

GREENBRIER COMPANIES INC
Form 10-Q
January 09, 2019

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

Form 10-Q

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

for the quarterly period ended November 30, 2018

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

for the transition period from _____ to _____

Commission File No. 1-13146

THE GREENBRIER COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Oregon
(State of Incorporation)

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

One Centerpointe Drive, Suite 200, Lake Oswego, OR 97035

(Address of principal executive offices) (Zip Code)

(503) 684-7000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulations S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of the registrant's common stock, without par value, outstanding on January 3, 2019 was 32,350,212 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 Quarterly Report 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. Investors should not place undue reliance on forward-looking statements, which speak only as of the date they are made and are not guarantees of future performance. We undertake no obligations to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

These forward-looking statements rely on a number of assumptions concerning future events and include statements relating to:

- ability to grow our businesses;
- ability to obtain lease and sales contracts which provide adequate protection against attempted modifications or cancellations, changes in interest rates and increased costs of materials and components;
- ability to convert backlog of railcar orders and obtain and execute lease syndication commitments;
- ability to recruit, train and retain adequate numbers of qualified employees;
- ability to obtain adequate certification and licensing of products;
- availability of financing sources and borrowing base and loan covenant flexibility for working capital, other business development activities, capital spending and leased railcars for syndication (sale of railcars with lease attached);
- ability to utilize beneficial tax strategies;
- ability to renew, maintain or obtain sufficient credit facilities and financial guarantees on acceptable terms including loan covenants;
- ability to obtain adequate insurance coverage at acceptable rates; and
- short-term and long-term revenue and earnings effects of the above items.

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

- fluctuations in demand for newly manufactured railcars or marine barges, for wheels, repair services and parts and for railcar management and leasing services;
- delays in receipt of orders, risks that contracts may be canceled or modified during their term, not renewed, unenforceable or breached by the customer and that customers may not purchase the amount of products or services under the contracts as anticipated;
- availability of a trained work force at a reasonable cost and with reasonable terms of employment;

our ability to maintain good relationships with our labor force, third party labor providers and collective bargaining units representing our direct and indirect labor force;
domestic and international economic conditions including such matters as embargoes, quotas, tariffs, or modifications to existing trade agreements;
domestic and international political and security conditions including such matters as terrorism, war, civil disruption and crime;
the policies and priorities of the federal government including those concerning international trade, infrastructure and corporate taxation;
sovereign risk related to international governments that includes, but is not limited to, governments stopping payments, repudiating their contracts, nationalizing private businesses and assets or altering foreign exchange regulations;

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growth or reduction in the surface transportation industry, the enactment of policies favoring other types of surface transportation over rail transportation or the impact from technological advances;

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

our ability to maintain good relationships with our customers and suppliers;

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

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

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;

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

our failure to successfully integrate joint ventures or acquired businesses or complete previously announced transactions;

discovery of previously unknown liabilities associated with acquired businesses;

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, costs or inefficiencies associated with expansion, start-up, or changing of production lines or changes in production rates, equipment failures, changing technologies, transfer of production between facilities or non-performance of alliance partners, subcontractors or suppliers;

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

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

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

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

natural disasters or severe or unusual 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, investments, intangibles or other assets due to impairment;

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

changes in future maintenance or warranty requirements;

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

changes in interest rates and financial impacts from interest rates;

our ability and cost to maintain and renew operating permits;

actions or failures to act by various regulatory agencies including changing tank car or other rail car regulations;

potential environmental remediation obligations;

changes in commodity prices, including oil and gas;

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 and/or price of essential raw materials, specialties or components, including steel castings, to permit manufacture of units on order;
the failure of, or our delay in implementing and using, new software or other technologies;

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the impact of cybersecurity risks and the costs of mitigating and responding to a data security breach;
our ability to replace maturing lease and management services revenue and earnings from equipment sold from our lease fleet with revenue and earnings from new commercial transactions, including new railcar leases, additions to the lease fleet and new management services contracts;
financial impacts from currency fluctuations and currency hedging activities in our worldwide operations;
credit limitations upon our ability to maintain effective hedging programs;
increased costs or other impacts on us or our customers due to changes in legislation, taxes, regulations or accounting pronouncements;
our ability to effectively execute our business and operating strategies if we become the target of shareholder activism; and
fraud, misconduct by employees and potential exposure to liabilities under the Foreign Corrupt Practices Act and other anti-corruption laws and regulations.

Any forward-looking statements should be considered in light of these factors. Words such as affirms, anticipates, believes, forecast, potential, goal, contemplates, expects, intends, plans, projects, hopes, seeks, could, would, should, likely, will, may, can, designed to, future, foreseeable future and similar expressions are 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 place undue reliance on any forward-looking statements, which reflect management's opinions only as of the date hereof. Except as otherwise required by law, we do not assume any obligation to update any forward-looking statements.

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

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

| | November 30, 2018 | August 31, 2018 |
|---|----------------------|--------------------|
| Assets | | |
| Cash and cash equivalents | \$ 462,797 | \$ 530,655 |
| Restricted cash | 8,872 | 8,819 |
| Accounts receivable, net | 306,917 | 348,406 |
| Inventories | 492,573 | 432,314 |
| Leased railcars for syndication | 233,415 | 130,926 |
| Equipment on operating leases, net | 317,282 | 322,855 |
| Property, plant and equipment, net | 461,120 | 457,196 |
| Investment in unconsolidated affiliates | 58,682 | 61,414 |
| Intangibles and other assets, net | 95,958 | 94,668 |
| Goodwill | 77,508 | 78,211 |
| | \$ 2,515,124 | \$ 2,465,464 |
| Liabilities and Equity | | |
| Revolving notes | \$ 22,189 | \$ 27,725 |
| Accounts payable and accrued liabilities | 438,304 | 449,857 |
| Deferred income taxes | 30,631 | 31,740 |
| Deferred revenue | 108,566 | 105,954 |
| Notes payable, net | 487,764 | 436,205 |
| Commitments and contingencies (Note 16) | | |
| Contingently redeemable noncontrolling interest | 28,449 | 29,768 |
| Equity: | | |
| Greenbrier | | |
| Preferred stock - without par value; 25,000 shares authorized; none outstanding | | |
| Common stock - without par value; 50,000 shares authorized; 32,350 and 32,191 shares outstanding at November 30, 2018 and August 31, 2018 | | |
| Additional paid-in capital | 440,958 | 442,569 |
| Retained earnings | 846,018 | 830,898 |
| Accumulated other comprehensive loss | (29,345) | (23,366) |

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| | | | |
|-------------------------|------------|--------------|--------------|
| Total equity | Greenbrier | 1,257,631 | 1,250,101 |
| Noncontrolling interest | | 141,590 | 134,114 |
| Total equity | | 1,399,221 | 1,384,215 |
| | | \$ 2,515,124 | \$ 2,465,464 |

The accompanying notes are an integral part of these financial statements

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

| | Three Months Ended November 30, | |
|--|------------------------------------|------------|
| | 2018 | 2017 |
| Revenue | | |
| Manufacturing | \$ 471,789 | \$ 451,485 |
| Wheels, Repair & Parts | 108,543 | 78,011 |
| Leasing & Services | 24,191 | 30,039 |
| | 604,523 | 559,535 |
| Cost of revenue | | |
| Manufacturing | 417,805 | 380,850 |
| Wheels, Repair & Parts | 100,978 | 72,506 |
| Leasing & Services | 13,207 | 16,865 |
| | 531,990 | 470,221 |
| Margin | 72,533 | 89,314 |
| Selling and administrative expense | 50,432 | 47,043 |
| Net gain on disposition of equipment | (14,353) | (19,171) |
| Earnings from operations | 36,454 | 61,442 |
| Other costs | | |
| Interest and foreign exchange | 4,404 | 7,020 |
| Earnings before income taxes and earnings (loss) from unconsolidated affiliates | 32,050 | 54,422 |
| Income tax expense | (9,135) | (18,135) |
| Earnings before earnings (loss) from unconsolidated affiliates | 22,915 | 36,287 |
| Earnings (loss) from unconsolidated affiliates | 467 | (2,910) |
| Net earnings | 23,382 | 33,377 |
| Net earnings attributable to noncontrolling interest | (5,426) | (7,124) |
| Net earnings attributable to Greenbrier | \$ 17,956 | \$ 26,253 |
| Basic earnings per common share: | \$ 0.55 | \$ 0.90 |
| Diluted earnings per common share: | \$ 0.54 | \$ 0.83 |
| Weighted average common shares: | | |
| Basic | 32,640 | 29,332 |
| Diluted | 33,093 | 32,696 |
| Dividends declared per common share | \$ 0.25 | \$ 0.23 |

The accompanying notes are an integral part of these financial statements

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

| | Three Months Ended November 30, | |
|--|---------------------------------------|-----------|
| | 2018 | 2017 |
| Net earnings | \$ 23,382 | \$ 33,377 |
| Other comprehensive income | | |
| Translation adjustment | (3,931) | (3,187) |
| Reclassification of derivative financial instruments recognized in net earnings ¹ | 469 | (328) |
| Unrealized gain (loss) on derivative financial instruments ² | (2,302) | 822 |
| Other (net of tax effect) | (230) | (19) |
| | (5,994) | (2,712) |
| Comprehensive income | 17,388 | 30,665 |
| Comprehensive income attributable to noncontrolling interest | (5,411) | (7,120) |
| Comprehensive income attributable to Greenbrier | \$ 11,977 | \$ 23,545 |

¹ Net of tax effect of \$0.2 million and \$0.02 million for the three months ended November 30, 2018 and 2017.

² Net of tax effect of \$0.9 million and \$0.3 million for the three months ended November 30, 2018 and 2017.

The accompanying notes are an integral part of these financial statements

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

| | Attributable to Greenbrier | | | | Total Attributable to Greenbrier | Attributable to Noncontrolling Interest | Total Equity | Contingently Redeemable Noncontrolling Interest |
|--|----------------------------|----------------------------------|----------------------|---|--|--|-----------------|--|
| | Common Stock Shares | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | | | | |
| Balance September 1, 2018 | 32,191 | \$ 442,569 | \$ 830,898 | \$ (23,366) | \$ 1,250,101 | \$ 134,114 | \$ 1,384,215 | \$ 29,768 |
| Net earnings | | | 17,956 | | 17,956 | 6,745 | 24,701 | (1,319) |
| Other comprehensive income, net | | | | (5,979) | (5,979) | (15) | (5,994) | |
| Noncontrolling interest adjustments | | | | | | 3,919 | 3,919 | |
| Joint venture partner distribution declared | | | | | | (3,173) | (3,173) | |
| Cumulative effect adjustment due to adoption of ASU 2014-09 (See Note 1) | | | 5,461 | | 5,461 | | 5,461 | |
| Restricted stock awards (net of cancellations) | 159 | 11,416 | | | 11,416 | | 11,416 | |
| Unamortized restricted stock | | (16,163) | | | (16,163) | | (16,163) | |
| Restricted stock amortization | | 3,136 | | | 3,136 | | 3,136 | |
| Cash dividends (\$0.25 per share) | | | (8,297) | | (8,297) | | (8,297) | |
| Balance November 30, 2018 | 32,350 | \$ 440,958 | \$ 846,018 | \$ (29,345) | \$ 1,257,631 | \$ 141,590 | \$ 1,399,221 | \$ 28,449 |

Attributable to Greenbrier

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| | Common Stock Shares | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total Attributable to Greenbrier | Attributable to Noncontrolling Interest | Total Equity | Contingently Redeemable Noncontrolling Interest |
|--|---------------------------|----------------------------------|----------------------|---|--|--|-----------------|--|
| Balance September 1, 2017 | 28,503 | \$ 315,306 | \$ 709,103 | \$ (6,279) | \$ 1,018,130 | \$ 160,763 | \$ 1,178,893 | \$ 36,148 |
| Net earnings | | | 26,253 | | 26,253 | 8,063 | 34,316 | (939) |
| Other comprehensive income, net | | | | (2,708) | (2,708) | (4) | (2,712) | |
| Noncontrolling interest adjustments | | | | | | (882) | (882) | |
| Joint venture partner distribution declared | | | | | | (26,789) | (26,789) | |
| Investment by joint venture partner | | | | | | 6,500 | 6,500 | |
| Restricted stock awards (net of cancellations) | 198 | (5,061) | | | (5,061) | | (5,061) | |
| Restricted stock amortization | | 2,544 | | | 2,544 | | 2,544 | |
| Cash dividends (\$0.23 per share) | | | (6,601) | | (6,601) | | (6,601) | |
| Balance November 30, 2017 | 28,701 | \$ 312,789 | \$ 728,755 | \$ (8,987) | \$ 1,032,557 | \$ 147,651 | \$ 1,180,208 | \$ 35,209 |

The accompanying notes are an integral part of these financial statements

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

| | Three Months Ended November 30, | |
|---|------------------------------------|-----------------|
| | 2018 | 2017 |
| Cash flows from operating activities | | |
| Net earnings | \$ 23,382 | \$ 33,377 |
| Adjustments to reconcile net earnings to net cash used in operating activities: | | |
| Deferred income taxes | (2,360) | (5,865) |
| Depreciation and amortization | 20,700 | 18,370 |
| Net gain on disposition of equipment | (14,353) | (19,171) |
| Accretion of debt discount | 1,076 | 1,024 |
| Stock based compensation expense | 3,194 | 5,939 |
| Noncontrolling interest adjustments | 3,920 | (875) |
| Other | 286 | 477 |
| Decrease (increase) in assets: | | |
| Accounts receivable, net | 54,834 | (35,510) |
| Inventories | (63,045) | (16,311) |
| Leased railcars for syndication | (116,726) | (35,541) |
| Other | (392) | 6,304 |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued liabilities | (10,949) | 16,676 |
| Deferred revenue | 3,314 | (8,548) |
| Net cash used in operating activities | (97,119) | (39,654) |
| Cash flows from investing activities | | |
| Proceeds from sales of assets | 34,497 | 75,060 |
| Capital expenditures | (28,677) | (29,893) |
| Investment in and advances to unconsolidated affiliates | (11,393) | |
| Cash distribution from joint ventures | 1,784 | |
| Net cash provided by (used in) investing activities | (3,789) | 45,167 |
| Cash flows from financing activities | | |
| Net change in revolving notes with maturities of 90 days or less | (4,840) | 2,561 |
| Proceeds from issuance of notes payable | 225,000 | 2,138 |
| Debt issuance costs | (2,766) | |
| Repayments of notes payable | (173,453) | (2,809) |
| Investment by joint venture partner | | 6,500 |
| Cash distribution to joint venture partner | (3,185) | (26,900) |
| Dividends | (467) | (319) |

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| | | |
|---|-----------------|-----------------|
| Tax payments for net share settlement of restricted stock | (4,747) | (5,061) |
| Net cash provided by (used in) financing activities | 35,542 | (23,890) |
| Effect of exchange rate changes | (2,439) | (1,736) |
| Decrease in cash and cash equivalents and restricted cash | (67,805) | (20,113) |
| Cash and cash equivalents and restricted cash | | |
| Beginning of period | 539,474 | 620,358 |
| End of period | \$ 471,669 | \$ 600,245 |
| Balance Sheet Reconciliation: | | |
| Cash and cash equivalents | \$ 462,797 | \$ 591,406 |
| Restricted cash | 8,872 | 8,839 |
| Total cash, cash equivalents and restricted cash as presented above | \$ 471,669 | \$ 600,245 |
| Cash paid during the period for | | |
| Interest | \$ 1,740 | \$ 3,662 |
| Income taxes, net | \$ 7,487 | \$ 385 |
| Non-cash activity | | |
| Transfer from Leased railcars for syndication and Inventories to Equipment on operating leases, net | \$ 14,304 | \$ |
| Capital expenditures accrued in Accounts payable and accrued liabilities | \$ 6,972 | \$ 14,840 |
| Dividends declared and accrued in Accounts payable and accrued liabilities | \$ 7,830 | \$ 6,282 |

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 its subsidiaries (Greenbrier or the Company) as of November 30, 2018 and for the three months ended November 30, 2018 and 2017 have been prepared to reflect all adjustments (consisting of normal recurring accruals) that, in the opinion of management, are necessary for a fair presentation of the financial position, operating results and cash flows for the periods indicated. The results of operations for the three months ended November 30, 2018 are not necessarily indicative of the results to be expected for the entire year ending August 31, 2019.

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 unaudited financial statements should be read in conjunction with the Consolidated Financial Statements contained in the Company's 2018 Annual Report on Form 10-K.

Management 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.

Initial Adoption of Accounting Policies In the first quarter of 2019, the Company adopted Accounting Standard Update 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). This standard was issued to provide a common revenue recognition model for entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. The new standard also requires additional disclosures to sufficiently describe the nature, amount, timing, and uncertainty of revenue and cash flow arising from contracts with customers. As a result of adopting the new standard, the majority of the Company's revenue recognition timing have remained unchanged, while certain minor changes have occurred related to maintenance and repair services. Costs incurred while fulfilling maintenance contracts will now be recognized as incurred while the related revenue will continue to be recognized over time. Additionally, repair service revenue, while previously recognized upon completion of the services, will now be recognized over time. This standard was adopted using a modified retrospective approach through a cumulative effect adjustment, which increased retained earnings by \$5.5 million at September 1, 2018. The adoption of the new revenue standard did not have a material effect on the Company's Unaudited Condensed Consolidated Balance Sheets and Statements of Income.

In the first quarter of 2019, the Company adopted Accounting Standard Update 2016-18, *Restricted Cash* (ASU 2016-18). This update requires additional disclosure and that the Statement of Cash Flow explain the change during the period in the total cash, cash equivalents and amounts generally described as restricted cash. Therefore, amounts generally described as restricted cash are included with cash & cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Statement of Cash Flows. The guidance requires retrospective adjustment to each period presented. The adoption of ASU 2016-18 did not have an impact on the Condensed Consolidated Balance Sheet and Statement of Income, but did result in revisions to the Condensed

Consolidated Statement of Cash Flows as well as other revised disclosures.

Prospective Accounting Changes In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases* (ASU 2016-02). The new guidance supersedes existing guidance on accounting for leases in Topic 840 and is intended to increase the transparency and comparability of accounting for lease transactions. ASU 2016-02 requires most leases to be recognized on the balance sheet by recording a right-of-use asset and a lease liability. The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Lessor accounting remains similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. The ASU will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. The standard is effective for fiscal

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years, and interim periods within those fiscal years, beginning after December 15, 2018 and the Company plans to adopt this standard on September 1, 2019. The new standard must be adopted using a modified retrospective transition and will include a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption. The Company continues to evaluate the impact of this standard on its consolidated financial statements and disclosures.

In August 2017, the FASB issued Accounting Standards Update 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities* (ASU 2017-12). This update improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and make certain targeted improvements to simplify the application of the hedge accounting guidance. The guidance expands the ability to qualify for hedge accounting for non-financial and financial risk components, reduces complexity in fair value hedges of interest rate risk, eliminates the requirement to separately measure and report hedge ineffectiveness, as well as eases certain hedge effectiveness assessment requirements. The new guidance is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. The Company plans to adopt this guidance beginning September 1, 2019. The Company is currently evaluating the impact of this standard on its consolidated financial statements and disclosures.

Share Repurchase Program The Board of Directors has authorized the Company to repurchase shares of the Company's common stock. In January 2019, the expiration date of this share repurchase program was extended from March 31, 2019 to March 31, 2021 and the amount remaining for repurchase was increased from \$88 million to \$100 million. Under the share repurchase program, shares of common stock may be purchased on the open market or through privately negotiated transactions from time to time. The timing and amount of purchases will be based upon market conditions, securities law limitations and other factors. The program may be modified, suspended or discontinued at any time without prior notice. The share repurchase program does not obligate the Company to acquire any specific number of shares in any period.

The Company did not repurchase any shares during the three months ended November 30, 2018. As of November 30, 2018, the Company had cumulatively repurchased 3,206,226 shares for approximately \$137.0 million since October 2013 and had \$88.0 million available under the share repurchase program.

Note 2 Revenue Recognition

The Company measures revenue at the amounts that reflect the consideration to which it is expected to be entitled in exchange for transferring control of goods and services to customers. The Company recognizes revenue either at the point in time or over the period of time that performance obligations to customers are satisfied. Payment terms vary by segment and product type and are generally due within normal commercial terms. The Company's contracts with customers may include multiple performance obligations (e.g. railcars, maintenance, management services, etc.). For such arrangements, the Company allocates revenues to each performance obligation based on their relative standalone selling price. The Company has disaggregated revenue from contracts with customers into categories which describe the principal activities from which the Company generates its revenues. See Note 14 - Segments for further disaggregated revenue information.

Manufacturing

Railcars are manufactured in accordance with contracts with customers. The Company recognizes revenue upon its customers' acceptance of the completed railcars at a specified delivery point. From time to time, the Company enters

into multi-year supply agreements. Each railcar delivery is considered a distinct performance obligation, such that the amounts that are recognized as revenue following railcar delivery are generally not subject to change.

The Company typically recognizes marine vessel manufacturing revenue over time using the cost input method, based on progress toward contract completion measured by actual costs incurred to date in relation to the estimate of total expected costs. This method best depicts the Company's performance in completing the construction of the marine vessel for the customer and is consistent with the percentage of completion method used prior to the adoption of the new revenue standard.

THE GREENBRIER COMPANIES, INC.*Wheels, Repair & Parts*

The Company operates a network of wheel, repair and parts shops in North America that provide complete wheelset reconditioning and railcar repair services.

Wheels revenue is recognized when wheelsets are shipped to the customer or when consumed by customers in the case of consignment arrangements. Parts revenue is recognized upon shipment of the parts to the customers.

Repair revenue is typically recognized over time using the cost input method, based on progress toward contract completion measured by actual costs incurred to date in relation to the estimate of total expected costs. This method best depicts the Company's performance in repairing the railcars for the customer. Repair services are typically completed in less than 90 days.

Leasing & Services

The Company owns a fleet of new and used cars which are leased to third-party customers. Lease revenue is recognized over the lease-term in the period in which it is earned in accordance with ASC 840: *Leases*.

Syndication transactions represent new and used railcars which have been placed on lease to a customer and which the Company intends to sell to an investor with the lease attached. At the time of such sale, revenue and cost of revenue associated with railcars that the Company has manufactured are recognized in the Manufacturing segment; while revenue and cost of revenue associated with railcars which were obtained from a third-party with the intent to resell them and subsequently sold, are recognized in the Leasing & Services segment in accordance with ASC 840: *Leases*.

The Company enters into multi-year contracts to provide management and maintenance services to customers for which revenue is generally recognized ratably over the contract term as a stand-ready obligation. Costs to fulfill these contracts are recognized as incurred.

Contract balances

Contract assets primarily consist of unbilled receivables related to marine vessel construction and repair services, for which the respective contracts do not yet permit billing at the reporting date. Contract liabilities primarily consist of customer prepayments for manufacturing, maintenance, and other management-type services, for which the Company has not yet satisfied the related performance obligations.

The opening and closing balances of the Company's contract balances are as follows:

| <i>(in thousands)</i> | Balance sheet classification | September 1, 2018 | November 30, 2018 | \$ change |
|-----------------------------------|------------------------------|----------------------|----------------------|--------------|
| Contract assets | Inventories | \$ 7,228 | \$ 9,741 | \$ 2,513 |
| Contract liabilities ¹ | Deferred revenue | \$ 41,250 | \$ 36,763 | \$ (4,487) |

¹ Contract liabilities balance includes deferred revenue within the scope of the new revenue standard.

For the three months ended November 30, 2018, the Company recognized \$5.3 million of revenue that was included in Contract liabilities as of September 1, 2018.

THE GREENBRIER COMPANIES, INC.Performance obligations

As of November 30, 2018, the Company has entered into contracts with customers for which revenue has not yet been recognized. The following table outlines estimated revenue related to performance obligations wholly or partially unsatisfied, that the Company anticipates will be recognized in future periods.

| <i>(in millions)</i> | November 30, 2018 |
|--|----------------------|
| Revenue type ¹ : | |
| Manufacturing Railcar Sales | \$ 2,011.8 |
| Manufacturing Railcars intended for syndication ² | \$ 647.3 |
| Manufacturing Marine | \$ 55.9 |
| Services | \$ 138.7 |

¹ Unsatisfied performance obligation related to Wheels, Repair & Parts revenue is not material

² Not within the scope of the new revenue standard

Based on current production schedules and existing contracts, approximately \$1.1 billion of the Railcar Sales amount is expected to be recognized in the remainder of fiscal 2019 while the remaining amount is expected in future periods. The table above excludes estimated revenue to be recognized at the Company's Brazilian manufacturing operation, as they are accounted for under the equity method.

Revenue amounts reflected in Railcars intended for syndication may be syndicated to third parties or held in the Company's fleet depending on a variety of factors.

Marine revenue is expected to be recognized from 2019-2020 as vessel construction is completed.

Services includes management and maintenance services of which approximately 60% are expected to be performed from 2019-2024 and the remaining amount ratably through 2037.

THE GREENBRIER COMPANIES, INC.**Note 3 Acquisitions**

On August 20, 2018, the Company entered into a dissolution agreement with Watco Companies, LLC, its previous joint venture partner, to discontinue their GBW Railcar Services railcar repair joint venture. Pursuant to the dissolution agreement, previously operated Greenbrier repair shops and associated employees were returned to the Company. Additionally, the dissolution agreement provides that certain agreements entered into in connection with the original creation of GBW in 2014 were terminated as of the transaction date, including the leases of real and personal property, service agreements, and certain employment-related agreements. GBW will complete its cessation of activities in an orderly manner in fiscal 2019.

As the assets received and liabilities assumed from GBW meet the definition of a business, the Company has accounted for this transaction as a business combination. The total net assets acquired were approximately \$56.8 million. Additionally, the Company removed the book value of its remaining equity method investment in, and note receivable due from, the joint venture. The accumulated deficit reflected in GBW's balance sheet as of August 31, 2018 continues to be funded by the joint venture partners. The Company has included this assumed liability within the purchase price allocation in the table below.

For the three months ended November 30, 2018, the Repair operations contributed by this acquisition generated revenues of \$23.9 million and a loss from operations of \$1.4 million, which are reported in the Company's condensed consolidated financial statements as part of the Wheels, Repair & Parts segment. The impact of the acquisition was not material to the Company's results of operations, therefore pro forma financial information has not been included.

The preliminary allocation of the purchase price based on the fair value of the net assets acquired was:

| | |
|--|------------------|
| <i>(in thousands)</i> | |
| Cash and cash equivalents | \$ 5,000 |
| Accounts receivable, net | 12,230 |
| Inventories | 18,106 |
| Property, plant and equipment, net | 16,748 |
| Intangibles and other assets, net | 9,200 |
| Goodwill | 7,863 |
| Total assets acquired | 69,147 |
| Accounts payable and accrued liabilities | 12,394 |
| Total liabilities assumed | 12,394 |
| Net assets acquired | \$ 56,753 |

Certain liabilities in the table above are estimates and the Company will adjust the purchase price allocation as they are settled.

THE GREENBRIER COMPANIES, INC.**Note 4 Inventories**

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

| <i>(In thousands)</i> | November 30, 2018 | August 31, 2018 |
|--|----------------------|--------------------|
| Manufacturing supplies and raw materials | \$ 286,779 | \$ 278,726 |
| Work-in-process | 107,377 | 105,021 |
| Finished goods | 104,933 | 54,181 |
| Excess and obsolete adjustment | (6,516) | (5,614) |
| | \$ 492,573 | \$ 432,314 |

Note 5 Intangibles and Other Assets, net

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

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

| <i>(In thousands)</i> | November 30, 2018 | August 31, 2018 |
|---|----------------------|--------------------|
| Intangible assets subject to amortization: | | |
| Customer relationships | \$ 72,625 | \$ 72,521 |
| Accumulated amortization | (44,687) | (43,576) |
| Other intangibles | 15,925 | 16,300 |
| Accumulated amortization | (7,167) | (6,400) |
| | 36,696 | 38,845 |
| Intangible assets not subject to amortization | 4,970 | 5,115 |
| Prepaid and other assets | 20,018 | 18,935 |
| Nonqualified savings plan investments | 26,992 | 26,299 |
| Revolving notes issuance costs, net | 3,632 | 1,824 |
| Assets held for sale | 3,650 | 3,650 |
| Total Intangible and other assets, net | \$ 95,958 | \$ 94,668 |

Amortization expense was \$1.9 million and \$1.4 million for the three months ended November 30, 2018 and 2017, respectively. Amortization expense for the years ending August 31, 2019, 2020, 2021, 2022 and 2023 is expected to be \$5.8 million, \$5.1 million, \$5.1 million, \$3.7 million and \$3.5 million, respectively.

Note 6 Revolving Notes

Senior secured credit facilities, consisting of three components, aggregated to \$689.0 million as of November 30, 2018.

As of November 30, 2018, a \$600.0 million revolving line of credit, maturing September 2023, secured by substantially all the Company's assets in the U.S. not otherwise pledged as security for term loans, was available to provide working capital and interim financing of equipment, principally for the U.S. and Mexican operations. Advances under this facility bear interest at LIBOR plus 1.50% or Prime plus 0.50% depending on the type of borrowing. Available borrowings under the credit facility are generally based on defined levels of inventory, receivables, property, plant and equipment and leased equipment, as well as total debt to consolidated capitalization and fixed charges coverage ratios.

As of November 30, 2018, lines of credit totaling \$39.0 million secured by certain of the Company's European assets, with variable rates that range from Warsaw Interbank Offered Rate (WIBOR) plus 1.1% to WIBOR plus 1.3% and Euro Interbank Offered Rate (EURIBOR) plus 1.1%, 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 February 2019 through September 2020.

As of November 30, 2018, the Company's Mexican railcar manufacturing joint venture had two lines of credit totaling \$50.0 million. The first line of credit provides up to \$30.0 million and is fully guaranteed by the Company and its joint venture partner. Advances under this facility bear interest at LIBOR plus 2.0%. The Mexican railcar manufacturing joint venture will be able to draw against this facility through January 2019 and the line of credit is currently in the process of being renewed. The second line of credit provides up to \$20.0 million, of which the Company and its joint venture partner have each guaranteed 50%. Advances under this facility bear interest at LIBOR plus 2.0%. The Mexican railcar manufacturing joint venture will be able to draw amounts available under this facility through July 2019.

As of November 30, 2018, outstanding commitments under the senior secured credit facilities consisted of \$72.4 million in letters of credit under the North American credit facility and \$22.2 million outstanding under the European credit facilities.

As of August 31, 2018, outstanding commitments under the senior secured credit facilities consisted of \$72.2 million in letters of credit under the North American credit facility and \$27.7 million outstanding under the European credit facilities.

THE GREENBRIER COMPANIES, INC.**Note 7 Accounts Payable and Accrued Liabilities**

| <i>(In thousands)</i> | November 30, 2018 | August 31, 2018 |
|---|----------------------|--------------------|
| Trade payables | \$ 224,059 | \$ 226,405 |
| Other accrued liabilities | 78,726 | 73,273 |
| Accrued payroll and related liabilities | 87,182 | 105,111 |
| Accrued warranty | 26,264 | 27,395 |
| Income taxes payable | 11,438 | 4,771 |
| Other | 10,635 | 12,902 |
| | \$ 438,304 | \$ 449,857 |

Note 8 Warranty Accruals

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

Warranty accrual activity:

| <i>(In thousands)</i> | Three Months Ended November 30, | |
|---------------------------------|------------------------------------|------------------|
| | 2018 | 2017 |
| Balance at beginning of period | \$ 27,395 | \$ 20,737 |
| Charged to cost of revenue, net | 1,441 | 1,953 |
| Payments | (2,184) | (751) |
| Currency translation effect | (388) | 13 |
| Balance at end of period | \$ 26,264 | \$ 21,952 |

Note 9 Notes Payable

In September 2018, the Company refinanced approximately \$170 million of existing senior term debt, due in March 2020, secured by a pool of leased railcars with new 5-year \$225 million senior term debt also secured by a pool of leased railcars. The new debt bears a floating interest rate of LIBOR plus 1.50% or Prime plus 0.50%. The term loan is to be repaid in equal quarterly installments of \$1.97 million with the remaining outstanding amounts, plus accrued interest, to be paid on the maturity date in September 2023. An interest rate swap agreement was entered into on 50% of the initial balance to swap the floating interest rate to a fixed rate of 2.99%. The Company intends to use hedge accounting to account for the interest rate swap agreement.

THE GREENBRIER COMPANIES, INC.**Note 10 Accumulated Other Comprehensive Loss**

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

| <i>(In thousands)</i> | Unrealized Gain (loss) on Derivative Financial Instruments | Foreign Currency Translation Adjustment | Other | Accumulated Other Comprehensive Loss |
|--|--|--|------------|---|
| Balance, August 31, 2018 | \$ (431) | \$ (21,506) | \$ (1,429) | \$ (23,366) |
| Other comprehensive loss before reclassifications | (2,302) | (3,916) | (230) | (6,448) |
| Amounts reclassified from Accumulated other comprehensive loss | 469 | | | 469 |
| Balance, November 30, 2018 | \$ (2,264) | \$ (25,422) | \$ (1,659) | \$ (29,345) |

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

| <i>(In thousands)</i> | Three Months Ended November 30, | | Financial Statement |
|--|------------------------------------|----------|-------------------------------|
| | 2018 | 2017 | Location |
| (Gain) loss on derivative financial instruments: | | | |
| Foreign exchange contracts | \$ 488 | \$ (511) | Revenue and Cost of revenue |
| Interest rate swap contracts | 144 | 167 | Interest and foreign exchange |
| | 632 | (344) | Total before tax |
| | (163) | 16 | Tax expense |
| | \$ 469 | \$ (328) | Net of tax |

THE GREENBRIER COMPANIES, INC.**Note 11 Earnings Per Share**

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

| <i>(In thousands)</i> | Three Months Ended | |
|---|--------------------|---------------|
| | 2018 | 2017 |
| Weighted average basic common shares outstanding ⁽¹⁾ | 32,640 | 29,332 |
| Dilutive effect of 2018 Convertible notes ⁽²⁾ | | 3,331 |
| Dilutive effect of 2024 Convertible notes ⁽³⁾ | | |
| Dilutive effect of restricted stock units ⁽⁴⁾ | 453 | 33 |
| Weighted average diluted common shares outstanding | 33,093 | 32,696 |

- (1) Restricted stock grants and restricted stock units that are considered participating securities, including some grants subject to certain performance criteria, are included in weighted average basic common shares outstanding when the Company is in a net earnings position.
- (2) The dilutive effect of the 2018 Convertible notes was included for the three months ended November 30, 2017 as they were considered dilutive under the if converted method as further discussed below. The 2018 Convertible notes matured on April 1, 2018.
- (3) The dilutive effect of the 2024 Convertible notes was excluded for the three months ended November 30, 2018 and 2017 as the average stock price was less than the applicable conversion price and therefore was considered anti-dilutive.
- (4) Restricted stock units that are not considered participating securities and restricted stock units subject to performance criteria, for which actual levels of performance above target have been achieved, are included in weighted average diluted common shares outstanding when the Company is in a net earnings position.

Diluted EPS is calculated using the more dilutive of two approaches. The first approach includes the dilutive effect, using the treasury stock method, associated with shares underlying the 2024 Convertible notes, restricted stock units that are not considered participating securities and performance based restricted stock units subject to performance criteria, for which actual levels of performance above target have been achieved. The second approach supplements the first by including the if converted effect of the 2018 Convertible notes during the periods in which they were outstanding. Under the if converted method, debt issuance and interest costs, both net of tax, associated with the convertible notes are added back to net earnings and the share count is increased by the shares underlying the convertible notes. The 2024 Convertible notes are included in the calculation of both approaches using the treasury stock method when the average stock price is greater than the applicable conversion price.

| | Three Months Ended | |
|--|--------------------|------------------|
| | 2018 | 2017 |
| Net earnings attributable to Greenbrier | \$ 17,956 | \$ 26,253 |

Add back:

| | | |
|---|-----|-----|
| Interest and debt issuance costs on the 2018 Convertible notes, net of tax | n/a | 733 |
|---|-----|-----|

| | | |
|---|-----|-----------|
| Earnings before interest and debt issuance costs on 2018 Convertible Notes | n/a | \$ 26,986 |
|---|-----|-----------|

| | | |
|--|---------|---------|
| Weighted average diluted common shares outstanding | 33,093 | 32,696 |
| Diluted earnings per share ⁽¹⁾ | \$ 0.54 | \$ 0.83 |

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

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

Weighted average diluted common shares outstanding

Note 12 Stock Based Compensation

The value of stock based compensation awards is amortized as compensation expense from the date of grant through the earlier of the vesting period or in some instances the recipient's eligible retirement date. Stock based compensation expense consists of restricted stock units, restricted stock and phantom stock units awards.

Stock based compensation expense was \$3.2 million for the three months ended November 30, 2018 and \$5.9 million for the three months ended November 30, 2017. Compensation expense is recorded in Selling and administrative expense and Cost of revenue on the Consolidated Statements of Income.

Note 13 Derivative Instruments

Foreign operations give rise to market risks from changes in foreign currency exchange rates. Foreign currency forward exchange contracts with established financial institutions are utilized to hedge a portion of that risk. Interest rate swap agreements are used to reduce the impact of changes in interest rates on certain debt. The Company's foreign currency forward exchange contracts and interest rate swap agreements are designated as cash flow hedges, and therefore the effective portion of unrealized gains and losses is recorded in accumulated other comprehensive income or loss.

At November 30, 2018 exchange rates, forward exchange contracts for the purchase of Polish Zlotys and the sale of Euros; the purchase of Mexican Pesos and the sale of U.S. Dollars; and for the purchase of U.S. Dollars and the sale of Saudi Riyals aggregated to \$139.8 million. The fair value of the contracts is included on the Consolidated Balance Sheets as Accounts payable and accrued liabilities when there is a loss, or as Accounts receivable, net when there is a gain. As the contracts mature at various dates through March 2021, any such gain or loss remaining will be recognized in manufacturing revenue or cost of revenue along with the related transactions. In the event that the underlying 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 results of operations in Interest and foreign exchange at the time of occurrence. At November 30, 2018 exchange rates, approximately \$2.4 million would be reclassified to revenue or cost of revenue in the next year.

At November 30, 2018, an interest rate swap agreement maturing in September 2023 had a notional amount of \$112.5 million. The fair value of the contract is included on the Consolidated Balance Sheets in Accounts payable and accrued liabilities when there is a loss, or in Accounts receivable, net when there is a gain. As interest expense on the underlying debt is recognized, amounts corresponding to the interest rate swap are reclassified from Accumulated other comprehensive loss and charged or credited to interest expense. At November 30, 2018 interest rates, approximately \$0.8 million would be reclassified to interest expense in the next year.

THE GREENBRIER COMPANIES, INC.**Fair Values of Derivative Instruments**

| <i>(In thousands)</i> | Asset Derivatives | | | | Liability Derivatives | | | |
|--|--------------------------|--------|----------------------|--|------------------------------|----------|----------------------|--------------------|
| | Balance sheet location | | November 30, 2018 | August 31, 2018 | Balance sheet location | | November 30, 2018 | August 31, 2018 |
| | | | Fair Value | Fair Value | | | Fair Value | Fair Value |
| Derivatives designated as hedging instruments | | | | | | | | |
| Foreign forward exchange contracts | Accounts receivable, net | \$ 755 | \$ 700 | Accounts payable and accrued liabilities | | \$ 1,857 | \$ 1,211 | |
| Interest rate swap contracts | Accounts receivable, net | | 781 | Accounts payable and accrued liabilities | | 790 | 1 | |
| | | \$ 755 | \$ 1,481 | | | \$ 2,647 | \$ 1,212 | |
| Derivatives not designated as hedging instruments | | | | | | | | |
| Foreign forward exchange contracts | Accounts receivable, net | \$ 144 | \$ 76 | Accounts payable and accrued liabilities | | \$ 46 | \$ 354 | |
| Interest rate swap contracts | Accounts receivable, net | | | Accounts payable and accrued liabilities | | 105 | | |
| | | \$ 144 | \$ 76 | | | \$ 151 | \$ 354 | |

The Effect of Derivative Instruments on the Statements of Income

| Derivatives in cash flow hedging relationships | Location of gain (loss) recognized in income on derivatives | Gain (loss) recognized in income on derivatives three months ended | |
|--|---|--|--------|
| | | November 30, 2018 | 2017 |
| Foreign forward exchange contract | Interest and foreign exchange | \$ 380 | \$ 380 |
| Interest rate swap contracts | Interest and foreign exchange | | (17) |
| | | \$ 380 | \$ 363 |

Derivatives in cash flow

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| hedging relationships | Gain (loss) recognized in OCI on derivatives (effective portion) three months ended November 30, | | Location of gain (loss) reclassified from accumulated OCI into income | Gain (loss) reclassified from accumulated OCI into income (effective portion) three months ended November 30, | | Location of gain (loss) derivative (ineffective portion and amount excluded from effectiveness testing) | Gain (loss) recognized on derivative (ineffective portion and amount excluded from effectiveness testing) three months ended November 30, | |
|------------------------------------|--|----------|---|---|--------|---|---|--------|
| | 2018 | 2017 | | 2018 | 2017 | | 2018 | 2017 |
| Foreign forward exchange contracts | \$ 72 | \$ 730 | Revenue | \$ (256) | \$ 710 | Revenue | \$ 262 | \$ 56 |
| Foreign forward exchange contracts | (1,495) | (354) | Cost of revenue | (232) | (199) | Cost of revenue | 389 | 82 |
| Interest rate swap contracts | (1,773) | 771 | Interest and foreign exchange | (144) | (167) | Interest and foreign exchange | (47) | |
| | \$ (3,196) | \$ 1,147 | | \$ (632) | \$ 344 | | \$ 604 | \$ 138 |

THE GREENBRIER COMPANIES, INC.**Note 14 Segment Information**

The Company operates in three reportable segments: Manufacturing; Wheels, Repair & Parts; and Leasing & Services. Prior to August 20, 2018, the Company operated in four reportable segments: Manufacturing; Wheels, Repair & Parts; Leasing & Services; and GBW Joint Venture. On August 20, 2018 the Company entered into an agreement with its joint venture partner to discontinue the GBW railcar repair joint venture, which resulted in 12 repair shops returned to the Company. Beginning on August 20, 2018, the GBW Joint Venture is no longer considered a reportable segment.

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 2018 Annual Report on Form 10-K except for the revenue recognition accounting policy which has subsequently been updated (see Note 2 Revenue Recognition). Performance is evaluated based on Earnings from operations. Corporate includes selling and administrative costs not directly related to goods and services and certain costs that are intertwined among segments due to our integrated business model. The Company does not allocate Interest and foreign exchange or Income tax expense for either external or internal reporting purposes. Intersegment sales and transfers are valued as if the sales or transfers were to third parties. Related revenue and margin are eliminated in consolidation and therefore are not included in consolidated results in the Company's Consolidated Financial Statements.

The information in the following table is derived directly from the segments' internal financial reports used for corporate management purposes. The results of operations for the GBW Joint Venture are not reflected in the tables below as the investment was accounted for under the equity method of accounting.

For the three months ended November 30, 2018:

| <i>(In thousands)</i> | Revenue | | | Earnings (loss) from operations | | |
|------------------------|------------|--------------|------------|---------------------------------|--------------|-----------|
| | External | Intersegment | Total | External | Intersegment | Total |
| Manufacturing | \$ 471,789 | \$ 6,201 | \$ 477,990 | \$ 36,855 | \$ 433 | \$ 37,288 |
| Wheels, Repair & Parts | 108,543 | 15,981 | 124,524 | 3,247 | 312 | 3,559 |
| Leasing & Services | 24,191 | 5,999 | 30,190 | 17,513 | 5,452 | 22,965 |
| Eliminations | | (28,181) | (28,181) | | (6,197) | (6,197) |
| Corporate | | | | (21,161) | | (21,161) |
| | \$ 604,523 | \$ | \$ 604,523 | \$ 36,454 | \$ | \$ 36,454 |

For the three months ended
November 30, 2017:

| <i>(In thousands)</i> | Revenue | | | Earnings (loss) from operations | | |
|------------------------|------------|--------------|------------|---------------------------------|--------------|-----------|
| | External | Intersegment | Total | External | Intersegment | Total |
| Manufacturing | \$ 451,485 | \$ 16,804 | \$ 468,289 | \$ 52,969 | \$ 4,186 | \$ 57,155 |
| Wheels, Repair & Parts | 78,011 | 7,732 | 85,743 | 2,418 | 748 | 3,166 |
| Leasing & Services | 30,039 | 1,605 | 31,644 | 28,190 | 1,372 | 29,562 |

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| | | | | |
|--------------|----------|----------|----------|----------|
| Eliminations | (26,141) | (26,141) | (6,306) | (6,306) |
| Corporate | | | (22,135) | (22,135) |

| | | | | | |
|------------|----|------------|-----------|----|-----------|
| \$ 559,535 | \$ | \$ 559,535 | \$ 61,442 | \$ | \$ 61,442 |
|------------|----|------------|-----------|----|-----------|

| <i>(In thousands)</i> | Total assets | |
|------------------------|----------------------|--------------------|
| | November 30, 2018 | August 31, 2018 |
| Manufacturing | \$ 998,820 | \$ 1,020,757 |
| Wheels, Repair & Parts | 322,525 | 306,756 |
| Leasing & Services | 691,389 | 578,818 |
| Unallocated | 502,390 | 559,133 |
| | \$ 2,515,124 | \$ 2,465,464 |

THE GREENBRIER COMPANIES, INC.

Reconciliation of Earnings from operations to Earnings before income tax and earnings (loss) from unconsolidated affiliates:

| <i>(In thousands)</i> | Three Months Ended November 30, | |
|---|------------------------------------|-----------|
| | 2018 | 2017 |
| Earnings from operations | \$ 36,454 | \$ 61,442 |
| Interest and foreign exchange | 4,404 | 7,020 |
| Earnings before income tax and earnings (loss) from unconsolidated affiliates | \$ 32,050 | \$ 54,422 |

Note 15 Income Taxes

The Company recognized the income tax effects of the Tax Cuts and Jobs Act (Tax Act) in accordance with Staff Accounting Bulletin No. 118 (SAB 118), which required the financial results to reflect effects for which the accounting is complete and those which are provisional. Provisional effects were adjusted during the measurement period determined under SAB 118 based on ongoing analysis of data, tax positions and regulatory guidance. The accounting was considered complete as of November 30, 2018. There were no material adjustments made to the provisional effects during the three months ended November 30, 2018.

The Tax Act also made other significant changes to U.S. federal income tax laws, including a global intangible low-taxed income tax (GILTI) and a base erosion anti-abuse tax (BEAT) which became effective for the Company beginning on September 1, 2018. Though the impact of GILTI and BEAT during the three months ended November 30, 2018 was not material, those taxes were included in the projected effective tax rate for the current year.

Note 16 Commitments and ContingenciesPortland Harbor Superfund Site

The Company's Portland, Oregon manufacturing facility is located adjacent to the Willamette River. In December 2000, the U.S. Environmental Protection Agency (EPA) classified portions of the Willamette River bed known as the Portland Harbor, including the portion fronting the Company's manufacturing facility, as a federal National Priority List or Superfund site due to sediment contamination (the Portland Harbor Site). The Company and more than 140 other parties have received a General Notice of potential liability from the EPA relating to the Portland Harbor Site. The letter advised the Company that it may be liable for the costs of investigation and remediation (which liability may be joint and several with other potentially responsible parties) as well as for natural resource damages resulting from releases of hazardous substances to the site. Ten private and public entities, including the Company (the Lower Willamette Group or LWG), 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 nevertheless contributed money to the effort. The EPA-mandated RI/FS was produced by the LWG and cost over \$110 million during a 17-year period. The Company bore a percentage of the total costs incurred by the LWG in connection with the investigation. The Company's aggregate expenditure during the 17-year period was not material. Some or all of any such outlay may be recoverable from other responsible parties. The EPA issued its Record of Decision (ROD) for the Portland Harbor Site on January 6, 2017 and accordingly on

October 26, 2017, the AOC was terminated.

Separate from the process described above, which focused on the type of remediation to be performed at the Portland Harbor Site and the schedule for such remediation, 83 parties, including the State of Oregon and the federal government, entered into a non-judicial mediation process to try to allocate costs associated with remediation of the Portland Harbor site. Approximately 110 additional parties 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*, U.S. 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 been stayed by the court until January 16, 2020. The allocation process is continuing in parallel with the process to define the remediation steps.

THE GREENBRIER COMPANIES, INC.

The EPA's January 6, 2017 ROD identifies a clean-up remedy that the EPA estimates will take 13 years of active remediation, followed by 30 years of monitoring with an estimated undiscounted cost of \$1.7 billion. The EPA typically expects its cost estimates to be accurate within a range of -30% to +50%, but this ROD states that changes in costs are likely to occur as a result of new data it wants to collect over a 2-year period prior to final remedy design. The ROD identifies 13 Sediment Decision Units. One of the units, RM9W, includes the nearshore area of the river sediments offshore of the Company's Portland, Oregon manufacturing facility as well as upstream and downstream of the facility. It also includes a portion of the Company's riverbank. The ROD does not break down total remediation costs by Sediment Decision Unit. The EPA's ROD concluded that more data was needed to better define clean-up scope and cost. On December 8, 2017, the EPA announced that Portland Harbor is one of 21 Superfund sites targeted for greater attention. On December 19, 2017, the EPA announced that it had entered a new AOC with a group of four potentially responsible parties to conduct additional sampling during 2018 and 2019 to provide more certainty about clean-up costs and aid the mediation process to allocate those costs. The parties to the mediation, including the Company, have agreed to help fund the additional sampling.

The ROD does not address responsibility for the costs of clean-up, nor does it allocate such costs among the potentially responsible parties. Responsibility for funding and implementing the EPA's selected cleanup remedy will be determined at an unspecified later date. Based on the investigation to date, the Company believes that it did not contribute in any material way to contamination in the river sediments or the damage of natural resources in the Portland Harbor Site and that the damage in the area of the Portland Harbor Site adjacent to its property precedes its ownership of the Portland, Oregon manufacturing facility. Because these environmental investigations are still underway, including the collection of new pre-remedial design sampling data by EPA, sufficient information is currently not available to determine the Company's liability, if any, for the cost of any required remediation or restoration of the Portland Harbor Site or to estimate a range of potential loss. Based on the results of the pending investigations and future assessments of natural resource damages, the Company may be required to incur costs associated with additional phases of investigation or remedial action, and may be liable for damages to natural resources. In addition, the Company may be required to perform periodic maintenance dredging in order to continue to launch vessels from its launch ways in Portland, Oregon, on the Willamette River, and the river's classification as a Superfund site could result in some limitations on future dredging and launch activities. Any of these matters could adversely affect the Company's business and Consolidated Financial Statements, or the value of its Portland property.

On January 30, 2017 the Confederated Tribes and Bands of Yakama Nation sued 33 parties including the Company as well as the United States and the State of Oregon for costs it incurred in assessing alleged natural resource damages to the Columbia River from contaminants deposited in Portland Harbor. *Confederated Tribes and Bands of the Yakama Nation v. Air Liquide America Corp., et al.*, United States Court for the District of Oregon Case No. 3:17-cv-00164-SB. The Company, along with many of the other defendants, has moved to dismiss the case. That motion is pending. The complaint does not specify the amount of damages the plaintiff will seek.

Oregon Department of Environmental Quality (DEQ) Regulation of Portland Manufacturing Operations

The Company has entered into a Voluntary Cleanup Agreement with the Oregon Department of Environmental Quality (DEQ) in which the Company agreed to conduct an investigation of whether, and to what extent, past or present operations at the Portland property may have released hazardous substances into the environment. The Company has also signed an Order on Consent with the DEQ to finalize the investigation of potential onsite sources of contamination that may have a release pathway to the Willamette River. Interim precautionary measures are also required in the order and the Company is discussing with the DEQ potential remedial actions which may be required. The Company's aggregate expenditure has not been material, however the Company could incur significant expenses

for remediation. Some or all of any such outlay may be recoverable from other responsible parties.

Other Litigation, Commitments and Contingencies

From time to time, Greenbrier is involved as a defendant in litigation in the ordinary course of business, the outcomes of which cannot be predicted with certainty. While the ultimate outcome of such legal proceedings cannot be determined at this time, the Company believes that the resolution of pending litigation will not have a material adverse effect on the Company's Consolidated Financial Statements.

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As of November 30, 2018, the Company had outstanding letters of credit aggregating \$72.4 million associated with performance guarantees, facility leases and workers compensation insurance.

As of November 30, 2018, the Company had a \$10.0 million note receivable from Amsted-Maxion Cruzeiro, its unconsolidated Brazilian castings and components manufacturer and a \$19.5 million note receivable balance from Greenbrier-Maxion, its unconsolidated Brazilian railcar manufacturer. These note receivables are included on the Consolidated Balance Sheet in Accounts receivable, net. In the future, the Company may make loans to or provide guarantees for Amsted-Maxion Cruzeiro or Greenbrier-Maxion.

Note 17 Fair Value Measures

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

Level 1 - observable inputs such as unadjusted quoted prices in active markets for identical instruments;

Level 2 - inputs, other than the quoted market prices in active markets for similar instruments, which are observable, either directly or indirectly; and

Level 3 - unobservable inputs for which there is little or no market data available, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value on a recurring basis as of November 30, 2018 were:

| <i>(In thousands)</i> | Total | Level 1 | Level 2 ⁽¹⁾ | Level 3 |
|---------------------------------------|------------|------------|------------------------|---------|
| Assets: | | | | |
| Derivative financial instruments | \$ 899 | \$ | \$ 899 | \$ |
| Nonqualified savings plan investments | 26,992 | 26,992 | | |
| Cash equivalents | 126,886 | 126,886 | | |
| | \$ 154,777 | \$ 153,878 | \$ 899 | \$ |
| Liabilities: | | | | |
| Derivative financial instruments | \$ 2,798 | \$ | \$ 2,798 | \$ |

(1) Level 2 assets and liabilities include derivative financial instruments that are valued based on observable inputs. See Note 13 - Derivative Instruments for further discussion.

Assets and liabilities measured at fair value on a recurring basis as of August 31, 2018 were:

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| <i>(In thousands)</i> | Total | Level 1 | Level 2 | Level 3 |
|---------------------------------------|------------|------------|----------|---------|
| Assets: | | | | |
| Derivative financial instruments | \$ 1,557 | \$ | \$ 1,557 | \$ |
| Nonqualified savings plan investments | 26,299 | 26,299 | | |
| Cash equivalents | 126,430 | 126,430 | | |
| | \$ 154,286 | \$ 152,729 | \$ 1,557 | \$ |
| Liabilities: | | | | |
| Derivative financial instruments | \$ 1,566 | \$ | \$ 1,566 | \$ |

Note 18 Related Party Transactions

In June 2017, the Company purchased a 40% interest in the common equity of an entity that buys and sells railcar assets that are leased to third parties. The railcars sold to this leasing warehouse are principally built by Greenbrier. The Company accounts for this leasing warehouse investment under the equity method of accounting. As of November 30, 2018, the carrying amount of the investment was \$5.5 million which is classified in Investment in unconsolidated affiliates in the Consolidated Balance Sheet. Upon sale of railcars to this entity from Greenbrier, 60% of the related revenue and margin is recognized and 40% is deferred until the railcars are ultimately sold by the entity. During the three months ended November 30, 2018, the Company recognized \$4 million in revenue associated with railcars sold out of the leasing warehouse. The Company also provides administrative and remarketing services to this entity and earns management fees for these services which were immaterial for the three months ended November 30, 2018.

As of November 30, 2018, the Company had a \$10.0 million note receivable from Amsted-Maxion Cruzeiro, its unconsolidated Brazilian castings and components manufacturer and a \$19.5 million note receivable balance from Greenbrier-Maxion, its unconsolidated Brazilian railcar manufacturer. These note receivables are included on the Consolidated Balance Sheet in Accounts receivable, net.

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

We operate in three reportable segments: Manufacturing; Wheels, Repair & Parts; and Leasing & Services. Our segments are operationally integrated. The Manufacturing segment, which currently operates from facilities in the U.S., Mexico, Poland, Romania and Turkey, produces double-stack intermodal railcars, tank cars, conventional railcars, automotive railcar products and marine vessels. The Wheels, Repair & Parts segment performs wheel and axle servicing; railcar repair, refurbishment and maintenance; as well as production of a variety of parts for the railroad industry in North America. The Leasing & Services segment owns approximately 9,600 railcars (5,900 railcars held as equipment on operating leases, 3,200 held as leased railcars for syndication and 500 held as finished goods inventory) and provides management services for approximately 358,000 railcars for railroads, shippers, carriers, institutional investors and other leasing and transportation companies in North America as of November 30, 2018. Through unconsolidated affiliates we produce railcars in Brazil, rail and industrial castings, tank heads and other components and we have an ownership stake in a lease financing warehouse.

Our total manufacturing backlog of railcar units as of November 30, 2018 was approximately 27,500 units with an estimated value of \$2.69 billion. Approximately 1% of backlog units and estimated value as of November 30, 2018 was associated with our Brazilian manufacturing operations which is accounted for under the equity method. Backlog units for lease may be syndicated to third parties or held in our own fleet depending on a variety of factors. Multi-year supply agreements are a part of rail industry practice. A portion of the orders included in backlog reflects an assumed product mix. Under terms of the orders, the exact mix and pricing will be determined in the future, which may impact the dollar amount of backlog. Marine backlog as of November 30, 2018 was \$56 million.

Our backlog of railcar units and marine vessels is not necessarily indicative of future results of operations. Certain orders in backlog are subject to customary documentation and completion of terms. Customers may attempt to cancel or modify orders in backlog. Historically, little variation has been experienced between the quantity ordered and the quantity actually delivered, though the timing of deliveries may be modified from time to time. We cannot guarantee that our reported backlog will convert to revenue in any particular period, if at all.

In October 2018, we announced that our company and the Saudi Railway Company (SAR) signed an agreement to form a joint venture that will generate a total investment of 1 billion Saudi Riyals (USD \$270 million) in Saudi Arabia's railway system and a supply of freight railcars for the Saudi rail industry. The joint venture is subject to the completion of final due diligence and definitive documentation by the parties and required government and corporate approvals.

THE GREENBRIER COMPANIES, INC.**Three Months Ended November 30, 2018 Compared to Three Months Ended November 30, 2017****Overview**

Revenue, cost of revenue, margin and operating profit presented below, include amounts from external parties and exclude intersegment activity that is eliminated in consolidation.

| <i>(In thousands)</i> | Three Months Ended November 30, | |
|--|------------------------------------|------------|
| | 2018 | 2017 |
| Revenue: | | |
| Manufacturing | \$ 471,789 | \$ 451,485 |
| Wheels, Repair & Parts | 108,543 | 78,011 |
| Leasing & Services | 24,191 | 30,039 |
| | 604,523 | 559,535 |
| Cost of revenue: | | |
| Manufacturing | 417,805 | 380,850 |
| Wheels, Repair & Parts | 100,978 | 72,506 |
| Leasing & Services | 13,207 | 16,865 |
| | 531,990 | 470,221 |
| Margin: | | |
| Manufacturing | 53,984 | 70,635 |
| Wheels, Repair & Parts | 7,565 | 5,505 |
| Leasing & Services | 10,984 | 13,174 |
| | 72,533 | 89,314 |
| Selling and administrative | 50,432 | 47,043 |
| Net gain on disposition of equipment | (14,353) | (19,171) |
| Earnings from operations | 36,454 | 61,442 |
| Interest and foreign exchange | 4,404 | 7,020 |
| Earnings before income taxes and earnings (loss) from unconsolidated affiliates | 32,050 | 54,422 |
| Income tax expense | (9,135) | (18,135) |
| Earnings before earnings (loss) from unconsolidated affiliates | 22,915 | 36,287 |
| Earnings (loss) from unconsolidated affiliates | 467 | (2,910) |
| Net earnings | 23,382 | 33,377 |
| Net earnings attributable to noncontrolling interest | (5,426) | (7,124) |

Net earnings attributable to Greenbrier \$ 17,956 \$ 26,253

Diluted earnings per common share \$ 0.54 \$ 0.83

Performance for our segments is evaluated based on operating profit. Corporate includes selling and administrative costs not directly related to goods and services and certain costs that are intertwined among segments due to our integrated business model. Management does not allocate Interest and foreign exchange or Income tax expense for either external or internal reporting purposes.

| <i>(In thousands)</i> | Three Months Ended | |
|--------------------------|--------------------|-----------|
| | November 30, | |
| | 2018 | 2017 |
| Operating profit (loss): | | |
| Manufacturing | \$ 36,855 | \$ 52,969 |
| Wheels, Repair & Parts | 3,247 | 2,418 |
| Leasing & Services | 17,513 | 28,190 |
| Corporate | (21,161) | (22,135) |
| | \$ 36,454 | \$ 61,442 |

THE GREENBRIER COMPANIES, INC.**Consolidated Results**

| <i>(In thousands)</i> | Three Months Ended | | Increase (Decrease) | % Change |
|---|----------------------|----------------------|------------------------|-------------|
| | November 30, 2018 | November 30, 2017 | | |
| Revenue | \$ 604,523 | \$ 559,535 | \$ 44,988 | 8.0% |
| Cost of revenue | \$ 531,990 | \$ 470,221 | \$ 61,769 | 13.1% |
| Margin (%) | 12.0% | 16.0% | (4.0%) | * |
| Net earnings attributable to Greenbrier | \$ 17,956 | \$ 26,253 | \$ (8,297) | (31.6%) |

* Not meaningful

Through our integrated business model, we provide a broad range of custom products and services in each of our segments, which have various average selling prices and margins. The demand for and mix of products and services delivered changes from period to period, which causes fluctuations in our results of operations.

The 8.0% increase in revenue for the three months ended November 30, 2018 as compared to the three months ended November 30, 2017 was primarily due to a 39.1% increase in Wheels, Repair & Parts revenue. The increase in Wheels, Repair & Parts revenue was primarily due to the current period including \$23.7 million in revenue associated with the repair shops returned to us after discontinuing the GBW joint venture. The increase was also due to a 4.5% increase in Manufacturing revenue primarily attributed to a 5.0% increase in the volume of railcar deliveries and a change in product mix.

The 13.1% increase in cost of revenue for the three months ended November 30, 2018 as compared to the three months ended November 30, 2017 was primarily due to a 9.7% increase in Manufacturing cost of revenue. The increase in Manufacturing cost of revenue was primarily due to a 5.0% increase in the volume of railcar deliveries and a change in product mix. The increase was also due to a 39.3% increase in Wheels, Repair & Parts cost of revenue primarily due to the current period including costs associated with the repair shops returned to us after discontinuing the GBW joint venture.

Margin as a percentage of revenue was 12.0% and 16.0% for the three months ended November 30, 2018 and 2017, respectively. The overall margin as a percentage of revenue was negatively impacted by a decrease in Manufacturing margin to 11.4% from 15.6% primarily attributed to a change in product mix. The decrease was partially offset by an increase in Leasing & Services margin to 45.4% from 43.9%. Leasing & Services margin for the three months ended November 30, 2018 benefited from fewer sales of railcars that we purchased from third parties which have lower margin percentages.

The \$8.3 million decrease in net earnings for the three months ended November 30, 2018 as compared to the three months ended November 30, 2017 was primarily attributable to a decrease in margin from a change in Manufacturing product mix and a lower Net gain on disposition of equipment.

THE GREENBRIER COMPANIES, INC.**Manufacturing Segment**

| <i>(In thousands)</i> | Three Months Ended | | Increase (Decrease) | % Change |
|-----------------------|--------------------|----------------------|------------------------|-------------|
| | 2018 | November 30, 2017 | | |
| Revenue | \$ 471,789 | \$ 451,485 | \$ 20,304 | 4.5% |
| Cost of revenue | \$ 417,805 | \$ 380,850 | \$ 36,955 | 9.7% |
| Margin (%) | 11.4% | 15.6% | (4.2%) | * |
| Operating profit (\$) | \$ 36,855 | \$ 52,969 | \$ (16,114) | (30.4%) |
| Operating profit (%) | 7.8% | 11.7% | (3.9%) | * |
| Deliveries | 4,200 | 4,000 | 200 | 5.0% |

* Not meaningful

Manufacturing revenue increased \$20.3 million or 4.5% for the three months ended November 30, 2018 compared to the three months ended November 30, 2017. The increase in revenue was primarily attributed to a 5.0% increase in the volume of railcar deliveries and a change in product mix.

Manufacturing cost of revenue increased \$37.0 million or 9.7% for the three months ended November 30, 2018 compared to the three months ended November 30, 2017. The increase in cost of revenue was primarily attributed to a 5.0% increase in the volume of railcar deliveries and a change in product mix.

Manufacturing margin as a percentage of revenue decreased 4.2% for the three months ended November 30, 2018 compared to the three months ended November 30, 2017. The decrease was primarily attributed to a change in product mix.

Manufacturing operating profit decreased \$16.1 million or 30.4% for the three months ended November 30, 2018 compared to the three months ended November 30, 2017. The decrease was primarily attributed to a lower margin percentage from a change in product mix and increased costs associated with expanded international operations. This was partially offset by an increase in net gain on disposition of equipment from insurance proceeds received for business interruption and assets destroyed in a fire at a manufacturing facility in 2016.

THE GREENBRIER COMPANIES, INC.**Wheels, Repair & Parts Segment**

| <i>(In thousands)</i> | Three Months Ended | | Increase (Decrease) | % Change |
|-----------------------|----------------------|-----------|------------------------|-------------|
| | November 30, 2018 | 2017 | | |
| Revenue | \$ 108,543 | \$ 78,011 | \$ 30,532 | 39.1% |
| Cost of revenue | \$ 100,978 | \$ 72,506 | \$ 28,472 | 39.3% |
| Margin (%) | 7.0% | 7.1% | (0.1%) | * |
| Operating profit (\$) | \$ 3,247 | \$ 2,418 | \$ 829 | 34.3% |
| Operating profit (%) | 3.0% | 3.1% | (0.1%) | * |

* Not meaningful

On August 20, 2018, 12 repair shops were returned to us as a result of discontinuing our GBW railcar repair joint venture. Beginning on August 20, 2018, the results of operations from these repair shops were included in the Wheels, Repair & Parts segment as they are now consolidated for financial reporting purposes. The addition of these repair shops contributed to the increase in Wheels, Repair & Parts revenue and cost of revenue during the three months ended November 30, 2018 compared to the prior year.

Wheels, Repair & Parts revenue increased \$30.5 million or 39.1% for the three months ended November 30, 2018 compared to the three months ended November 30, 2017. The increase was primarily due to the current period including \$23.7 million in revenue associated with the repair shops returned to us after discontinuing the GBW joint venture. The increase was also due to higher parts revenue and an increase in scrap metal pricing and volume. These were partially offset by lower wheel set and component volumes.

Wheels, Repair & Parts cost of revenue increased \$28.5 million or 39.3% for the three months ended November 30, 2018 compared to the three months ended November 30, 2017. The increase was primarily due to the current period including costs associated with the repair shops returned to us after discontinuing the GBW joint venture. The increase was also due to higher costs associated with increased parts volumes. These were partially offset by lower costs from a decrease in wheel set and component volumes.

Wheels, Repair & Parts margin as a percentage of revenue decreased 0.1% for the three months ended November 30, 2018 compared to the three months ended November 30, 2017. The decrease was primarily attributed to operating at lower wheel set and component volumes and inefficiencies at our repair operations. This was partially offset by a favorable parts product mix and an increase in scrap metal pricing.

Wheels, Repair & Parts operating profit increased \$0.8 million or 34.3% for the three months ended November 30, 2018 compared to the three months ended November 30, 2017. The increase was primarily attributed to higher parts volumes with a favorable mix partially offset by increased costs related to our repair operations.

THE GREENBRIER COMPANIES, INC.**Leasing & Services Segment**

| <i>(In thousands)</i> | Three Months Ended | | Increase (Decrease) | % Change |
|-----------------------|----------------------|----------------------|------------------------|-------------|
| | November 30, 2018 | November 30, 2017 | | |
| Revenue | \$ 24,191 | \$ 30,039 | \$ (5,848) | (19.5%) |
| Cost of revenue | \$ 13,207 | \$ 16,865 | \$ (3,658) | (21.7%) |
| Margin (%) | 45.4% | 43.9% | 1.5% | * |
| Operating profit (\$) | \$ 17,513 | \$ 28,190 | \$ (10,677) | (37.9%) |
| Operating profit (%) | 72.4% | 93.8% | (21.4%) | * |

* Not meaningful

The Leasing & Services segment primarily generates revenue from leasing railcars from its lease fleet and providing various management services. We also earn revenue from rent-producing leased railcars for syndication, which are held short term and classified as Leased railcars for syndication on our Consolidated Balance Sheet. From time to time, railcars are purchased from third parties with the intent to resell them. The gross proceeds from the sale of these railcars are recorded in revenue and the cost of purchasing these railcars are recorded in cost of revenue.

Leasing & Services revenue decreased \$5.8 million or 19.5% for the three months ended November 30, 2018 compared to the three months ended November 30, 2017. The decrease was primarily attributed to a decrease in the sale of railcars which we had purchased from third parties with the intent to resell them. This was partially offset by higher management services revenue.

Leasing & Services cost of revenue decreased \$3.7 million or 21.7% for the three months ended November 30, 2018 compared to the three months ended November 30, 2017. The decrease was primarily due to a decline in the volume of railcars sold that we purchased from third parties partially offset by higher transportation costs.

Leasing & Services margin as a percentage of revenue increased 1.5% for the three months ended November 30, 2018 compared to the three months ended November 30, 2017. Margin for the three months ended November 30, 2018 benefited from fewer sales of railcars that we purchased from third parties which have lower margin percentages. This was partially offset by higher transportation costs.

Leasing & Services operating profit decreased \$10.7 million or 37.9% for the three months ended November 30, 2018 compared to the three months ended November 30, 2017. The decrease was primarily attributed to an \$8.2 million decrease in net gain on disposition of equipment and a \$2.2 million decrease in margin. The higher net gain on disposition of equipment in the prior year related to higher volumes of equipment sales during the three months ended November 30, 2017 as we were rebalancing our lease portfolio.

The percentage of owned units on lease was 94.9% at November 30, 2018 compared to 91.8% at November 30, 2017.

THE GREENBRIER COMPANIES, INC.**Selling and Administrative Expense**

| <i>(In thousands)</i> | Three Months Ended | | Increase (Decrease) | % Change |
|------------------------------------|----------------------|-----------|------------------------|-------------|
| | November 30, 2018 | 2017 | | |
| Selling and administrative expense | \$ 50,432 | \$ 47,043 | \$ 3,389 | 7.2% |

Selling and administrative expense was \$50.4 million or 8.3% of revenue for the three months ended November 30, 2018 compared to \$47.0 million or 8.4% of revenue for the prior comparable period. The \$3.4 million increase was primarily attributed to \$1.4 million in consulting and related costs associated with strategic business development, \$1.1 million in employee costs and \$1.1 million from the addition of the selling and administrative costs from the repair shops returned to us after discontinuing the GBW joint venture.

Net Gain on Disposition of Equipment

Net gain on disposition of equipment was \$14.4 million for the three months ended November 30, 2018 compared to \$19.2 million for the prior comparable period. Net gain on disposition of equipment primarily includes the sale of assets from our lease fleet (Equipment on operating leases, net) that are periodically sold in the normal course of business in order to take advantage of market conditions and to manage risk and liquidity; disposition of property, plant and equipment; and insurance proceeds received for business interruption and assets destroyed in a fire.

Other Costs

Interest and foreign exchange expense was composed of the following:

| <i>(In thousands)</i> | Three Months Ended | | Increase (Decrease) |
|--------------------------------|----------------------|----------|------------------------|
| | November 30, 2018 | 2017 | |
| Interest and foreign exchange: | | | |
| Interest and other expense | \$ 7,165 | \$ 7,964 | \$ (799) |
| Foreign exchange gain | (2,761) | (944) | (1,817) |
| | \$ 4,404 | \$ 7,020 | \$ (2,616) |

The \$2.6 million decrease in interest and foreign exchange expense from the prior comparable period was primarily attributed to a \$1.8 million increase in foreign exchange gain in the current year. The change in foreign exchange gain was primarily attributed to the change in the Mexican Peso relative to the U.S. Dollar. In addition, the decrease in interest and foreign exchange expense was attributed to a \$0.8 million decrease in interest expense due to the maturity of the \$119 million convertible senior notes in April 2018.

Income Tax

The effective tax rate for the three months ended November 30, 2018 was 28.5% compared to 33.3% for the three months ended November 30, 2017. The decrease was primarily attributable to the enactment of the Tax Act on December 22, 2017, which reduced the domestic corporate tax rate from 35% to 21%.

The effective tax rate also fluctuates period-to-period due to changes in the projected mix of foreign and domestic pre-tax earnings and due to other discrete tax items booked within the interim period. In particular it fluctuates with changes in the proportion of projected pre-tax earnings attributable to our Mexican railcar manufacturing joint venture because the joint venture is predominantly treated as a partnership for tax purposes and, as a result, the partnership's entire pre-tax earnings are included in Earnings before income taxes and earnings from unconsolidated affiliates, whereas only our 50% share of the tax is included in Income tax expense.

Earnings (Loss) From Unconsolidated Affiliates

Earnings (loss) from unconsolidated affiliates primarily included our share of after-tax results from our Brazil operations which include a castings joint venture and a railcar manufacturing joint venture, our lease financing warehouse investment, our North American castings joint venture and our tank head joint venture. In addition, for the three months ended November 30, 2017, earnings (loss) from unconsolidated affiliates also included our share of after-tax results from the GBW joint venture.

Earnings from unconsolidated affiliates was \$0.5 million for the three months ended November 30, 2018 compared to a loss of \$2.9 million for the three months ended November 30, 2017. The \$3.4 million increase in earnings from unconsolidated affiliates was primarily attributed to improved results at our Brazil operations.

Noncontrolling Interest

Net earnings attributable to noncontrolling interest was \$5.4 million for the three months ended November 30, 2018 compared to \$7.1 million in the prior comparable period, which primarily represents our joint venture partner's share in the results of operations of our Mexican railcar manufacturing joint venture, adjusted for intercompany sales, and our European partner's share of the results of Greenbrier-Astra Rail.

THE GREENBRIER COMPANIES, INC.**Liquidity and Capital Resources**

| <i>(In thousands)</i> | Three Months Ended | |
|---|----------------------|-------------|
| | November 30, 2018 | 2017 |
| Net cash used in operating activities | \$ (97,119) | \$ (39,654) |
| Net cash provided by (used in) investing activities | (3,789) | 45,167 |
| Net cash provided by (used in) financing activities | 35,542 | (23,890) |
| Effect of exchange rate changes | (2,439) | (1,736) |
| Net decrease in cash and cash equivalents and restricted cash | \$ (67,805) | \$ (20,113) |

We have been financed through cash generated from operations and borrowings. At November 30, 2018, cash and cash equivalents and restricted cash were \$471.7 million, a decrease of \$67.8 million from \$539.5 million at August 31, 2018.

The change in cash used in operating activities for the three months ended November 30, 2018 compared to the three months ended November 30, 2017 was primarily due to a net change in working capital and a change in cash flows associated with leased railcars for syndication.

Cash provided by (used in) investing activities primarily related to capital expenditures net of proceeds from the sale of assets. The change in cash provided by (used in) investing activities for the three months ended November 30, 2018 compared to the three months ended November 30, 2017 was primarily attributable to lower proceeds from the sale of assets.

Capital expenditures totaled \$28.7 million and \$29.9 million for the three months ended November 30, 2018 and 2017, respectively. Manufacturing capital expenditures were approximately \$17.5 million and \$10.4 million for the three months ended November 30, 2018 and 2017, respectively. Capital expenditures for Manufacturing are expected to be approximately \$90 million in 2019 and primarily relate to enhancements of our existing manufacturing facilities. Wheels, Repair & Parts capital expenditures were approximately \$2.1 million and \$0.4 million for the three months ended November 30, 2018 and 2017, respectively. Capital expenditures for Wheels, Repair & Parts are expected to be approximately \$15 million in 2019 for enhancements of our existing facilities. Leasing & Services and corporate capital expenditures were approximately \$9.1 million and \$19.1 million for the three months ended November 30, 2018 and 2017, respectively. Leasing & Services and corporate capital expenditures for 2019 are expected to be approximately \$90 million. Proceeds from sales of leased railcar equipment are expected to be \$120 million for 2019. The asset additions and dispositions for Leasing & Services in 2018 primarily relate to higher volumes of equipment purchases and sales as we rebalance our lease portfolio. Assets from our lease fleet are periodically sold in the normal course of business in order to take advantage of market conditions and to manage risk and liquidity.

Proceeds from the sale of assets, which primarily related to sales of railcars from our lease fleet within Leasing & Services, were approximately \$34.5 million and \$75.1 million for the three months ended November 30, 2018 and 2017, respectively.

The change in cash provided by (used in) financing activities for the three months ended November 30, 2018 compared to the three months ended November 30, 2017 was primarily attributed to proceeds from the issuance of notes payable and a change in the net activities with joint venture partners.

A quarterly dividend of \$0.25 per share was declared on January 8, 2019.

THE GREENBRIER COMPANIES, INC.

The Board of Directors has authorized our company to repurchase shares of our common stock. In January 2019, the expiration date of this share repurchase program was extended from March 31, 2019 to March 31, 2021 and the amount remaining for repurchase was increased from \$88 million to \$100 million. Under the share repurchase program, shares of common stock may be purchased on the open market or through privately negotiated transactions from time to time. The timing and amount of purchases will be based upon market conditions, securities law limitations and other factors. The program may be modified, suspended or discontinued at any time without prior notice. The share repurchase program does not obligate us to acquire any specific number of shares in any period.

Senior secured credit facilities, consisting of three components, aggregated to \$689.0 million as of November 30, 2018. We had an aggregate of \$485.9 million available to draw down under committed credit facilities as of November 30, 2018. This amount consists of \$419.1 million available on the North American credit facility, \$16.8 million on the European credit facilities and \$50.0 million on the Mexican railcar manufacturing joint venture credit facilities.

As of November 30, 2018, a \$600.0 million revolving line of credit, maturing September 2023, secured by substantially all of our assets in the U.S. not otherwise pledged as security for term loans, was available to provide working capital and interim financing of equipment, principally for the U.S. and Mexican operations. Advances under this facility bear interest at LIBOR plus 1.50% or Prime plus 0.50% depending on the type of borrowing. Available borrowings under the credit facility are generally based on defined levels of inventory, receivables, property, plant and equipment and leased equipment, as well as total debt to consolidated capitalization and fixed charges coverage ratios.

As of November 30, 2018, lines of credit totaling \$39.0 million secured by certain of our European assets, with variable rates that range from Warsaw Interbank Offered Rate (WIBOR) plus 1.1% to WIBOR plus 1.3% and Euro Interbank Offered Rate (EURIBOR) plus 1.1%, were available for working capital needs of our European manufacturing operation. European credit facilities are continually being renewed. Currently, these European credit facilities have maturities that range from February 2019 through September 2020.

As of November 30, 2018, our Mexican railcar manufacturing joint venture had two lines of credit totaling \$50.0 million. The first line of credit provides up to \$30.0 million and is fully guaranteed by us and our joint venture partner. Advances under this facility bear interest at LIBOR plus 2.0%. The Mexican railcar manufacturing joint venture will be able to draw against this facility through January 2019 and the line of credit is currently in the process of being renewed. The second line of credit provides up to \$20.0 million, of which we and our joint venture partner have each guaranteed 50%. Advances under this facility bear interest at LIBOR plus 2.0%. The Mexican railcar manufacturing joint venture will be able to draw amounts available under this facility through July 2019.

As of November 30, 2018, outstanding commitments under the senior secured credit facilities consisted of \$72.4 million in letters of credit under the North American credit facility and \$22.2 million outstanding under the European 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 capital leases; 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. As of November 30, 2018, we were

in compliance with all such restrictive covenants.

From time to time, we may seek to repurchase or otherwise retire or exchange securities, including outstanding notes, 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 retirements, 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. The amounts involved in any such transactions may, individually or in the aggregate, be material and may involve all or a portion of a particular series of notes or other indebtedness which may reduce the float and impact the trading market of notes or other indebtedness which remain outstanding.

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

As of November 30, 2018, we had a \$10.0 million note receivable from Amsted-Maxion Cruzeiro, our unconsolidated Brazilian castings and components manufacturer and a \$19.5 million note receivable balance from Greenbrier-Maxion, our unconsolidated Brazilian railcar manufacturer. These note receivables are included on the Consolidated Balance Sheet in Accounts receivable, net. In the future, we may make loans to or provide guarantees for Amsted-Maxion Cruzeiro or Greenbrier-Maxion.

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 expected debt repayments, working capital needs, planned capital expenditures, additional investments in our unconsolidated affiliates and dividends during the next twelve months.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

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

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

Warranty accruals - Warranty costs to cover a defined warranty period are estimated and charged to operations. The estimated warranty cost is based on historical warranty claims for each particular product type. For new product types without a warranty history, preliminary estimates are based on historical information for similar product types. These estimates are inherently uncertain as they are based on historical data for existing products and judgment for new products. If warranty claims are made in the current period for issues that have not historically been the subject of warranty claims and were not taken into consideration in establishing the accrual or if claims for issues already considered in establishing the accrual exceed expectations, warranty expense may exceed the accrual for that particular product. Conversely, there is the possibility that claims may be lower than estimates. The warranty accrual is periodically reviewed and updated based on warranty trends. However, as we cannot predict future claims, the potential exists for the difference in any one reporting period to be material.

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

Revenue recognition - We measure revenue at the amounts that reflect the consideration to which it is expected to be entitled in exchange for transferring control of goods and services to customers. We recognize revenue either at the point in time or over the period of time that performance obligations to customers are satisfied. Payment terms vary by segment and product type and are generally due within normal commercial terms. Our contracts with customers may

include multiple performance obligations (e.g. railcars, maintenance, management services, etc.). For such arrangements, we allocate revenues to each performance obligation based on its relative standalone selling price. We have disaggregated revenue from contracts with customers into categories which describe the principal activities from which we generate our revenues. See Note 14 - Segments for further disaggregated revenue information.

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Manufacturing

Railcars are manufactured in accordance with contracts with customers. We recognize revenue upon our customers acceptance of the completed railcars at a specified delivery point. From time to time, we enter into multi-year supply agreements. Each railcar delivery is considered a distinct performance obligation, such that the amounts that are recognized as revenue following railcar delivery are generally not subject to change.

We typically recognize marine vessel manufacturing revenue over time using the cost input method, based on progress toward contract completion measured by actual costs incurred to date in relation to the estimate of total expected costs. This method best depicts our performance in completing the construction of the marine vessel for the customer and is consistent with the percentage of completion method used prior to the adoption of the new revenue standard.

Wheels, Repair & Parts

We operate a network of wheel, repair and parts shops in North America that provide complete wheelset reconditioning and railcar repair services.

Wheels revenue is recognized when wheelsets are shipped to the customer or when consumed by customers in the case of consignment arrangements. Parts revenue is recognized upon shipment of the parts to the customers.

Repair revenue is typically recognized over time using the cost input method, based on progress toward contract completion measured by actual costs incurred to date in relation to the estimate of total expected costs. This method best depicts our performance in repairing the railcars for the customer. Repair services are typically completed in less than 90 days.

Leasing & Services

We own a fleet of new and used cars which are leased to third-party customers. Lease revenue is recognized over the lease-term in the period in which it is earned in accordance with ASC 840: *Leases*.

Syndication transactions represent new and used railcars which have been placed on lease to a customer and which we intend to sell to an investor with the lease attached. At the time of such sale, revenue and cost of revenue associated with railcars that we have manufactured are recognized in the Manufacturing segment; while revenue and cost of revenue associated with railcars which were obtained from a third-party with the intent to resell them and subsequently sold, are recognized in the Leasing & Services segment in accordance with ASC 840: *Leases*.

We enter into multi-year contracts to provide management and maintenance services to customers for which revenue is generally recognized on a straight-line basis over the contract term as a stand-ready obligation. Costs to fulfill these contracts are recognized as incurred.

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 of 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 would be 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 of undiscounted future cash flows exceeds the carrying amount of the assets it would indicate that the assets were not impaired.

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

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Goodwill and indefinite-lived intangible assets are tested for impairment annually during the third quarter. The provisions of ASC 350: *Intangibles – Goodwill and Other*, require that we perform this test by comparing 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 which incorporates expected revenue and margins and the use of discount rates. Under the market approach, we estimate the fair value based on observed market multiples for comparable businesses. An impairment loss is recorded to the extent that the reporting unit's carrying amount exceeds the reporting unit's fair value. An impairment loss cannot exceed the total amount of goodwill allocated to the reporting unit. Goodwill and indefinite-lived intangible assets are also tested more frequently if changes in circumstances or the occurrence of events indicates that a potential impairment exists. When changes in circumstances, such as a decline in the market price of our common stock, changes in demand or in the numerous variables associated with the judgments, assumptions and estimates made in assessing the appropriate valuation of goodwill indicate the carrying amount of certain indefinite lived assets may not be recoverable, the assets are evaluated for impairment. If actual operating results were to differ from these assumptions, it may result in an impairment of our goodwill.

Our goodwill balance was \$77.5 million as of November 30, 2018 of which \$51.1 million related to our Wheels, Repair & Parts segment and \$26.4 million related to our Manufacturing segment.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Risk

We have global operations that conduct business in their local currencies as well as other 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 revenue or margin on a portion of forecast foreign currency sales and expenses. At November 30, 2018 exchange rates, forward exchange contracts for the purchase of Polish Zlotys and the sale of Euros; the purchase of Mexican Pesos and the sale of U.S. Dollars; and for the purchase of U.S. Dollars and the sale of Saudi Riyals aggregated to \$139.8 million. Because of the variety of currencies in which purchases and sales are transacted and the interaction between currency rates, it is not possible to predict the impact a movement in a single foreign currency exchange rate would have on future operating results.

In addition to exposure to transaction gains or losses, we are also exposed to foreign currency exchange risk related to the net asset position of our foreign subsidiaries. At November 30, 2018, net assets of foreign subsidiaries aggregated \$178.9 million and a 10% strengthening of the U.S. Dollar relative to the foreign currencies would result in a decrease in equity of \$17.9 million, or 1.3% of Total equity. This calculation assumes that each exchange rate would change in the same direction relative to the U.S. Dollar.

Interest Rate Risk

We have managed a portion of our variable rate debt with interest rate swap agreements, effectively converting \$111.3 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 November 30, 2018, 72% of our outstanding debt had fixed rates and 28% had variable rates. At November 30, 2018, a uniform 10% increase in variable interest rates would result in approximately \$0.5 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 Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer, the effectiveness of our 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 Principal Executive Officer, Principal Financial Officer and Principal Accounting 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 Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

In the three months ended November 30, 2018, the Company implemented controls relating to the adoption of the new revenue recognition accounting standard (ASC 606: *Revenue from Contracts with Customers*). There have been no changes in our internal control over financial reporting during the quarter ended November 30, 2018 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 16 to Consolidated Financial Statements, Part I of this quarterly report.

Item 1A. Risk Factors

This Form 10-Q should be read in conjunction with the risk factors and information disclosed in our Annual Report on Form 10-K for the year ended August 31, 2018. 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, 2018.

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

The Board of Directors has authorized the Company to repurchase shares of the Company's common stock. In January 2019, the expiration date of this share repurchase program was extended from March 31, 2019 to March 31, 2021 and the amount remaining for repurchase was increased from \$88 million to \$100 million. Under the share repurchase program, shares of common stock may be purchased on the open market or through privately negotiated transactions from time to time. The timing and amount of purchases will be based upon market conditions, securities law limitations and other factors. The program may be modified, suspended or discontinued at any time without prior notice. The share repurchase program does not obligate the Company to acquire any specific number of shares in any period.

There were no shares repurchased under the share repurchase program during the three months ended November 30, 2018.

| Period | Total Number of Shares Purchased (Including Commissions) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|--|---|------------------------------------|--|---|
| September 1, 2018 – September 30, 2018 | | | | \$ 87,989,491 |
| October 1, 2018 – October 31, 2018 | | | | \$ 87,989,491 |
| November 1, 2018 – November 30, 2018 | | | | \$ 87,989,491 |

Item 6. Exhibits

(a) List of Exhibits:

- 10.1 Form of Restricted Stock Unit Award Agreement.
- 10.2 Restricted Stock Unit Award Agreement between the Company and Alejandro Centurion.
- 31.1 Certification pursuant to Rule 13a-14 (a).
- 31.2 Certification pursuant to Rule 13a-14 (a).
- 32.1 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following financial information from the Company's Quarterly Report on Form 10-Q for the period ended November 30, 2018 formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) the Consolidated Statements of Equity; (v) the Consolidated Statements of Cash Flows; and (vi) the Notes to Condensed Consolidated Financial Statements.

THE GREENBRIER COMPANIES, INC.

SIGNATURES

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

THE GREENBRIER COMPANIES, INC.

Date: January 9, 2019

By: /s/ Lorie L. Tekorius
Lorie L. Tekorius
Executive Vice President and
Chief Operating Officer
(Principal Financial Officer)

Date: January 9, 2019

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