

Edgar Filing: American Railcar Industries, Inc. - Form 10-Q

American Railcar Industries, Inc.
Form 10-Q
May 05, 2014
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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 March 31, 2014

Or

☐ 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. 000-51728

AMERICAN RAILCAR INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

North Dakota
(State of
Incorporation)

43-1481791
(I.R.S. Employer
Identification No.)

100 Clark Street, St. Charles, Missouri
(Address of principal executive offices)
(636) 940-6000

63301
(Zip Code)

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ Smaller Reporting Company ☐

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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, \$0.01 par value, outstanding on May 5, 2014 was 21,352,297 shares.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	March 31, 2014 (unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 154,488	\$ 97,252
Restricted cash	7,277	3,908
Accounts receivable, net	62,742	21,939
Accounts receivable, due from related parties	15,308	16,402
Inventories, net	106,012	90,185
Deferred tax assets	7,688	9,060
Prepaid expenses and other current assets	6,460	6,500
Total current assets	359,975	245,246
Property, plant and equipment, net	158,269	159,375
Railcars on operating leases, net	413,168	372,551
Deferred debt issuance costs	2,445	2,026
Goodwill	7,169	7,169
Investments in and loans to joint ventures	29,684	31,430
Other assets	4,064	7,812
Total assets	\$ 974,774	\$ 825,609
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 63,190	\$ 52,772
Accounts payable, due to related parties	1,917	1,410
Accrued expenses and taxes	22,358	20,216
Accrued compensation	16,592	16,071
Short-term debt, including current portion of long-term debt	10,612	6,655
Total current liabilities	114,669	97,124
Long-term debt, net of current portion	306,301	188,103
Deferred tax liability	101,749	99,212
Pension and post-retirement liabilities	4,343	4,718
Other liabilities	2,006	2,550
Total liabilities	529,068	391,707
Stockholders' equity:		
Common stock, \$0.01 par value, 50,000,000 shares authorized, 21,352,297 shares issued and outstanding as of both March 31, 2014 and December 31, 2013	213	213
Additional paid-in capital	239,609	239,609
Retained earnings	207,803	195,574
Accumulated other comprehensive loss	(1,919)	) (1,494)
Total stockholders' equity	445,706	433,902
Total liabilities and stockholders' equity	\$ 974,774	\$ 825,609
See Notes to the Condensed Consolidated Financial Statements.		

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts, unaudited)

	Three Months Ended March 31,	
	2014	2013
Revenues:		
Manufacturing (including revenues from affiliates of \$41,235 and \$63,078 for the three months ended March 31, 2014 and 2013, respectively)	\$ 153,963	\$ 172,975
Railcar Leasing	11,746	6,543
Railcar Services (including revenues from affiliates of \$3,963 and \$4,608 for the three months ended March 31, 2014 and 2013, respectively)	16,406	15,592
Total revenues	182,115	195,110
Cost of revenues:		
Manufacturing	(118,365)	(137,123)
Railcar Leasing	(4,491)	(2,904)
Railcar Services	(13,365)	(12,589)
Total cost of revenues	(136,221)	(152,616)
Gross profit	45,894	42,494
Selling, general and administrative	(9,387)	(11,265)
Earnings from operations	36,507	31,229
Interest income (including income from related parties of \$627 and \$681 for the three months ended March 31, 2014 and 2013, respectively)	641	691
Interest expense	(1,672)	(3,000)
Loss on debt extinguishment	(1,896)	(392)
Other income	5	1,996
Loss from joint ventures	(601)	(973)
Earnings before income taxes	32,984	29,551
Income tax expense	(12,214)	(11,614)
Net earnings	\$20,770	\$17,937
Net earnings per common share—basic and diluted	\$0.97	\$0.84
Weighted average common shares outstanding—basic and diluted	21,352	21,352
Cash dividends declared per common share	\$0.40	\$0.25
See Notes to the Condensed Consolidated Financial Statements.		

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AMERICAN RAILCAR INDUSTRIES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (In thousands, unaudited)

	Three Months Ended March 31,	
	2014	2013
Net earnings	\$ 20,770	\$ 17,937
Currency translation	(459)	(248)
Postretirement plans	55	47
Short-term investments	—	(1,213)
Comprehensive income	\$ 20,366	\$ 16,523
See Notes to the Condensed Consolidated Financial Statements.		

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AMERICAN RAILCAR INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, unaudited)

	Three Months Ended March 31,	
	2014	2013
Operating activities:		
Net earnings	\$20,770	\$17,937
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation	7,683	6,535
Amortization of deferred costs	109	183
Loss on disposal of property, plant and equipment	45	—
Loss from joint ventures	601	973
Provision for deferred income taxes	3,892	10,287
Adjustment to allowance for doubtful accounts receivable	31	(12)
Items related to investing activities:		
Realized and unrealized gains on short-term investments - available for sale securities —		(141)
Items related to financing activities:		
Loss on debt extinguishment	1,896	392
Changes in operating assets and liabilities:		
Accounts receivable, net	(40,846)	) 3,754
Accounts receivable, due from related parties	1,035	(10,128)
Inventories, net	(15,874)	) 23,793
Prepaid expenses and other current assets	(3,243)	) (2,877)
Accounts payable	10,423	(20,441)
Accounts payable, due to related parties	507	(2,061)
Accrued expenses and taxes	2,679	(4,572)
Other	2,883	(5,046)
Net cash (used in) provided by operating activities	(7,409)	) 18,576
Investing activities:		
Purchases of property, plant and equipment	(3,585)	) (6,141)
Capital expenditures - leased railcars	(43,947)	) (43,619)
Proceeds from the sale of short-term investments - available for sale securities	—	12,699
Proceeds from repayments of loans by joint ventures	1,125	500
Investments in and loans to joint ventures	—	(136)
Net cash used in investing activities	(46,407)	) (36,697)
Financing activities:		
Repayments of long-term debt	(196,527)	) (175,328)
Proceeds from long-term debt	318,682	50,000
Change in interest reserve related to long-term debt	(87)) —
Payment of common stock dividends	(8,541)	) (5,338)
Debt issuance costs	(2,403)	) (212)
Net cash provided by (used in) financing activities	111,124	(130,878)
Effect of exchange rate changes on cash and cash equivalents	(72)	) (42)
Increase (Decrease) in cash and cash equivalents	57,236	(149,041)
Cash and cash equivalents at beginning of period	97,252	205,045
Cash and cash equivalents at end of period	\$154,488	\$56,004

See Notes to the Condensed Consolidated Financial Statements.

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AMERICAN RAILCAR INDUSTRIES, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 1 — Description of the Business

The condensed consolidated financial statements included herein have been prepared by American Railcar Industries, Inc. (a North Dakota corporation) and subsidiaries (collectively the Company or ARI), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosure normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. The consolidated balance sheet as of December 31, 2013 has been derived from the audited consolidated balance sheets as of that date. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest Annual Report on Form 10-K for the year ended December 31, 2013. In the opinion of management, the information contained herein reflects all adjustments necessary to present fairly our financial position, results of operations and cash flows for the interim periods reported. The results of operations of any interim period are not necessarily indicative of the results that may be expected for a fiscal year.

ARI manufactures railcars, which are offered for sale or lease, custom designed railcar parts and other industrial products, primarily aluminum and special alloy steel castings. These products are sold to various types of companies including leasing companies, industrial companies, shippers, and Class I railroads. ARI leases railcars manufactured by the Company to certain markets. ARI provides railcar services consisting of railcar repair services, engineering and field services and fleet management services. More specifically, such services include maintenance planning, project management, tracking and tracing, regulatory compliance, mileage audit, rolling stock taxes, and online service access.

The condensed consolidated financial statements of the Company include the accounts of ARI and its direct and indirect wholly-owned subsidiaries: Castings, LLC (Castings), ARI Component Venture, LLC (ARI Component), ARI Fleet Services of Canada, Inc., ARI Longtrain, Inc. (Longtrain), and Longtrain Leasing I, LLC (Longtrain Leasing). The accounts of American Railcar Mauritius I (ARM I) and American Railcar Mauritius II (ARM II) have also been included through December 27, 2013, the effective date of the sale of all of the Company's ownership interests in such entities. See Note 8, Investments in and Loans to Joint Ventures, for further discussion regarding this sale. From time to time, the Company makes investments through Longtrain. All intercompany transactions and balances have been eliminated.

Note 2 — Fair Value Measurements

The fair value hierarchical disclosure framework prioritizes and ranks the level of market price observability used in measuring assets and liabilities at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the asset or liability. Assets or liabilities with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. Assets and liabilities measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 — Quoted prices are available in active markets for identical assets and/or liabilities as of the reporting date. The type of assets and/or liabilities categorized as Level 1 includes listed equities and listed derivatives. The Company does not adjust the quoted price for these assets and/or liabilities, even in situations where they hold a large position and a sale could reasonably impact the quoted price.

Level 2 — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Assets and/or liabilities that are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives.

Level 3 — Pricing inputs are unobservable for the assets and/or liabilities and include situations where there is little, if any, market activity for the assets and/or liabilities. The inputs into the determination of fair value require significant

management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. ARI's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

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The following methods and assumptions were used by the Company in estimating fair values for other financial instruments:

• Cash and cash equivalents, restricted cash, accounts receivable, amounts due to/from affiliates, accounts payable and accrued expenses approximate fair values because of the short maturity or the liquid nature of these instruments.

• Available for sale securities fair value estimates are based on quoted prices with an active trading market (Level 1).

Term Loan fair value estimates are based upon estimates by various banks determined by trading levels on the date of measurement using a Level 2 fair value measurement as defined by U.S. GAAP under the fair value hierarchy. The fair value of the Company's borrowings under its lease fleet financing facility was \$316.9 million and \$194.8 million as of March 31, 2014 and December 31, 2013, respectively.

Note 3 — Short-term Investments — Available for Sale Securities

During the first quarter of 2013, Longtrain sold approximately 0.8 million shares of The Greenbrier Companies, Inc. common stock that had been purchased in the open market for approximately \$12.7 million, resulting in a realized gain of \$2.0 million that was recorded in other income on the condensed consolidated statements of operations. See Note 15 for the amount of unrealized gain on the shares during the three months ended March 31, 2013.

Note 4 — Accounts Receivable, net

Accounts receivable, net, consist of the following:

	March 31, 2014 (in thousands)	December 31, 2013
Accounts receivable, gross	\$62,882	\$22,048
Less allowance for doubtful accounts	(140)	(109)
Total accounts receivable, net	\$62,742	\$21,939

Note 5 — Inventories

Inventories consist of the following:

	March 31, 2014 (in thousands)	December 31, 2013
Raw materials	\$66,283	\$63,319
Work-in-process	25,784	19,975
Finished products	16,502	9,205
Total inventories	108,569	92,499
Less reserves	(2,557)	(2,314)
Total inventories, net	\$106,012	\$90,185

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Note 6 — Property, Plant, Equipment and Railcars on Operating Leases, net

The following table summarizes the components of property, plant, equipment and railcars on operating leases, net:

	March 31, 2014 (in thousands)	December 31, 2013
Operations / Corporate:		
Buildings	\$155,611	\$155,937
Machinery and equipment	186,430	186,844
Land	3,335	3,335
Construction in process	17,073	14,487
	362,449	360,603
Less accumulated depreciation	(204,180)	(201,228)
Property, plant and equipment, net	\$158,269	\$159,375
Railcar Leasing:		
Railcars on operating leases	\$432,008	\$388,060
Less accumulated depreciation	(18,840)	(15,509)
Railcars on operating leases, net	\$413,168	\$372,551

Lease agreements

The Company leases railcars to third parties under multi-year agreements. Railcars subject to lease agreements are classified as operating leases and are depreciated in accordance with the Company's depreciation policy.

Capital expenditures for leased railcars represent cash outflows for the Company's cost to produce railcars shipped or to be shipped for lease.

As of March 31, 2014, future contractual minimum rental revenues required under non-cancellable operating leases for railcars with terms longer than one year are as follows (in thousands):

Remaining 9 months of 2014	\$38,219
2015	50,545
2016	48,779
2017	34,920
2018	23,559
2019 and thereafter	39,305
Total	\$235,327

Depreciation expense

The following table summarizes depreciation expense:

	Three Months Ended March 31, 2014 (in thousands)	2013
Total depreciation expense	\$7,683	\$6,535
Depreciation expense on leased railcars	\$3,331	\$2,055

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Note 7 — Goodwill

On March 31, 2006, the Company acquired all of the common stock of Custom Steel; a subsidiary of Steel Technologies, Inc. Custom Steel produced value-added fabricated parts that primarily support the Company's railcar manufacturing operations. The acquisition resulted in goodwill of \$7.2 million. The results attributable to Custom Steel are included in the manufacturing segment.

Goodwill is not amortized, but is subject to an annual review unless conditions arise that require a more frequent evaluation. The review for impairment is either a qualitative assessment or a two-step process. If the Company chooses to perform a qualitative assessment and determines that the fair value of the reporting unit more likely than not exceeds the carrying value, no further evaluation is necessary. For the two-step process, the first step is to compare the estimated fair value of the operating unit with the recorded net book value (including the goodwill). If the estimated fair value of the operating unit is higher than the recorded net book value, no impairment is deemed to exist and no further testing is required. If, however, the estimated fair value of the operating unit is below the recorded net book value, then a second step must be performed to determine if impairment of the goodwill is required. In this second step, the implied fair value of goodwill is calculated as the excess of the fair value of the operating unit over the fair value assigned to the operating unit's assets and liabilities. If the implied fair value of goodwill is less than the book value of the goodwill, the difference is recognized as an impairment loss.

There were no triggering events since the March 1, 2013 goodwill impairment test. The Company performed the two-step process as of March 1, 2014 utilizing the market and income approaches and significant assumptions discussed below. Upon completion of step one, the Company determined that the estimated fair value was higher than the recorded net book value and therefore no further testing was deemed necessary and no impairment of goodwill was recorded.

Market Approach

The market approach produces indications of value by applying multiples of enterprise value to revenue as well as enterprise value to earnings before depreciation, amortization, interest and taxes. The multiples indicate what investors are willing to pay for comparable publicly held companies. When adjusted for the risk level and growth potential of the subject company relative to the guideline companies, these multiples are a reasonable indication of the value an investor would attribute to the subject company.

Income Approach

The income approach considers the subject company's future sales and earnings growth potential as the primary source of future cash flow. ARI prepared a five year financial projection for the reporting unit and used a discounted net cash flow method to determine the fair value. Net cash flow consists of after-tax operating income, plus depreciation, less capital expenditures and working capital needs. The discounted cash flow method considers a five-year projection of net cash flow and adds to those cash flows a residual value at the end of the projection period.

Significant estimates and assumptions used in the evaluation were forecasted revenues and profits, the weighted average cost of capital and tax rates. Forecasted revenues of the reporting unit were estimated based on historical trends of the ARI plants that the reporting unit supplies parts to, which are driven by the railcar market forecast. Forecasted margins were based on historical experience. The reporting unit does not have a selling, administrative or executive staff; therefore, an estimate of salaries and benefits for key employees was added to represent selling, general and administrative expenses. The weighted average cost of capital was calculated using an estimated cost of equity and debt.

All of the above estimates and assumptions were determined by management to be reasonable based on the knowledge and information at the time of the evaluation. As such, this carries a risk of uncertainty. There could be significant fluctuations in the cost of raw materials, unionization of the Company's workforce or other factors that might significantly affect the reporting unit's cost structure and negatively impact the projection of financial performance. If the railcar industry forecasts or ARI's market share were to change significantly, the fair value of the reporting unit would be materially adversely impacted. Other events that might occur that could have a negative effect would be a natural disaster that would render the facility unusable, a significant litigation settlement, a significant workers' compensation claim or other event that would result in a production shut down or significant expense to the reporting unit.

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Note 8 — Investments in and Loans to Joint Ventures

As of March 31, 2014, the Company was party to two joint ventures: Ohio Castings LLC (Ohio Castings) and Axis LLC (Axis). Through its wholly-owned subsidiary, Castings, the Company has a 33.3% ownership interest in Ohio Castings, a limited liability company formed to produce various steel railcar parts for use or sale by the ownership group. Through its wholly-owned subsidiary, ARI Component, the Company has a 41.9% ownership interest in Axis, a limited liability company formed to produce railcar axles for use or sale by the ownership group.

The Company also previously held, through its wholly-owned direct and indirect subsidiaries, ARM I and ARM II, a 50.0% ownership interest in Amtek Railcar Industries Private Limited (Amtek Railcar), a joint venture that was formed to produce railcars and railcar components in India for sale by the joint venture. The Company, sold its subsidiaries, ARM I and ARM II, thereby selling all of its ownership interest in Amtek Railcar to a third party pursuant to a purchase agreement entered into on December 27, 2013. As a result of the sale the Company no longer participates in Amtek Railcar. Amtek Railcar incurred a net loss of \$0.6 million for the period ended March 31, 2013. The Company accounts for these joint ventures using the equity method. Under this method, the Company recognizes its share of the earnings and losses of the joint ventures as they accrue. Advances and distributions are charged and credited directly to the investment accounts. From time to time, the Company also makes loans to its joint ventures that are included in the investment account. The investment balance for these joint ventures is recorded within the Company's manufacturing segment. The carrying amount of investments in and loans to joint ventures, which also represents ARI's maximum exposure to loss with respect to the joint ventures, are as follows:

	March 31, 2014	December 31, 2013
	(in thousands)	
Carrying amount of investments in and loans to joint ventures		
Ohio Castings	\$7,188	\$7,378
Axis	22,496	24,052
Total investments in and loans to joint ventures	\$29,684	\$31,430

See Note 16 for information regarding financial transactions with ARI's joint ventures.

Ohio Castings

Ohio Castings produces railcar parts that are sold to one of the joint venture partners. This joint venture partner then sells these railcar parts to outside third parties at current market prices and sells them to the Company and the other joint venture partner at Ohio Castings' cost plus a licensing fee. The Company has been involved with this joint venture since 2003.

The Company accounts for its investment in Ohio Castings using the equity method. The Company has determined that, although the joint venture is a variable interest entity (VIE), this method is appropriate given that the Company is not the primary beneficiary, does not have a controlling financial interest and does not have the ability to individually direct the activities of Ohio Castings that most significantly impact its economic performance. The significant factors in this determination were that neither the Company nor Castings, has rights to the majority of returns, losses or votes, all major and strategic decisions are decided between the partners, and the risk of loss to Castings and the Company is limited to the Company's investment through Castings.

Summary financial results for Ohio Castings, the investee company, in total, are as follows:

	Three Months Ended March 31,	
	2014	2013
	(in thousands)	
Results of operations		
Revenues	\$14,009	\$14,488
Gross profit	\$147	\$390
Net loss	\$(569)	\$(233)

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Axis

ARI, through a wholly-owned subsidiary, owns a portion of a joint venture, Axis, to manufacture and sell railcar axles. ARI currently owns 41.9% of Axis, while a minority partner owns 9.7%, with the other significant partner owning 48.4%.

Under the terms of the joint venture agreement, ARI and the other significant partner are required, and the minority partner is entitled, to contribute additional capital to the joint venture, on a pro rata basis, of any amounts approved by the joint venture's executive committee, as and when called by the executive committee. Further, until 2016, the seventh anniversary of completion of the axle manufacturing facility, and subject to other terms, conditions and limitations of the joint venture agreement, ARI and the other significant partner are also required, in the event production at the facility has been curtailed, to contribute capital to the joint venture, on a pro rata basis, in order to maintain adequate working capital.

Under the amended Axis credit agreement (Axis Credit Agreement), which is held by ARI and the other significant partner, principal and interest payments are due each fiscal quarter, with the last payment due on December 31, 2019. Subject to certain limitations, at the election of Axis, the interest rate for the loans under the Axis Credit Agreement is based on LIBOR or the prime rate. For LIBOR-based loans, the interest rate is equal to the greater of 7.75% or adjusted LIBOR plus 4.75%. For prime-based loans, the interest rate is equal to the greater of 7.75% or the prime rate plus 2.5%. Interest on LIBOR-based loans is due and payable, at the election of Axis, every one, two, three or six months, and interest on prime-based loans is due and payable monthly.

The balance outstanding on these loans, including interest, due to ARI Component, was \$31.8 million as of March 31, 2014 and \$32.9 million as of December 31, 2013.

The Company accounts for its investment in Axis using the equity method. The Company has determined that, although the joint venture is a VIE, this method is appropriate given that the Company is not the primary beneficiary, does not have a controlling financial interest and does not have the ability to individually direct the activities of Axis that most significantly impact its economic performance. The significant factors in this determination were that the Company and its wholly-owned subsidiary do not have the rights to the majority of votes or the rights to the majority of returns or losses, the executive committee and board of directors of the joint venture are comprised of one representative from each significant partner with equal voting rights and the risk of loss to the Company and subsidiary is limited to its investment in Axis and the loans due to the Company under the Axis Credit Agreement. The Company also considered the factors that most significantly impact Axis' economic performance and determined that ARI does not have the power to individually direct the majority of those activities.

Summary financial results for Axis, the investee company, in total, are as follows:

	Three Months Ended March 31, 2014 2013 (in thousands)	
Results of operations		
Revenues	\$14,851	\$10,942
Gross profit	\$312	\$157
Income (loss) before interest	\$72	\$(75)
Net loss	\$(1,191)	\$(1,443)

As of March 31, 2014, the investment in Axis was comprised entirely of ARI's term loan and revolver. The Company has evaluated this loan to be fully recoverable. The Company will continue to monitor its investment in Axis for impairment.

Note 9 — Warranties

The Company's standard warranty is up to one year for parts and services and five years for new railcars. Factors affecting the Company's warranty liability include the number of units sold, historical and anticipated rates of claims and historical and anticipated costs per claim. Fluctuations in the Company's warranty provision and experience of warranty claims are the result of variations in these factors. The Company assesses the adequacy of its warranty liability based on changes in these factors.

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The overall change in the Company's warranty reserve is reflected on the condensed consolidated balance sheet in accrued expenses and is detailed as follows:

	Three Months Ended March 31,	
	2014	2013
	(in thousands)	
Liability, beginning of period	\$ 1,385	\$ 1,374
Provision for warranties issued during the year, net of adjustments	289	310
Adjustments to warranties issued during previous years	(37	) (353
Warranty claims	(139	) (111
Liability, end of period	\$ 1,498	\$ 1,220
Note 10 — Long-term Debt		
2012 Lease Fleet Financing		

In December 2012, Longtrain Leasing entered into a senior secured delayed draw term loan facility (Original Term Loan) secured by a portfolio of railcars, railcar leases, the receivables associated with those railcars and leases, and certain other assets of Longtrain Leasing. The Original Term Loan provided for an initial draw at closing (Initial Draw) and allowed for up to two additional draws. Upon closing, the Initial Draw was \$98.4 million, net of fees and expenses.

During the first half of 2013, ARI made two additional draws amounting to \$99.8 million in aggregate under the Term Loan, fully utilizing the capacity of the Term Loan. The additional draws during 2013 resulted in proceeds received of \$99.4 million, net of fees and expenses. As of December 31, 2013, the outstanding principal balance on the Term Loan, including the current portion, was \$194.8 million. The Original Term Loan, which had a maturity date of February 27, 2018, bore interest at one-month LIBOR plus 2.5%, for a rate of 2.7% as of December 31, 2013.

2014 Lease Fleet Refinancing

On January 15, 2014 (Closing Date), Longtrain Leasing refinanced its Original Term Loan under an amended and restated credit agreement (Amended and Restated Credit Agreement) to, among other things, increase the aggregate borrowings available thereunder. In connection with the refinancing, Longtrain Leasing entered into a new senior secured term loan facility in an aggregate principal amount of \$316.2 million, net of fees and expenses (Refinanced Term Loan). Of this amount, \$194.2 million was used to refinance the Original Term Loan, resulting in net proceeds of \$122.0 million. In conjunction with the refinancing, the Company incurred a \$1.9 million loss, which is shown as loss on debt extinguishment on the condensed consolidated statements of operations. This non-cash charge is related to the accelerated write-off of deferred debt issuance costs incurred in connection with the Original Term Loan. The terms of the Amended and Restated Credit Agreement also provide Longtrain Leasing with the right, but not the obligation, to increase the amount of the Refinanced Term Loan in an aggregate additional amount not to exceed \$100.0 million subject to the conditions set forth in the Amended and Restated Credit Agreement. The Refinanced Term Loan accrues interest at a rate per annum equal to the 1-month LIBOR rate plus 2.0%, for a rate of 2.2% as of March 31, 2014, subject to an alternative rate as set forth in the Amended and Restated Credit Agreement. The interest rate increases by 2.0% following certain events of default.

Pursuant to the terms of the Original Term Loan and the Amended and Restated Credit Agreement, the Company has been required to maintain deposits in an interest reserve bank account equal to nine and seven months, respectively, of interest payments. As of March 31, 2014 and December 31, 2013, the interest reserve amount was \$4.0 million and \$3.9 million, respectively, and included within 'Restricted cash' on the balance sheet. The Refinanced Term Loan may be prepaid at Longtrain Leasing's option at any time without premium or penalty (other than customary LIBOR breakage fees) prior to the final scheduled maturity of the Refinanced Term Loan, which is January 15, 2020. Longtrain Leasing is required to maintain a loan to value ratio of at least 80% of the Net Aggregate Equipment Value, as defined in the Amended and Restated Credit Agreement. The Amended and Restated Credit Agreement contains

certain representations, warranties, and affirmative and negative covenants applicable to ARI and/or Longtrain Leasing, which are customarily applicable to senior secured facilities. Key covenants include limitations on Longtrain Leasing's indebtedness, liens, investments, acquisitions, asset sales, redemption payments, and affiliate and extraordinary transactions; full cash sweep;

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covenants relating to the maintenance of Longtrain Leasing as a separate legal entity; financial and other reporting and periodic appraisals; maintenance of railcars, leases, and other assets; and Longtrain Leasing's compliance with a Debt Service Coverage Ratio (as defined in the Amended and Restated Credit Agreement) of 1.05 to 1.00, measured quarterly on a nine-month trailing basis, and subject to up to a 75 - 135 day cure period.

The Amended and Restated Credit Agreement also obligates Longtrain Leasing and ARI to maintain ARI's separateness and to ensure that the collections from the railcar leases along with the railcars that secure the Refinanced Term Loan are managed in accordance with the Amended and Restated Credit Agreement. Additionally, ARI is obligated to make any selections of transfers of railcars, railcar leases, receivables and related assets to be conveyed to Longtrain Leasing in good faith and without any adverse selection, to cause American Railcar Leasing LLC (ARL), as the manager, to maintain, lease, and re-lease Longtrain Leasing's equipment no less favorably than similar portfolios serviced by ARL, and to repurchase or replace railcars that are reported as Eligible Units (as defined in the Amended and Restated Credit Agreement) when they are not Eligible Units, subject to limitations on liability set forth in the Amended and Restated Credit Agreement. The Company was in compliance with all of its covenants under the Amended and Restated Credit Agreement as of March 31, 2014.

The Refinanced Term Loan is secured by a first lien on substantially all assets of Longtrain Leasing, consisting of railcars, railcar leases, receivables and related assets, subject to borrowing base calculations and limited exceptions. As of March 31, 2014, the net book value of the railcars that were pledged as part of the Refinanced Term Loan was \$312.0 million. As of December 31, 2013, the net book value of the railcars that were pledged as part of the Original Term Loan was \$216.7 million. The future contractual minimum rental revenues related to the railcars pledged as of March 31, 2014 are as follows (in thousands):

Remaining 9 months of 2014	\$27,178
2015	35,895
2016	35,107
2017	26,458
2018	17,009
2019 and thereafter	31,703
Total	\$173,350

The remaining principal payments under the Amended and Restated Credit Agreement as of March 31, 2014 are as follows:

Remaining 9 months of 2014	\$7,959
2015	10,612
2016	10,612
2017	10,612
2018	13,703
2019 and thereafter	263,415
Total	\$316,913

2007 Senior Unsecured Notes

In February 2007, the Company completed the offering of \$275.0 million senior unsecured fixed rate notes, which were subsequently exchanged for registered notes in March 2007 (Notes).

On September 4, 2012, ARI completed a voluntary partial early redemption of \$100.0 million of the Notes at a rate of 101.875% of the principal amount, plus any accrued and unpaid interest. The Notes bore interest at a fixed interest rate of 7.5%.

On March 1, 2013, ARI completed a voluntary redemption of the remaining \$175.0 million of Notes outstanding at par, plus any accrued and unpaid interest. In conjunction with the redemption, the Company incurred a \$0.4 million loss, which is shown as loss on debt extinguishment on the condensed consolidated statements of operations. This non-cash charge is related to the accelerated write-off of the remaining portion of deferred debt issuance costs incurred in connection with the Notes.

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Note 11 — Income Taxes

The Company's federal income tax returns for tax years 2009 and beyond remain subject to examination, with the latest statute expiring in September 2017.

Certain of the Company's 2008 and 2009 state income tax returns and all of the Company's state income tax returns for 2010 and beyond remain open and subject to examination, with the latest statute of limitations expiring in December 2019. The Company's foreign subsidiary's income tax returns for 2009 and beyond remain open to examination by foreign tax authorities.

The Company is continuing to evaluate the impact of the recent regulations concerning amounts paid to acquire, produce, or improve tangible property and recovery of basis upon disposition. Presently, the Company does not anticipate a material impact to its financial statements.

Note 12 — Employee Benefit Plans

The Company is the sponsor of three defined benefit plans that are frozen and no additional benefits are accruing thereunder. Two of the Company's defined benefit pension plans cover certain employees at designated repair facilities. The assets of these defined benefit pension plans are held by independent trustees and consist primarily of equity and fixed income securities. The Company also sponsors an unfunded, non-qualified supplemental executive retirement plan that covers several of the Company's current and former employees. The Company provides postretirement life insurance benefits for certain of its union employees who retired after attaining specified age and service requirements. The Company also previously sponsored a postretirement medical benefit plan that provided access to healthcare for certain retired employees. This plan was terminated effective December 31, 2013.

The components of net periodic benefit cost for the pension and postretirement plans are as follows:

	Pension Benefits	
	Three Months Ended	
	March 31,	
	2014	2013
	(in thousands)	
Service cost	\$57	\$49
Interest cost	243	221
Expected return on plan assets	(313)	(279)
Amortization of net actuarial loss/prior service cost	69	194
Net periodic cost recognized	\$56	\$185
	Postretirement Benefits	
	Three Months Ended	
	March 31,	
	2014	2013
	(in thousands)	
Service cost	\$—	\$—
Interest cost	1	1
Amortization of net actuarial gain/prior service credit	(14)	(117)
Net periodic benefit recognized	\$(13)	\$(116)

The Company also maintains qualified defined contribution plans, which provide benefits to its eligible employees based on employee contributions, years of service, and employee earnings with discretionary contributions allowed. Expenses related to these plans were \$0.2 million for each of the three months ended March 31, 2014 and 2013.

Note 13 — Commitments and Contingencies

The Company is subject to comprehensive federal, state, local and international environmental laws and regulations relating to the release or discharge of materials into the environment, the management, use, processing, handling, storage, transport or disposal of hazardous materials and wastes, and other laws and regulations relating to the protection of human health and the environment. These laws and regulations not only expose ARI to liability for the

environmental condition of its current or

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formerly owned or operated facilities, and its own negligent acts, but also may expose ARI to liability for the conduct of others or for ARI's actions that were in compliance with all applicable laws at the time such actions were taken. In addition, these laws may require significant expenditures to achieve compliance and are frequently modified or revised to impose new obligations. Civil and criminal fines and penalties and other sanctions may be imposed for non-compliance with these environmental laws and regulations. ARI's operations that involve hazardous materials also raise potential risks of liability under common law.

Certain real property ARI acquired from ACF Industries LLC (ACF) in 1994 had been involved in investigation and remediation activities to address contamination both before and after their transfer to ARI. ACF is an affiliate of Mr. Carl Icahn, the chairman of the Company's board of directors and, through IELP, the Company's principal beneficial stockholder. Substantially all of the issues identified with respect to these properties relate to the use of these properties prior to their transfer to ARI by ACF and for which ACF has retained liability for environmental contamination that may have existed at the time of transfer to ARI. ACF has also agreed to indemnify ARI for any cost that might be incurred with those existing issues. As of the date of this report, it is the Company's understanding that no further investigation or remediation is required at these properties and ARI does not believe it will incur material costs in connection with such activities, but it cannot assure that this will be the case. If ACF fails to honor its obligations to ARI, ARI could be responsible for the cost of any additional investigation or remediation that may be required. The Company believes that its operations and facilities are in substantial compliance with applicable laws and regulations and that any noncompliance is not likely to have a material adverse effect on its financial condition or results of operations.

ARI is a party to collective bargaining agreements with labor unions at two repair facilities that will expire in January 2016 and September 2016. ARI is also party to a collective bargaining agreement with a labor union at a parts manufacturing facility that will expire in April 2017.

The Company has various agreements with and commitments to related parties. See Note 16 for further detail. Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against ARI. In the opinion of management, all such claims, suits, and complaints arising in the ordinary course of business are without merit or would not have a significant effect on the future liquidity, results of operations or financial position of ARI if disposed of unfavorably.

Note 14 — Share-Based Compensation

The Company accounts for share-based compensation granted under the 2005 Equity Incentive Plan, as amended (the 2005 Plan) based on the fair values calculated using the Monte Carlo and Black-Scholes-Merton (Black-Scholes) option-pricing formulas.

Stock appreciation rights

All of the Company's stock appreciation rights (SARs) (i) are approved by the compensation committee of the Company's board of directors pursuant to the 2005 Plan, (ii) have exercise prices that represent the closing price of the Company's common stock on the date of grant, (iii) have a seven year term, and (iv) settle in cash.

Share-based compensation is expensed using a graded vesting method over the vesting period of the instrument. The fair value of the liability associated with share-based compensation as of March 31, 2014 is based on the components used to calculate the Black-Scholes value, including the Company's closing market price, as of that date and is considered a Level 2 input. For the definition and discussion of a Level 2 input for fair value measurement, refer to Note 2.

The following table presents the amounts incurred by ARI for share-based compensation and the corresponding line items on the condensed consolidated statements of operations that they are classified within:

	Three Months Ended March 31,	
	2014	2013
	(in thousands)	
Share-based compensation expense		
Cost of revenues: Manufacturing	\$856	\$1,032
Cost of revenues: Railcar services	278	285

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Selling, general and administrative	2,872	4,691
Total share-based compensation expense	\$4,006	\$6,008

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As of March 31, 2014, unrecognized compensation costs related to the unvested portion of SARs were estimated to be \$4.1 million and were expected to be recognized over a weighted average period of 30 months.

Note 15 — Accumulated Other Comprehensive Income (Loss)

The following table presents the balances of related after-tax components of accumulated other comprehensive income (loss).

	Accumulated Short-term Investment Transactions (In thousands)	Accumulated Currency Translation	Accumulated Postretirement Transactions	Accumulated Other Comprehensive Income (Loss)
Balance December 31, 2012	\$ 1,213	\$ 1,562	\$(3,162)	\$(387)
Currency translation	—	(248)	—	(248)
Unrealized gain on available for sale securities, net of tax effect \$51	93	—	—	93
Reclassifications related to pension and postretirement plans, net of tax effect of \$30 (1)	—	—	47	47
Reclassifications related to available for sale securities, net of tax effect of \$702 (2)	\$(1,306)	\$—	—	\$(1,306)
Balance March 31, 2013	\$—	\$ 1,314	\$(3,115)	\$(1,801)
Balance December 31, 2013	\$—	\$ 760	(2,254)	\$(1,494)
Currency translation	—	(459)	—	(459)
Reclassifications related to pension and postretirement plans, net of tax effect of \$21 (1)	—	—	34	34
Balance March 31, 2014	\$—	\$ 301	(2,220)	\$(1,919)

(1)— These accumulated other comprehensive income components relate to amortization of actuarial loss/(gain) and prior period service costs/(benefits) and are included in the computation of net periodic costs for our pension and postretirement plans. See Note 12 for further details and pre-tax amounts.

(2)— This accumulated other comprehensive income component relates to realized gains on available for sale securities sold. See Note 3 for further details and pre-tax amounts.

Note 16 — Related Party Transactions

Agreements with ACF

The Company has or had the following agreements with ACF, a company controlled by Mr. Carl Icahn, chairman of the Company's board of directors and, through IELP, the Company's principal beneficial stockholder:

Manufacturing services agreement

Under the manufacturing services agreement entered into in 1994 and amended in 2005, ACF agreed to manufacture and distribute, at the Company's instruction, various railcar components. In consideration for these services, the Company agreed to pay ACF based on agreed upon rates. For the three months ended March 31, 2014 and 2013, ARI purchased \$0.2 million and less than \$0.1 million, respectively, of components from ACF. The agreement automatically renews unless written notice is provided by the Company.

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Purchasing and Engineering Services Agreement

In January 2013, ARI entered into a purchasing and engineering services agreement and license with ACF. The agreement was unanimously approved by the independent directors of ARI's audit committee on the basis that the terms of the agreement were not materially less favorable to ARI than those that could have been obtained in a comparable transaction with an unrelated person. Under this agreement, ARI provides purchasing support and engineering services to ACF in connection with ACF's manufacture and sale of certain tank railcars at its facility in Milton, Pennsylvania. Additionally, ARI has granted ACF a non-exclusive, non-assignable license to certain of ARI's intellectual property, including certain designs, specifications, processes and manufacturing know-how required to manufacture and sell such tank railcars during the term of the agreement. Subject to certain early termination events, the agreement shall terminate on December 31, 2014.

In consideration of the services and license provided by ARI to ACF in conjunction with the agreement, ACF pays ARI a royalty and, if any, a share of the net profits (Profits) earned on each railcar manufactured and sold by ACF under the agreement, in an aggregate amount equal to 30 percent of such Profits, as calculated under the agreement. Profits are net of certain of ACF's start-up and shutdown expenses and certain maintenance capital expenditures. If no Profits are realized on a railcar manufactured and sold by ACF pursuant to the agreement, ARI will still be entitled to the royalty for such railcar and will not share in any losses incurred by ACF in connection therewith. In addition, any railcar components supplied by ARI to ACF for the manufacture of these railcars shall be provided at fair market value.

Under the agreement, ACF had the exclusive right to manufacture and sell subject tank railcars for any new orders scheduled for delivery to customers on or before January 31, 2014. ARI has the exclusive right to any sales opportunities for such tank railcars for any new orders scheduled for delivery after that date and through December 31, 2014. ARI also has the right to assign any sales opportunity to ACF, and ACF has the right, but not the obligation, to accept such sales opportunity. Any sales opportunity accepted by ACF will not be reflected in ARI's orders or backlog.

Revenues of \$5.7 million and \$0.2 million for the three months ended March 31, 2014 and 2013, respectively, were recorded under this agreement for sales of railcar components to ACF and for royalties and profits on railcars sold by ACF and are included under manufacturing revenues from affiliates on the condensed consolidated statements of operations.

Agreements with ARL and AEP

The Company has or had the following agreements with ARL and/or its wholly owned subsidiary, AEP Leasing LLC (AEP, and together with ARL, the ARL Entities). The ARL Entities are companies controlled by Mr. Carl Icahn, chairman of the Company's board of directors and, through IELP, the Company's principal beneficial stockholder:

Railcar services agreement

In April 2011, the Company entered into a railcar agreement with ARL (the Railcar Services Agreement). Under the Railcar Services Agreement, ARI provides ARL railcar repair, engineering, administrative and other services, on an as needed basis, for ARL's lease fleet at mutually agreed upon prices. The Railcar Services Agreement had an initial term of three years and automatically renews for additional one year periods unless either party provides at least sixty days prior written notice of termination.

Revenues of \$4.0 million and \$4.6 million for the first three months of 2014 and 2013, respectively, were recorded under the Railcar Services Agreement. These revenues are included under railcar services revenues from affiliates on the condensed consolidated statements of operations. The terms and pricing on services provided to related parties are not less favorable to ARI than the terms and pricing on services provided to unaffiliated third parties. The Railcar Services Agreement was unanimously approved by the independent directors of the Company's audit committee on the basis that the terms were no less favorable than those that could have been obtained from an independent third party.

Railcar management agreements

On February 29, 2012, the Company entered into a Railcar Management Agreement with ARL, pursuant to which the Company engaged ARL to sell or lease ARI's railcars in certain markets, subject to the terms and conditions of the agreement. The agreement was effective as of January 1, 2011, will continue through December 31, 2015 and may be renewed upon written agreement by both parties. In December 2012, Longtrain Leasing entered into a similar

agreement with ARL. In January 2014, Longtrain Leasing and ARL amended this agreement to, among other things, extend the termination date to January 15, 2020 (collectively the Railcar Management Agreements).

The Railcar Management Agreements also provide that ARL will manage the Company's and Longtrain Leasing's leased railcars including arranging for services, such as repairs or maintenance, as deemed necessary. Subject to the terms and conditions of each agreement, ARL will receive, in respect of leased railcars, a fee consisting of a lease origination fee and a

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management fee based on the lease revenues, and, in respect of railcars sold by ARL, sales commissions. The Railcar Management Agreements were unanimously approved by the independent directors of the Company's audit committee on the basis that the terms were no less favorable than those that could have been obtained from an independent third party.

Total lease origination and management fees incurred under the Railcar Management Agreements were \$0.8 million and \$0.5 million for the first three months of 2014 and 2013, respectively. These fees are included in cost of revenues for railcar leasing on the condensed consolidated statements of operations. Sales commissions of \$0.1 million were incurred for each of the three months ended March 31, 2014 and 2013. These costs are included in selling, general and administrative costs on the condensed consolidated statements of operations.

Railcar orders

The Company has from time to time manufactured and sold railcars to the ARL Entities under long-term agreements as well as on a purchase order basis. Revenues from railcars sold to the ARL Entities were \$35.6 million and \$62.8 million for the three months ended March 31, 2014 and 2013, respectively, and are included in manufacturing revenues from affiliates on the condensed consolidated statements of operations. The terms and pricing on sales to related parties are not less favorable to ARI than the terms and pricing on sales to unaffiliated third parties. Any related party sales of railcars under an agreement or purchase order have been and will be subject to the approval or review by the independent directors of the Company's audit committee.

Agreements with other related parties

The Company's Axis joint venture entered into a credit agreement in December 2007. During 2009, the Company and the other initial partner acquired the loans from the lenders party thereto, with each party acquiring a 50.0% interest in the loans. The balance outstanding on these loans, due to ARI Component, was \$31.8 million and \$32.9 million as of March 31, 2014 and December 31, 2013, respectively. See Note 8 for further information regarding this transaction and the terms of the underlying loans.

ARI is party to a scrap agreement with M. W. Recycling (MWR), a company controlled by Mr. Carl Icahn, chairman of the Company's board of directors and, through IELP, the Company's principal beneficial stockholder. Under the agreement, which extends through November 2015, ARI sells and MWR purchases scrap metal from several ARI plant locations. MWR collected scrap material totaling \$2.2 million and \$1.7 million for the first three months of 2014 and 2013, respectively. This agreement was entered into at arm's-length and was approved by the independent directors of the Company's audit committee on the basis that the terms of the agreement were no less favorable than those that could have been obtained from an independent third party.

Insight Portfolio Group LLC (Insight Portfolio Group) is an entity formed and controlled by Mr. Carl Icahn in order to maximize the potential buying power of a group of entities with which Mr. Carl Icahn has a relationship in negotiating with a wide range of suppliers of goods, services and tangible and intangible property at negotiated rates. ARI, and a number of other entities with which Carl Icahn has a relationship, have minority ownership interests in, and pay fees as part of being a member of, Insight Portfolio Group. During both the three months ended March 31, 2014 and 2013, the Company incurred less than \$0.1 million in fees as a member of the Insight Portfolio Group. These charges were included in selling, general and administrative costs on the condensed consolidated statements of operations.

In March 2014, the Company appointed Mr. Yevgeny Funder as its senior vice president, general counsel, and secretary. In March 2014, Mr. Funder also assumed the role of general counsel with ARL. In addition, since March 2010, he has consulted for Insight Portfolio Group as its general counsel. The independent directors of the Company's audit committee considered Mr. Funder's provision of services to ARL and Insight Portfolio Group in connection with their review and approval of Mr. Funder's employment by the Company.

Financial information for transactions with related parties

Cost of revenues for manufacturing included \$27.0 million and \$18.4 million for the first three months of 2014 and 2013, respectively, for railcar components purchased from joint ventures.

Inventory as of March 31, 2014 and December 31, 2013, included \$5.1 million and \$6.2 million, respectively, of railcar components purchased from joint ventures and all profit for this inventory still on hand was eliminated.

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Note 17 — Operating Segment and Sales and Credit Concentrations

ARI operates in three reportable segments: manufacturing, railcar leasing and railcar services. These reportable segments are organized based upon a combination of the products and services offered and performance is evaluated based on revenues and segment earnings (loss) from operations. Intersegment revenues are accounted for as if sales were to third parties.

Manufacturing

Manufacturing consists of railcar manufacturing, and railcar and industrial component manufacturing. Intersegment revenues are determined based on an estimated fair market value of the railcars manufactured for the Company's railcar leasing segment, as if such railcars had been sold to a third party. Revenues for railcars manufactured for the Company's leasing segment are not recognized in consolidated revenues as railcar sales, but rather lease revenues are recognized over the term of the lease. Earnings from operations for manufacturing include an allocation of selling, general and administrative costs, as well as profit for railcars manufactured for the Company's leasing segment based on revenue determined as described above.

Railcar Leasing

Railcar leasing consists of railcars manufactured by the Company and leased to third parties under operating leases. Earnings from operations for railcar leasing include an allocation of selling, general and administrative costs and also reflect origination fees paid to ARL associated with originating the lease to the Company's leasing customers. The origination fees represent a percentage of the revenues from the lease over its initial term and are paid up front.

Railcar Services

Railcar services consist of railcar repair services, engineering and field services, and fleet management services. More specifically, such services include maintenance and shop planning, project management, tracking and tracing, regulatory compliance, mileage audit, rolling stock taxes, and online service access. Earnings from operations for railcar services include an allocation of selling, general and administrative costs.

Segment Financial Results

The information in the following table is derived from the segments' internal financial reports used by the Company's management for purposes of assessing segment performance and for making decisions about allocation of resources.

	Revenues			Earnings (Loss) from Operations		
	External	Intersegment	Total	External	Intersegment	Total
	(in thousands)					
Three Months Ended March 31, 2014						
Manufacturing	\$ 153,963	\$ 64,029	\$ 217,992	\$ 33,655	\$ 19,730	\$ 53,385
Railcar Leasing	11,746	—	11,746	6,230	31	6,261
Railcar Services	16,406	132	16,538	2,181	38	2,219
Corporate/Eliminations	—	(64,161)	(64,161)	(5,559)	(19,799)	(25,358)
Total Consolidated	\$ 182,115	\$ —	\$ 182,115	\$ 36,507	\$ —	\$ 36,507
Three Months Ended March 31, 2013						
Manufacturing	\$ 172,975	\$ 55,408	\$ 228,383	\$ 33,979	\$ 9,782	\$ 43,761
Railcar Leasing	6,543	—	6,543	2,163	4	2,167
Railcar Services	15,592	49	15,641	2,305	43	2,348
Corporate/Eliminations	—	(55,457)	(55,457)	(7,218)	(9,829)	(17,047)
Total Consolidated	\$ 195,110	\$ —	\$ 195,110	\$ 31,229	\$ —	\$ 31,229

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	March 31, 2014	December 31, 2013
Total Assets	(in thousands)	
Manufacturing	\$347,530	\$298,951
Railcar Leasing	541,311	478,000
Railcar Services	56,636	52,150
Corporate/Eliminations	29,297	(3,492)
Total Consolidated	\$974,774	\$825,609
Sales to Related Parties		

As discussed in Note 16, ARI has numerous arrangements with related parties. As a result, from time to time, ARI offers its products and services to affiliates at terms and pricing no less favorable to ARI than the terms and pricing provided to unaffiliated third parties. Below is a summary of revenue from affiliates for each operating segment reflected as a percentage of total consolidated revenues.

	Three Months Ended March 31,			
	2014	2013		
Manufacturing	22.6	%	32.3	%
Railcar Leasing	—	%	—	%
Railcar Services	2.2	%	2.4	%
Sales and Credit Concentration				

Manufacturing revenues from customers that accounted for more than 10.0% of total consolidated revenues are outlined in the table below. The railcar leasing and railcar services segments had no customers that accounted for more than 10% of the total consolidated revenues for the three months ended March 31, 2014 and 2013.

	Three Months Ended March 31,			
	2014	2013		
Manufacturing revenues from significant customers	41.4	%	73.7	%
Manufacturing accounts receivable from customers that accounted for more than 10% of consolidated receivables (including accounts receivable, net and accounts receivable, due from related parties) are outlined in the table below. The railcar leasing and railcar services segments had no customers that accounted for more than 10% of the consolidated receivables balance as of March 31, 2014 and December 31, 2013.				

	March 31, 2014	December 31, 2013
Manufacturing receivables from significant customers	20.6	% 35.1 %

Note 18 — Consulting Contracts

During the second quarter of 2011, the Company entered into a consulting agreement with the Indian Railways Research Designs and Standards Organization (RDSO) to design and develop certain railcars for service in India for a total contract price of \$9.6 million. The consulting agreement is expected to continue through 2016.

For the three months ended March 31, 2014 and 2013, revenues of \$0.1 million and \$0.7 million, respectively, were recorded under this consulting agreement. Billed and unbilled revenues due from the RDSO agreement were \$1.7 million and \$2.0 million, respectively, as of March 31, 2014 compared to billed and unbilled revenues amounting to \$1.7 million and \$1.9 million, respectively, as of December 31, 2013. As of each balance sheet date presented, approximately \$1.5 million and \$1.0 million of the unbilled revenue for March 31, 2014 and December 31, 2013, respectively, has been recorded in prepaid

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expenses and other current assets with the remaining \$0.5 million and \$0.9 million, respectively, being recorded in other assets on the condensed consolidated balance sheets.

Note 19 — Subsequent Events

On April 29, 2014, the Board of Directors of the Company declared a cash dividend of \$0.40 per share of common stock of the Company to shareholders of record as of June 17, 2014 that will be paid on July 1, 2014.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Some of the statements contained in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (Exchange Act), including statements regarding our plans, objectives, expectations and intentions. Such statements include, without limitation, statements regarding various estimates we have made in preparing our financial statements, statements regarding expected future trends relating to our industry, anticipated customer demand for our products, trends relating to our shipments, leasing, railcar services and revenues, our strategic objectives and long-term strategies, trends related to shipments for direct sale versus lease, our results of operations, financial condition and the sufficiency of our capital resources, statements regarding our capital expenditure plans and expansion of our business, anticipated benefits regarding the growth of our leasing business, the mix of railcars in our lease fleet and lease fleet financings, anticipated production schedules for our products and the anticipated production schedules of our joint ventures, our backlog, our plan regarding future dividends and the anticipated performance and capital requirements of our joint ventures. These forward-looking statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those anticipated.

Risks and uncertainties that could adversely affect our business and prospects include without limitation:

- any financial or other information included herein based upon or otherwise incorporating judgments or estimates based upon future performance or events;
- the impact of an economic downturn, adverse market conditions and restricted credit markets;
- our prospects in light of the cyclical nature of our business;
- the health of and prospects for the overall railcar industry;
- the highly competitive nature of the manufacturing, railcar leasing and railcar services industries;
- our reliance upon a small number of customers that represent a large percentage of our revenues and backlog;
- the conversion of our railcar backlog into revenues;
- our ability to manage overhead and variations in production rates;
- fluctuations in the costs of raw materials, including steel and railcar components, and delays in the delivery of such raw materials and components;
- fluctuations in the supply of components and raw materials we use in railcar manufacturing;
- the ongoing benefits and risks related to our relationship with Mr. Carl Icahn, the chairman of our board of directors and, through Icahn Enterprises L.P. (IELP), our principal beneficial stockholder, and certain of his affiliates;
- anticipated production schedules for our products and the anticipated capital needs, and production schedules of our joint ventures;
- the risks associated with our current joint ventures;
- the risks, impact and anticipated benefits associated with potential joint ventures, acquisitions or new business endeavors;
- the risk of the lack of acceptance of new railcar offerings by our customers and the risk of initial production costs for our new railcar offerings being significantly higher than expected;
- the sufficiency of our liquidity and capital resources;
- the risk of being unable to market or remarket railcars for sale or lease at favorable prices or on favorable terms or at all;
- risks associated with ongoing compliance with environmental, health, safety, and regulatory laws and regulations, which may be subject to change;
- the implementation, integration with other systems or ongoing management of our new enterprise resource planning system;
- risks related to our indebtedness and compliance with covenants contained in our financing arrangement; and
- the impact and costs and expenses of any litigation we may be subject to now or in the future.

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In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “could,” “would,” “expect,” “plans,” “anticipates,” “believes,” “estimates,” “projects,” “predicts,” “potential” and similar expressions intended to identify forward-looking statements. Our actual results could be different from the results described in or anticipated by our forward-looking statements due to the inherent uncertainty of estimates, forecasts and projections and may be materially better or worse than anticipated. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Forward-looking statements represent our estimates and assumptions only as of the date of this report. We expressly disclaim any duty to provide updates to forward-looking statements, and the estimates and assumptions associated with them, after the date of this report, in order to reflect changes in circumstances or expectations or the occurrence of unanticipated events except to the extent required by applicable securities laws. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed above and under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013 (Annual Report), as well as the risks and uncertainties discussed elsewhere in this report and the Annual Report. We qualify all of our forward-looking statements by these cautionary statements. We caution you that these risks are not exhaustive. We operate in a continually changing business environment and new risks emerge from time to time.

EXECUTIVE SUMMARY

We are a leading North American designer and manufacturer of hopper and tank railcars, which are currently the two largest markets within the railcar industry. We provide our railcar customers with integrated solutions through a comprehensive set of high quality products and related services offered by our three reportable segments: manufacturing, railcar leasing and railcar services. Manufacturing consists of railcar manufacturing and railcar and industrial component manufacturing. Railcar leasing consists of railcars manufactured by us and leased to third parties under operating leases. Railcar services consist of railcar repair services, engineering and field services, and fleet management services.

The North American railcar market has been, and we expect it to continue to be, highly cyclical. Increased North American crude oil production has contributed to the strong industry-wide demand for tank railcars, resulting in record industry levels for tank railcar shipments and backlog. Additionally, we believe inquiry activity for hopper railcars is growing, specifically for railcars servicing the sand and plastic pellet markets. Consistent with industry expectations, we believe demand for hopper railcars is strengthening for deliveries from 2015 through 2017. However, we cannot assure you that tank railcar demand will continue at strong levels, that demand for hopper railcars, or any other railcar types, will improve, or that our railcar orders and shipments will track industry-wide trends.

In the first quarter of 2014, we experienced another strong quarter of earnings driven by the continued strength of tank railcar shipments and pricing. We continue to be selective about the railcar orders that we accept. We also continue to focus on the growth of our lease fleet due to high demand and favorable lease rates. Because revenues and earnings related to leased railcars are recognized over the life of the lease, our quarterly results can vary depending on the mix of lease versus direct sale railcars that we ship during a given period. During the first quarter of 2014, we had a high mix of tank railcars added to our lease fleet at favorable lease rates.

During the first quarter of 2014, we shipped approximately 1,610 railcars, which is down from 1,900 during the same period in 2013. The decrease in volumes was driven by a decline in hopper railcar shipments, partially offset by a slight increase in tank railcar shipments. Our earnings continue to benefit from a favorable railcar production mix of more tank railcars, strong general market conditions for tank railcars and our growing fleet of leased railcars. On a consolidated basis, the gross profit margin generated by our manufacturing segment increased to 23.1% in the first quarter of 2014 compared to 20.7% in the same period of 2013.

As of March 31, 2014, we have a backlog of approximately 8,600 railcars including approximately 2,840 railcars for lease customers. In response to changes in customer demand, we continue to adjust production rates as needed at our railcar manufacturing facilities.

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RESULTS OF OPERATIONS

Three months ended March 31, 2014 compared to three months ended March 31, 2013

Consolidated Results

	Three Months Ended March 31,		\$	%
	2014	2013	Change	Change
	(in thousands)			
Revenues:				
Manufacturing	\$153,963	\$172,975	\$(19,012)	(11.0)
Railcar leasing	11,746	6,543	5,203	79.5
Railcar services	16,406	15,592	814	5.2
Total revenues	\$182,115	\$195,110	\$(12,995)	(6.7)
Cost of revenues:				
Manufacturing	\$(118,365)	\$(137,123)	\$(18,758)	(13.7)
Railcar leasing	(4,491)	(2,904)	\$1,587	54.6
Railcar services	(13,365)	(12,589)	\$776	6.2
Total cost of revenues	\$(136,221)	\$(152,616)	\$(16,395)	(10.7)
Selling, general and administrative	(9,387)	(11,265)	(1,878)	(16.7)
Earnings from operations	\$36,507	\$31,229	\$5,278	16.9
Revenues				

Our total consolidated revenues for the three months ended March 31, 2014 decreased by 6.7% compared to the same period in 2013. This decrease was due to decreased revenues in our manufacturing segment, partially offset by higher railcar leasing and railcar services revenues. During the three months ended March 31, 2014, we shipped approximately 1,130 direct sale railcars, which excludes approximately 480 railcars built for our lease fleet, compared to approximately 1,370 direct sale railcars for the same period of 2013, which excludes approximately 530 railcars built for our lease fleet.

Manufacturing revenues decreased by 11.0% during the three month period ended March 31, 2014 compared to the same period in 2013. The change during the quarter was primarily due to a decrease of 12.3% resulting from lower volumes of direct sale tank railcar shipments relative to tank railcars shipped for our lease fleet and the timing of certain hopper railcar shipments. This decrease was partially offset by strong market conditions for tank railcars and an increase of 1.3% due to higher revenue from certain material cost changes that we generally pass through to customers, as discussed below. Estimated revenues related to railcars built for our lease fleet are excluded from consolidated results, as discussed below.

Leasing revenues increased by 79.5% during the three months ended March 31, 2014 compared to the same period in 2013 due to an increase in the number of railcars in our lease fleet and higher average lease rates. The lease fleet grew from 3,120 railcars at March 31, 2013 to 4,930 railcars at March 31, 2014.

Railcar services increased by 5.2% during the three months ended March 31, 2014 compared to the same period in 2013. The increase in railcar services revenue for the three months ended March 31, 2014 compared to the same period in 2013 was primarily due to higher demand for paint and lining work at our repair facilities.

Cost of revenues

Our total consolidated cost of revenues decreased by 10.7% for the three months ended March 31, 2014 compared to the same period in 2013. The decrease was primarily due to a decrease in our manufacturing segment, partially offset by increases in the railcar leasing and railcar services segments. Cost of revenues decreased for our manufacturing segment by 13.7% for the three months ended March 31, 2014 compared to the same period in 2013. This change during the quarter was primarily a result of a 17.0% decrease driven by fewer direct sale tank railcar shipments, as discussed above. This decrease was partially offset by an increase of 1.7% due to a shift in production to a higher mix of tank railcars with more material and labor content and an increase of 1.6% resulting from higher material costs for

key components and steel. The increase in costs for key components and steel is also reflected as an increase in selling prices as our sales contracts generally include provisions to adjust prices for increases and decreases in the cost of most raw materials and components on a dollar for dollar basis.

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Cost of revenues for our leasing segment increased by 54.6% for the three months ended March 31, 2014 compared to the same period in 2013 primarily as a result of an increase in our lease fleet, as discussed above.

Cost of revenues for our railcar services segment increased by 6.2% for the three months ended March 31, 2014 compared to the same period in 2013, primarily due to costs associated with the increased paint and lining work at our repair facilities, discussed above, as well as inefficiencies caused by poor weather conditions.

Selling, general and administrative expenses

Our total consolidated selling, general and administrative costs decreased by 16.7% for the three months ended March 31, 2014 compared to the same period in 2013. This decrease is primarily attributable to decreases in our share-based compensation expense. While the Company's share-based compensation expense fluctuates with the stock price, past exercises of stock appreciation rights (SARs) have resulted in fewer SARs outstanding, which has reduced the impact that changes in the stock price have on the Company's financial results.

Interest expense

Our total consolidated interest expense decreased by 44.3% for the three months ended March 31, 2014 compared to the same period in 2013. This decrease was a result of a lower interest rate secured on our lease fleet financing and the voluntary early redemption of our 7.5% senior unsecured notes (Notes), discussed further in the liquidity and capital resources section below. This decrease was partially offset by an increase due to a higher average debt balance as a result of increased borrowings under our lease fleet financing during the first quarter of 2014, as discussed above. Our average debt balance in the first quarter of 2014 was \$297.5 million with a weighted average interest rate of 2.2% compared to an average debt balance of \$233.3 million with a weighted average interest rate of 5.1% during the same period in 2013.

Loss on debt extinguishment

During the three months ended March 31, 2014, we refinanced our lease fleet financing facility, paying off \$194.2 million of outstanding debt under our original 2012 lease fleet financing facility with borrowings under a new facility. This refinancing resulted in a \$1.9 million non-cash charge related to the accelerated write-off of the remainder of deferred debt issuance costs incurred in connection with the original lease fleet financing facility. During the same period in 2013, we redeemed \$175.0 million of the aggregate principal amount of our Notes, resulting in a \$0.4 million non-cash charge related to the accelerated write-off of the remainder of deferred debt issuance costs incurred in connection with the Notes.

Other income

Other income of \$2.0 million was recognized in the first three months of 2013 primarily due to realized gains on the sale of short-term investments. Subsequent to this sale, the Company has not made any other short-term investments, and other income for the same period in 2014 was less than \$0.1 million.

Loss from Joint Ventures

The breakdown of our loss from joint ventures during the three months ended March 31, 2014 and 2013 was as follows:

	Three Months Ended March 31, (in thousands)		
	2014	2013	Change
Ohio Castings	\$(190)	\$(78)	\$(112)
Axis	(411)	(612)	201
Amtek Railcar - India	—	(283)	283
Total Loss from Joint Ventures	\$(601)	\$(973)	\$372

Our joint venture loss was \$0.6 million for the three months ended March 31, 2014 compared to \$1.0 million for the same period in 2013. The decrease in the loss was primarily due to the sale, in December 2013, of our interest in our India joint venture, Amtek Railcar Industries Private Limited, which had generated a loss of \$0.3 million during the three months ended March 31, 2013. Additionally, our share of the losses from our Axis, LLC (Axis) joint venture

decreased by \$0.2 million, compared to the same period in 2013, as a result of increased external sales and production levels due to strong tank railcar demand and increased efficiencies. These decreases were partially offset by the \$0.1 million increase in our share of the losses

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of Ohio Castings LLC for 2014 compared to 2013 due primarily to production levels decreasing on weak demand for railcar types other than tank railcars.

Income Tax Expense

Our income tax expense was \$12.2 million, or 37.0% of our earnings before income taxes for the three months ended March 31, 2014, compared to \$11.6 million, or 39.3% of our earnings before income taxes for the same period in 2013. The decrease in our effective tax rate was primarily due to the domestic production activities deduction, which may cause our effective tax rate to fluctuate during the remainder of 2014.

Segment Results

The table below summarizes our historical revenues, earnings from operations and operating margin for the periods shown. Intersegment revenues are accounted for as if sales were to third parties. Operating margin is defined as total segment earnings from operations as a percentage of total segment revenues. Our historical results are not necessarily indicative of operating results that may be expected in the future.

	Three Months Ended March 31, 2014 (in thousands)			2013			Change
	External	Intersegment	Total	External	Intersegment	Total	
Revenues							
Manufacturing	\$153,963	\$64,029	\$217,992	\$172,975	\$55,408	\$228,383	\$(10,391)
Railcar Leasing	11,746	—	11,746	6,543	—	6,543	5,203
Railcar Services	16,406	132	16,538	15,592	49	15,641	897
Eliminations	—	(64,161)	(64,161)	—	(55,457)	(55,457)	(8,704)
Total Consolidated	\$182,115	\$—	\$182,115	\$195,110	\$—	\$195,110	\$(12,995)
Earnings (Loss) from Operations							
Manufacturing	\$33,655	\$19,730	\$53,385	\$33,979	\$9,782	\$43,761	\$9,624
Railcar Leasing	6,230	31	6,261	2,163	4	2,167	4,094
Railcar Services	2,181	38	2,219	2,305	43	2,348	(129)
Corporate/Eliminations	(5,559)	(19,799)	(25,358)	(7,218)	(9,829)	(17,047)	(8,311)
Total Consolidated	\$36,507	\$—	\$36,507	\$31,229	\$—	\$31,229	\$5,278

	Three Months Ended March 31,		
	2014	2013	
Operating Margins			
Manufacturing	24.5	% 19.2	%
Railcar Leasing	53.3	% 33.1	%
Railcar Services	13.4	% 15.0	%
Total Consolidated	20.0	% 16.0	%
Manufacturing			

Our manufacturing segment revenues, including an estimate of revenues for railcars built for our lease fleet, decreased by \$10.4 million for the three months ended March 31, 2014 compared to the same period in 2013. During the first quarter of 2014, we shipped approximately 1,610 railcars, including approximately 480 railcars built for our lease fleet, compared to approximately 1,900 railcars for the same period of 2013, including approximately 530 railcars built for our lease fleet. The primary reason for the decrease in revenues was lower hopper railcar shipments, partially offset by a higher mix of tank railcars shipped, which generally sell at higher prices due to more material and labor content, and strong general market conditions for tank railcars.

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Manufacturing segment revenues for the three months ended March 31, 2014 included estimated revenues of \$64.0 million, relating to railcars built for our lease fleet, compared to \$55.4 million for the same period in 2013. Revenues related to railcars built for our lease fleet increased due to a higher quantity of tank railcars shipped for lease, partially offset by a lower quantity of hopper railcars shipped for lease. Such revenues are based on an estimated fair market value of the leased railcars as if they had been sold to a third party, and are eliminated in consolidation. Revenues from railcars manufactured for our leasing segment are not recognized in consolidated revenues as railcar sales, but rather lease revenues are recognized over the term of the lease in accordance with the monthly lease revenues. Railcars built for the lease fleet represented 30% and 28%, respectively, of our railcar shipments during the three months ended March 31, 2014 and 2013.

We manufacture and sell railcars to American Railcar Leasing LLC (ARL) and its wholly-owned subsidiary, AEP Leasing LLC (AEP, and together with ARL, the ARL Entities) under long-term agreements as well as on a purchase order basis. Manufacturing segment revenues for the three months ended March 31, 2014 included direct sales of railcars to the ARL Entities totaling \$35.6 million compared to \$62.8 million of direct sales to the ARL Entities for the same period in 2013. In addition, we recorded \$5.7 million of sales revenue from ACF Industries LLC (ACF) for sales of railcar components to ACF and for royalties and profits on railcars sold by ACF during the three months ended March 31, 2014 compared to \$0.2 million for the same period in 2013. Total manufacturing segment revenues from our affiliates represent 22.6% of our total consolidated revenues for the three months ended March 31, 2014 compared to 32.3% for the same periods in 2013. AEP, ARL and ACF are affiliated with Mr. Carl Icahn, the chairman of our board of directors and, through IELP, our principal beneficial stockholder.

Earnings from operations for our manufacturing segment, which include an allocation of selling, general and administrative costs, as well as estimated profit for railcars manufactured for our leasing segment, increased by \$9.6 million for the three months ended March 31, 2014 compared to the same period in 2013. Estimated profit on railcars built for our lease fleet, which is eliminated in consolidation, was \$19.7 million for the three months ended March 31, 2014 compared to \$9.8 million for the same period in 2013. The estimated profit on railcars built for our lease fleet is based on an estimated fair market value of revenues as if the railcars had been sold to a third party, less the cost to manufacture. Operating margin from our manufacturing segment increased to 24.5% for the three months ended March 31, 2014 compared to 19.2% for the same period in 2013. These increases were due primarily to improved sales mix, as discussed above, and operating leverage and efficiencies in connection with consistent high levels of tank railcar production volumes.

Railcar Leasing

Our railcar leasing segment revenues for the three months ended March 31, 2014 increased by \$5.2 million compared to the same period in 2013. The increase in revenues was driven by an increase in railcars on lease with third parties and an increase in the average lease rate, as discussed above.

Earnings from operations for our railcar leasing segment, which include an allocation of selling, general and administrative costs, increased by \$4.1 million for the three months ended March 31, 2014 compared to the same period in 2013. This increase is primarily due to the growth in the number of railcars in our lease fleet and higher average lease rates.

Railcar Services

Our railcar services segment revenues increased by \$0.9 million for the three months ended March 31, 2014, compared to the same period in 2013. The increases were primarily due to increased demand for painting and lining work at our repair facilities.

For the three months ended March 31, 2014, our railcar services segment revenues included transactions with ARL totaling \$4.0 million, or 2.2% of our total consolidated revenues compared to \$4.6 million, or 2.4% of our total consolidated revenues, for the same period in 2013.

Earnings from operations and operating margins for our railcar services segment, which include an allocation of selling, general and administrative costs, were relatively flat for the three month period ended March 31, 2014 and 2013.

BACKLOG

We define backlog as the number and estimated market value of railcars that our customers have committed in writing to purchase or lease from us that have not been shipped. As of March 31, 2014, our total backlog was approximately 8,600 railcars, of which approximately 5,760 railcars with an estimated market value of \$626.0 million were orders for direct sale and approximately 2,840 railcars with an estimated market value of \$351.8 million were orders for railcars that will be subject to lease. As of March 31, 2014, approximately 73% of the railcars in our backlog are expected to be delivered during 2014, of which 41% are for direct sale and 32% are for lease. The remaining 27% of the railcars in our backlog are scheduled to be delivered in 2015 and beyond. As of December 31, 2013, our total backlog was approximately 8,560 railcars, of which

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approximately 6,230 railcars with an estimated market value of \$713.4 million were orders for direct sale and approximately 2,330 railcars with an estimated market value of \$326.7 million were orders for railcars that will be subject to lease.

Railcars for Sale. As of March 31, 2014, approximately 67% of the total number of railcars in our backlog were railcars for direct sale. Estimated backlog value of railcars for direct sale reflects the total revenues expected as if such backlog were converted to actual revenues at the end of the particular period. Railcars for direct sale to our affiliates, the ARL Entities, accounted for 18% of the total number of railcars in our backlog as of March 31, 2014.

Railcars for Lease. As of March 31, 2014, approximately 33% of the total number of railcars in our backlog were railcars for lease, subject to firm orders. Estimated backlog value of railcars that will be subject to lease reflects the estimated market value of each railcar. Actual revenues for railcars subject to lease are recognized per the terms of the lease and are not based on the estimated backlog value.

Customer orders may be subject to requests for delays in deliveries, inspection rights and other customary industry terms and conditions, which could prevent or delay railcars in our backlog from being shipped and converted into revenue. Historically, we have experienced little variation between the number of railcars ordered and the number of railcars actually delivered. As delivery dates could be extended on certain orders, we cannot guarantee that our reported railcar backlog will convert to revenue in any particular period, if at all, nor can we guarantee that the actual revenue from these orders will equal our reported estimated market value or that our future revenue efforts will be successful.

The reported backlog includes railcars relating to purchase or lease obligations based upon an assumed product mix consistent with past orders. Changes in product mix from what is assumed would affect the estimated market value of our backlog. Estimated market value reflects known price adjustments for material cost changes but does not reflect a projection of any future material price adjustments that are generally provided for in our customer contracts.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2014, we had working capital of \$245.3 million, including \$154.5 million of cash and cash equivalents. As of March 31, 2014, we had \$316.9 million of debt outstanding under our lease fleet financing senior secured term loan facility.

Outstanding and Available Debt

Lease fleet financing

In January 2014, our wholly owned subsidiary, Longtrain Leasing I, LLC (Longtrain Leasing), refinanced its original 2012 lease fleet financing facility under an amended and restated credit agreement (Amended and Restated Credit Agreement) in order to, among other things, increase the borrowings available thereunder. In connection with the refinancing, Longtrain Leasing received borrowings of \$316.2 million, net of fees and expenses. Of this amount, \$194.2 million was used to refinance the original 2012 lease fleet financing facility, resulting in net proceeds to the Company of \$122.0 million. The terms of the Amended and Restated Credit Agreement also provide Longtrain Leasing with the right, but not the obligation, to increase the amount of the senior secured term loan facility in an aggregate additional amount not to exceed \$100.0 million subject to the conditions set forth in the Amended and Restated Credit Agreement.

The 2014 lease fleet financing facility accrues interest at a rate per annum equal to the 1-month LIBOR rate plus 2.0% and matures in January 2020. Principal and interest payments are due monthly, with any remaining balance payable on the scheduled maturity date. Pursuant to the terms of the original 2012 credit agreement and the Amended and Restated Credit Agreement, Longtrain Leasing has been required to maintain deposits in an interest reserve bank account equal to nine and seven months, respectively, of interest payments. As of March 31, 2014 and December 31, 2013, the interest reserve amount was \$4.0 million and \$3.9 million, respectively.

This debt is an obligation of Longtrain Leasing that is generally non-recourse to ARI and is secured by a first lien on substantially all assets of Longtrain Leasing, consisting of railcars, railcar leases, receivables and related assets, subject to limited exceptions and any borrowings under the financing are solely the obligations of Longtrain Leasing. ARI has, however, entered into agreements containing certain representations, undertakings, and indemnities. ARI is obligated to make any selections of transfers of railcars, railcar leases, receivables and related assets to be conveyed to Longtrain Leasing in good faith and without any adverse selection, to cause ARL, as the manager, to maintain, lease,

and re-lease Longtrain Leasing's equipment no less favorably than similar portfolios serviced by ARL, and to repurchase or replace railcars that are reported as Eligible Units (as defined in the Amended and Restated Credit Agreement) when they are not Eligible Units, subject to limitations on liability set forth in the Amended and Restated Credit Agreement.

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Senior unsecured notes

In February 2007, we issued our senior unsecured 7.5% notes (the Notes) in an outstanding principal amount of \$275.0 million. In September 2012, we completed a voluntary partial early redemption of \$100.0 million of the Notes at a rate of 101.875% of the principal amount, plus any accrued and unpaid interest. On March 1, 2013, we completed a voluntary early redemption of the remaining \$175.0 million of Notes outstanding at a redemption rate of 100.0% of the principal amount of the Notes to be redeemed, plus any accrued and unpaid interest.

Cash Flows

The following table summarizes our change in cash and cash equivalents:

	Three Months Ended March 31,		
	2014	2013	Change
	(in thousands)		
Net cash (used in) provided by:			
Operating activities	\$(7,409)	) \$18,576	\$(25,985)
Investing activities	(46,407)	) (36,697)	) (9,710)
Financing activities	111,124	(130,878)	) 242,002
Effect of exchange rate changes on cash and cash equivalents	(72)	) (42)	) (30)
(Increase) Decrease in cash and cash equivalents	\$57,236	) \$(149,041)	) \$206,277

Net Cash (Used In) Provided By Operating Activities

Cash flows from operating activities are affected by several factors, including fluctuations in business volume, contract terms for billings and collections, the timing of collections on our accounts receivables, processing of payroll and associated taxes and payments to our suppliers.

Our net cash used in operating activities for the three months ended March 31, 2014 was \$7.4 million compared to net cash provided by operating activities of \$18.6 million for the same period in 2013. This change was primarily due to changes in various operating assets and liabilities, including accounts receivable and inventories, due to the timing of shipments and customer payments, partially offset by higher earnings during the first three months of 2014 compared to the same period in 2013, as discussed above.

Net Cash Used In Investing Activities

Our net cash used in investing activities for the three months ended March 31, 2014 was \$46.4 million compared to \$36.7 million in the same period in 2013. The increase was a result of the sale of short term investments during the first quarter of 2013 resulting in proceeds of \$12.7 million, partially offset by lower spending on capital projects in 2014 compared to 2013.

Net Cash Provided By (Used In) Financing Activities

Our net cash provided by financing activities for the three months ended March 31, 2014 was \$111.1 million compared to net cash used in financing activities of \$130.9 million in the same period in 2013. The cash provided by financing activities during the first three months of 2014 was a result of the \$122.2 million in net proceeds that the Company received from the 2014 lease fleet refinancing in January, as discussed above. The cash used in financing activities during the first three months of 2013 was a result of the voluntary early redemption of the remaining \$175.0 million of principal on our Notes in March 2013, partially offset by a draw of \$100.0 million under our original lease fleet financing facility. Additionally, we paid dividends totaling \$8.5 million during the three months ended March 31, 2014, compared to \$5.3 million in the same period in 2013.

Capital Expenditures

We continuously evaluate facility requirements based on our strategic plans, production requirements and market demand and may elect to change our level of capital investments in the future. These investments are all based on an analysis of the estimated rates of return and impact on our profitability. We continue to pursue opportunities to reduce our costs through continued vertical integration of component parts. From time to time, we may expand our business by acquiring other businesses or pursuing other strategic growth opportunities including, without limitation, joint ventures.

Capital expenditures for the three months ended March 31, 2014 were \$43.9 million for manufacturing railcars for lease to others and \$3.6 million for capitalized projects that maintain equipment, improve efficiencies and reduce costs. Our current

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capital expenditure plans for the remainder of 2014 include projects that we expect will maintain equipment, improve efficiencies, reduce costs, expand our business, and add to our railcar lease fleet. We cannot assure that we will be able to complete any of our projects on a timely basis or within budget, if at all.

Future Liquidity

Our current liquidity consists of our existing cash balance, future cash from operations, and any additional borrowings we may be able to draw under our existing lease fleet financing facility. Given our strategic emphasis on growing our lease fleet and the capital required to manufacture railcars for lease for which we currently have firm orders, we expect that our longer term cash needs may require additional financing over and above our current liquidity position after considering any additional borrowings under our refinanced lease fleet financing facility, as discussed above. We expect our future cash flows from operations could be impacted by the state of the credit markets and the overall economy, the number of our railcar orders and shipments and our production rates. Our future liquidity may also be impacted by the number of new railcar orders leased versus sold.

Our long-term liquidity is contingent upon future operating performance, Longtrain Leasing's ability to continue to meet its financial covenants under the lease fleet financing and any other indebtedness we may enter into, and the ability to repay or refinance its indebtedness as it becomes due. We may also require additional capital in the future to fund capital expenditures, acquisitions or other investments, including additions to our lease fleet. These capital requirements could be substantial.

Other potential projects, including possible strategic transactions that could complement and expand our business units, will be evaluated to determine if the project or opportunity is right for us. We anticipate that any future expansion of our business will be financed through existing resources, cash flow from operations, term debt associated directly with that project or other new financing. We cannot guarantee that we will be able to meet existing financial covenants or obtain term debt or other new financing on favorable terms, if at all.

Contractual Obligations and Contingencies

As of March 31, 2014, our outstanding debt under our lease fleet financing increased to \$316.9 million from \$194.8 million as of December 31, 2013, in connection with the refinancing of the original facility, as discussed above. Refer to the updated status of other contingencies and contractual obligations in Notes 10-13 to the condensed consolidated financial statements. Other than the increase in our borrowings under our lease fleet financing facility, our contractual obligations and contingencies did not materially change from the information disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

Off-Balance Sheet Arrangements

Other than operating leases, we have no other off-balance sheet arrangements.

CRITICAL ACCOUNTING POLICIES

The critical accounting policies and estimates used in the preparation of our financial statements that we believe affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements presented in this report are described in Management's Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K, for the year ended December 31, 2013.

There have been no material changes to the critical accounting policies or estimates that were included in our Annual Report on Form 10-K for the year ended December 31, 2013.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risks as previously disclosed in Item 7A of our Annual Report on Form 10-K, for the year ended December 31, 2013.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure controls and procedures

Under the supervision and with the participation of our Interim Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), our management evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report on Form 10-Q (the Evaluation Date). Based upon that evaluation, our Interim Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting

There has been no change in our internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material changes with respect to legal proceedings as previously disclosed in Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2013.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in Item 1A of our Annual Report on Form 10-K, for the year ended December 31, 2013.

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ITEM 6. EXHIBITS

Exhibit No.	Description of Exhibit
10.1	Form of 2014 Stock Appreciation Rights Agreement #
10.2	Offer Letter, dated February 26, 2014, between the Company and Yevgeny Fundler #
31.1	Rule 13a-14(a), 15d-14(a) Certification of the Interim Chief Executive Officer*
31.2	Rule 13a-14(a), 15d-14(a) Certification of the Chief Financial Officer*
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Definition Linkbase Document*

* Filed herewith

** Furnished herewith

Indicates management contract or compensatory plan or arrangement

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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.

AMERICAN RAILCAR INDUSTRIES, INC.

Date: May 5, 2014

By: /s/ Jeffrey S. Hollister
Jeffrey S. Hollister, President and Interim Chief Executive Officer

By: /s/ Dale C. Davies
Dale C. Davies, Senior Vice President,
Chief Financial Officer and Treasurer

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