American Railcar Industries, Inc.
Form 10-Q
November 05, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

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)	63301 (Zip Code)

(636) 940-6000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of 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 x No ¨

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller Reporting Company	¨

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

The number of shares of the registrant's common stock, $0.01 par value, outstanding on November 4, 2013 was 21,352,297 shares.

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AMERICAN RAILCAR INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	September 30, 2013 (unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$115,020	$205,045
Short-term investments—available for sale securities	—	12,557
Accounts receivable, net	30,739	36,100
Accounts receivable, due from related parties	12,844	3,539
Inventories, net	102,051	110,075
Deferred tax assets	11,777	4,114
Prepaid expenses and other current assets	7,724	3,917
Total current assets	280,155	375,347
Property, plant and equipment, net	157,429	155,893
Railcars on operating leases, net	321,608	220,282
Deferred debt issuance costs	2,029	2,374
Goodwill	7,169	7,169
Investments in and loans to joint ventures	40,190	44,536
Other assets	8,028	4,157
Total assets	$816,608	$809,758
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$58,038	$64,971
Accounts payable, due to related parties	1,486	2,831
Accrued taxes	7,252	2,693
Accrued expenses	23,123	5,739
Accrued compensation	16,639	17,940
Accrued interest expense	299	4,465
Short-term debt, including current portion of long-term debt	6,655	2,755
Total current liabilities	113,492	101,394
Long-term debt, net of current portion	189,762	272,245
Deferred tax liability	84,597	53,466
Pension and post-retirement liabilities	8,923	9,518
Other liabilities	5,326	3,670
Total liabilities	402,100	440,293
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value, 50,000,000 shares authorized, 21,352,297 shares issued and outstanding as of both September 30, 2013 and December 31, 2012	213	213
Additional paid-in capital	239,609	239,609
Retained earnings	176,541	130,030
Accumulated other comprehensive loss	(1,855)	(387)
Total stockholders' equity	414,508	369,465

Total liabilities and stockholders’ equity	$816,608	$809,758

See Notes to the Condensed Consolidated Financial Statements.

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AMERICAN RAILCAR INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts, unaudited)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Revenues:				
Manufacturing (including revenues from affiliates of $65,678 and $148,660 for the three and nine months ended September 30, 2013, respectively, and $49,962 and $60,859 for the same periods in 2012)	$170,943	$147,212	$476,160	$446,273
Railcar leasing	8,301	4,267	22,371	8,315
Railcar services (including revenues from affiliates of $4,307 and $13,461 for the three and nine months ended September 30, 2013, respectively, and $5,855 and $16,858 for the same periods in 2012)	19,655	16,751	54,882	49,455
Total revenues	198,899	168,230	553,413	504,043
Cost of revenues:				
Manufacturing	(136,974)	(116,497)	(371,806)	(360,507)
Railcar leasing	(3,524)	(1,854)	(9,729)	(4,196)
Railcar services	(15,614)	(13,181)	(43,063)	(38,849)
Total cost of revenues	(156,112)	(131,532)	(424,598)	(403,552)
Gross profit	42,787	36,698	128,815	100,491
Selling, general and administrative (including costs to a related party of $268 and $864 for the three and nine months ended September 30, 2013, respectively, and $146 and $441 for the same periods in 2012)	(7,161)	(6,360)	(22,091)	(20,388)
Earnings from operations	35,626	30,338	106,724	80,103
Interest income (including income from related parties of $669 and $2,026 for the three and nine months ended September 30, 2013, respectively, and $727 and $2,201 for the same periods in 2012)	672	750	2,042	2,297
Interest expense	(1,512)	(4,414)	(5,853)	(14,630)
Loss on debt extinguishment	—	(2,267)	(392)	(2,267)
Other income (including income from a related party of $5 and $14 for the three and nine months ended September 30, 2013, respectively, and $4 and $10 for the same periods in 2012)	16	18	2,024	37
(Loss) earnings from joint ventures	(505)	(849)	(2,282)	31
Earnings before income taxes	34,297	23,576	102,263	65,571
Income tax expense	(13,327)	(9,566)	(39,737)	(26,196)
Net earnings	$20,970	$14,010	$62,526	$39,375
Net earnings per common share—basic and diluted	$0.98	$0.66	$2.93	$1.84
Weighted average common shares outstanding—basic and diluted	21,352	21,352	21,352	21,352
Cash dividends declared per common share	$0.25	$—	$0.75	$—

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net earnings	$20,970	$14,010	$62,526	$39,375
Currency translation	262	418	(396)	416
Postretirement transactions	46	(77)	140	(229)
Short-term investment transactions	—	—	(1,213)	—
Comprehensive income	$21,278	$14,351	$61,057	$39,562

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)

	Nine Months Ended September 30, 2013	2012
Operating activities:		
Net earnings	$62,526	$39,375
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	20,433	17,506
Amortization of deferred costs	486	487
Loss on disposal of property, plant and equipment	75	—
Share-based compensation	4,240	3,810
Change in interest receivable, due from related parties	—	292
Loss (earnings) from joint ventures	2,282	(31)
Provision for deferred income taxes	23,997	24,703
Adjustment to provision for losses on accounts receivable	14	108
Items related to investing activities:		
Realized gain on sale of short-term investments - available for sale securities	(2,008)	—
Items related to financing activities:		
Loss on debt extinguishment	392	2,267
Changes in operating assets and liabilities:		
Accounts receivable, net	5,329	(1,995)
Accounts receivable, due from related parties	(9,315)	(1,428)
Income taxes receivable	(187)	(282)
Inventories, net	7,994	(36,486)
Prepaid expenses and other current assets	157	(754)
Accounts payable	(6,927)	5,114
Accounts payable, due to affiliates	(1,345)	150
Accrued expenses and taxes	11,665	(5,119)
Other	(1,779)	(364)
Net cash provided by operating activities	118,029	47,353
Investing activities:		
Purchases of property, plant and equipment	(15,343)	(10,444)
Capital expenditures - leased railcars	(108,314)	(143,242)
Proceeds from the sale of property, plant and equipment	2	254
Proceeds from the sale of short-term investments - available for sale securities	12,699	—
Proceeds from repayments of loans by joint ventures	2,100	1,592
Investments in and loans to joint ventures	(136)	(1,652)
Net cash used in investing activities	(108,992)	(153,492)
Financing activities:		
Repayments of long-term debt	(178,424)	(100,000)
Premium on debt redemption	—	(1,875)
Proceeds from long-term debt	99,841	—
Change in interest reserve related to long-term debt	(3,965)	—
Payment of common stock dividends	(16,014)	—
Debt issuance costs	(432)	—
Net cash used in financing activities	(98,994)	(101,875)
Effect of exchange rate changes on cash and cash equivalents	(68)	37

Decrease in cash and cash equivalents	(90,025)	(207,977)
Cash and cash equivalents at beginning of period	205,045	307,172
Cash and cash equivalents at end of period	$115,020	$99,195

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, 2012 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, 2012. 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, railroads, industrial companies, and other non-rail companies. ARI leases railcars manufactured by the Company to certain markets under operating leases. 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), American Railcar Mauritius I (ARM I), American Railcar Mauritius II (ARM II), ARI Fleet Services of Canada, Inc., ARI Longtrain, Inc. (Longtrain), and Longtrain Leasing I, LLC (Longtrain Leasing). From time to time, the Company makes investments through Longtrain. All intercompany transactions and balances have been eliminated.

Note 2 — Recent accounting pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2013-11 Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11). ASU 2013-11 requires an entity to present an unrecognized tax benefit as a reduction to a deferred tax asset for a net operating loss or similar tax loss or tax credit carryforward within the same jurisdiction, unless the entity does not intend to utilize the unrecognized tax benefit for that purpose. Otherwise, the unrecognized tax benefit would be presented gross, as a liability (not a deferred tax liability). ASU 2013-11 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2013. The Company plans on adopting ASU 2013-11 for the first quarter of 2014. The Company does not anticipate that the adoption of ASU 2013-11 will have a material impact on the Company’s consolidated financial statements or disclosures.

Note 3 — Fair Value Measurements

The fair value hierarchal 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.

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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 included in Level 1 include 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.

For the fair value of the Company's short-term investments, outstanding debt, and share-based compensation refer to Notes 4, 11, and 15, respectively.

Note 4 — Short-term Investments — Available for Sale Securities

As of December 31, 2012, Longtrain held approximately 0.8 million shares of Greenbrier common stock that had been purchased in the open market. These shares were sold during the first quarter of 2013 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 operation. The fair value of the shares of Greenbrier that were held by the Company as of December 31, 2012 was $12.6 million and such shares were classified as a Level 1 fair value measurement as defined by U.S. GAAP and the fair value hierarchy. See Note 16 for the amount of unrealized gain on the shares during the nine months ended September 30, 2013.

Note 5 — Accounts Receivable, net

Accounts receivable, net, consist of the following:

	September 30, 2013	December 31, 2012
	(in thousands)	
Accounts receivable, gross	$30,823	$36,755
Less allowance for doubtful accounts	(84)	(655)
Total accounts receivable, net	$30,739	$36,100

Note 6 — Inventories

Inventories consist of the following:

	September 30, 2013	December 31, 2012
	(in thousands)	
Raw materials	$63,610	$72,244
Work-in-process	19,652	15,877
Finished products	20,865	24,364
Total inventories	104,127	112,485
Less reserves	(2,076)	(2,410)

Total inventories, net	$102,051	$110,075

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Note 7 — Property, Plant and Equipment

The following table summarizes the components of property, plant and equipment:

	September 30, 2013	December 31, 2012
	(in thousands)	
Operations / Corporate:		
Buildings	$156,022	$151,545
Machinery and equipment	180,895	173,468
Land	3,335	3,335
Construction in process	14,244	12,156
	354,496	340,504
Less accumulated depreciation	(197,067)	(184,611)
Property, plant and equipment, net	$157,429	$155,893
Railcar Leasing:		
Railcars on lease	$334,306	$225,992
Less accumulated depreciation	(12,698)	(5,710)
Railcars on operating lease, net	$321,608	$220,282

Lease agreements

The Company leases railcars to third parties under multi-year agreements. Railcars subject to lease agreements are classified as railcars on operating leases and are depreciated in accordance with the Company's depreciation policy. Capital expenditures for leased railcars represent cash outflows of the Company's cost to produce railcars shipped or to be shipped for lease.

As of September 30, 2013, 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 3 months of 2013	$8,723
2014	33,560
2015	32,886
2016	31,944
2017	24,129
2018	14,938
2019 and thereafter	28,823
Total	$175,003

Depreciation expense

The following table summarizes depreciation expense:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Total depreciation expense	$7,038	$6,220	$20,433	$17,506
Depreciation expense on leased railcars	$2,573	$1,345	$6,988	$2,767

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Note 8 — Goodwill

On March 31, 2006, the Company acquired all of the common stock of Custom Steel, a subsidiary of Steel Technologies, Inc. Custom Steel produces 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.

The Company performed the annual qualitative assessment as of March 1, 2013 to determine whether it was more likely than not that the fair value of the reporting unit was greater than its carrying amount. If ARI had determined that it was more likely than not that the fair value of the reporting unit was less than its carrying amount, then the Company would have performed the first step of the two-step goodwill impairment test. In evaluating whether it was more likely than not that the fair value of the reporting unit was greater than its carrying amount, the Company considered the following relevant factors:

- The North American railcar market has been, and ARI expects it to continue to be highly cyclical. The railcar industry significantly improved in 2011 and 2012. Beginning in the middle of 2012, the mix of demand for railcars began to shift with a heavier emphasis on tank railcars.
- ARI is subject to various laws and regulations. No significant assessments have been made by the various regulatory agencies.
- The railcar manufacturing industry has historically been extremely competitive.
- ARI experienced two strong years of railcar order activity in 2011 and 2012. Based upon third party forecast for the industry over the next several years, the Company expects order activity to remain at healthy levels.
- The primary long-lived assets at the reporting unit are machines with uses in various applications for numerous markets and industries. As such, management does not believe that there has been a significant decrease in the market value of the reporting unit’s long-lived assets.
- The reporting unit has a history of positive operating cash flows that is expected to continue.
- No part of the reporting unit’s net income is comprised of significant non-operating or non-recurring gains or losses, and no significant changes in balance sheet accruals were noted.
- In addition, during 2012 there were no significant changes in the following with regard to the reporting unit that we expect to impact future results:
  - Key personnel;
  - Business strategy;
  - Buyer or supplier bargaining power; and
  - Legal factors.

After assessing the above factors, the Company determined that it was more likely than not that the fair value of the reporting unit was greater than its carrying amount, and therefore no further testing was necessary. Additionally, no impairment was recognized in any prior periods and there were no indicators of impairment since the annual qualitative assessment date.

Note 9 — Investments in and Loans to Joint Ventures

As of September 30, 2013, the Company was party to the following joint ventures: Ohio Castings LLC (Ohio Castings), Axis LLC (Axis) and Amtek Railcar Industries Private Limited (Amtek Railcar). 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 has a wholly-owned subsidiary, ARM I that wholly-owns ARM II. Through ARM II, the Company has a 50.0% ownership interest in Amtek Railcar, a joint venture that was formed to produce railcars and railcar components in India for sale by the joint venture.

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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 related to all three joint ventures is recorded within our manufacturing segment. The carrying amount of investments in and loans to joint ventures, which also represents ARI’s maximum exposure to loss with these joint ventures, are as follows:

	September 30, 2013	December 31, 2012
	(in thousands)	
Carrying amount of investments in and loans to joint ventures		
Ohio Castings	$7,372	$7,022
Axis	24,379	27,181
Amtek Railcar	8,439	10,333
Total investments in and loans to joint ventures	$40,190	$44,536

See Note 17 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. The joint venture partner sells these parts to outside third parties at current market prices and sells them to the Company and the other joint venture partner at 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Results of operations				
Revenues	$15,199	$15,880	$42,481	$62,565
Gross profit	$1,334	$1,325	$2,239	$5,881
Net income (loss)	$1,445	$(760)	$1,096	$4,188

The new railcar castings market is directly related to the new railcar market, which remains strong for tank railcars, but has been weak for all other railcar types through the third quarter of the current year. Increased net income for the three months ended September 30, 2013 was driven by an increase in margins due to improved performance and a non-recurring rebate received during the quarter. The Company will continue to monitor its investment in Ohio Castings for impairment.

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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 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. In accordance with the terms of the amended agreement, during 2010 and 2011, Axis satisfied interest on the loan by increasing the outstanding principal by the amount of interest that was otherwise due and payable in cash. Axis' ability to satisfy the term loan interest by increasing the principal ceased in the third quarter of 2011.

The balance outstanding on these loans, including interest, due to ARI Component, was $33.6 million as of September 30, 2013 and $35.7 million as of December 31, 2012. During the nine months ended September 30, 2013, $2.1 million of principal payments were received from Axis.

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 initial 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Results of operations				
Revenues	$15,309	$12,884	$38,385	$47,002
Gross profit	$2,002	$880	$3,461	$3,771
Income before interest	$1,789	$683	$2,770	$3,096
Net income (loss)	$445	$(779)	$(1,298)	$(1,308)

The new railcar axle market is directly related to the new railcar market, which remains strong for tank railcars, but has been weak for all other railcar types through the third quarter of the current year. Net income for the three months ended September 30, 2013 is due to an increase in North American sales as well as a small increase in international sales. Axis' losses were comparable for the nine months ended September 30, 2013 and 2012 as increases in efficiencies and margin were offset by a decline in volumes.

As of September 30, 2013, 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.

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Amtek Railcar

The Company, through ARM I and ARM II, entered into an agreement with a partner in India to form a joint venture company to manufacture, sell and supply freight railcars and their components in India and other countries to be agreed upon at a facility in India constructed by the joint venture. ARI’s ownership in this joint venture is 50.0%.

The Company accounts for its investment in Amtek Railcar 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 Amtek Railcar that most significantly impact its economic performance. The significant factors in this determination were that the Company and its wholly-owned subsidiaries do not have the rights to the majority of returns, losses or votes and the risk of loss to the Company and subsidiaries is limited to its investment in Amtek Railcar.

Summary financial results for Amtek Railcar, the investee company, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Financial Results				
Revenues	$56	$—	$151	$—
Gross profit (loss)	$(768)	$—	$(785)	$—
Loss before interest and taxes	$(857)	$(568)	$(1,619)	$(1,502)
Net loss	$(2,042)	$(577)	$(3,984)	$(1,529)

In the second quarter of 2013, Amtek Railcar began incurring higher interest expense and depreciation expense compared to prior periods due to completing construction of the manufacturing plant in India. The joint venture’s facility is in a ready state for production and is currently producing and selling railcar parts. Amtek Railcar has experienced delays in the initial start-up of the business, as well as delays in completing the rail connection from the joint venture’s plant to the mainline. The India Ministry of Railways (IR) issued a railcar tender in October 2013 for over 11,700 units, which was the first railcar tender issued since January 2012. While the Company expects the IR’s recent issuance of a tender will likely have a positive effect on the Indian railcar market as a whole, this tender stipulates that entities that have not previously delivered at least 500 railcars to the IR are limited to a maximum order of 500 railcars. This stipulation would apply to Amtek Railcar, and there can be no assurance that Amtek Railcar will be able to obtain any orders. The factors described above have contributed to Amtek Railcar delivering financial results weaker than originally anticipated.

As a result of the factors described above, Amtek Railcar is seeking additional funding to continue its operations and to satisfy its debt service obligations under its credit agreement, which is non-recourse to ARI. As of the date of this filing, the Company and the Company's joint venture partner are considering various strategic alternatives with respect to Amtek Railcar. If Amtek Railcar is unable to address its capital requirements adequately and in a timely fashion, the Company's investment in Amtek Railcar could be materially adversely impacted. The Company will continue to monitor its investment in Amtek Railcar for impairment.

Note 10 — Warranties

The Company’s standard warranty is 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Liability, beginning of period	$1,519	$1,286	$1,374	$930
Provision for warranties issued during the year, net of adjustments	226	315	1,103	974
Adjustments to warranties issued during previous years	(314)	435	(710)	469
Warranty claims	(144)	(549)	(480)	(886)
Liability, end of period	$1,287	$1,487	$1,287	$1,487

Note 11 — Long-term Debt

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%. In conjunction with the redemption, the Company incurred a $2.3 million loss, which is shown as loss on debt extinguishment on the condensed consolidated statements of operations. This charge consists of $1.9 million related to the premium the Company paid on the redemption as well as $0.4 million related to the accelerated write-off of a portion of deferred debt issuance costs. At December 31, 2012, the fair value of these Notes was $176.3 million while the carrying value was $175.0 million. The fair value is based on the closing market price as of that date, which is a Level 1 input. For the definition and discussion of a Level 1 input for fair value measurement, refer to Note 3.

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.

2012 Lease Fleet Financing

In December 2012, Longtrain Leasing entered into a senior secured delayed draw term loan facility (Term Loan) that is secured by a portfolio of railcars, railcar leases, the receivables associated with those railcars and leases, and certain other assets of Longtrain Leasing. The 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. As of December 31, 2012, the outstanding principal balance on the Term Loan, including the current portion, was $100.0 million.

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 September 30, 2013, the outstanding principal balance on the Term Loan, including the current portion, was $196.4 million.

The fair value of the Term Loan was $196.4 million and $100.0 million as of September 30, 2013 and December 31, 2012, respectively, and is 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. For the definition and discussion of a Level 2 input for fair value measurement, refer to Note 3.

The Term Loan, which matures on February 27, 2018, bears interest at one-month LIBOR plus 2.5%, for a rate of 2.7% as of September 30, 2013, subject to an alternative fee as set forth in the credit agreement, and is payable on the 15th of each month (Payment Date). The interest rate increases by 2.0% following certain events of default. The

Company is required to maintain deposits in an interest reserve bank account equal to nine months of interest payments. As of September 30, 2013, the interest reserve amount was $4.0 million and included within 'Prepaid expenses and other current assets' on the balance sheet. The Company is required to pay principal at an annual rate of 3.33% of the borrowed amount via monthly payments that are due on the Payment Date, which commenced on March 15, 2013, with any remaining balance payable on the final scheduled maturity date. The Term Loan may be prepaid at any time without premium or penalty, other than customary LIBOR breakage fees.

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Longtrain Leasing is required to maintain a loan to value ratio of at least 75% of the Net Aggregate Equipment Value, as defined in the Term Loan. The Term Loan contains restrictive covenants that limit Longtrain Leasing's ability to, among other things, incur additional debt, issue additional equity, sell certain assets, grant certain liens on its assets, make certain restricted payments, acquisitions and investments, and enter into certain significant transactions with stockholders and affiliates. Additionally, the Term Loan requires Longtrain Leasing to comply with a Debt Service Coverage Ratio, as defined in the credit agreement, of 1.05 to 1.0, measured quarterly on a three-quarter trailing basis beginning on September 30, 2013, and subject to up to a 75 day cure period. Certain covenants, including those that restrict Longtrain Leasing's ability to incur additional indebtedness and issue equity, become more restrictive if Longtrain Leasing's debt service coverage ratio, as defined, is less than 1.2 to 1.0 on or after September 30, 2013.

The Term Loan 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 Term Loan are managed in accordance with the 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 credit agreement) when they are not Eligible Units, subject to limitations on liability set forth in the credit agreement. The Company was in compliance with all of its covenants under the Term Loan as of September 30, 2013.

The 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 limited exceptions. As of September 30, 2013 and December 31, 2012, the net book value of the railcars that were pledged as part of the Term Loan were $221.9 million and $112.0 million, respectively. The future contractual minimum rental revenues related to the railcars pledged as of September 30, 2013 are as follows (in thousands):

Remaining 3 months of 2013	$6,223
2014	24,892
2015	24,549
2016	23,761
2017	16,651
2018	9,023
2019 and thereafter	17,461
Total	$122,560

The remaining principal payments under existing debt agreements as of September 30, 2013 are as follows:

Remaining 3 months of 2013	$1,658
2014	6,655
2015	6,655
2016	6,673
2017	6,655
2018	168,121
Total	$196,417

Note 12 — Income Taxes

The statute of limitation on the Company's 2008 federal income tax return expired on April 14, 2013. The Company's federal income tax returns for tax years 2009 and beyond remain subject to examination, with the latest statute expiring in September 2016. The Company's audit review for tax years 2009 and 2011 related to a federal loss carry back claim has been closed without any impact.

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Certain of the Company's 2008 state income tax returns remain open and subject to examination, with the latest statute of limitations expiring on November 15, 2013. All of the Company's state income tax returns for 2009 and beyond remain open to examination by various state taxing authorities, with the latest statute of limitations expiring on November 15, 2017. The Company’s foreign subsidiary’s income tax returns for 2009 and beyond remain open to examination by foreign tax authorities.

The Company is evaluating the impact of the regulations concerning amounts paid to acquire, produce, or improve tangible property and recovery of basis upon disposition. Because the revenue procedures governing the tangible property regulations will not be issued until the fourth quarter, the Company is still determining whether or not any changes in an accounting method will be required and if so, whether they will result in a material impact to its financial statements. At this time, the Company does not anticipate there being a material impact.

Note 13 — 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 retire after attaining specified age and service requirements. The Company is also the sponsor of a postretirement medical benefit plan providing access to healthcare for certain retired employees, which will be 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Service cost	$49	$47	$148	$143
Interest cost	221	233	662	701
Expected return on plan assets	(279)	(251)	(836)	(757)
Amortization of net actuarial loss/prior service cost	194	178	582	534
Net periodic cost recognized	$185	$207	$556	$621

	Postretirement Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Service cost	$—	$—	$1	$1
Interest cost	1	1	3	3
Amortization of net actuarial gain/prior service credit	(117)	(118)	(351)	(354)
Net periodic benefit recognized	$(116)	$(117)	$(347)	$(350)

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 and $0.3 million for the three months ended September 30, 2013 and 2012, respectively, and $0.7 million and $0.7 million for the nine months ended September 30, 2013 and 2012, respectively.

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Note 14 — 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, or otherwise 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 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 these 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. As of the date of this report, it is the Company's understanding that no further investigation or remediation is required at these properties. 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 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, ARI does not believe it will incur material costs in connection with any investigation or remediation activities relating to these properties, 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. One of these agreements will expire in January 2016. The other agreement expired in September 2013. A new agreement was negotiated and ratified by the labor union in October 2013. ARI currently expects that a final agreement will be executed in the fourth quarter, but cannot assure this will be the case. ARI is also party to a collective bargaining agreement with a labor union at a parts manufacturing facility that expires in April 2014.

On September 2, 2009, a complaint was filed by George Tedder (the Plaintiff) against ARI in the U.S. District Court, Eastern District of Arkansas. The Plaintiff alleged that the Company was liable for an injury that resulted during Plaintiff's break on April 24, 2008. At trial on April 9, 2012, the jury ruled in favor of the Plaintiff. ARI's motion to reduce the jury award was granted and the judge reduced the amount awarded to the plaintiff, which was fully accrued as of September 30, 2013 and December 31, 2012. In the first quarter of 2013, the Company filed an appeal of the revised ruling.

The Company has various agreements with and commitments to related parties. See Note 17 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 15 — 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) models. 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 September 30, 2013 is based on the fair value 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 3.

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Stock appreciation rights

The compensation committee of the Company's board of directors has granted awards of stock appreciation rights (SARs) to certain employees pursuant to the 2005 Plan. 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Share-based compensation expense (income)				
Cost of revenues: Manufacturing	$195	$176	$689	$738
Cost of revenues: Railcar services	70	25	102	105
Selling, general and administrative	900	796	3,449	2,967
Total share-based compensation expense (income)	$1,165	$997	$4,240	$3,810

The SARs have exercise prices that represent the closing price of the Company's common stock on the date of grant. Upon the exercise of any SAR, the Company shall pay the holder, in cash, an amount equal to the excess of (A) the aggregate fair market value (as defined in the 2005 Plan) in respect of which the SARs are being exercised, over (B) the aggregate exercise price of the SARs being exercised, in accordance with the terms of the Stock Appreciation Rights Agreement (the SARs Agreement). The SARs are subject in all respects to the terms and conditions of the 2005 Plan and the SARs Agreement, which contain non-solicitation, non-competition and confidentiality provisions. The fair value of all unexercised SARs is determined at each reporting period under the Monte Carlo and Black-Scholes models based on the inputs in the table below, which project that the specific performance target for applicable grants will be fully met. The fair value of the SARs is expensed on a graded vesting basis over the vesting period, which is in equal increments on the respective anniversaries of the grant date. Changes in the fair value of vested SARs are expensed in the period of change. The following table provides an analysis of outstanding SARs and assumptions that were used as of September 30, 2013 in the Black-Scholes model:

	Grant Date				
	2/24/2012	5/9/2011	3/31/2010 & 5/14/2010	3/3/2009	4/28/2008
SARs outstanding as of September 30, 2013	133,528	112,289	28,375	8,500	1,025
Vested & Exercisable	6,667	38,287	28,375	8,500	1,025
Vesting period	3 years	3 years	3 years	4 years	4 years
Expiration Dates	2/24/2019	5/9/2018	3/31/2017 & 5/14/2017	3/3/2016	4/28/2015
Weighted average exercise price	$29.31	$24.45	$13.13	$6.71	$20.88
Expected volatility range	53.3% - 58.2%	53.3%	47.8%	43.6%	43.6%
Expected life range (in years)	2.7 - 3.3	2.3 - 2.6	1.8	1.2	0.8
Risk-free interest rate	0.7%	0.3% - 0.7%	0.3%	0.1%	0.1%
Expected Dividend yield	2.5%	2.5%	2.5%	2.5%	2.5%
Forfeiture Rate on unvested SARs	2.0%	2.0%	N/A	N/A	N/A

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The stock volatility rate was determined using the historical volatility rates of the Company's common stock over the same period as the expected life of each grant. The expected life ranges represent the use of the simplified method prescribed by the SEC due to inadequate exercise activity for the Company's SARs. The simplified method uses the average of the vesting period and expiration period of each group of SARs that vest equally over a three or four-year period. The risk-free rate is based on the U.S. Treasury yield curve in effect for the expected term of the options at the time of grant. The expected dividend yield was determined using the most recent quarter's dividend. The forfeiture rate was based on a Company estimate of expected forfeitures over the vesting period of each grant for each period.

As of September 30, 2013, unrecognized compensation costs related to the unvested portion of SARs were estimated to be $0.9 million and were expected to be recognized over a weighted average period of 13 months.

Note 16 — 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	Accumulated Currency Translation	Accumulated Postretirement Transactions	Accumulated Other Comprehensive Income (Loss)
	(In thousands)			
Balance December 31, 2011	$—	$1,283	$(2,481)	$(1,198)
Currency translation	—	416	—	416
Reclassifications related to pension and postretirement plans, net of tax effect of $94 (1)	—	—	(229)	(229)
Balance September 30, 2012	$—	$1,699	$(2,710)	$(1,011)
Balance December 31, 2012	$1,213	$1,562	(3,162)	$(387)
Currency translation	—	(396)	—	(396)
Unrealized gain on available for sale securities, net of tax effect of $51	93	—	—	93
Reclassifications related to pension and postretirement plans, net of tax effect of $60 (1)	—	—	140	140
Reclassifications related to available for sale securities, net of tax effect of $702 (2)	(1,306)	—	—	(1,306)
Balance September 30, 2013	$—	$1,166	(3,022)	$(1,856)

(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 13 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 4 for further details and pre-tax amounts.

Note 17 — 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 both the three and nine months ended September 30, 2013 and 2012, ARI purchased less than $0.1 million 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 will provide 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 shall pay 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 will have 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 shall have 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 $3.4 million and $6.6 million for the three and nine months ended September 30, 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

The Company has or had the following agreements with ARL, a company 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 services 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 has a term of three years and will automatically renew for additional one year periods unless either party provides at least sixty days prior written notice of termination.

Revenues of $4.3 million and $5.9 million for the three months ended September 30, 2013 and 2012, respectively, and $13.5 million and $16.9 million for the first nine months of 2013 and 2012, 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 that terminates in August 2018 (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 the agreement, ARL will receive, in respect of leased railcars, a fee consisting of a lease origination fee and a 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 special 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 were $0.6 million and $0.3 million for the three months ended September 30, 2013 and 2012, respectively, and $1.6 million and $1.0 million for the first nine months of 2013 and 2012, 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 and $0.3 million were incurred for the three and nine months ended September 30, 2013, respectively, compared to zero sales commissions for both of the same periods in 2012. These costs are included in selling, general and administrative costs to a related party on the condensed consolidated statements of operations.

Railcar orders

The Company has from time to time manufactured and sold railcars to ARL under long-term agreements as well as on a purchase order basis. In the third quarter of 2012, all unfilled purchase orders previously placed by ARL were assigned to AEP Leasing LLC (AEP), a company controlled by Mr. Carl Icahn, chairman of the Company’s board of directors and, through IELP, the Company’s principal beneficial stockholder. Revenues for railcars sold to ARL were $34.2 million and $45.1 million for the three and nine months ended September 30, 2012, 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 AEP

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

Railcar orders

As discussed above, in the third quarter 2012, ARL assigned all its unfilled purchase orders to AEP. At that time, the Company began manufacturing and selling railcars to AEP on a purchase order basis. Revenues from railcars sold to AEP were $62.4 million and $142.0 million for the three and nine months ended September 30, 2013. Revenues from railcars sold to AEP were $15.7 million for the three and nine months ended September 30, 2012. Revenues from railcars sold to AEP are included in manufacturing revenues from affiliates on the condensed consolidated statements of operations. The terms and pricing on sales to related parties are no 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 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 this loan from the lenders party thereto, with each party acquiring a 50.0% interest in the loan. The balance outstanding on these loans, due to ARI Component, was $33.6 million and $35.7 million as of September 30, 2013 and December 31, 2012, respectively. See Note 9 for further information regarding this transaction and the terms of the underlying loan.

Effective January 1, 2010, ARI entered into a services agreement to provide Axis various administrative services such as accounting, tax, human resources and purchasing assistance for an annual fee of $0.3 million, payable in equal monthly installments. This agreement had an initial term of one year and automatically renews for a one-year period unless written notice is received from either party.

Effective April 1, 2009, Mr. James J. Unger, the Company’s former chief executive officer, assumed the role of vice chairman of the board of directors and served in such role until his resignation, effective September 30, 2013. In exchange for his services as vice chairman, Mr. Unger received an annual director fee of $65,000, payable quarterly, in advance.

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The Company leases one of its parts manufacturing facilities from an entity owned by Mr. Unger. Expenses paid for this facility were $0.1 million for both the three months ended September 30, 2013 and 2012 and $0.3 million for the first nine months of 2013 and 2012. These costs are included in cost of revenues from manufacturing on the consolidated statements of operations. The Company is required to pay all tax increases assessed or levied upon the property and the cost of the utilities, as well as repair and maintain the facility. The lease, which extends through January 2016, was unanimously approved by the independent directors of the Company's audit committee on the basis that the terms of the lease were no less favorable than those that could have been obtained from an independent third party.

On October 29, 2010, ARI entered into a lease agreement with a term of eleven years with an entity owned by Mr. Unger. The lease is for ARI's headquarters location in St. Charles, Missouri that it previously leased through ARL under a services agreement with ARL, which expired December 31, 2010. The term under this lease agreement commenced January 1, 2011. The Company is required to pay monthly rent and a portion of all tax increases assessed or levied upon the property and increases to the cost of the utilities and other services it uses. The expenses recorded for this facility were $0.1 million for both the three months ended September 30, 2013 and 2012 and $0.4 million for both the first nine months of 2013 and 2012. These fees are included in selling, general and administrative costs on the condensed consolidated statements of operations as costs to a related party. The lease was unanimously approved by the independent directors of the Company's audit committee on the basis that the terms of the lease were no less favorable than those that could have been obtained from an independent third party.

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, ARI sells and MWR purchases scrap metal from several ARI plant locations. MWR collected scrap material totaling $1.5 million and $1.2 million for the three months ended September 30, 2013 and 2012, respectively, and $4.8 million and $6.3 million for the first nine months of 2013 and 2012, respectively. This agreement was entered into at arm's-length and was approved by 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.

Icahn Sourcing, LLC ("Icahn Sourcing"), was an entity formed 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. The Company was a member of the buying group in 2012. The Company did not pay Icahn Sourcing any fees or other amounts with respect to the buying group arrangement in 2012.

Effective January 1, 2013 Icahn Sourcing restructured its ownership and changed its name to Insight Portfolio Group LLC ("Insight Portfolio Group"). In connection with the restructuring, ARI acquired a minority equity interest in Insight Portfolio Group and agreed to pay a portion of Insight Portfolio Group's operating expenses in 2013. A number of other entities with which Carl Icahn has a relationship also acquired equity interests in Insight Portfolio Group and also agreed to pay certain of Insight Portfolio Group's operating expenses in 2013. During both the three and nine months ended September 30, 2013, less than $0.1 million of fees were incurred as a member of the Insight Portfolio Group. These charges were included in selling, general and administrative costs to a related party on the condensed consolidated statements of operations.

Financial information for transactions with related parties

Cost of revenues for manufacturing included $23.5 million and $17.3 million for the three months ended September 30, 2013 and 2012, respectively, and $63.6 million and $66.8 million for the first nine months of 2013 and 2012, respectively, in railcar components purchased from joint ventures.

Inventory as of September 30, 2013 and December 31, 2012, included $6.9 million and $3.3 million, respectively, of railcar components purchased from joint ventures and all profit for this inventory still on hand was eliminated.

Note 18 — 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.

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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. Earnings (loss) from operations for railcar services include an allocation of selling, general and administrative costs.

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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 September 30, 2013						
Manufacturing	$170,943	$ 34,824	$205,767	$32,075	$ 9,633	$41,708
Railcar Leasing	8,301	—	8,301	4,155	5	4,160
Railcar Services	19,655	31	19,686	3,292	(13)	3,279
Corporate/Eliminations	—	(34,855)	(34,855)	(3,896)	(9,625)	(13,521)
Total Consolidated	$198,899	$ —	$198,899	$35,626	$ —	$35,626
Three Months Ended September 30, 2012						
Manufacturing	$147,212	$ 38,178	$185,390	$29,206	$ 5,012	$34,218
Railcar Leasing	4,267	—	4,267	2,377	6	2,383
Railcar Services	16,751	221	16,972	2,955	(46)	2,909
Corporate/Eliminations	—	(38,399)	(38,399)	(4,200)	(4,972)	(9,172)
Total Consolidated	$168,230	$ —	$168,230	$30,338	$ —	$30,338
Nine Months Ended September 30, 2013						
Manufacturing	$476,160	$ 135,315	$611,475	$98,834	$ 29,541	$128,375
Railcar Leasing	22,371	—	22,371	9,963	17	9,980
Railcar Services	54,882	126	55,008	9,680	(11)	9,669
Corporate/Eliminations	—	(135,441)	(135,441)	(11,753)	(29,547)	(41,300)
Total Consolidated	$553,413	$ —	$553,413	$106,724	$ —	$106,724
Nine Months Ended September 30, 2012						
Manufacturing	$446,273	$ 170,267	$616,540	$80,692	$ 28,280	$108,972
Railcar Leasing	8,315	—	8,315	3,994	19	4,013
Railcar Services	49,455	441	49,896	8,694	(96)	8,598
Corporate/Eliminations	—	(170,708)	(170,708)	(13,277)	(28,203)	(41,480)
Total Consolidated	$504,043	$ —	$504,043	$80,103	$ —	$80,103

Total Assets	September 30, 2013	December 31, 2012
	(in thousands)	
Manufacturing	$322,177	$329,346
Railcar Leasing	399,075	263,228
Railcar Services	49,497	49,060
Corporate/Eliminations	45,859	168,124
Total Consolidated	$816,608	$809,758

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Sales to Related Parties

As discussed in Note 17, 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Manufacturing	32.9 %	29.7 %	26.8 %	12.1 %
Railcar Leasing	— %	— %	— %	— %
Railcar Services	2.2 %	3.5 %	2.4 %	3.3 %

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 consolidated revenues for the three and nine months ended September 30, 2013 and 2012.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Manufacturing revenues from significant customers	67.2 %	62.0 %	62.8 %	51.3 %

Manufacturing accounts receivable from customers that accounted for more than 10.0% 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 September 30, 2013 and December 31, 2012.

	September 30, 2013	December 31, 2012
Manufacturing receivables from significant customers	25.3 %	35.1 %

Note 19 — Consulting Contracts

During the first quarter of 2011, the Company entered into a technology services consulting agreement with SDS-Altaiwagon, a Russian railcar builder, to design a railcar for general service in Russia for a total contract price of $1.5 million. The technology services consulting agreement was completed during the first quarter of 2012.

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 September 30, 2013 and 2012, revenues of $0.1 million and zero, respectively, were recorded under these consulting agreements. For the nine months ended September 30, 2013 and 2012, revenues of $0.9 million and $1.2 million, respectively, were recorded under these consulting agreements. Billed and unbilled revenues due from the RDSO agreement were $1.4 million and $1.7 million, respectively, as of September 30, 2013 compared to zero and $2.1 million, respectively, as of December 31, 2012. As of each balance sheet date presented, approximately $0.7 million and $1.4 million of the unbilled revenue for September 30, 2013 and December 31, 2012, respectively, has been recorded in prepaid expenses and other current assets with the remaining $1.0 million and $0.7 million, respectively, being recorded in other assets on the condensed consolidated balance sheets.

Note 20 — Supplemental Cash Flow Information

ARI received interest income of $2.0 million and $2.6 million for the nine months ended September 30, 2013 and 2012, respectively.

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ARI paid interest expense, net of capitalized interest, of $9.8 million and $20.0 million for the nine months ended September 30, 2013 and 2012, respectively.
ARI paid $13.2 million and $3.4 million of taxes, net of refunds for the nine months ended September 30, 2013 and 2012, respectively.
ARI paid $7.1 million and $5.6 million to employees related to SARs exercises during the nine months ended September 30, 2013 and 2012, respectively.
Note 21 — Subsequent Events
On October 29, 2013, the Board of Directors of the Company declared a cash dividend of $0.25 per share of common stock of the Company to shareholders of record as of December 13, 2013 that will be paid on December 20, 2013.

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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, our results of operations and the sufficiency of our capital resources, statements regarding our capital expenditure plans and expansion of our business, statements regarding expansion of our railcar lease fleet and potential lease fleet financing, statements regarding anticipated production schedules for our products and the anticipated construction and production schedules of our joint ventures, and statements regarding 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 reliance upon a small number of customers that represent a large percentage of our revenues and backlog;
- the health of and prospects for the overall railcar industry;
- our prospects in light of the cyclical nature of our business;
- the highly competitive nature of the manufacturing, railcar leasing and railcar services industries;
- the conversion of our railcar backlog into revenues;
- anticipated trends relating to our shipments, leasing, railcar services, revenues, financial condition or results of operations;
- anticipated production schedules for our products and the anticipated capital needs, construction and production schedules of our joint ventures;
- the risks associated with international operations and joint ventures;
- 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 risk of being unable to market or remarket railcars for sale or lease at favorable prices or on favorable terms or at all;
- 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.
- the risks, impact and anticipated benefits associated with potential joint ventures, acquisitions or new business endeavors;
- the implementation, integration with other systems or ongoing management of our new enterprise resource planning system;
- 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;
- 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,” “expe “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 (the Annual Report), as well as the risks and uncertainties discussed elsewhere in the Annual Report and in this 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. We operate in 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. Industry-wide demand for tank railcars remains strong and inquiry activity for covered hopper railcars is beginning to strengthen. During October 2013, we accepted a multi-year order for 2,750 plastic pellet hopper railcars for delivery from 2014 through 2016. Consistent with industry expectations, we anticipate demand for hopper railcars, specifically plastic pellet railcars, to begin strengthening for deliveries from 2014 through 2016. However, we cannot assure you that the tank railcar demand will continue at historically 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 third quarter of 2013, we experienced another strong quarter of earnings driven by the continued strength of tank railcar shipments and pricing along with a slight increase in hopper railcar shipments. Our earnings continue to benefit from vertical integration and expansion projects we have implemented over the past several years. During the third quarter of 2013, we shipped approximately 1,640 railcars, 12% more than in the same period in 2012. The increase in volumes was driven by improved volumes for both tank and hopper railcars. 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 remains strong at 19.9% in the third quarter of 2013 compared to 20.9% in the same period of 2012. The decline in gross profit margin is driven by pricing competition in the hopper railcar market.

As of September 30, 2013, we have a backlog of approximately 6,300 railcars including approximately 2,430 railcars for lease customers. In response to changes in customer demand, we continue to adjust production rates as needed at our railcar manufacturing facilities and we are utilizing some of our railcar manufacturing capacity for repair projects.

Effective as of October 9, 2013, our board of directors appointed Jeffrey S. Hollister as our President and Interim Chief Executive Officer following the resignation of James Cowan as President and Chief Executive Officer.

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RESULTS OF OPERATIONS
Three and nine months ended September 30, 2013 compared to three and nine months ended September 30, 2012
Consolidated Results

	Three Months Ended September 30,		$	%	Nine Months Ended September 30,		$	%
	2013	2012	Change	Change	2013	2012	Change	Change
	(in thousands)				(in thousands)			
Revenues:								
Manufacturing	$170,943	$147,212	$23,731	16.1	$476,160	$446,273	$29,887	6.7
Railcar leasing	8,301	4,267	4,034	94.5	22,371	8,315	14,056	169.0
Railcar services	19,655	16,751	2,904	17.3	54,882	49,455	5,427	11.0
Total revenues	$198,899	$168,230	$30,669	18.2	$553,413	$504,043	$49,370	9.8
Cost of revenues:								
Manufacturing	$(136,974)	$(116,497)	$(20,477)	(17.6)	$(371,806)	$(360,507)	$(11,299)	(3.1)
Railcar leasing	(3,524)	(1,854)	(1,670)	(90.1)	(9,729)	(4,196)	(5,533)	(131.9)
Railcar services	(15,614)	(13,181)	(2,433)	(18.5)	(43,063)	(38,849)	(4,214)	(10.8)
Total cost of revenues	$(156,112)	$(131,532)	$(24,580)	(18.7)	$(424,598)	$(403,552)	$(21,046)	(5.2)
Selling, general and administrative	(7,161)	(6,360)	(801)	(12.6)	(22,091)	(20,388)	(1,703)	(8.4)
Earnings from operations	$35,626	$30,338	$5,288	17.4	$106,724	$80,103	$26,621	33.2

Revenues

Our total consolidated revenues for the three and nine months ended September 30, 2013 increased by 18.2% and 9.8%, respectively, compared to the same periods in 2012. This increase for both periods was due to increased revenues across all three of our segments, with the largest dollar increase in our manufacturing segment. During the three months ended September 30, 2013, we shipped approximately 1,360 railcars, which excludes approximately 280 railcars built for our lease fleet, compared to approximately 1,150 railcars for the same period of 2012, which excludes approximately 310 railcars built for our lease fleet. During the first nine months of 2013, we shipped approximately 3,660 railcars, which excludes approximately 1,190 railcars built for our lease fleet, compared to approximately 4,180 railcars for the same period of 2012, which excludes approximately 1,690 railcars built for our lease fleet.

Manufacturing revenues increased by 16.1% and 6.7%, respectively during the three and nine month periods ended September 30, 2013 compared to the same periods in 2012. The change during the quarter was due to a 19.6% increase due to higher volumes of railcar shipments for direct sale as well as strong tank railcar market conditions. These increases were partially offset by a decrease of 3.5% due to lower revenues from certain material cost changes that we generally pass through to customers, as discussed below. The change during the first nine months of the year was due to a 23.9% increase driven primarily by a higher mix of tank railcars, which generally sell at higher prices due to more material and labor content, and strong market conditions for tank railcars. This increase was partially offset by a decrease of 11.9% due to lower volumes of railcar shipments for direct sale, and a decrease of 5.3% due to lower revenues from certain material cost changes that we generally pass through to customers, as discussed below.

Railcar shipments during the three months ended September 30, 2013 were higher than the comparable period in 2012 due predominately to increased hopper railcar shipments. Railcar shipments during the nine months ended September 30, 2013 were lower than the comparable period in 2012 due to lower hopper railcar shipments, partially offset by increased tank railcar shipments.

Leasing revenues increased during the three and nine months ended September 30, 2013 compared to the same periods in 2012 due to an increase in the number of railcars leased to customers and an increase in the average lease rate. The lease fleet grew from 2,190 railcars at September 30, 2012 to 3,780 railcars at September 30, 2013.

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The increase in railcar services revenue for the three and nine months ended September 30, 2013 compared to the same periods in 2012 was primarily due to an increase in certain repair projects performed at our hopper railcar manufacturing facility in 2013.

Cost of revenues

Our total consolidated cost of revenues increased by 18.7% and 5.2% for the three and nine months ended September 30, 2013, respectively, compared to the same periods in 2012. The increases in both periods were due to increases across all three of our segments, with the largest dollar increase in our manufacturing segment. Cost of revenues increased for our manufacturing segment by 17.6% and 3.1% for the three and nine months ended September 30, 2013, respectively, compared to the same periods in 2012. This change during the quarter was a result of an increase of 18.0% due to higher volumes of railcar shipments for direct sale, as discussed above, and an increase of 4.0% due to strong market conditions for tank railcars, which generally have more material and labor content. These increases were offset by a decrease of 4.4% resulting from lower material costs for key components and steel. The decrease in costs for key components and steel is also reflected as a decrease 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. The change in cost of revenues during the first nine months of the year was primarily driven by a 21.4% increase due to a higher mix of more tank railcars. This increase was partially offset by a decrease of 11.8% due to lower volumes of railcar shipments for direct sale, on a year-to-date basis, and a decrease of 6.5% resulting from lower material costs for key components and steel.

Costs of revenues for our leasing segment increased for the three and nine months ended September 30, 2013 compared to the same periods in 2012 primarily as a result of an increase in our lease fleet, as discussed above.

The increases in railcar services cost of revenues for the three and nine months ended September 30, 2013 compared to the same periods in 2012 were primarily due to the repair projects discussed above.

Selling, general and administrative expenses

Our total consolidated selling, general and administrative costs increased by 12.6% and 8.4% for the three and nine months ended September 30, 2013, respectively, compared to the same periods in 2012. These increases are primarily attributable to increases in our share-based compensation, which fluctuates with our stock price, and various other corporate expenses.

Interest expense

Our total consolidated interest expense decreased by 65.7% and 60.0% for the three and nine months ended September 30, 2013, respectively, compared to the same periods in 2012. These decreases were a result of a lower interest rate secured on the lease fleet financing, discussed further in the liquidity and capital resources section below, and a lower average debt balance due to the voluntary early redemption of our 7.5% senior unsecured notes (Notes). Our average debt balance in the third quarter of 2013 was $200.0 million with a weighted average interest rate of 2.7% compared to an average debt balance of $241.7 million with a weighted average interest rate of 7.5% during the same period in 2012. During the first nine months of 2013, our average debt balance was $202.8 million with a weighted average interest rate of 3.6% compared to an average debt balance of $263.9 million with a weighted average interest rate of 7.5% during the same period in 2012.

Loss on debt extinguishment

During the nine months ended September 30, 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. During the nine months ended September 30, 2012, we redeemed $100.0 million of our Notes, resulting in a charge of $2.3 million, comprised of a premium of $1.9 million paid on the redemption of the debt and a non-cash charge of $0.4 million for the accelerated write-off of a portion of the deferred financing fees.

Other income

Other income of $2.0 million was recognized in the first nine months of 2013 primarily due to realized gains on the sale of short-term investments.

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Earnings (loss) from Joint Ventures
Our earnings (loss) from joint ventures were as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	2012	Change	2013	2012	Change
Ohio Castings	$463	$(169)	$632	$351	$1,472	$(1,121)
Axis	53	(392)	445	(641)	(677)	36
Amtek Railcar - India	(1,021)	(288)	(733)	(1,992)	(764)	(1,228)
Total Earnings (Loss) from Joint Ventures	$(505)	$(849)	$344	$(2,282)	$31	$(2,313)

Our joint venture loss was $0.5 million and $2.3 million for the three and nine months ended September 30, 2013, respectively, compared to loss of $0.8 million and income of less than $0.1 million for the same periods in 2012. The decrease in the loss during the three months ended September 30, 2013, compared to the same period in 2012 was due to an improvement in earnings from our Ohio Castings Company, LLC (Ohio Castings) joint venture and our Axis, LLC (Axis) joint venture, partially offset by an increase in the loss from our India joint venture, Amtek Railcar Industries Private Limited (Amtek Railcar). During the third quarter of 2013, our share of Ohio Castings' earnings was $0.5 million compared to a loss of $0.2 million during the same period of 2012. This change was primarily due to a non-recurring rebate received during the quarter. Our share of Axis' earnings for the third quarter of 2013 was $0.1 million compared to a loss of $0.4 million in the same quarter of 2012. This change was primarily driven by increased sales in North America as well as a small increase in international sales and an increase in efficiencies as a result of these higher sales.

In the second quarter of 2013, Amtek Railcar began incurring higher interest expense and depreciation expense compared to prior periods due to completing construction of the manufacturing plant in India. The joint venture's facility is in a ready state for production and is currently producing and selling railcar parts. Amtek Railcar has experienced delays in the initial start-up of the business, as well as delays in completing the rail connection from the joint venture's plant to the mainline. The India Ministry of Railways (IR) issued a railcar tender in October 2013 for over 11,700 units, which was the first railcar tender issued since January 2012. While we expect the IR's recent issuance of a tender will likely have a positive effect on the Indian railcar market as a whole, this tender stipulates that entities that have not previously delivered at least 500 railcars to the IR are limited to a maximum order of 500 railcars. This stipulation would apply to Amtek Railcar, and there can be no assurance that Amtek Railcar will be able to obtain any orders. The factors described above have contributed to Amtek Railcar delivering financial results weaker than originally anticipated.

As a result of the factors described above, Amtek Railcar is seeking additional funding to continue its operations and to satisfy its debt service obligations under its credit agreement, which is non-recourse to ARI. As of the date of this filing, ARI and our joint venture partner are considering various strategic alternatives with respect to Amtek Railcar. If Amtek Railcar is unable to address its capital requirements adequately and in a timely fashion, our investment in Amtek Railcar could be materially adversely impacted.

The increase in our joint venture loss during the nine month period ended September 30, 2013 was due to a decrease in earnings from Ohio Castings and an increase in the loss from Amtek Railcar. Our share of Ohio Castings' earnings were $0.4 million and $1.5 million, respectively, for the nine months ended September 30, 2013 and 2012. This decrease was a result of Ohio Castings' production levels decreasing from 2012 levels on weak demand for railcar types other than tank railcars. Amtek Railcar's loss increased due to higher interest expense and higher depreciation expense in 2013 compared to 2012 due to completing construction of the plant, as discussed above. Axis' losses were comparable for the nine months ended September 30, 2013 and 2012 as increases in efficiencies and margin were offset by a decline in volumes.

Income Tax Expense

Our income tax expense was $13.3 million, or 38.9% of our earnings before income taxes, and $39.7 million, or 38.9% of our earnings before income taxes for the three and nine months ended September 30, 2013, respectively, compared to $9.6 million, or 40.6% of our earnings before income taxes, and $26.2 million, or 40.0% of our earnings before income taxes for the same periods in 2012. The estimated tax rate fluctuates on a quarterly basis depending on the mix of income or loss in the U.S. versus foreign countries. The Company's income tax rate was also affected by the domestic production activities deduction, settlements reached with taxing authorities, and statutes lapsing.

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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 September 30,						
	2013			2012			
	(in thousands)						
	External	Intersegment	Total	External	Intersegment	Total	Change
Revenues							
Manufacturing	$170,943	$34,824	$205,767	$147,212	$38,178	$185,390	$20,377
Railcar Leasing	8,301	—	8,301	4,267	—	4,267	4,034
Railcar Services	19,655	31	19,686	16,751	221	16,972	2,714
Eliminations	—	(34,855)	(34,855)	—	(38,399)	(38,399)	3,544
Total Consolidated	$198,899	$—	$198,899	$168,230	$—	$168,230	$30,669
Earnings (Loss) from Operations							
Manufacturing	$32,075	$9,633	$41,708	$29,206	$5,012	$34,218	$7,490
Railcar Leasing	4,155	5	4,160	2,377	6	2,383	1,777
Railcar Services	3,292	(13)	3,279	2,955	(46)	2,909	370
Corporate/Eliminations	(3,896)	(9,625)	(13,521)	(4,200)	(4,972)	(9,172)	(4,349)
Total Consolidated	$35,626	$—	$35,626	$30,338	$—	$30,338	$5,288

	Nine Months Ended September 30,						
	2013			2012			
	(in thousands)						
	External	Intersegment	Total	External	Intersegment	Total	Change
Revenues							
Manufacturing	$476,160	$135,315	$611,475	$446,273	$170,267	$616,540	$(5,065)
Railcar Leasing	22,371	—	22,371	8,315	—	8,315	14,056
Railcar Services	54,882	126	55,008	49,455	441	49,896	5,112
Eliminations	—	(135,441)	(135,441)	—	(170,708)	(170,708)	35,267
Total Consolidated	$553,413	$—	$553,413	$504,043	$—	$504,043	$49,370
Earnings (Loss) from Operations							
Manufacturing	$98,834	$29,541	$128,375	$80,692	$28,280	$108,972	$19,403
Railcar Leasing	9,963	17	9,980	3,994	19	4,013	5,967
Railcar Services	9,680	(11)	9,669	8,694	(96)	8,598	1,071
Corporate/Eliminations	(11,753)	(29,547)	(41,300)	(13,277)	(28,203)	(41,480)	180
Total Consolidated	$106,724	$—	$106,724	$80,103	$—	$80,103	$26,621

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Operating Margins				
Manufacturing	20.3 %	18.5 %	21.0 %	17.7 %
Railcar Leasing	50.1 %	55.8 %	44.6 %	48.3 %
Railcar Services	16.7 %	17.1 %	17.6 %	17.2 %
Total Consolidated	17.9 %	18.0 %	19.3 %	15.9 %

Manufacturing

Our manufacturing revenues, including an estimate of revenues for railcars built for our lease fleet, increased by $20.4 million for the three months ended September 30, 2013 compared to the same period in 2012 as a result of increased shipments as well as strong tank railcar market conditions. During the third quarter of 2013, we shipped approximately 1,640 railcars, including approximately 280 railcars built for our lease fleet, compared to approximately 1,460 railcars for the same period of 2012, including approximately 310 railcars built for our lease fleet.

Our manufacturing revenues, including an estimate of revenues for railcars built for our lease fleet, decreased by $5.1 million for the nine months ended September 30, 2013, compared to the same period in 2012. During the first nine months of 2013, we shipped approximately 4,850 railcars, including approximately 1,190 railcars built for our lease fleet, compared to approximately 5,870 railcars for the same period of 2012, including approximately 1,690 railcars built for our lease fleet. The primary reasons for the decrease in revenues were lower covered hopper railcar shipments and lower revenues from certain material cost changes that we generally pass through to customers, as discussed above. This combined decrease was partially offset by a higher mix of tank railcars shipped, which generally sell at higher prices due to more material and labor content, and improved general market conditions for tank railcars.

Manufacturing revenues for the three and nine months ended September 30, 2013 included estimated revenues of $34.8 million and $135.3 million, respectively, relating to railcars built for our lease fleet, compared to $38.2 million and $170.3 million, respectively, for the same periods in 2012. 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 in accordance with the terms of the contract over the life of the lease. Railcars built for the lease fleet represented 17% and 25% of our railcar shipments during the three and nine months ended September 30, 2013, respectively, compared to 21% and 29% of our railcar shipments during the three and nine months ended September 30, 2012.

During the third quarter of 2012, we began manufacturing and selling railcars to AEP Leasing LLC (AEP) on a purchase order basis, following the assignment to AEP of all unfilled purchase orders previously placed by American Railcar Leasing LLC (ARL). Manufacturing revenues for the three and nine months ended September 30, 2013 included direct sales of railcars to AEP totaling $62.4 million and $142.0 million, respectively, compared to $50.0 million and $60.9 million of direct sales to ARL and AEP for the same periods in 2012. In addition, we recorded $3.4 million and $6.6 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 and nine months ended September 30, 2013, respectively, compared to zero for the same periods in 2012. Total manufacturing revenues from our affiliates represent 32.9% and 26.8% of our total consolidated revenues for the three and nine months ended September 30, 2013, respectively, compared to 29.7% and 12.1% for the same periods in 2012. AEP, ARL and ACF are affiliates of Mr. Carl Icahn, the chairman of our board of directors and, through IELP, our principal beneficial stockholder.

Earnings from operations for manufacturing, which include an allocation of selling, general and administrative costs, as well as estimated profit for railcars manufactured for our leasing segment, increased by $7.5 million and $19.4 million for the three and nine months ended September 30, 2013, respectively, compared to the same periods in 2012. Estimated profit on railcars built for our lease fleet, which is eliminated in consolidation, was $9.6 million and $29.5 million for the three and nine months ended September 30, 2013, respectively, compared to $5.0 million and $28.3 million for the same periods in 2012. 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 manufacturing increased to 20.3% and 21.0% for the three and nine months ended September 30, 2013, respectively, from 18.5% and 17.7% for the same periods in 2012. These increases were due primarily to improved sales mix, as discussed above, and operating leverage as a result of higher tank railcar production volumes, partially offset by pricing competition in the hopper railcar market. We also continue to benefit from cost savings achieved by the vertical integration and expansion projects put in place during the past several years.

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Railcar Leasing

Our railcar leasing revenues for the three and nine months ended September 30, 2013 increased by $4.0 million and $14.1 million, respectively, compared to the same periods in 2012. 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 railcar leasing, which include an allocation of selling, general and administrative costs, increased by $1.8 million and $6.0 million for the three and nine months ended September 30, 2013, compared to the same periods in 2012 due predominately to the growth in our lease fleet, as discussed above. Operating margin from railcar leasing decreased to 50.1% and 44.6% for the three and nine months ended September 30, 2013, respectively, from 55.8% and 48.3% for the same periods in 2012. Although the operating margins were lower due to higher expenses, earnings were substantially higher as a result of a significant increase in the number of railcars on lease.

Railcar Services

Our railcar services revenues increased by $2.7 million and $5.1 million for the three and nine months ended September 30, 2013, compared to the same periods in 2012. The increases were primarily due to certain repair projects performed in 2013 at our hopper railcar manufacturing facility.

For the three and nine months ended September 30, 2013, our railcar services revenues included transactions with ARL totaling $4.3 million, or 2.2% of our total consolidated revenues, and $13.5 million, or 2.4% of our total consolidated revenues, respectively, compared to $5.9 million, or 3.5% of our total consolidated revenues and $16.9 million, or 3.3% of our total consolidated revenues, for the same periods in 2012.

Earnings from operations and operating margins for railcar services, which include an allocation of selling, general and administrative costs, were relatively flat for the three and nine month periods ended September 30, 2013 and 2012.

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 September 30, 2013, our total backlog was approximately 6,300 railcars, of which approximately 3,870 railcars with an estimated market value of $483.0 million were orders for direct sale and approximately 2,430 railcars with an estimated market value of $331.5 million were orders for railcars that will be subject to lease. Estimated backlog value reflects the total revenues expected to be attributable to the backlog reported at the end of the particular period as if such backlog were converted to actual revenues. 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. As of September 30, 2013, approximately 31% of the railcars in our backlog are expected to be delivered during 2013, of which 22% were for direct sale and 9% were for lease. The remaining 69% of the railcars in our backlog are scheduled to be delivered in 2014 and beyond. As of December 31, 2012, our total backlog was approximately 7,060 railcars, of which approximately 5,250 railcars with an estimated market value of $662.8 million were orders for direct sale and approximately 1,810 railcars with an estimated market value of $227.0 million were orders for railcars that will be subject to lease.

Railcars for Sale. As of September 30, 2013, approximately 61% of the total number of railcars in our backlog were railcars for direct sale. Estimated market 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 affiliate, AEP, accounted for 24% of the total number of railcars in our backlog as of September 30, 2013.

Railcars for Lease. As of September 30, 2013, approximately 39% of the total number of railcars in our backlog were railcars for lease, subject to firm orders.

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.

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LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2013, we had working capital of $166.7 million, including $115.0 million of cash and cash equivalents. As of September 30, 2013, we had $196.4 million of debt outstanding under our lease fleet financing.

Outstanding and Available Debt

Senior unsecured notes

In February 2007, we issued 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.

Lease fleet financing

In December 2012, we completed a financing of our railcar lease fleet with availability of up to $199.8 million. This financing was done through our wholly-owned subsidiary, Longtrain Leasing I, LLC (Longtrain Leasing). This debt is an obligation of Longtrain Leasing that is generally non-recourse to ARI and is secured by a portfolio of railcars and operating leases. The financing consists of a senior secured delayed draw term loan facility that matures in February 2018.

In conjunction with this financing, Longtrain Leasing made an initial draw during December 2012 of $100.0 million, resulting in net proceeds of approximately $98.4 million. In February and May 2013, Longtrain Leasing made two additional draws, amounting to $99.8 million in the aggregate, fully utilizing the availability under the facility. These draws during 2013 resulted in net proceeds of $99.4 million. Principal and interest payments are due monthly and commenced on March 15, 2013.The Company is required to maintain deposits in an interest reserve bank account equal to nine months of interest payments. As of September 30, 2013, the interest reserve amount was $4.0 million and included within 'Prepaid expenses and other current assets' on the balance sheet. Principal payments are based on an annual rate of 3.33% of the borrowed amount, with any remaining balance payable on February 27, 2018. The terms of the lease fleet financing contain certain covenants, all of which we were in compliance with as of September 30, 2013.

The financing 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 customary for asset sellers and parent companies in transactions of this type, and 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 credit agreement) when they are not Eligible Units, subject to limitations on liability set forth in the credit agreement.

Cash Flows

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

	Nine Months Ended September 30,		
	2013	2012	Change
	(in thousands)		
Net cash provided by (used in):			
Operating activities	$118,029	$47,353	$70,676
Investing activities	(108,992)	(153,492)	44,500
Financing activities	(98,994)	(101,875)	2,881
Effect of exchange rate changes on cash and cash equivalents	(68)	37	(105)
Decrease in cash and cash equivalents	$(90,025)	$(207,977)	$117,952

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Net Cash 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 provided by operating activities for the nine months ended September 30, 2013 was $118.0 million compared to $47.4 million for the same period in 2012. The increase was primarily due to increased earnings, as described above, along with changes in working capital, driven by more stable production rates at our railcar production facilities in 2013 compared to 2012 .
Net Cash Used In Investing Activities
Our net cash used in investing activities for the nine months ended September 30, 2013 was $109.0 million compared to $153.5 million in the same period in 2012. The decrease was a result of lower capital expenditures for our lease fleet in 2013 compared to 2012 and the sale of short term investments during the first quarter of 2013 resulting in proceeds of $12.7 million, both partially offset by increased spending on capital projects.
Net Cash Used In Financing Activities
Our net cash used in financing activities for the nine months ended September 30, 2013 was $99.0 million compared to $101.9 million in the same period in 2012. The cash used for financing activities in 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 Lease Fleet Financing Term Loan. Additionally, we paid dividends totaling $16.0 million during the nine months ended September 30, 2013. The cash used for financing activities in 2012 was a result of a voluntary partial early redemption of $100.0 million of the Notes.
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, domestically or abroad, by acquiring other businesses or pursuing other strategic growth opportunities including, without limitation, joint ventures.
Capital expenditures for the nine months ended September 30, 2013 were $108.3 million for manufacturing railcars for lease to others and $15.3 million for capitalized projects that maintain equipment, improve efficiencies and reduce costs. Our current capital expenditure plans for the remainder of 2013 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
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 will require additional capital over and above our existing cash balance of $115.0 million plus anticipated cash flows from operations. Our anticipated cash flows from operations may be impacted by the number of railcar orders and shipments, our production rates, and the state of the credit markets and the overall economy. Our future liquidity may also be impacted by the number of new railcar orders for lease versus sale.
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. For example, we currently intend to negotiate an additional lease fleet financing during the fourth quarter. We cannot assure that we will be able to secure any additional financing, including any lease fleet financing, on commercially reasonable terms, in a timely manner, or at all. Failure to obtain additional capital on acceptable terms could constrain our ability to repay our indebtedness, expand our lease fleet as desired, operate our business and continue our other development and expansion projects. Any of these circumstances could have a material adverse effect on our business, financial condition and results of operations.

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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 Off-Balance Sheet Arrangements

The following table summarizes our contractual obligations as of September 30, 2013, and the effect that these obligations and commitments are expected to have on our liquidity and cash flow in future periods.

	Payments due by Period				
Contractual Obligations	Total	Remainder of 2013	2014-2015	2016-2017	2018 and beyond
	(in thousands)				
Operating Lease Obligations [1]	$11,508	$582	$3,327	$2,207	$ 5,392
Lease Fleet Financing [2]	196,417	1,659	13,309	13,328	168,121
Interest Payments on Lease Fleet Financing [2, 3]	21,884	1,328	10,246	9,535	775
Pension and Postretirement Funding [4]	6,085	350	2,297	2,138	1,300
Total	$235,894	$3,919	$29,179	$27,208	$ 175,588

(1) The operating lease obligations include the future minimum rental payments required under non-cancelable operating leases for property and equipment leased by us.

(2) See Note 11 of the consolidated financial statements for further detail regarding the Lease Fleet Financing.

(3) The interest rate on the lease fleet facility is LIBOR plus 2.5% and is payable monthly. At September 30, 2013, one-month LIBOR was 0.18% and was used to project interest payments into the future.

(4) Our pension funding commitments include minimum funding contributions required by law for our two funded pension plans as well as expected benefit payments for our one unfunded pension plan.

We have excluded from the contractual obligations table above, our gross amount of unrecognized tax benefits of $1.3 million. While it is uncertain as to the amount, if any, of these unrecognized tax benefits that will be settled by means of a cash payment, we reasonably expect some change to this balance of up to $1.0 million to occur within the current year. As of the end of the third quarter, $0.4 million has been reversed.

In July 2007, we entered into an agreement with Axis to purchase new railcar axles. We do not have any minimum volume purchase requirements under this agreement.

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

Contingencies

Refer to the updated status of contingencies and contractual obligations in Note 14 to the condensed consolidated financial statements. Our contingencies did not materially change from the information disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

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, 2012.

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, 2012.

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Recent accounting pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2013-11 Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11). ASU 2013-11 requires an entity to present an unrecognized tax benefit as a reduction to a deferred tax asset for a net operating loss or similar tax loss or tax credit carryforward within the same jurisdiction, unless the entity does not intend to utilize the unrecognized tax benefit for that purpose. Otherwise, the unrecognized tax benefit would be presented gross, as a liability (not a deferred tax liability). ASU 2013-11 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2013. The Company plans on adopting ASU 2013-11 for the first quarter of 2014. The Company does not anticipate that the adoption of ASU 2013-11 will have a material impact on the Company’s consolidated financial statements or disclosures.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risks since those disclosed in our Annual Report on Form 10-K, for the year ended December 31, 2012.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure controls and procedures

Under the supervision and with the participation of our Interim Chief Executive Officer and Chief 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 Securities Exchange Act of 1934 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 other material changes with respect to legal proceedings as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012 and in our Quarterly Report on Form 10-Q for the quarter ended March 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, 2012.

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ITEM 6. EXHIBITS

Exhibit No.	Description of Exhibit
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

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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: November 4, 2013

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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EXHIBIT INDEX

Exhibit No.	Description of Exhibit
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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