

GREENBRIER COMPANIES INC  
Form 10-Q  
June 29, 2012

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

**Form 10-Q**

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

for the quarterly period ended May 31, 2012 May 31, 2012 May 31, 2012

**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)

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**Oregon**  
(State of Incorporation)

**93-0816972**  
(I.R.S. Employer Identification No.)

**One Centerpointe Drive,**

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

**97035**  
(Zip Code)

**(503) 684-7000**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

The number of shares of the registrant's common stock, without par value, outstanding on June 26, 2012 was 27,149,194 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 sales contracts which provide adequate protection against 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- 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 wheel services, refurbishment and 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;

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

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

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

growth or reduction in the surface transportation industry;

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

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

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

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

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

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

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

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

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

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

resolution or outcome of pending or future litigation and investigations;

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

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

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

industry overcapacity and our manufacturing capacity utilization;

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

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

changes in future maintenance or warranty requirements;

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

changes in interest rates and financial impacts from interest rates;

ability and cost to maintain and renew operating permits;

actions by various regulatory agencies;

changes in fuel and/or energy prices;

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

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

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

failure to successfully integrate acquired businesses;

discovery of previously unknown liabilities associated with acquired businesses;

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

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

credit limitations upon our ability to maintain effective hedging programs; and

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

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

All references to years refer to the fiscal years ended August 31<sup>st</sup> unless otherwise noted.

## PART I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements  
Consolidated Balance Sheets*(In thousands, unaudited)*

|  | May 31,<br>2012 | August 31,<br>2011 |
|--|-----------------|--------------------|
| <b>Assets</b>  |                 |                    |
| Cash and cash equivalents  | \$ 44,915       | \$ 50,222          |
| Restricted cash  | 6,089           | 2,113              |
| Accounts receivable, net   | 172,086         | 188,443            |
| Inventories  | 346,122         | 323,512            |
| Leased railcars for syndication  | 66,776          | 30,690             |
| Equipment on operating leases, net   | 334,872         | 321,141            |
| Property, plant and equipment, net   | 172,729         | 161,200            |
| Goodwill   | 137,066         | 137,066            |
| Intangibles and other assets, net  | 84,693          | 87,268             |
|  | \$ 1,365,348    | \$ 1,301,655       |
| <b>Liabilities and Equity</b>  |                 |                    |
| Revolving notes  | \$ 71,430       | \$ 90,339          |
| Accounts payable and accrued liabilities   | 323,977         | 316,536            |
| Deferred income taxes  | 88,514          | 83,839             |
| Deferred revenue   | 17,872          | 5,900              |
| Notes payable  | 428,028         | 429,140            |
| Commitments and contingencies (Note 12)  |                 |                    |
| <b>Equity:</b>   |                 |                    |
| Greenbrier   |                 |                    |
| Preferred stock without par value; 25,000 shares authorized; none outstanding  |                 |                    |
| Common stock without par value; 50,000 shares authorized; 27,149 and 25,186 shares outstanding at May 31, 2012 and August 31, 2011 |                 |                    |
| Additional paid-in capital   | 251,309         | 242,286            |
| Retained earnings  | 178,485         | 127,182            |
| Accumulated other comprehensive loss   | (11,633)        | (7,895)            |
| Total equity Greenbrier  | 418,161         | 361,573            |
| Noncontrolling interest  | 17,366          | 14,328             |
| Total equity   | 435,527         | 375,901            |
|  | \$ 1,365,348    | \$ 1,301,655       |

*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<br>May 31, |            | Nine Months Ended<br>May 31, |            |
|--|-------------------------------|------------|------------------------------|------------|
|  | 2012                          | 2011       | 2012                         | 2011       |
| <b>Revenue</b>   |                               |            |                              |            |
| Manufacturing  | \$ 364,930                    | \$ 173,487 | \$ 947,792                   | \$ 415,548 |
| Wheel Services, Refurbishment & Parts  | 125,145                       | 126,317    | 362,788                      | 333,600    |
| Leasing & Services   | 17,722                        | 17,476     | 53,601                       | 51,406     |
|  | 507,797                       | 317,280    | 1,364,181                    | 800,554    |
| <b>Cost of revenue</b>   |                               |            |                              |            |
| Manufacturing  | 325,424                       | 158,674    | 852,464                      | 385,974    |
| Wheel Services, Refurbishment & Parts  | 111,610                       | 111,202    | 324,055                      | 299,026    |
| Leasing & Services   | 8,825                         | 9,254      | 27,783                       | 27,099     |
|  | 445,859                       | 279,130    | 1,204,302                    | 712,099    |
| <b>Margin</b>  | 61,938                        | 38,150     | 159,879                      | 88,455     |
| Selling and administrative   | 28,784                        | 22,580     | 76,998                       | 58,212     |
| Gain on disposition of equipment   | (2,585)                       | (1,678)    | (8,897)                      | (6,148)    |
| <b>Earnings from operations</b>  | 35,739                        | 17,248     | 91,778                       | 36,391     |
| <b>Other costs</b>   |                               |            |                              |            |
| Interest and foreign exchange  | 6,560                         | 9,807      | 18,574                       | 30,646     |
| Loss on extinguishment of debt   |                               | 10,007     |                              | 10,007     |
| Earnings (loss) before income taxes and earnings (loss) from unconsolidated affiliates | 29,179                        | (2,566)    | 73,204                       | (4,262)    |
| Income tax benefit (expense)   | (8,655)                       | 301        | (21,798)                     | 812        |
| Earnings (loss) before earnings (loss) from unconsolidated affiliates                  | 20,524                        | (2,265)    | 51,406                       | (3,450)    |
| Earnings (loss) from unconsolidated affiliates   | 201                           | (539)      | (99)                         | (1,700)    |
| Net earnings (loss)  | 20,725                        | (2,804)    | 51,307                       | (5,150)    |
| Net earnings attributable to noncontrolling interest                                   | (1,608)                       | (510)      | (4)                          | (1,019)    |
| <b>Net earnings (loss) attributable to Greenbrier</b>                                  | \$ 19,117                     | \$ (3,314) | \$ 51,303                    | \$ (6,169) |
| Basic earnings (loss) per common share   | \$ 0.71                       | \$ (0.14)  | \$ 1.94                      | \$ (0.27)  |
| Diluted earnings (loss) per common share   | \$ 0.61                       | \$ (0.14)  | \$ 1.65                      | \$ (0.27)  |
| Weighted average common shares:  |                               |            |                              |            |
| Basic  | 26,981                        | 24,127     | 26,378                       | 22,893     |
| Diluted  | 33,862                        | 24,127     | 33,640                       | 22,893     |

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

## Consolidated Statements of Equity and Comprehensive Income (Loss)

(In thousands, except per share amounts, unaudited)

|   | Attributable to Greenbrier |                                  |                      |   | Total<br>Attributable<br>to Greenbrier | Attributable<br>to<br>Noncontrolling<br>Interest | Total<br>Equity |
|---|----------------------------|----------------------------------|----------------------|---|--|--|-----------------|
|   | Common<br>Stock<br>Shares  | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) |  |  |                 |
| <b>Balance September 1, 2011</b>  | 25,186                     | \$ 242,286                       | \$ 127,182           | \$ (7,895)  | \$ 361,573                             | \$ 14,328  | \$ 375,901      |
| Net earnings  |                            |                                  | 51,303               |   | 51,303                                 | 4  | 51,307          |
| Translation adjustment  |                            |                                  |                      | (5,912)   | (5,912)                                | (172)  | (6,084)         |
| Reclassification of derivative financial instruments recognized in net earnings (net of tax effect) |                            |                                  |                      | (4,168)   | (4,168)                                |  | (4,168)         |
| Unrealized gain on derivative financial instruments (net of tax effect)                             |                            |                                  |                      | 6,342   | 6,342                                  |  | 6,342           |
| Comprehensive income (loss)   |                            |                                  |                      |   | 47,565                                 | (168)  | 47,397          |
| Investment by joint venture partner   |                            |                                  |                      |   |  | 410  | 410             |
| Noncontrolling interest adjustments   |                            |                                  |                      |   |  | 2,796  | 2,796           |
| Restricted stock awards (net of cancellations)  | 467                        | 9,364                            |                      |   | 9,364                                  |  | 9,364           |
| Unamortized restricted stock  |                            | (9,364)                          |                      |   | (9,364)                                |  | (9,364)         |
| Restricted stock amortization   |                            | 6,353                            |                      |   | 6,353                                  |  | 6,353           |
| Warrants exercised  | 1,496                      |                                  |                      |   |  |  |                 |
| Excess tax benefit from restricted stock awards   |                            | 2,670                            |                      |   | 2,670                                  |  | 2,670           |
| <b>Balance May 31, 2012</b>   | 27,149                     | \$ 251,309                       | \$ 178,485           | \$ (11,633)   | \$ 418,161                             | \$ 17,366  | \$ 435,527      |

|   | Attributable to Greenbrier |                                  |                      |   | Total<br>Attributable<br>to Greenbrier | Attributable<br>to<br>Noncontrolling<br>Interest | Total<br>Equity |
|---|----------------------------|----------------------------------|----------------------|---|--|--|-----------------|
|   | Common<br>Stock<br>Shares  | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) |  |  |                 |
| <b>Balance September 1, 2010</b>  | 21,875                     | \$ 172,426                       | \$ 120,716           | \$ (7,204)  | \$ 285,938                             | \$ 11,469  | \$ 297,407      |
| Net earnings (loss)   |                            |                                  | (6,169)              |   | (6,169)                                | 1,019  | (5,150)         |
| Translation adjustment  |                            |                                  |                      | 3,521   | 3,521                                  |  | 3,521           |
| Reclassification of derivative financial instruments recognized in net loss (net of tax effect) |                            |                                  |                      | (215)   | (215)                                  |  | (215)           |
| Unrealized gain on derivative financial instruments (net of tax effect)                         |                            |                                  |                      | 634   | 634                                    |  | 634             |
| Comprehensive loss  |                            |                                  |                      |   | (2,229)                                | 1,019  | (1,210)         |
| Noncontrolling interest adjustments   |                            |                                  |                      |   |  | 31   | 31              |
| Net proceeds from equity offering   | 3,000                      | 62,760                           |                      |   | 62,760                                 |  | 62,760          |
| Restricted stock awards (net of cancellations)  | 278                        | 6,593                            |                      |   | 6,593                                  |  | 6,593           |

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|                               |        |            |            |            |            |                      |
|-------------------------------|--------|------------|------------|------------|------------|----------------------|
| Unamortized restricted stock  |        | (6,593)    |            | (6,593)    |            | (6,593)              |
| Restricted stock amortization |        | 4,961      |            | 4,961      |            | 4,961                |
| Stock options exercised       | 6      | 26         |            | 26         |            | 26                   |
| <b>Balance May 31, 2011</b>   | 25,159 | \$ 240,173 | \$ 114,547 | \$ (3,264) | \$ 351,546 | \$ 12,519 \$ 363,975 |

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

**Consolidated Statements of Cash Flows***(In thousands, unaudited)*

|  | Nine Months Ended<br>May 31, |            |
|--|------------------------------|------------|
|  | 2012                         | 2011       |
| <b>Cash flows from operating activities</b>  |                              |            |
| Net income (loss)  | \$ 51,307                    | \$ (5,150) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                              |            |
| Deferred income taxes  | 4,801                        | (5,276)    |
| Depreciation and amortization  | 30,603                       | 28,174     |
| Gain on sales of leased equipment  | (8,897)                      | (2,901)    |
| Accretion of debt discount   | 2,416                        | 5,446      |
| Stock based compensation expense   | 6,724                        | 4,961      |
| Loss on extinguishment of debt (non-cash portion)  |                              | 2,868      |
| Other  | 3,586                        | 91         |
| Decrease (increase) in assets:   |                              |            |
| Accounts receivable  | 10,429                       | (51,427)   |
| Inventories  | (26,748)                     | (83,293)   |
| Leased railcars for syndication  | (43,561)                     | (48,465)   |
| Other  | (1,419)                      | 5,834      |
| Increase (decrease) in liabilities:  |                              |            |
| Accounts payable and accrued liabilities   | 12,401                       | 77,273     |
| Deferred revenue   | 11,991                       | (5,442)    |
| Net cash provided by (used in) operating activities  | 53,633                       | (77,307)   |
| <b>Cash flows from investing activities</b>  |                              |            |
| Proceeds from sales of equipment   | 33,253                       | 14,179     |
| Investment in and advances to unconsolidated affiliates  | (544)                        | (979)      |
| Decrease (increase) in restricted cash   | (3,976)                      | 308        |
| Capital expenditures   | (72,117)                     | (59,689)   |
| Other  | 35                           | 52         |
| Net cash used in investing activities  | (43,349)                     | (46,129)   |
| <b>Cash flows from financing activities</b>  |                              |            |
| Net change in revolving notes with maturities of 90 days or less                                   | (49,114)                     | 3,694      |
| Proceeds from revolving notes with maturities longer than 90 days                                  | 56,644                       | 13,373     |
| Repayments of revolving notes with maturities longer than 90 days                                  | (23,573)                     | (6,194)    |
| Proceeds from issuance of notes payable  | 2,500                        | 231,250    |
| Debt issuance costs  |                              | (7,857)    |
| Repayments of notes payable  | (6,028)                      | (238,569)  |
| Gross proceeds from equity offering  |                              | 63,180     |
| Excess tax benefit from restricted stock awards  | 2,670                        |            |
| Investment by joint venture partner  | 410                          |            |
| Expenses from equity offering  |                              | (420)      |
| Other  |                              | 26         |
| Net cash provided by (used in) financing activities  | (16,491)                     | 58,483     |

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|  |                |                 |
|--|----------------|-----------------|
| Effect of exchange rate changes              | 900            | 391             |
| <b>Decrease in cash and cash equivalents</b> | <b>(5,307)</b> | <b>(64,562)</b> |
| <b>Cash and cash equivalents</b>             |                |                 |
| Beginning of period                          | 50,222         | 98,864          |
| End of period                                | \$ 44,915      | \$ 34,302       |
| <b>Cash paid during the period for</b>       |                |                 |
| Interest                                     | \$ 10,817      | \$ 25,850       |
| Income taxes, net                            | \$ 4,013       | \$ 866          |

*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, 2012, for the three and nine months ended May 31, 2012 and 2011 have been prepared without audit and reflect all adjustments (consisting of normal recurring accruals) which, in the opinion of management, are necessary for a fair presentation of the financial position and operating results and cash flows for the periods indicated. The results of operations for the three and nine months ended May 31, 2012 are not necessarily indicative of the results to be expected for the entire year ending August 31, 2012.

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 2011 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.

*Prospective Accounting Changes* In June 2011, an accounting standard update was issued regarding the presentation of other comprehensive income in the financial statements. The standard eliminated the option of presenting other comprehensive income as part of the statement of changes in equity and instead requires the Company to present other comprehensive income as either a single statement of comprehensive income combined with net income or as two separate but continuous statements. This amendment will be effective for the Company as of September 1, 2012. The Company currently reports other comprehensive income in the Consolidated Statement of Equity and Comprehensive Income (Loss) and will be required to change the presentation of comprehensive income to be in compliance with the new standard.

In September 2011, an accounting standard update was issued regarding the annual goodwill impairment testing. This amendment is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. This amendment will be effective for the Company as of September 1, 2012. However, early adoption is permitted if an entity's financial statements for the most recent annual or interim period have not yet been issued. This amendment impacts testing steps only, and therefore adoption will not have an effect on the Company's Consolidated Financial Statements. The Company performs a goodwill impairment test annually during the third quarter. Goodwill was tested during the quarter and the Company concluded that goodwill was not impaired. Goodwill is also tested more frequently if changes in circumstances or the occurrence of events indicates that a potential impairment exists.

**Note 2 Inventories**

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

| <i>(In thousands)</i>                    | May 31,<br>2012 | August 31,<br>2011 |
|--|-----------------|--------------------|
| Manufacturing supplies and raw materials | \$ 263,281      | \$ 231,798         |
| Work-in-process                          | 57,447          | 78,709             |
| Finished goods                           | 30,187          | 17,455             |
| Excess and obsolete adjustment           | (4,793)         | (4,450)            |
|  | \$ 346,122      | \$ 323,512         |

**Note 3 Intangibles and Other Assets, net**

Intangible assets that are determined to have finite lives are amortized over their useful lives. Intangible assets with indefinite useful lives are not amortized and are periodically evaluated for impairment.

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

| <i>(In thousands)</i>                                | May 31,<br>2012  | August 31,<br>2011 |
|--|------------------|--------------------|
| <b>Intangible assets subject to amortization:</b>    |                  |                    |
| Customer relationships                               | \$ 66,825        | \$ 66,825          |
| Accumulated amortization                             | (20,960)         | (17,854)           |
| Other intangibles                                    | 4,808            | 5,185              |
| Accumulated amortization                             | (3,629)          | (3,475)            |
|  | 47,044           | 50,681             |
| <b>Intangible assets not subject to amortization</b> | <b>912</b>       | <b>912</b>         |
| Prepaid and other assets                             | 10,260           | 8,692              |
| Debt issuance costs, net                             | 10,822           | 12,516             |
| Nonqualified savings plan investments                | 6,700            | 6,326              |
| Investment in unconsolidated affiliates              | 8,266            | 5,769              |
| Contract placement fee                               | 610              | 2,259              |
| Investment in direct finance leases                  | 79               | 113                |
| <b>Total intangible and other assets</b>             | <b>\$ 84,693</b> | <b>\$ 87,268</b>   |

Amortization expense for the three and nine months ended May 31, 2012 was \$1.1 million and \$3.4 million and for the three and nine months ended May 31, 2011 was \$1.2 million and \$3.6 million. Amortization expense for the years ending August 31, 2012, 2013, 2014, 2015 and 2016 is expected to be \$4.6 million, \$4.4 million, \$4.3 million, \$4.3 million and \$4.3 million.

**Note 4 Revolving Notes**

Senior secured credit facilities, consisting of three components, aggregated to \$357.0 million as of May 31, 2012.

As of May 31, 2012 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, 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 variable rates that depend on the type of borrowing and the defined ratio of debt to total capitalization. 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, 2012, lines of credit totaling \$17.0 million secured by certain of the Company's European assets, with various variable rates, 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 2012 through June 2013.

As of May 31, 2012 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% and are due 180 days after the date of borrowing. The outstanding advances as of May 31, 2012 have maturities that range from June 2012 to November 2012. The Mexican joint venture will be able to draw against this facility through July 2012. The second line of credit provides up to \$30.0 million and is guaranteed by each of the joint venture partners, including the Company. Advances under this facility bear interest at LIBOR plus 2.0% and are due 180 days after the date of borrowing. The outstanding advances as of May 31, 2012 mature in July 2012. The Mexican joint venture will be able to draw against this facility through February 2015.

As of May 31, 2012 outstanding borrowings under the senior secured credit facilities consisted of \$6.6 million in letters of credit and \$10.0 million in revolving notes outstanding under the North American credit facility, \$13.2 million outstanding under the European credit facilities and \$48.2 million outstanding under the Mexican joint venture credit facilities.

**Note 5 Accounts Payable and Accrued Liabilities**

| <i>(In thousands)</i>                        | May 31,<br>2012 | August 31,<br>2011 |
|--|-----------------|--------------------|
| Trade payables and other accrued liabilities | \$ 259,407      | \$ 267,683         |
| Accrued payroll and related liabilities      | 32,559          | 26,757             |
| Accrued maintenance                          | 10,732          | 10,865             |
| Accrued warranty                             | 10,447          | 8,645              |
| Other  | 10,832          | 2,586              |
|  | \$ 323,977      | \$ 316,536         |



**Note 6 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:

| <i>(In thousands)</i>           | Three Months Ended<br>May 31, |                 | Nine Months Ended<br>May 31, |                 |
|---------------------------------|-------------------------------|-----------------|------------------------------|-----------------|
|                                 | 2012                          | 2011            | 2012                         | 2011            |
| Balance at beginning of period  | \$ 9,297                      | \$ 6,381        | \$ 8,645                     | \$ 6,304        |
| Charged to cost of revenue      | 1,848                         | 1,080           | 3,243                        | 1,731           |
| Payments                        | (525)                         | (449)           | (1,194)                      | (1,050)         |
| Currency translation effect     | (173)                         | 15              | (247)                        | 42              |
| <b>Balance at end of period</b> | <b>\$ 10,447</b>              | <b>\$ 7,027</b> | <b>\$ 10,447</b>             | <b>\$ 7,027</b> |

**Note 7 Accumulated Other Comprehensive Loss**

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

| <i>(In thousands)</i>        | Unrealized<br>Income<br>(Loss) on<br>Derivative<br>Financial<br>Instruments | Pension<br>Adjustment | Foreign<br>Currency<br>Translation<br>Adjustment | Accumulated<br>Other<br>Comprehensive<br>Loss |
|------------------------------|---|-----------------------|--|---|
| Balance, August 31, 2011     | \$ (5,789)  | \$ (195)              | \$ (1,911)                                       | \$ (7,895)                                    |
| Year to date activity        | 2,174   |                       | (5,912)  | (3,738)                                       |
| <b>Balance, May 31, 2012</b> | <b>\$ (3,615)</b>   | <b>\$ (195)</b>       | <b>\$ (7,823)</b>                                | <b>\$ (11,633)</b>                            |

**Note 8 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:

| <i>(In thousands)</i>   | Three Months Ended |               | Nine Months Ended |               |
|---|--------------------|---------------|-------------------|---------------|
|   | May 31,            |               | May 31,           |               |
|   | 2012               | 2011          | 2012              | 2011          |
| Weighted average basic common shares outstanding <sup>(1)</sup> | 26,981             | 24,127        | 26,378            | 22,893        |
| Dilutive effect of employee stock options <sup>(2)</sup>        |                    |               |                   |               |
| Dilutive effect of warrants <sup>(3)</sup>                      | 836                |               | 1,217             |               |
| Dilutive effect of convertible notes <sup>(4)</sup>             | 6,045              |               | 6,045             |               |
| <b>Weighted average diluted common shares outstanding</b>       | <b>33,862</b>      | <b>24,127</b> | <b>33,640</b>     | <b>22,893</b> |

- (1) Restricted stock grants are treated as outstanding when issued and are included in weighted average basic common shares outstanding when the Company is in a net earnings position. Shares outstanding exclude 0.8 million shares of unvested restricted stock for the three and nine months ended May 31, 2011 due to a net loss.
- (2) There were no options outstanding for the three and nine months ended May 31, 2012. The dilutive effect of options was excluded from the share calculation for the three and nine months ended May 31, 2011 due to a net loss.
- (3) The dilutive effect of warrants to purchase 3.4 million shares was excluded from the share calculation for the three and nine months ended May 31, 2011 due to a net loss.
- (4) The dilutive effect of the 2018 Convertible notes are included as they were considered dilutive under the *if converted* method as further discussed below. The dilutive effect of the 2026 Convertible notes was excluded from the share calculations as the stock price for each period presented was less than the initial conversion price of \$48.05 and therefore considered anti-dilutive.

Dilutive EPS for the three and nine months ended May 31, 2012 was calculated using the more dilutive of two approaches. The first approach includes the dilutive effect of outstanding warrants and shares underlying the 2026 Convertible notes in the share count using the treasury stock method. The second approach supplements the first by including the *if converted* effect of the 2018 Convertible notes issued in March 2011. Under the *if converted* method debt issuance and interest costs, both net of tax, associated with the convertible notes are added back to net earnings and the share count is increased by the 6,045 shares underlying the convertible notes. The 2026 Convertible notes would only be included in the calculation of both approaches if the current stock price is greater than the initial conversion price of \$48.05 using the treasury stock method.

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

- (1) Diluted earnings per share was calculated as follows:  
Earnings before interest and debt issuance costs on convertible notes

Weighted average diluted common shares outstanding

**Note 9 Stock Based Compensation**

The value of stock awarded under restricted stock grants is amortized as compensation expense over the vesting period, which is generally between one to five years. For the three and nine months ended May 31, 2012, \$3.2 million and \$6.7 million in compensation expense was recorded for restricted stock grants. For the three and nine months ended May 31, 2011, \$2.4 million and \$5.0 million in compensation expense was recorded for restricted stock grants.

**Note 10 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. Interest rate swap agreements are utilized to reduce the impact of changes in interest rates on certain debt. The Company's foreign currency forward exchange contracts and interest rate swap agreements are designated as cash flow hedges, and therefore the effective portion of unrealized gains and losses are recorded in accumulated other comprehensive loss.

At May 31, 2012 exchange rates, forward exchange contracts for the purchase of Polish Zloty and the sale of Euro aggregated \$81.1 million. Adjusting the foreign currency exchange contracts to the fair value of the cash flow hedges at May 31, 2012 resulted in an unrealized pre-tax loss of \$2.0 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 December 2013, 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, 2012, an interest rate swap agreement had a notional amount of \$43.3 million and matures March 2014. The fair value of this cash flow hedge at May 31, 2012 resulted in an unrealized pre-tax loss of \$3.1 million. The loss is included in Accumulated other comprehensive loss and the fair value of the contract is included in Accounts payable and accrued liabilities on the Consolidated Balance Sheet. As interest expense on the underlying debt is recognized, amounts corresponding to the interest rate swap are reclassified from accumulated other comprehensive loss and charged or credited to interest expense. At May 31, 2012 interest rates, approximately \$1.2 million would be reclassified to interest expense in the next 12 months.

**Fair Values of Derivative Instruments**

|  | Asset Derivatives      |                            |                               | Liability Derivatives                    |                            |                               |
|--|------------------------|----------------------------|-------------------------------|--|----------------------------|-------------------------------|
|  | Balance sheet location | May 31, 2012<br>Fair Value | August 31, 2011<br>Fair Value | Balance sheet location                   | May 31, 2012<br>Fair Value | August 31, 2011<br>Fair Value |
| <i>(In thousands)</i>                                    |                        |                            |                               |  |                            |                               |
| <b>Derivatives designated as hedging instruments</b>     |                        |                            |                               |  |                            |                               |
| Foreign forward exchange contracts                       | Accounts receivable    | \$ 222                     | \$                            | Accounts payable and accrued liabilities | \$ 2,090                   | \$ 2,848                      |
| Interest rate swap contracts                             | Other assets           |                            |                               | Accounts payable and accrued liabilities | 3,149                      | 4,386                         |
|  |                        | \$ 222                     | \$                            |  | \$ 5,239                   | \$ 7,234                      |
| <b>Derivatives not designated as hedging instruments</b> |                        |                            |                               |  |                            |                               |
| Foreign forward exchange contracts                       | Accounts receivable    | \$ 64                      | \$                            | Accounts payable and                     | \$ 282                     | \$ 525                        |



## The Effect of Derivative Instruments on the Statement of Operations

| Derivatives in cash flow hedging relationships | Gain (loss) recognized in OCI on derivatives (effective portion) nine months ended |          | Location of loss recognized in income on derivative | Gain (loss) reclassified from accumulated OCI into income |          | Loss recognized in income on derivative nine months ended |              |
|--|--|----------|---|---|----------|---|--------------|
|  | 5/31/12  | 5/31/11  |   | 5/31/12   | 5/31/11  | May 31, 2012  | May 31, 2011 |
| Foreign forward exchange contract              |  |          | Interest and foreign exchange                       |   |          | \$ (144)  | \$ (39)      |
| Foreign forward exchange contracts             | \$ (3,345)   | \$ 450   | Revenue   | \$ (3,917)  | \$ 599   | Interest and foreign exchange                             | \$           |
| Interest rate swap contracts                   | (2,503)  | 2,216    | Interest and foreign exchange                       | (1,266)   | (1,339)  | Interest and foreign exchange                             | \$           |
|  | \$ (5,848)   | \$ 2,666 |   | \$ (5,183)  | \$ (740) |   | \$           |

**Note 11 Segment Information**

Greenbrier operates in three reportable segments: Manufacturing; Wheel Services, Refurbishment & Parts; and Leasing & Services. The accounting policies of the segments are described in the summary of significant accounting policies in the Consolidated Financial Statements contained in the Company's 2011 Annual Report on Form 10-K. Segment performance is evaluated based on margin. The Company's integrated business model results in selling and administrative costs being intertwined among the segments. Any allocation of these costs would be subjective and not meaningful and as a result, Greenbrier's management does not allocate these costs 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 is 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.

| <i>(In thousands)</i>  | Three Months Ended |            | Nine Months Ended |            |
|--|--------------------|------------|-------------------|------------|
|  | May 31,            |            | May 31,           |            |
|  | 2012               | 2011       | 2012              | 2011       |
| <b>Revenue:</b>  |                    |            |                   |            |
| Manufacturing  | \$ 370,993         | \$ 198,181 | \$ 1,004,507      | \$ 493,751 |
| Wheel Services, Refurbishment & Parts  | 128,925            | 136,888    | 375,242           | 359,833    |
| Leasing & Services   | 24,196             | 17,769     | 70,585            | 51,952     |
| Intersegment eliminations  | (16,317)           | (35,558)   | (86,153)          | (104,982)  |
|  | \$ 507,797         | \$ 317,280 | \$ 1,364,181      | \$ 800,554 |
| <b>Margin:</b>   |                    |            |                   |            |
| Manufacturing  | \$ 39,506          | \$ 14,813  | \$ 95,328         | \$ 29,574  |
| Wheel Services, Refurbishment & Parts  | 13,535             | 15,115     | 38,733            | 34,574     |
| Leasing & Services   | 8,897              | 8,222      | 25,818            | 24,307     |
| Segment margin total   | 61,938             | 38,150     | 159,879           | 88,455     |
| Less unallocated expenses:   |                    |            |                   |            |
| Selling and administrative   | 28,784             | 22,580     | 76,998            | 58,212     |
| Gain on disposition of equipment   | (2,585)            | (1,678)    | (8,897)           | (6,148)    |
| Interest and foreign exchange  | 6,560              | 9,807      | 18,574            | 30,646     |
| Loss on extinguishment of debt   |                    | 10,007     |                   | 10,007     |
| Earnings (loss) before income taxes and earnings (loss) from unconsolidated affiliates | \$ 29,179          | \$ (2,566) | \$ 73,204         | \$ (4,262) |

**Note 12 Commitments and Contingencies**

Environmental studies have been conducted on certain of the Company's owned and leased properties that indicate additional investigation and some remediation on certain properties may be necessary. The Company's Portland, Oregon manufacturing facility is located adjacent to the Willamette River. The U.S. Environmental Protection Agency (EPA) has classified portions of the river bed, including the portion fronting Greenbrier's facility, as a federal National Priority List or Superfund site due to sediment contamination (the Portland Harbor Site). Greenbrier and more than 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, 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. A draft of the RI study was submitted on October 27, 2009. The draft Feasibility Study was submitted on March 30, 2012. 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. In addition, the Company has entered into a Voluntary Clean-Up Agreement with the Oregon Department of Environmental Quality in which the Company agreed to conduct an investigation of whether, and to what extent, past or present operations at the Portland property may have released hazardous substances to the environment. The Company is also conducting groundwater remediation relating to a historical spill on the property which antedates its ownership.

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

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

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



When the Company acquired the assets of the Freight Wagon Division of DaimlerChrysler in January 2000, it acquired a contract to build 201 freight cars for Okombi GmbH, a subsidiary of Rail Cargo Austria AG. Subsequently, Okombi made breach of warranty and late delivery claims against the Company which grew out of design and certification problems. All of these issues were settled as of March 2004. Additional allegations have been made, the most serious of which involve cracks to the structure of the freight cars. Okombi has been required to remove all 201 freight cars from service, and a formal claim has been made against the Company. Legal, technical and commercial evaluations are on-going to determine what obligations the Company might have, if any, to remedy the alleged defects, though resolution of such issues has not been reached due to delays by Okombi.

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

The Company is involved as a defendant in other litigation initiated in the ordinary course of business. While the ultimate outcome of such legal proceedings cannot be determined at this time, management believes that the resolution of these actions will not have a material adverse effect on the Company's Consolidated Financial Statements.

In accordance with customary business practices in Europe, the Company has \$2.9 million in bank and third party warranty and performance guarantee facilities as of May 31, 2012. To date no amounts have been drawn under these guarantee facilities.

The Company sold 743 railcars during the third quarter of 2012 for which the Company has an obligation, up to a maximum amount of \$4.2 million, to support the railcar portfolio meeting a target minimum rate of return. This obligation expires in March 2033. This \$4.2 million, which is held in restricted cash, was recorded as a reduction in revenue on the sale of 600 new railcars and a reduction in gain on sale on the sale of the 143 used railcars with a credit to deferred revenue.

At May 31, 2012, the Mexican joint venture had \$48.8 million of third party debt outstanding, for which the Company has guaranteed approximately \$39.4 million. In addition, the Company, along with its joint venture partner, has committed to contributing \$10.0 million to fund the capital expenditures for a fourth manufacturing line, of which the Company will contribute 50%. These amounts will be contributed at various intervals from May 31, 2012 to October 31, 2013. As of May 31, 2012, the Company has contributed \$0.4 million.

As of May 31, 2012 the Company has outstanding letters of credit aggregating \$6.6 million associated with facility leases and workers compensation insurance.

**Note 13 Fair Value Measures**

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

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

Assets and liabilities measured at fair value on a recurring basis as of May 31, 2012 are:

| <i>(In thousands)</i>                 | Total    | Level 1  | Level 2 <sup>(1)</sup> | Level 3 |
|---------------------------------------|----------|----------|------------------------|---------|
| <b>Assets:</b>                        |          |          |                        |         |
| Derivative financial instruments      | \$ 286   | \$       | \$ 286                 | \$      |
| Nonqualified savings plan investments | 6,700    | 6,700    |                        |         |
| Cash equivalents                      | 2,001    | 2,001    |                        |         |
|                                       | \$ 8,987 | \$ 8,701 | \$ 286                 | \$      |
| <b>Liabilities:</b>                   |          |          |                        |         |
| Derivative financial instruments      | \$ 5,521 | \$       | \$ 5,521               | \$      |

- (1) Level 2 assets include derivative financial instruments which are valued based on significant observable inputs. See note 10 Derivative Instruments for further discussion.

Assets and liabilities measured at fair value on a recurring basis as of August 31, 2011 are:

| <i>(In thousands)</i>                 | Total     | Level 1   | Level 2  | Level 3 |
|---------------------------------------|-----------|-----------|----------|---------|
| <b>Assets:</b>                        |           |           |          |         |
| Derivative financial instruments      | \$        | \$        | \$       | \$      |
| Nonqualified savings plan investments | 6,326     | 6,326     |          |         |
| Cash equivalents                      | 4,561     | 4,561     |          |         |
|                                       | \$ 10,887 | \$ 10,887 | \$       | \$      |
| <b>Liabilities:</b>                   |           |           |          |         |
| Derivative financial instruments      | \$ 7,759  | \$        | \$ 7,759 | \$      |

**Note 14 Loss on Extinguishment of Debt**

The results of operations for the three and nine months ended May 31, 2011 include a loss on extinguishment of debt of \$10.0 million associated with the write-off of unamortized debt acquisition costs of \$2.9 million and prepayment premiums and other costs of \$7.1 million due to the full retirement of the \$235.0 million senior unsecured notes during the third quarter of 2011.



**Note 15 Variable Interest Entities**

In March 2012, the Company formed a special purpose entity that purchased a 1% interest in three trusts (the Trusts ) which are 99% owned by a third party. The Company has agreed to sell 1,363 railcars, subject to operating leases, for \$115.4 million to the Trusts. This transaction is expected to close in three tranches with the first occurring in May 2012 and the last to occur no later than March 2013.

Gains and losses will be allocated between the Company and the third party equal to their respective ownership interest in the Trusts, with the exception that the Company may be entitled to receive a small portion of excess rent if the actual performance of the Trusts exceeds a target rate of return.

The Company is required to contribute \$8.0 million of cash collateral, which is funded ratably as each tranche is closed, into restricted cash accounts to support the railcar portfolio meeting a target rate of return. If the actual return is less than the target return, the third party may withdraw amounts in the restricted cash accounts at certain intervals based on predetermined criteria.

In connection with this transaction, the Company entered into an agreement to provide administrative and remarketing services to the Trusts. The agreement is currently set to expire in March 2033. The Company also entered into an agreement to provide maintenance services to the Trusts during the initial lease term of the railcars. The Company will receive management and maintenance fees under each of the aforementioned agreements.

As of May 31, 2012, the Company has sold 743 railcars to the Trusts for an aggregate value of \$61.1 million for which the Company has an obligation, up to a maximum amount of \$4.2 million, to support the railcar portfolio meeting a target minimum rate of return. This obligation expires in March 2033. This \$4.2 million, which is held in restricted cash, was recorded as a reduction in revenue on the sale of 600 new railcars and a reduction in gain on sale on the sale of the 143 used railcars with a credit to deferred revenue.

The Company has evaluated this relationship under ASC 810-10 and has concluded that the Trusts qualify as variable interest entities and that the Company is not the primary beneficiary. The Company will not consolidate the Trusts and will account for the investments under the equity method of accounting.

As of May 31, 2012, the carrying amount of the Company's investment in the Trust is \$0.6 million which is recorded in Intangibles and Other Assets, net on the Consolidated Balance Sheets.

**Note 16 Guarantor/Non Guarantor**

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

The following represents the supplemental consolidating condensed financial information of Greenbrier and its guarantor and non guarantor subsidiaries, as of May 31, 2012 and August 31, 2011, for the three and nine months ended May 31, 2012 and for the three and nine months ended May 31, 2011. The information is presented on the basis of Greenbrier accounting for its ownership of its wholly owned subsidiaries using the equity method of accounting. The equity method investment for each subsidiary is recorded by the parent in intangibles and other assets. Intercompany transactions of goods and services between the guarantor and non guarantor subsidiaries are presented as if the sales or transfers were at fair value to third parties and eliminated in consolidation.

**THE GREENBRIER COMPANIES, INC.**

The Greenbrier Companies, Inc.

Condensed Consolidating Balance Sheet

May 31, 2012

*(In thousands)*

|  | Parent     | Combined<br>Guarantor<br>Subsidiaries | Combined<br>Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|------------|---------------------------------------|---|--------------|--------------|
| <b>Assets</b>                            |            |                                       |   |              |              |
| Cash and cash equivalents                | \$ 31,516  | \$ 105                                | \$ 13,294                                 | \$           | \$ 44,915    |
| Restricted cash                          |            | 1,859                                 | 4,230                                     |              | 6,089        |
| Accounts receivable, net                 | (2,116)    | 156,593                               | 18,041                                    | (432)        | 172,086      |
| Inventories                              |            | 139,888                               | 206,586                                   | (352)        | 346,122      |
| Leased railcars for syndication          |            | 68,782                                |   | (2,006)      | 66,776       |
| Equipment on operating leases, net       |            | 337,590                               |   | (2,718)      | 334,872      |
| Property, plant and equipment, net       | 4,151      | 104,225                               | 64,353                                    |              | 172,729      |
| Goodwill                                 |            | 137,066                               |   |              | 137,066      |
| Intangibles and other assets, net        | 664,529    | 94,635                                | 3,871                                     | (678,342)    | 84,693       |
|  | \$ 698,080 | \$ 1,040,743                          | \$ 310,375                                | \$ (683,850) | \$ 1,365,348 |
| <b>Liabilities and Equity</b>            |            |                                       |   |              |              |
| Revolving notes                          | \$ 10,000  | \$                                    | \$ 61,430                                 | \$           | \$ 71,430    |
| Accounts payable and accrued liabilities | (28,977)   | 197,594                               | 155,357                                   | 3            | 323,977      |
| Deferred income taxes                    | 4,766      | 94,880                                | (9,578)                                   | (1,554)      | 88,514       |
| Deferred revenue                         | 349        | 14,505                                | 3,003                                     | 15           | 17,872       |
| Notes payable                            | 294,426    | 131,745                               | 1,857                                     |              | 428,028      |
| Total equity Greenbrier                  | 418,161    | 602,019                               | 80,295                                    | (682,314)    | 418,161      |
| Noncontrolling interest                  | (645)      |                                       | 18,011                                    |              | 17,366       |
| <b>Total equity</b>                      | 417,516    | 602,019                               | 98,306                                    | (682,314)    | 435,527      |
|  | \$ 698,080 | \$ 1,040,743                          | \$ 310,375                                | \$ (683,850) | \$ 1,365,348 |

**THE GREENBRIER COMPANIES, INC.**

The Greenbrier Companies, Inc.

Condensed Consolidating Statement of Operations

For the three months ended May 31, 2012

*(In thousands)*

|   | Parent    | Combined<br>Guarantor<br>Subsidiaries | Combined<br>Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|-----------|---------------------------------------|---|--------------|--------------|
| <b>Revenue</b>  |           |                                       |   |              |              |
| Manufacturing   | \$        | \$ 240,773                            | \$ 288,085                                | \$ (163,928) | \$ 364,930   |
| Wheels Services, Refurbishment & Parts  |           | 128,100                               |   | (2,955)      | 125,145      |
| Leasing & Services  | 77        | 17,785                                |   | (140)        | 17,722       |
|   | 77        | 386,658                               | 288,085                                   | (167,023)    | 507,797      |
| <b>Cost of revenue</b>  |           |                                       |   |              |              |
| Manufacturing   |           | 218,964                               | 270,494                                   | (164,034)    | 325,424      |
| Wheel Services, Refurbishment & Parts   |           | 114,490                               |   | (2,880)      | 111,610      |
| Leasing & Services  |           | 8,845                                 |   | (20)         | 8,825        |
|   |           | 342,299                               | 270,494                                   | (166,934)    | 445,859      |
| <b>Margin</b>   | 77        | 44,359                                | 17,591                                    | (89)         | 61,938       |
| Selling and administrative  | 11,287    | 8,373                                 | 9,124                                     |              | 28,784       |
| Gain on disposition of equipment  |           | (2,585)                               |   |              | (2,585)      |
| <b>Earnings (loss) from operations</b>  | (11,210)  | 38,571                                | 8,467                                     | (89)         | 35,739       |
| <b>Other costs</b>  |           |                                       |   |              |              |
| Interest and foreign exchange   | 4,671     | 968                                   | 1,238                                     | (317)        | 6,560        |
| Earnings (loss) before income taxes and earnings (loss) from<br>unconsolidated affiliates | (15,881)  | 37,603                                | 7,229                                     | 228          | 29,179       |
| Income tax (expense) benefit  | 3,731     | (13,604)                              | 1,350                                     | (132)        | (8,655)      |
| Earnings (loss) before earnings (loss) from unconsolidated affiliates                     | (12,150)  | 23,999                                | 8,579                                     | 96           | 20,524       |
| Earnings (loss) from unconsolidated affiliates  | 30,761    | 2,334                                 |   | (32,894)     | 201          |
| Net earnings (loss)   | 18,611    | 26,333                                | 8,579                                     | (32,798)     | 20,725       |
| Net (earnings) loss attributable to noncontrolling interest                               | 506       |                                       | (1,755)                                   | (359)        | (1,608)      |
| <b>Net earnings (loss) attributable to Greenbrier</b>                                     | \$ 19,117 | \$ 26,333                             | \$ 6,824                                  | \$ (33,157)  | \$ 19,117    |

**THE GREENBRIER COMPANIES, INC.**

The Greenbrier Companies, Inc.

Condensed Consolidating Statement of Operations

For the nine months ended May 31, 2012

*(In thousands)*

|   | Parent    | Combined<br>Guarantor<br>Subsidiaries | Combined<br>Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|-----------|---------------------------------------|---|--------------|--------------|
| <b>Revenue</b>  |           |                                       |   |              |              |
| Manufacturing   | \$        | \$ 646,114                            | \$ 757,432                                | \$ (455,754) | \$ 947,792   |
| Wheels Services, Refurbishment & Parts  |           | 372,138                               |   | (9,350)      | 362,788      |
| Leasing & Services  | 824       | 53,282                                |   | (505)        | 53,601       |
|   | 824       | 1,071,534                             | 757,432                                   | (465,609)    | 1,364,181    |
| <b>Cost of revenue</b>  |           |                                       |   |              |              |
| Manufacturing   |           | 580,775                               | 721,048                                   | (449,359)    | 852,464      |
| Wheel Services, Refurbishment & Parts   |           | 333,356                               |   | (9,301)      | 324,055      |
| Leasing & Services  |           | 27,838                                |   | (55)         | 27,783       |
|   |           | 941,969                               | 721,048                                   | (458,715)    | 1,204,302    |
| <b>Margin</b>   | 824       | 129,565                               | 36,384                                    | (6,894)      | 159,879      |
| Selling and administrative  | 32,612    | 21,867                                | 22,519                                    |              | 76,998       |
| Gain on disposition of equipment  |           | (8,896)                               |   | (1)          | (8,897)      |
| <b>Earnings (loss) from operations</b>  | (31,788)  | 116,594                               | 13,865                                    | (6,893)      | 91,778       |
| <b>Other costs</b>  |           |                                       |   |              |              |
| Interest and foreign exchange   | 14,241    | 2,749                                 | 2,457                                     | (873)        | 18,574       |
| <b>Earnings (loss) before income taxes and earnings (loss) from unconsolidated affiliates</b> | (46,029)  | 113,845                               | 11,408                                    | (6,020)      | 73,204       |
| Income tax (expense) benefit  | 17,538    | (43,326)                              | 3,016                                     | 974          | (21,798)     |
| <b>Earnings (loss) before earnings (loss) from unconsolidated affiliates</b>                  | (28,491)  | 70,519                                | 14,424                                    | (5,046)      | 51,406       |
| Earnings (loss) from unconsolidated affiliates  | 79,149    | 924                                   |   | (80,172)     | (99)         |
| <b>Net earnings (loss)</b>  | 50,658    | 71,443                                | 14,424                                    | (85,218)     | 51,307       |
| Net (earnings) loss attributable to noncontrolling interest                                   | 645       |                                       | (3,445)                                   | 2,796        | (4)          |
| <b>Net earnings (loss) attributable to Greenbrier</b>   | \$ 51,303 | \$ 71,443                             | \$ 10,979                                 | \$ (82,422)  | \$ 51,303    |



**THE GREENBRIER COMPANIES, INC.**

The Greenbrier Companies, Inc.

## Condensed Consolidating Statement of Cash Flows

For the nine months ended May 31, 2012

*(In thousands)*

|  | Parent    | Combined<br>Guarantor<br>Subsidiaries | Combined<br>Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|-----------|---------------------------------------|---|--------------|--------------|
| <b>Cash flows from operating activities:</b>   |           |                                       |   |              |              |
| Net earnings (loss)  | \$ 50,658 | \$ 71,443                             | \$ 14,424                                 | \$ (85,218)  | \$ 51,307    |
| Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities: |           |                                       |   |              |              |
| Deferred income taxes  | 19,418    | (9,262)                               | (4,381)                                   | (974)        | 4,801        |
| Depreciation and amortization  | 2,001     | 22,657                                | 6,000                                     | (55)         | 30,603       |
| Gain on sales of leased equipment  |           | (8,896)                               |   | (1)          | (8,897)      |
| Accretion of debt discount   | 2,416     |                                       |   |              | 2,416        |
| Stock based compensation expense   | 6,724     |                                       |   |              | 6,724        |
| Other  |           | 783                                   | 7   | 2,796        | 3,586        |
| Decrease (increase) in assets  |           |                                       |   |              |              |
| Accounts receivable  | 12,317    | 7,793                                 | (10,137)                                  | 456          | 10,429       |
| Inventories  |           | 1,744                                 | (28,540)                                  | 48           | (26,748)     |
| Leased railcars for syndication  |           | (45,566)                              |   | 2,005        | (43,561)     |
| Other  | 986       | (427)                                 | 3,277                                     | (5,255)      | (1,419)      |
| Increase (decrease) in liabilities   |           |                                       |   |              |              |
| Accounts payable and accrued liabilities   | (40,919)  | 47,734                                | 5,606                                     | (20)         | 12,401       |
| Deferred revenue   | (116)     | 9,246                                 | 2,846                                     | 15           | 11,991       |
| Net cash provided by (used in) operating activities  | 53,485    | 97,249                                | (10,898)                                  | (86,203)     | 53,633       |
| <b>Cash flows from investing activities:</b>   |           |                                       |   |              |              |
| Proceeds from sales of equipment   |           | 33,253                                |   |              | 33,253       |
| Investment in and net advances to unconsolidated affiliates  | (84,403)  | (954)                                 | (614)                                     | 85,427       | (544)        |
| Intercompany advances  | 3,053     |                                       |   | (3,053)      |              |
| Change in restricted cash  |           | 254                                   | (4,230)                                   |              | (3,976)      |
| Capital expenditures   | (544)     | (53,420)                              | (18,929)                                  | 776          | (72,117)     |
| Other  |           | 35                                    |   |              | 35           |
| Net cash provided by (used in) investing activities  | (81,894)  | (20,832)                              | (23,773)                                  | 83,150       | (43,349)     |
| <b>Cash flows from financing activities:</b>   |           |                                       |   |              |              |
| Net change in revolving notes with maturities of 90 days or less                                     | (50,000)  |                                       | 886                                       |              | (49,114)     |
| Proceeds from revolving notes with maturities longer than 90 days                                    |           |                                       | 56,644                                    |              | 56,644       |
| Repayments of revolving notes with maturities longer than 90 days                                    |           |                                       | (23,573)                                  |              | (23,573)     |
| Intercompany advances  | 73,845    | (73,995)                              | (2,903)                                   | 3,053        |              |
| Proceeds from notes payable  |           |                                       | 2,500                                     |              | 2,500        |
| Repayments of notes payable  |           | (3,123)                               | (2,905)                                   |              | (6,028)      |
| Investment by joint venture  |           |                                       | 410                                       |              | 410          |

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|   |                |              |                |       |                |
|---|----------------|--------------|----------------|-------|----------------|
| Excess tax benefit                                  | 2,670          |              |                |       | 2,670          |
| Net cash provided by (used in) financing activities | 26,515         | (77,118)     | 31,059         | 3,053 | (16,491)       |
| Effect of exchange rate changes                     | 42             | 277          | 581            |       | 900            |
| <b>Decrease in cash and cash equivalents</b>        | <b>(1,852)</b> | <b>(424)</b> | <b>(3,031)</b> |       | <b>(5,307)</b> |
| Cash and cash equivalents                           |                |              |                |       |                |
| Beginning of period                                 | 33,368         | 529          | 16,325         |       | 50,222         |
| End of period                                       | \$ 31,516      | \$ 105       | \$ 13,294      | \$    | \$ 44,915      |

**THE GREENBRIER COMPANIES, INC.**

The Greenbrier Companies, Inc.

Condensed Consolidating Balance Sheet

August 31, 2011

*(In thousands)*

|  | Parent     | Combined<br>Guarantor<br>Subsidiaries | Combined<br>Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|------------|---------------------------------------|---|--------------|--------------|
| <b>Assets</b>                            |            |                                       |   |              |              |
| Cash and cash equivalents                | \$ 33,368  | \$ 529                                | \$ 16,325                                 | \$           | \$ 50,222    |
| Restricted cash                          |            | 2,113                                 |   |              | 2,113        |
| Accounts receivable, net                 | 86,701     | 90,442                                | 11,276                                    | 24           | 188,443      |
| Inventories                              |            | 141,631                               | 182,185                                   | (304)        | 323,512      |
| Leased railcars for syndication          |            | 30,690                                |   |              | 30,690       |
| Equipment on operating leases, net       |            | 323,139                               |   | (1,998)      | 321,141      |
| Property, plant and equipment, net       | 6,006      | 101,284                               | 53,910                                    |              | 161,200      |
| Goodwill                                 |            | 137,066                               |   |              | 137,066      |
| Intangibles and other assets, net        | 584,892    | 96,444                                | 2,628                                     | (596,696)    | 87,268       |
|  | \$ 710,967 | \$ 923,338                            | \$ 266,324                                | \$ (598,974) | \$ 1,301,655 |
| <b>Liabilities and Equity</b>            |            |                                       |   |              |              |
| Revolving notes                          | \$ 60,000  | \$                                    | \$ 30,339                                 | \$           | \$ 90,339    |
| Accounts payable and accrued liabilities | 11,571     | 148,788                               | 156,153                                   | 24           | 316,536      |
| Deferred income taxes                    | (14,652)   | 104,142                               | (5,071)                                   | (580)        | 83,839       |
| Deferred revenue                         | 465        | 5,242                                 | 193                                       |              | 5,900        |
| Notes payable                            | 292,010    | 134,868                               | 2,262                                     |              | 429,140      |
| Total equity Greenbrier                  | 361,573    | 530,298                               | 68,120                                    | (598,418)    | 361,573      |
| Noncontrolling interest                  |            |                                       | 14,328                                    |              | 14,328       |
| <b>Total equity</b>                      | 361,573    | 530,298                               | 82,448                                    | (598,418)    | 375,901      |
|  | \$ 710,967 | \$ 923,338                            | \$ 266,324                                | \$ (598,974) | \$ 1,301,655 |

**THE GREENBRIER COMPANIES, INC.**

The Greenbrier Companies, Inc.

Condensed Consolidating Statement of Operations

For the three months ended May 31, 2011

*(In thousands, unaudited)*

|  | Parent     | Combined<br>Guarantor<br>Subsidiaries | Combined<br>Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|------------|---------------------------------------|---|--------------|--------------|
| <b>Revenue</b>   |            |                                       |   |              |              |
| Manufacturing  | \$         | \$ 108,654                            | \$ 131,987                                | \$ (67,154)  | \$ 173,487   |
| Wheels Services, Refurbishment & Parts   |            | 128,165                               |   | (1,848)      | 126,317      |
| Leasing & Services   | 1,075      | 16,705                                |   | (304)        | 17,476       |
|  | 1,075      | 253,524                               | 131,987                                   | (69,306)     | 317,280      |
| <b>Cost of revenue</b>   |            |                                       |   |              |              |
| Manufacturing  |            | 101,707                               | 124,057                                   | (67,090)     | 158,674      |
| Wheel Services, Refurbishment & Parts  |            | 113,067                               |   | (1,865)      | 111,202      |
| Leasing & Services   |            | 9,272                                 |   | (18)         | 9,254        |
|  |            | 224,046                               | 124,057                                   | (68,973)     | 279,130      |
| <b>Margin</b>  | 1,075      | 29,478                                | 7,930                                     | (333)        | 38,150       |
| Selling and administrative   | 11,022     | 5,904                                 | 5,654                                     |              | 22,580       |
| Gain on disposition of equipment   |            | (1,678)                               |   |              | (1,678)      |
| <b>Earnings (loss) from operations</b>   | (9,947)    | 25,252                                | 2,276                                     | (333)        | 17,248       |
| <b>Other costs</b>   |            |                                       |   |              |              |
| Interest and foreign exchange  | 8,448      | 1,001                                 | 663                                       | (305)        | 9,807        |
| Loss on extinguishment of debt   | 10,007     |                                       |   |              | 10,007       |
| Earnings (loss) before income taxes and earnings (loss) from unconsolidated affiliates | (28,402)   | 24,251                                | 1,613                                     | (28)         | (2,566)      |
| Income tax (expense) benefit   | 10,234     | (9,561)                               | (371)                                     | (1)          | 301          |
| Earnings (loss) before earnings (loss) from unconsolidated affiliates                  | (18,168)   | 14,690                                | 1,242                                     | (29)         | (2,265)      |
| Earnings (loss) from unconsolidated affiliates   | 14,854     | (504)                                 |   | (14,889)     | (539)        |
| Net earnings (loss)  | (3,314)    | 14,186                                | 1,242                                     | (14,918)     | (2,804)      |
| Net earnings attributable to noncontrolling interest                                   |            |                                       | (541)                                     | 31           | (510)        |
| <b>Net earnings (loss) attributable to Greenbrier</b>                                  | \$ (3,314) | \$ 14,186                             | \$ 701                                    | \$ (14,887)  | \$ (3,314)   |

**THE GREENBRIER COMPANIES, INC.**

The Greenbrier Companies, Inc.

Condensed Consolidating Statement of Operations

For the nine months ended May 31, 2011

*(In thousands, unaudited)*

|   | Parent     | Combined<br>Guarantor<br>Subsidiaries | Combined<br>Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|------------|---------------------------------------|---|--------------|--------------|
| <b>Revenue</b>  |            |                                       |   |              |              |
| Manufacturing   | \$ 977     | \$ 219,877                            | \$ 333,590                                | \$ (138,896) | \$ 415,548   |
| Wheels Services, Refurbishment & Parts  |            | 343,517                               |   | (9,917)      | 333,600      |
| Leasing & Services  | 1,772      | 50,518                                |   | (884)        | 51,406       |
|   | 2,749      | 613,912                               | 333,590                                   | (149,697)    | 800,554      |
| <b>Cost of revenue</b>  |            |                                       |   |              |              |
| Manufacturing   |            | 215,989                               | 308,812                                   | (138,827)    | 385,974      |
| Wheel Services, Refurbishment & Parts   |            | 308,932                               |   | (9,906)      | 299,026      |
| Leasing & Services  |            | 27,153                                |   | (54)         | 27,099       |
|   |            | 552,074                               | 308,812                                   | (148,787)    | 712,099      |
| <b>Margin</b>   | 2,749      | 61,838                                | 24,778                                    | (910)        | 88,455       |
| Selling and administrative  | 27,004     | 16,475                                | 14,733                                    |              | 58,212       |
| Gain on disposition of equipment  |            | (6,008)                               |   | (140)        | (6,148)      |
| <b>Earnings (loss) from operations</b>  | (24,255)   | 51,371                                | 10,045                                    | (770)        | 36,391       |
| <b>Other costs</b>  |            |                                       |   |              |              |
| Interest and foreign exchange   | 26,830     | 3,063                                 | 1,643                                     | (890)        | 30,646       |
| Loss on extinguishment of debt  | 10,007     |                                       |   |              | 10,007       |
| Earnings (loss) before income taxes and earnings (loss) from<br>unconsolidated affiliates | (61,092)   | 48,308                                | 8,402                                     | 120          | (4,262)      |
| Income tax (expense) benefit  | 22,782     | (19,981)                              | (1,985)                                   | (4)          | 812          |
| Earnings (loss) before earnings (loss) from unconsolidated<br>affiliates                  | (38,310)   | 28,327                                | 6,417                                     | 116          | (3,450)      |
| Earnings (loss) from unconsolidated affiliates  | 32,141     | 1,896                                 |   | (35,737)     | (1,700)      |
| Net earnings (loss)   | (6,169)    | 30,223                                | 6,417                                     | (35,621)     | (5,150)      |
| Net earnings attributable to noncontrolling interest                                      |            |                                       | (1,050)                                   | 31           | (1,019)      |
| <b>Net earnings (loss) attributable to Greenbrier</b>                                     | \$ (6,169) | \$ 30,223                             | \$ 5,367                                  | \$ (35,590)  | \$ (6,169)   |

**THE GREENBRIER COMPANIES, INC.**

The Greenbrier Companies, Inc.

## Condensed Consolidating Statement of Cash Flows

For the nine months ended May 31, 2011

*(In thousands, unaudited)*

|  | Parent          | Combined<br>Guarantor<br>Subsidiaries | Combined<br>Non-<br>Guarantor<br>Subsidiaries | Eliminations    | Consolidated    |
|--|-----------------|---------------------------------------|---|-----------------|-----------------|
| <b>Cash flows from operating activities:</b>   |                 |                                       |   |                 |                 |
| Net earnings (loss)  | \$ (6,169)      | \$ 30,223                             | \$ 6,417                                      | \$ (35,621)     | \$ (5,150)      |
| Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities: |                 |                                       |   |                 |                 |
| Deferred income taxes  | (14,267)        | 7,418                                 | 1,569   | 4               | (5,276)         |
| Depreciation and amortization  | 1,962           | 21,835                                | 4,430   | (53)            | 28,174          |
| Gain on sales of leased equipment  |                 | (2,760)                               |   | (141)           | (2,901)         |
| Loss on extinguishment of debt (non-cash portion)  | 2,868           |                                       |   |                 | 2,868           |
| Accretion of debt discount   | 5,446           |                                       |   |                 | 5,446           |
| Stock based compensation   | 4,961           |                                       |   |                 | 4,961           |
| Other  |                 | 60                                    |   | 31              | 91              |
| Decrease (increase) in assets  |                 |                                       |   |                 |                 |
| Accounts receivable  | 16,230          | (85,760)                              | 18,102  | 1               | (51,427)        |
| Inventories  |                 | (11,976)                              | (71,328)                                      | 11              | (83,293)        |
| Leased railcars for syndication  |                 | (49,512)                              | 1,018   | 29              | (48,465)        |
| Other  | 2,947           | 2,778                                 | 108   | 1               | 5,834           |
| Increase (decrease) in liabilities   |                 |                                       |   |                 |                 |
| Accounts payable and accrued liabilities   | (9,775)         | 47,056                                | 39,992  |                 | 77,273          |
| Deferred revenue   | (116)           | (4,261)                               | (1,065)                                       |                 | (5,442)         |
| <b>Net cash provided by (used in) operating activities</b>   | <b>4,087</b>    | <b>(44,899)</b>                       | <b>(757)</b>                                  | <b>(35,738)</b> | <b>(77,307)</b> |
| <b>Cash flows from investing activities:</b>   |                 |                                       |   |                 |                 |
| Principal payments received under direct finance leases  |                 | 52                                    |   |                 | 52              |
| Proceeds from sales of equipment   |                 | 14,179                                |   |                 | 14,179          |
| Investment in and net advances to unconsolidated affiliates  | (32,141)        | (4,575)                               |   | 35,737          | (979)           |
| Intercompany advances  | (60)            |                                       |   | 60              |                 |
| Increase in restricted cash  |                 | 308                                   |   |                 | 308             |
| Capital expenditures   | (1,694)         | (45,285)                              | (12,711)                                      | 1               | (59,689)        |
| <b>Net cash provided by (used in) investing activities</b>   | <b>(33,895)</b> | <b>(35,321)</b>                       | <b>(12,711)</b>                               | <b>35,798</b>   | <b>(46,129)</b> |
| <b>Cash flows from financing activities</b>  |                 |                                       |   |                 |                 |
| Net change in revolving notes with maturities of 90 days or less                                     |                 |                                       | 3,694   |                 | 3,694           |
| Proceeds from revolving notes with maturities longer than 90 days                                    |                 |                                       | 13,373  |                 | 13,373          |
| Repayments of revolving notes with maturities longer than 90 days                                    |                 |                                       | (6,194)                                       |                 | (6,194)         |
| Intercompany advances  | (82,718)        | 81,895                                | 883   | (60)            |                 |

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|  |           |         |          |      |           |
|--|-----------|---------|----------|------|-----------|
| Gross proceeds from equity offering                  | 63,180    |         |          |      | 63,180    |
| Expenses from equity offering                        | (420)     |         |          |      | (420)     |
| Proceeds from issuance of notes payable              | 230,000   |         | 1,250    |      | 231,250   |
| Debt issuance costs                                  | (7,857)   |         |          |      | (7,857)   |
| Repayments of notes payable                          | (235,000) | (3,164) | (405)    |      | (238,569) |
| Other  | 26        |         |          |      | 26        |
| Net cash provided by (used in ) financing activities | (32,789)  | 78,731  | 12,601   | (60) | 58,483    |
| Effect of exchange rate changes                      |           | 1,116   | (725)    |      | 391       |
| Increase (decrease) in cash and cash equivalents     | (62,597)  | (373)   | (1,592)  |      | (64,562)  |
| Cash and cash equivalents                            |           |         |          |      |           |
| Beginning of period                                  | 91,472    | 859     | 6,533    |      | 98,864    |
| End of period  | \$ 28,875 | \$ 486  | \$ 4,941 | \$   | \$ 34,302 |

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

We operate in three primary business segments: Manufacturing; Wheel Services, Refurbishment & Parts; and Leasing & Services. These three business segments are operationally integrated. The Manufacturing segment, operating from facilities in the United States (U.S.), Mexico and Poland, produces double-stack intermodal railcars, conventional railcars, tank cars and marine vessels. The Wheel Services, Refurbishment & Parts segment performs wheel, axle and bearing 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 9,000 railcars and provides management services for approximately 218,000 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. Management evaluates segment performance based on margins.

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 railcars as of May 31, 2012 was approximately 11,500 units with an estimated value of \$1.14 billion compared to 13,600 units with an estimated value of \$1.05 billion as of May 31, 2011. A portion of the orders included in backlog reflects an assumed product mix. Under terms of the orders, the exact mix will be determined in the future which may impact the dollar amount of backlog. Our railcar and marine backlogs are not necessarily indicative of future results of operations.

Marine backlog as of May 31, 2012 was approximately \$25.9 million compared to approximately \$250 thousand as of May 31, 2011.

The continued global strengthening of the freight car markets may at times limit the availability of certain components of our products that we source from external suppliers, particularly specialized components such as castings, bolsters and trucks, and this may cause an interruption in production. Prices for steel, a primary component of railcars and barges, and related surcharges have fluctuated significantly and remain volatile. In addition, the price of certain railcar components, which are a product of steel, are affected by steel price fluctuations. New railcar and marine backlog generally either includes fixed price contracts which anticipate material price increases and surcharges, or contracts that contain actual or formulaic pass through of material price increases and surcharges. We are aggressively working to mitigate these exposures. The Company's integrated business model has helped offset some of the effects of fluctuating steel and scrap steel prices, as a portion of our business segments currently benefit from rising steel scrap prices while other segments benefit from lower steel and scrap steel prices through enhanced margins.

On November 14, 2011, affiliates of WL Ross & Co. LLC (WL Ross) sold 1,482,341 shares of our common stock. The shares sold were acquired by the cashless net exercise of warrants for purchase of our common stock. WL Ross and its investment funds continue to own warrants to purchase 1,154,672 shares of our common stock. The warrants were issued in 2009 in connection with a term loan to Greenbrier that was repaid in June 2011.



During the third quarter, we discovered that our Mexico City wheel shop shipped a number of wheel sets which do not conform to American Association of Railroads ( AAR ) mounting standards. The non-conforming wheel sets were used principally at our Mexico City repair shop and on some new railcars manufactured at our Gunderson-GIMSA facility. We conducted a review of our other wheel shops and found no indication of non-conformance in those shops.

We have identified a total of 591 non-conforming wheel sets at our Mexico City wheel shop which could represent a risk of failure. We are working with the AAR and our customers to remove and replace these wheel sets as soon as possible and, to date, approximately 174 wheel sets have been replaced. We currently believe the costs associated with removing and replacing these 591 wheel sets are not likely to exceed approximately \$750,000.

We have also identified approximately an additional 9,500 wheel sets at our Mexico City wheel shop that vary from AAR mounting standards, but which we believe do not compromise the safe operation of the railcar or require immediate removal and replacement. We are working with the AAR and our customers to determine an appropriate and efficient approach to address these wheel sets.

While the total costs associated with these wheel sets cannot presently be determined, we do not anticipate that these costs will be material to our results of operations.

**Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires judgment on the part of management to arrive at estimates and assumptions on matters that are inherently uncertain. These estimates may affect the amount of assets, liabilities, revenue and expenses reported in the financial statements and accompanying notes and disclosure of contingent assets and liabilities within the financial statements. Estimates and assumptions are periodically evaluated and may be adjusted in future periods. Actual results could differ from those estimates.

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

*Maintenance obligations* We are responsible for maintenance on a portion of the managed and owned lease fleet under the terms of maintenance obligations defined in the underlying lease or management agreement. The estimated maintenance liability is based on maintenance histories for each type, age and mileage 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. Historically these adjustments have not been significant.

*Warranty accruals* Warranty costs to cover a defined warranty period are estimated and charged to cost of revenue. 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. Historically these adjustments have not been significant.

*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.

Generally railcars are manufactured, repaired or refurbished and wheel services 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.

*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* The Company periodically acquires 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. 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 when 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, 2012 of \$137.1 million relates to the Wheel Services, Refurbishment & Parts segment. Goodwill was tested during the third quarter and the Company concluded that goodwill was not impaired.

**Results of Operations**

Greenbrier operates in three reportable segments: Manufacturing; Wheel Services, Refurbishment & Parts; and Leasing & Services. Segment performance is evaluated based on margin. The Company's integrated business model results in selling and administrative costs being intertwined among the segments. Any allocation of these costs would be subjective and not meaningful and as a result, Greenbrier's management does not allocate these costs for either external or internal reporting purposes.

**Three Months Ended May 31, 2012 Compared to Three Months Ended May 31, 2011****Overview**

Total revenue for the three months ended May 31, 2012 was \$507.8 million, an increase of \$190.5 million from revenues of \$317.3 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 \$191.4 million due to higher railcar deliveries as a result of increased demand and a higher per unit average selling price.

Net earnings attributable to Greenbrier for the three months ended May 31, 2012 was \$19.1 million or \$0.61 per diluted common share compared to net loss attributable to Greenbrier of \$3.3 million or \$0.14 per diluted common share for the three months ended May 31, 2011. The increase in net earnings was primarily attributable to an increase in manufacturing margin in the current period and the \$10.0 million loss on extinguishment of debt recognized in the comparable period in the prior year. These factors were partially offset by higher selling and administrative costs associated with operating at higher production levels in the current period.

| <i>(In thousands)</i>  | Three Months Ended<br>May 31, |            |
|--|-------------------------------|------------|
|  | 2012                          | 2011       |
| <b>Revenue:</b>  |                               |            |
| Manufacturing  | \$ 364,930                    | \$ 173,487 |
| Wheel Services, Refurbishment & Parts  | 125,145                       | 126,317    |
| Leasing & Services   | 17,722                        | 17,476     |
|  | 507,797                       | 317,280    |
| <b>Margin:</b>   |                               |            |
| Manufacturing  | 39,506                        | 14,813     |
| Wheel Services, Refurbishment & Parts  | 13,535                        | 15,115     |
| Leasing & Services   | 8,897                         | 8,222      |
|  | 61,938                        | 38,150     |
| <b>Less unallocated items:</b>   |                               |            |
| Selling and administrative   | 28,784                        | 22,580     |
| Gain on disposition of equipment   | (2,585)                       | (1,678)    |
| Interest and foreign exchange  | 6,560                         | 9,807      |
| Loss on extinguishment of debt   |                               | 10,007     |
| Earnings (loss) before income taxes and earnings (loss) from unconsolidated affiliates | 29,179                        | (2,566)    |
| Income tax benefit (expense)   | (8,655)                       | 301        |
| Earnings (loss) before earnings (loss) from unconsolidated affiliates                  | 20,524                        | (2,265)    |
| Earnings (loss) from unconsolidated affiliates   | 201                           | (539)      |
| Net earnings (loss)  | 20,725                        | (2,804)    |

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|  |           |            |
|--|-----------|------------|
| Net earnings attributable to noncontrolling interest | (1,608)   | (510)      |
| Net earnings (loss) attributable to Greenbrier       | \$ 19,117 | \$ (3,314) |
| Diluted earnings (loss) per common share             | \$ 0.61   | \$ (0.14)  |

### **Manufacturing Segment**

Manufacturing revenue includes new railcar and marine production. The following discussion includes all manufacturing facilities.

Manufacturing revenue for the three months ended May 31, 2012 was \$364.9 million compared to \$173.5 million for the three months ended May 31, 2011, an increase of \$191.4 million. Railcar deliveries, which are the primary source of manufacturing revenue, were approximately 4,500 units in the current period compared to approximately 2,200 units in the prior comparable period. The increase in revenue was primarily due to higher railcar deliveries as a result of increased demand and a higher per unit average selling price. We operated at increased production rates on existing production lines and increased capacity with additional lines as compared to the corresponding period in the prior year.

Manufacturing margin as a percentage of revenue for the three months ended May 31, 2012 was 10.8% compared to a margin of 8.5% for the three months ended May 31, 2011. The increase in margin as a percentage of revenue was primarily attributable to efficiencies from operating at higher production rates in the current year, favorable pricing, change in sales mix and inefficiencies in the prior year as we ramped up production at our facilities that were idle.

### **Wheel Services, Refurbishment & Parts Segment**

Wheel Services, Refurbishment & Parts revenue was \$125.1 million for the three months ended May 31, 2012 compared to \$126.3 million in the comparable period of the prior year. The decrease of \$1.2 million was primarily attributable to a decrease in revenue from the wheel services group due to lower demand for wheel set replacements as compared to the prior year due to the unseasonably warm winter in the current year. Cold weather typically causes wheel sets to wear at a faster rate and therefore the warm winter contributed to the decreased demand for wheel set replacements. In addition, an industry wide reduction in coal car loadings contributed to the decreased demand for wheel sets as coal cars are higher mileage cars. The decrease in segment revenue was also attributed to a decrease in scrap metal pricing and scrap metal volumes. These were partially offset by an increase in revenue in the repair group and parts group due to increased demand in these components of the business.

Wheel Services, Refurbishment & Parts margin as a percentage of revenue was 10.8% for the three months ended May 31, 2012 compared to 12.0% for the three months ended May 31, 2011. The decrease in margin as a percentage of revenue was primarily the result of a change in sales mix, decrease in scrap metal pricing and costs associated with replacing a number of wheel sets produced at our Mexico City wheel shop which do not conform to American Association of Railroads mounting standards. As of May 31, 2012 we have accrued approximately \$750 thousand to remove and replace these wheel sets.

**Leasing & Services Segment**

Leasing & Services revenue was \$17.7 million for the three months ended May 31, 2012 compared to \$17.5 million for the comparable period of the prior year. The increase of \$0.2 million was primarily a result of higher rents earned on increased volumes of leased railcars for syndication.

Leasing & Services margin as a percentage of revenue was 50.2% for the three months ended May 31, 2012 and 47.0% for the three months ended May 31, 2011. The increase in margin as a percentage of revenue was primarily a result of higher rents earned on increased volumes of leased railcars for syndication.

The percentage of owned units on lease as of May 31, 2012 was 95.5% compared to 96.8% at May 31, 2011.

**Selling and Administrative**

Selling and administrative expense was \$28.8 million or 5.7% of revenue for the three months ended May 31, 2012 compared to \$22.6 million or 7.1% of revenue for the prior comparable period, an increase of \$6.2 million. The increase was primarily related to higher employee related costs which included an increase in incentive compensation, restoration of salary reductions taken during the down turn, merit increases and other employee related costs. In addition, the revenue-based fees paid to our joint venture partner in Mexico increased due to higher activity levels and we incurred nonrecurring legal and audit fees associated with the structuring of the syndication of 1,363 railcars referred to in Note 15.

**Gain on Disposition of Equipment**

Assets from Greenbrier's lease fleet are periodically sold in the normal course of business in order to take advantage of market conditions and manage risk and liquidity. Gain on disposition of equipment was \$2.6 million for the three months ended May 31, 2012, compared to \$1.7 million for the prior comparable period. All of the gain for the three months ended May 31, 2012 was realized on the disposition of leased assets. The three months ended May 31, 2011 included a \$0.3 million gain that was realized on the disposition of leased assets and a gain of \$1.4 million from insurance proceeds related to the January 2009 fire at one of our Wheel Services, Refurbishment & Parts facilities.

**Other Costs**

Interest and foreign exchange expense was \$6.6 million for the three months ended May 31, 2012, compared to \$9.8 million in the prior comparable period.

| <i>(In thousands)</i>                  | Three Months Ended |                 | Increase<br>(Decrease) |
|--|--------------------|-----------------|------------------------|
|  | 2012               | May 31,<br>2011 |                        |
| Interest and foreign exchange:         |                    |                 |                        |
| Interest and other expense             | \$ 5,679           | \$ 7,882        | \$ (2,203)             |
| Accretion of term loan debt discount   |                    | 1,069           | (1,069)                |
| Accretion of convertible debt discount | 817                | 757             | 60                     |
| Foreign exchange loss                  | 64                 | 99              | (35)                   |
|  | \$ 6,560           | \$ 9,807        | \$ (3,247)             |

Interest and other expense decreased due to lower interest rates from refinancing of certain indebtedness. During the third quarter of 2011, we repaid \$235.0 million of senior unsecured loans at 8.375% and replaced it with \$230.0 million of convertible debt at 3.5%. The change in the accretion of term loan debt discount was due to the June 2011 early repayment of \$71.8 million of certain term debt.

**Income Tax**

The tax rate for the three months ended May 31, 2012 was 29.7% as compared to 11.7% in the prior comparable period. The provision for income taxes is based on projected consolidated results of operations and geographical mix of earnings for the entire year which results in an estimated 33.3% annual effective tax rate before the impact of discrete items, including changes in estimated state tax rates. The effective tax rate fluctuates from period to period due to the geographical mix of pre-tax earnings and losses and minimum tax requirements in certain local jurisdictions.

**Earnings (Loss) from Unconsolidated Affiliates**

Earnings from unconsolidated affiliates were \$0.2 million for the three months ended May 31, 2012 and a loss of \$0.5 million for the three months ended May 31, 2011. Earnings (loss) for the three months ended May 31, 2012 and for the prior comparable period include our share of the results from operations from our castings joint venture and from WLR Greenbrier Rail Inc. The increase in earnings for the three months ended May 31, 2012 as compared to the prior comparable period relates to our castings joint venture resuming operations during the third quarter of 2011 after being idle.

**Noncontrolling Interest**

Net earnings attributable to noncontrolling interest was \$1.6 million for the three months ended May 31, 2012 and \$0.5 million for the three months ended May 31, 2011 and primarily represents our joint venture partner's share in the results of operations of our Mexican railcar manufacturing joint venture, adjusted for intercompany sales. The change was primarily due to higher railcar deliveries during the current quarter.



### Nine Months Ended May 31, 2012 Compared to Nine Months Ended May 31, 2011

#### Overview

Total revenue for the nine months ended May 31, 2012 was \$1.4 billion, an increase of \$0.6 billion from revenues of \$0.8 billion in the prior comparable period. The increase was a result of higher revenue in all three segments of our business. Manufacturing segment revenues accounted for \$0.5 billion of the increase due to higher railcar deliveries as a result of increased demand and a higher per unit average selling price.

Net earnings attributable to Greenbrier for the nine months ended May 31, 2012 was \$51.3 million or \$1.65 per diluted common share compared to net loss attributable to Greenbrier of \$6.2 million or \$0.27 per diluted common share for the nine months ended May 31, 2011. The increase in net earnings was primarily attributable to an increase in manufacturing margin and a decrease in interest and foreign exchange in the current year in addition to a \$10.0 million loss on extinguishment of debt recognized in the prior comparable period. These were partially offset by higher selling and administrative costs associated with operating at higher production levels in the current period.

| <i>(In thousands)</i>   | Nine Months Ended<br>May 31, |            |
|---|------------------------------|------------|
|   | 2012                         | 2011       |
| <b>Revenue:</b>   |                              |            |
| Manufacturing   | \$ 947,792                   | \$ 415,548 |
| Wheel Services, Refurbishment & Parts                                       | 362,788                      | 333,600    |
| Leasing & Services  | 53,601                       | 51,406     |
|   | 1,364,181                    | 800,554    |
| <b>Margin:</b>  |                              |            |
| Manufacturing   | 95,328                       | 29,574     |
| Wheel Services, Refurbishment & Parts                                       | 38,733                       | 34,574     |
| Leasing & Services  | 25,818                       | 24,307     |
|   | 159,879                      | 88,455     |
| <b>Less unallocated items:</b>  |                              |            |
| Selling and administrative  | 76,998                       | 58,212     |
| Gain on disposition of equipment  | (8,897)                      | (6,148)    |
| Interest and foreign exchange   | 18,574                       | 30,646     |
| Loss on extinguishment of debt  |                              | 10,007     |
| Earnings (loss) before income taxes and loss from unconsolidated affiliates | 73,204                       | (4,262)    |
| Income tax benefit (expense)  | (21,798)                     | 812        |
| Earnings (loss) before loss from unconsolidated affiliates                  | 51,406                       | (3,450)    |
| Loss from unconsolidated affiliates   | (99)                         | (1,700)    |
| Net earnings (loss)   | 51,307                       | (5,150)    |
| Net earnings attributable to noncontrolling interest                        | (4)                          | (1,019)    |
| Net earnings (loss) attributable to Greenbrier                              | \$ 51,303                    | \$ (6,169) |
| Diluted earnings (loss) per common share                                    | \$ 1.65                      | \$ (0.27)  |



### **Manufacturing Segment**

Manufacturing revenue includes new railcar and marine production. The following discussion includes all manufacturing facilities.

Manufacturing revenue for the nine months ended May 31, 2012 was \$947.8 million compared to \$415.5 million for the nine months ended May 31, 2011, an increase of \$532.3 million. Railcar deliveries, which are the primary source of manufacturing revenue, were approximately 11,500 units in the current period compared to approximately 5,400 units in the prior comparable period. The increase in revenue was primarily due to higher railcar deliveries as a result of increased demand and a higher per unit average selling price. We operated at increased production rates on existing production lines and increased capacity with additional lines as compared to the corresponding period in the prior year.

Manufacturing margin as a percentage of revenue for the nine months ended May 31, 2012 was 10.1% compared to a margin of 7.1% for the nine months ended May 31, 2011. The increase in margin as a percentage of revenue was primarily attributable to efficiencies from operating at higher production rates in the current year, favorable pricing and inefficiencies in the prior year as we ramped up production at our facilities that were idle.

### **Wheel Services, Refurbishment & Parts Segment**

Wheel Services, Refurbishment & Parts revenue was \$362.8 million for the nine months ended May 31, 2012 compared to \$333.6 million in the comparable period of the prior year. The increase of \$29.2 million was primarily attributable to higher sales volumes in all three components of this segment due to higher demand and an increase in scrap metal pricing.

Wheel Services, Refurbishment & Parts margin as a percentage of revenue was 10.7% for the nine months ended May 31, 2012 compared to 10.4% for the nine months ended May 31, 2011. The increase in margin as a percentage of revenue was primarily the result of efficiencies of operating at higher volumes and an increase in scrap metal pricing. This was partially offset by operating inefficiencies in repair and refurbishment as we train new employees and costs associated with replacing a number of wheel sets produced at our Mexico City wheel shop which do not conform to American Association of Railroads mounting standards.

### **Leasing & Services Segment**

Leasing & Services revenue was \$53.6 million for the nine months ended May 31, 2012 compared to \$51.4 million for the comparable period of the prior year. The increase of \$2.2 million was primarily a result of higher rents earned on increased volumes of leased railcars for syndication, partially offset by the discontinuation of a certain management services contract in the second quarter of 2011.

Leasing & Services margin as a percentage of revenue was 48.2% for the nine months ended May 31, 2012 and 47.3% for the nine months ended May 31, 2011. The increase in margin as a percentage of revenue was primarily a result of an increase in lease rates and higher rents earned on increased volumes of leased railcars for syndication which was partially offset by the discontinuation of a certain management services contract in the second quarter of 2011.

**Selling and Administrative**

Selling and administrative expense was \$77.0 million or 5.6% of revenue for the nine months ended May 31, 2012 compared to \$58.2 million or 7.3% of revenue for the comparable prior period, an increase of \$18.8 million. The increase was primarily related to higher employee related costs which included an increase in incentive compensation, restoration of salary reductions taken during the down turn, merit increases and other employee related costs. In addition, the revenue based-fees paid to our joint venture partner in Mexico increased due to higher activity levels and we incurred nonrecurring legal and audit fees associated with the structuring of the syndication of 1,363 railcars referred to in Note 15.

**Gain on Disposition of Equipment**

Assets from Greenbrier's lease fleet are periodically sold in the normal course of business in order to take advantage of market conditions and manage risk and liquidity. Gain on disposition of equipment was \$8.9 million for the nine months ended May 31, 2012, compared to \$6.1 million for the comparable prior period. All of the current year's gain was realized on the disposition of leased assets. The prior year included a \$2.9 million gain that was realized on the disposition of leased assets and a gain of \$3.2 million of insurance proceeds related to the January 2009 fire at one of our Wheel Services, Refurbishment & Parts facilities.

**Other Costs**

Interest and foreign exchange expense was \$18.6 million for the nine months ended May 31, 2012, compared to \$30.6 million in the prior comparable period.

| <i>(In thousands)</i>                  | Nine Months Ended<br>May 31, |           | Increase    |
|--|------------------------------|-----------|-------------|
|  | 2012                         | 2011      | (Decrease)  |
| Interest and foreign exchange:         |                              |           |             |
| Interest and other expense             | \$ 16,828                    | \$ 25,057 | \$ (8,229)  |
| Accretion of term loan debt discount   |                              | 3,207     | (3,207)     |
| Accretion of convertible debt discount | 2,416                        | 2,239     | 177         |
| Foreign exchange (gain) loss           | (670)                        | 143       | (813)       |
|  | \$ 18,574                    | \$ 30,646 | \$ (12,072) |

Interest and other expenses decreased due to lower interest rates from refinancing of certain indebtedness. During the third quarter of 2011, we repaid \$235.0 million of senior unsecured loans at 8.375% and replaced it with \$230.0 million of convertible debt at 3.5%. The change in the accretion of term loan debt discount was due to the June 2011 early repayment of \$71.8 million of certain term debt.

**Income Tax**

The tax rate for the nine months ended May 31, 2012 was 29.8% as compared to 19.1% in the prior comparable period. The tax rate for the nine months ended May 31, 2012 includes the benefit related to a release of valuation allowances previously placed on net deferred tax assets in foreign jurisdictions. Management believes it is more likely than not that the deferred tax assets will be realized and has recorded the benefit of those deferred tax assets during the second quarter of 2012. The provision for income taxes is based on projected consolidated results of operations and geographical mix of earnings for the entire year which results in an estimated 33.3% annual effective tax rate before the impact of discrete items, including changes in estimated state tax rates. The effective tax rate fluctuates from period to period due to the geographical mix of pre-tax earnings and losses and minimum tax requirements in certain local jurisdictions.

**Loss from Unconsolidated Affiliates**

Losses from unconsolidated affiliates were \$0.1 million for the nine months ended May 31, 2012 and \$1.7 million for the nine months ended May 31, 2011. Losses for the nine months ended May 31, 2012 and for the comparable prior period include our share of the results from operations from our castings joint venture and from WLR Greenbrier Rail Inc. The increase in earnings for the nine months ended May 31, 2012 as compared to the prior comparable period relates to our castings joint venture resuming operations during the third quarter of 2011 after being idle.

**Noncontrolling Interest**

Net earnings attributable to noncontrolling interest was negligible for the nine months ended May 31, 2012 and \$1.0 million for the nine months ended May 31, 2011 and primarily represents our joint venture partner's share in the results of operations of our Mexican railcar manufacturing joint venture, adjusted for intercompany sales.

**Liquidity and Capital Resources**

| <i>(In thousands)</i>                               | Nine Months Ended |                    |
|---|-------------------|--------------------|
|   | May 31,<br>2012   | May 31,<br>2011    |
| Net cash provided by (used in) operating activities | \$ 53,633         | \$ (77,307)        |
| Net cash used in investing activities               | (43,349)          | (46,129)           |
| Net cash provided by (used in) financing activities | (16,491)          | 58,483             |
| Effect of exchange rate changes                     | 900               | 391                |
| <b>Net decrease in cash and cash equivalents</b>    | <b>\$ (5,307)</b> | <b>\$ (64,562)</b> |

We have been financed through operations, borrowings and issuance of stock. At May 31, 2012, cash and cash equivalents were \$44.9 million, a decrease of \$5.3 million from \$50.2 million at August 31, 2011.

Cash provided by operating activities was \$53.6 million for the nine months ended May 31, 2012 compared to cash used in operating activities of \$77.3 million for the nine months ended May 31, 2011. The change from the prior year was primarily due to increased profitability and a change in the timing of working capital needs.

Cash used in investing activities, primarily for capital expenditures, was \$43.3 million for the nine months ended May 31, 2012 compared to \$46.1 million in the prior comparable period.

Capital expenditures totaled \$72.1 million for the nine months ended May 31, 2012 and \$59.7 million for the nine months ended May 31, 2011. Of these capital expenditures, approximately \$42.5 million and \$30.4 million were attributable to Leasing & Services operations. Proceeds from sales of equipment were \$33.3 million for the nine months ended May 31, 2012 and \$14.2 million in the comparable prior period. Leasing & Services capital expenditures for 2012, net of proceeds of \$39.0 million from sales of railcar equipment, are expected to be approximately \$25.0 million. We regularly sell assets from our lease fleet, some of which may have been purchased within the current year and included in capital expenditures.

Approximately \$21.4 million and \$14.3 million of capital expenditures for the nine months ended May 31, 2012 and the comparable prior period were attributable to Manufacturing operations. Capital expenditures for Manufacturing operations are expected to be approximately \$33.0 million in 2012 and primarily relate to production line enhancements and expansions at existing manufacturing facilities.

Wheel Services, Refurbishment & Parts capital expenditures for the nine months ended May 31, 2012 and the comparable prior period were \$8.2 million and \$15.0 million. Capital expenditures are expected to be approximately \$14.0 million in 2012 for maintenance and improvement of existing facilities and some growth.

Cash used in financing activities was \$16.5 million for the nine months ended May 31, 2012 compared to cash provided by financing activities of \$58.5 million for the nine months ended May 31, 2011. During the nine months ended May 31, 2012, we received \$2.5 million in proceeds from the issuance of notes payable and \$0.4 million in investment by joint venture partner. This was offset by \$16.0 million in net repayments from revolving notes borrowings and \$6.0 million in repayments of notes payable. During the nine months ended May 31, 2011 we received \$230.0 million in proceeds from a new convertible loan, net of \$7.9 million in debt issuance costs, and \$1.3 million from a new term loan, \$62.8 million in net proceeds from an equity offering and \$10.9 million in net proceeds from revolving notes borrowings and repaid \$238.6 million in senior notes and other term debt.

Senior secured credit facilities, consisting of three components, aggregated to \$357.0 million as of May 31, 2012.

As of May 31, 2012 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 variable rates that depend on the type of borrowing and the defined ratio of debt to total capitalization. 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, 2012, lines of credit totaling \$17.0 million secured by certain of our European assets, with various variable rates, 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 2012 through June 2013.

As of May 31, 2012 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% and are due 180 days after the date of borrowing. The outstanding advances as of May 31, 2012 have maturities that range from June 2012 to November 2012. The Mexican joint venture will be able to draw against this facility through July 2012. The second line of credit provides up to \$30.0 million and is guaranteed by each of the joint venture partners, including our company. Advances under this facility bear interest at LIBOR plus 2.0% and are due 180 days after the date of borrowing. The outstanding advances as of May 31, 2012 mature in July 2012. The Mexican joint venture will be able to draw against this facility through February 2015.

As of May 31, 2012 outstanding borrowings under the senior secured credit facilities consisted of \$6.6 million in letters of credit and \$10.0 million in revolving notes outstanding under the North American credit facility, \$13.2 million outstanding under the European credit facilities and \$48.2 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.

Available borrowings under our credit facilities are generally limited by defined levels of inventory, receivables, property, plant and equipment and leased equipment, as well as total debt to consolidated capitalization and interest coverage ratios. We had an aggregate of \$279.0 million available to draw down under the committed credit facilities as of May 31, 2012. This amount consists of \$273.4 million available on the North American credit facility, \$3.8 million on the European credit facilities and \$1.8 million on the Mexican joint venture credit facilities as of May 31, 2012.

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 of each entity, we enter into foreign currency forward exchange contracts to protect the margin on a portion of forecast foreign currency sales.

Foreign operations give rise to risks from changes in foreign currency exchange rates. We utilize foreign currency forward exchange contracts with established financial institutions to hedge a portion of that risk. No provision has been made for credit loss due to counterparty non-performance.

In addition to third party financing, we have provided financing for a portion of the working capital needs of our Mexican joint venture through a secured, interest bearing loan. The balance of the loan was \$17.3 million as of May 31, 2012. As of May 31, 2012, the Mexican joint venture had \$48.8 million of third party debt, of which we have guaranteed approximately \$39.4 million.

In accordance with customary business practices in Europe, we have \$2.9 million in bank and third party warranty and performance guarantee facilities as of May 31, 2012. 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 working capital needs, planned capital expenditures and expected debt repayments for 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, Germany 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, 2012, \$81.1 million of forecast sales in Europe were hedged by foreign exchange contracts. Because of the variety of currencies in which purchases and sales are transacted and the interaction between currency rates, it is not possible to predict the impact a movement in a single foreign currency exchange rate would have on future operating results.

In addition to exposure to transaction gains or losses, we are also exposed to foreign currency exchange risk related to the net asset position of our foreign subsidiaries. At May 31, 2012, net assets of foreign subsidiaries aggregated \$29.4 million and a 10% strengthening of the United States dollar relative to the foreign currencies would result in a decrease in equity of \$2.9 million, or 0.7% 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 \$43.3 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, 2012, 68% of our outstanding debt had fixed rates and 32% had variable rates. At May 31, 2012, a uniform 10% increase in interest rates would result in approximately \$0.4 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 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 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, 2012 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 12 to Consolidated Financial Statements, Part I of this quarterly report.

**Item 1A. Risk Factors**

This 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, 2011. 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, 2011.

**Item 6. Exhibits**

(a) List of Exhibits:

- 10.1 Form of Employee Restricted Stock Agreement (time and performance)
- 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, 2012, formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Equity and Comprehensive Income (Loss) (iv) the Consolidated Statements of Cash Flows; (v) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

*THE GREENBRIER COMPANIES, INC.*

**SIGNATURES**

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

**THE GREENBRIER COMPANIES, INC.**

Date: June 28, 2012

By: /s/ Mark J. Rittenbaum  
Mark J. Rittenbaum

Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

Date: June 28, 2012

By: /s/ James W. Cruckshank  
James W. Cruckshank

Senior Vice President and Chief Accounting Officer  
(Principal Accounting Officer)