secured by a pool of leased railcars. The new debt bears a floating interest rate of LIBOR plus 1.75% with principal of $1.75 million paid quarterly in arrears and a balloon payment of $160 million due at maturity. An interest rate swap agreement was entered into on 50% of the initial balance to swap the floating interest rate of LIBOR plus 1.75% to a fixed rate of 3.7375%.

In July 2014, the Board of Directors authorized the reinstatement of our company s dividend program. A quarterly dividend of $0.15 per share was declared on July 1, 2014.

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 and nine months ended May 31, 2014, we repurchased a total of 352,000 shares and 641,327 shares for approximately $16.0 million and $26.3 million.

Senior secured credit facilities, consisting of three components, aggregated to $360.0 million as of May 31, 2014. We had an aggregate of $331.5 million available to draw down under the committed credit facilities as of May 31, 2014. This amount consists of $279.6 million available on the North American credit facility, $20.0 million on the European credit facilities and $31.9 million on the Mexican joint venture credit facilities as of May 31, 2014.

As of May 31, 2014 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 May 31, 2014, lines of credit totaling $20.0 million secured by certain of our European assets, with various variable rates that range from Warsaw Interbank Offered Rate (WIBOR) plus 1.2% 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 May 31, 2014 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 will be able to draw amounts available under this facility through January 2015. 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 January 2015.

As of May 31, 2014 outstanding borrowings under the senior secured credit facilities consisted of $6.9 million in letters of credit under the North American credit facility and $18.1 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.

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 May 31, 2014, the Mexican joint venture had $19.8 million of third party debt, of which we have guaranteed approximately $15.9 million.

In accordance with customary business practices in Europe, we have $4.0 million in bank and third party warranty and performance guarantee facilities as of May 31, 2014. To date no amounts have been drawn under these guarantee facilities.

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 dividends, 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 May 31, 2014, $66.0 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 May 31, 2014, net assets of foreign subsidiaries aggregated $62.3 million and a 10% strengthening of the United States dollar relative to the foreign currencies would result in a decrease in equity of $6.2 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 $100.0 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 May 31, 2014, 74% of our outstanding debt had fixed rates and 26% had variable rates. At May 31, 2014, a uniform 10% increase in variable interest rates would result in approximately $0.2 million of additional annual interest expense.

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 May 31, 2014 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 14 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, as updated by the risk factors included in our Quarterly Reports on Form 10-Q for the periods ended November 30, 2013 and February 28, 2014. Other than the risk factors below, 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, as updated by the risk factors included in our Quarterly Reports on Form 10-Q for the periods ended November 30, 2013 and February 28, 2014.

Our relationships with our joint venture and alliance partners could be unsuccessful, which could adversely affect our business.

We have entered into several joint venture agreements and other alliances with other companies to increase our sourcing alternatives, reduce costs, and to produce new railcars for the North American marketplace. We may seek to expand our relationships or enter into new agreements with other companies, including with respect to railcar repair, refurbishment and maintenance. If our joint venture or alliance partners are unable to fulfill their contractual obligations or if these relationships are otherwise not successful in the future, our manufacturing and other costs could increase, we could encounter production disruptions, growth opportunities could fail to materialize, or we could be required to fund such joint venture or alliances in amounts significantly greater than initially anticipated, any of which could adversely affect our business.

We could have difficulty integrating the operations of any companies that we acquire or joint ventures we enter into, which could adversely affect our results of operations.

The success of our acquisition and joint venture strategy depends upon our ability to successfully complete acquisitions, to enter into joint ventures and integrate any businesses that are contributed into joint ventures or that we acquire into our existing business. The integration of business operations into a joint venture or of acquired business operations could disrupt our business by causing unforeseen operating difficulties, diverting management s attention from day-to-day operations and requiring significant financial resources that would otherwise be used for the ongoing development of our business. The difficulties of integration could be increased by the necessity of coordinating geographically dispersed organizations, integrating personnel with disparate business backgrounds and combining different corporate cultures and technologies. In addition, we could be unable to retain key employees or customers of the joint venture or combined businesses. We could face integration issues pertaining to the internal controls and operational functions of the joint venture or acquired companies and we also could fail to realize cost efficiencies or synergies that we anticipated when selecting our acquisition candidates and joint ventures. Any of these items could adversely affect our 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 May 31, 2014 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share (Including Commissions)	Total Number of Shares Purchased as Part of Publically Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
March 1, 2014 - March 31, 2014	231,000	$ 45.67	231,000	$ 29,178,179
April 1, 2014 - April 30, 2014	121,000	$ 45.22	121,000	$ 23,706,605
May 1, 2014 - May 31, 2014				$ 23,706,605
	352,000		352,000	

Item 6. Exhibits

(a) List of Exhibits:

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 May 31, 2014, formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (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.

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: July 2, 2014

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

Chief Financial Officer
(Principal Financial Officer)

Date: July 2, 2014

By: /s/ Adrian J. Downes
Adrian J. Downes
Senior Vice President and
Chief Accounting Officer
(Principal Accounting Officer)