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American Railcar Industries, Inc.

Form 10-Q

October 30, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

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

43-1481791

(State of Incorporation)

(I.R.S. Employer Identification No.)

100 Clark Street, St. Charles, Missouri 63301

(Address of principal executive offices) (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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Non-accelerated filer ☐ Smaller Reporting Company ☐

Emerging Growth Company ☐

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

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

The number of shares of the registrant's common stock, \$0.01 par value, outstanding on October 26, 2018 was 19,083,878 shares.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMERICAN RAILCAR INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	September 30, 2018 (unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 74,459	\$ 100,244
Restricted cash	16,565	16,640
Accounts receivable, net	40,408	43,804
Accounts receivable, due from related parties	2,956	778
Income taxes receivable	18,690	19,115
Inventories, net	79,655	54,147
Prepaid expenses and other current assets	5,808	6,464
Total current assets	238,541	241,192
Property, plant and equipment, net	153,130	162,535
Railcars on lease, net	1,077,768	1,036,414
Goodwill	7,169	7,169
Investments in and loans to joint ventures	20,326	22,571
Other assets	902	3,545
Total assets	\$ 1,497,836	\$ 1,473,426
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 33,189	\$ 21,275
Accounts payable, due to related parties	52	41
Accrued expenses, including loss contingency of \$6,408 and \$6,548 at September 30, 2018 and December 31, 2017, respectively	18,213	12,787
Accrued compensation	14,679	12,874
Short-term debt, including current portion of long-term debt	25,404	25,590
Total current liabilities	91,537	72,567
Long-term debt, net of unamortized debt issuance costs of \$4,485 and \$4,647 at September 30, 2018 and December 31, 2017, respectively	501,213	520,024
Deferred tax liability	206,772	194,084
Pension and post-retirement liabilities	7,683	8,099
Other liabilities, including loss contingency of \$2,228 and \$2,283 at September 30, 2018 and December 31, 2017, respectively	14,554	15,118
Total liabilities	821,759	809,892
Stockholders' equity:		
Common stock, \$0.01 par value, 50,000,000 shares authorized, 19,083,878 shares outstanding as of both September 30, 2018 and December 31, 2017	213	213
Additional paid-in capital	239,609	239,609
Retained Earnings	527,476	514,453
Accumulated other comprehensive loss	(5,190)	(4,710)
Treasury Stock	(86,031)	(86,031)
Total stockholders' equity	676,077	663,534
Total liabilities and stockholders' equity	\$ 1,497,836	\$ 1,473,426

See Notes to the Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Manufacturing (including revenues from affiliates of \$2,564 for both the three and nine months ended September 30, 2018 and \$188 and \$325 for the same periods in 2017)	\$ 40,766	\$ 68,442	\$ 194,347	\$ 184,255
Railcar leasing (including revenues from affiliates of \$404 and \$1,219 for the three and nine months ended September 30, 2018, respectively, and \$231 and \$678 for the same periods in 2017)	32,427	33,440	101,352	100,992
Railcar services (including revenues from affiliates of zero and \$17 for the three and nine months ended September 30, 2018, respectively, and \$1,156 and \$11,729 for the same periods in 2017)	26,791	18,864	67,051	59,200
Total revenues	99,984	120,746	362,750	344,447
Cost of revenues:				
Manufacturing	(42,117)	(64,235)	(184,507)	(169,915)
Other operating income (loss)	(15)	(924)	29	140
Railcar leasing	(12,491)	(10,856)	(38,871)	(34,532)
Railcar services	(22,892)	(16,023)	(56,897)	(49,559)
Total cost of revenues	(77,515)	(92,038)	(280,246)	(253,866)
Gross profit	22,469	28,708	82,504	90,581
Selling, general and administrative	(10,993)	(9,263)	(29,349)	(27,084)
Net gains on disposition of leased railcars	272	102	549	115
Loss on asset impairment	—	—	(3,554)	—
Gain on early lease termination	10,146	—	10,146	—
Earnings from operations	21,894	19,547	60,296	63,612
Interest income (including income from related parties of \$166 and \$578 for the three and nine months ended September 30, 2018, respectively, and \$280 and \$922 for the same periods in 2017)	470	405	1,385	1,146
Interest expense	(5,250)	(5,441)	(15,886)	(16,460)
Other income	—	393	1	2,314
Earnings from joint ventures	368	232	2,246	1,578
Earnings before income taxes	17,482	15,136	48,042	52,190
Income tax expense	(4,409)	(6,278)	(12,786)	(21,865)
Net earnings	\$ 13,073	\$ 8,858	\$ 35,256	\$ 30,325
Net earnings per common share—basic and diluted	\$ 0.69	\$ 0.46	\$ 1.85	\$ 1.59
Weighted average common shares outstanding—basic and diluted	19,084	19,084	19,084	19,084
Cash dividends declared per common share	\$ 0.40	\$ 0.40	\$ 1.20	\$ 1.20
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		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net earnings	\$ 13,073	\$ 8,858	\$35,256	\$30,325
Currency translation	309	689	(564)	1,270
Pension plans (1)	32	107	84	323
Short-term investments (2)	—	(248)	—	(415)
Comprehensive income	\$ 13,414	\$ 9,406	\$34,776	\$31,503

(1) Net of tax effect of less than \$0.1 million for both the three and nine months ended September 30, 2018 and \$0.1 million and \$0.2 million for the same periods in 2017.

(2) Net of tax effect of zero for both the three and nine months ended September 30, 2018 and \$(0.1) million and \$(0.2) million for the same periods in 2017.

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,	
	2018	2017
Operating activities:		
Net earnings	\$35,256	\$30,325
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	46,333	42,746
Amortization of deferred costs	377	377
Net gain on disposal of property, plant, equipment and leased railcars	(519)	(113)
Non-cash impairment on leased railcars	3,554	—
Earnings from joint ventures	(2,246)	(1,578)
Provision for deferred income taxes	12,443	34,862
Items related to investing activities:		
Realized gain on short-term investments - available for sale securities	—	(2,216)
Changes in operating assets and liabilities:		
Accounts receivable, net	7,056	5,741
Accounts receivable, due from related parties	(2,196)	3,542
Income taxes receivable	419	(14,194)
Inventories, net	(28,358)	2,444
Prepaid expenses and other current assets	(28)	519
Accounts payable	11,925	(3,933)
Accounts payable, due to related parties	11	(3,233)
Accrued expenses and taxes	7,238	(7,432)
Other	(368)	3,239
Net cash provided by operating activities	90,897	91,096
Investing activities:		
Purchases of property, plant and equipment	(7,386)	(4,812)
Capital expenditures - leased railcars	(73,682)	(132,388)
Proceeds from the disposal of property, plant, equipment and leased railcars	2,030	417
Proceeds from sale of short-term investments - available for sale securities	—	10,535
Proceeds from repayments of loans by joint ventures	4,430	4,430
Net cash used in investing activities	(74,608)	(121,818)
Financing activities:		
Repayments of debt	(19,162)	(19,101)
Payment of common stock dividends	(22,901)	(22,901)
Net cash used in financing activities	(42,063)	(42,002)
Effect of exchange rate changes on cash	(86)	156
Net decrease in cash, cash equivalents, and restricted cash	(25,860)	(72,568)
Cash, cash equivalents, and restricted cash at beginning of period	116,884	195,285
Cash, cash equivalents, and restricted cash at end of period	\$91,024	\$122,717
Balance Sheet Reconciliation:		
Cash and cash equivalents	\$74,459	\$106,176
Restricted cash, refer to Note 9 for discussion of the nature of this balance	16,565	16,541
Total cash, cash equivalents and restricted cash as presented above	\$91,024	\$122,717

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 its 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 disclosures 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, 2017 has been derived from the audited consolidated balance sheet 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, 2017. In the opinion of management, the information contained herein reflects all adjustments necessary to present fairly the Company's 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.

The condensed consolidated financial statements of the Company include the accounts of ARI and its material direct and indirect wholly-owned subsidiaries: Castings, LLC (Castings), ARI Component Venture, LLC (ARI Component), ARI Fleet Services of Canada, Inc., ARI Longtrain, Inc. (Longtrain), Longtrain Leasing I, LLC (LLI), Longtrain Leasing II, LLC (LLII), Longtrain Leasing III, LLC (LLIII), ARI Leasing, LLC (ARI Leasing), ARI Railcar Services LLC and Southwest Steel Casting Company, LLC. All intercompany transactions and balances have been eliminated.

Note 2 — Recent Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which amends ASC Topic 220, Income Statement - Reporting Comprehensive Income. This ASU allows for stranded tax effects in accumulated other comprehensive income resulting from the 2017 Tax Cuts and Jobs Act to be reclassified as retained earnings. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on its consolidated financial position, results of operations, comprehensive income, cash flows and disclosures.

In May 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation (Topic 718) – Scope of Modification Accounting. The amendments included in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The amendments in this update will be applied prospectively to an award modified on or after the adoption date. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company adopted this guidance during the first quarter of 2018, and there was no impact to our consolidated financial position, results of operations, comprehensive income, cash flows and disclosures.

In November 2016, the FASB issued ASU No. 2016-18, Restricted Cash, which amends Accounting Standards Codification (ASC) Topic 230, Statement of Cash Flows. This ASU requires that the statement of cash flows explain the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted this ASU during the first quarter of 2018 and applied its provisions retrospectively. As a result of this adoption, we no longer show the changes in restricted cash balances as a component of cash flows from financing activities but instead include the balances of restricted cash together with cash and cash equivalents for the beginning and end of the periods presented. The adoption of ASU 2016-18 did not have a material impact on the Company's balance sheet, statement of operations, or statement of comprehensive income, but did result in revisions to the Company's statement of cash flows.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments, which amends ASC Topic 230, Statement of Cash Flows. This ASU seeks to reduce the diversity currently in practice by providing guidance on the presentation of eight specific cash flow issues in the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company's adoption of this guidance during the first quarter of 2018 caused no impact on our consolidated statement of cash flows.

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In February 2016, the FASB issued ASU 2016-02, Leases, which replaces or supersedes ASC Topic 840, Leases, and is intended to increase the transparency and comparability of accounting for lease transactions. This ASU requires most leases to be recognized on the balance sheet as lessees will need to recognize a right-of-use asset and a lease liability for virtually all leases with a term longer than twelve months. The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Lessor accounting remains similar to the current model. Targeted improvements were made to lessor accounting to align, where necessary, with certain changes to the lessee model and the new revenue recognition standard. The ASU will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, and the Company expects to adopt the standard on January 1, 2019. The Company plans to elect the optional transition method that applies the new lease requirements through a cumulative-effect adjustment in the period of adoption. The most significant impact is expected to relate to the recognition of right-of-use assets and lease liabilities on the Company's condensed consolidated balance sheets for long-term operating leases, and the Company expects this right-of-use asset and lease liability to be approximately \$5.0 million to \$10.0 million. The Company's assessment and implementation plan will be ongoing during the remainder of 2018 and will include evaluating the impact of this standard on the consolidated financial statements and footnotes.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASC 606). ASU 2014-09 supersedes the revenue recognition requirements in Revenue Recognition (Topic 605) and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new revenue recognition standard also requires disclosures that sufficiently describe the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. This ASU was amended by ASU No. 2015-14, issued in August 2015, which deferred the original effective date by one year; the effective date of this ASU is for fiscal years, and interim reporting periods within those years, beginning after December 15, 2017, using one of two retrospective application methods. In addition, the FASB issued other amendments during 2016 to ASC 606, which include implementation guidance to principal versus agent considerations, guidance to identifying performance obligations and licensing guidance and other narrow scope improvements. The Company adopted this new guidance on January 1, 2018 using the modified retrospective application method. As part of the Company's implementation plan for this new standard, the Company assessed the impact of these new standards on its business processes, business and accounting systems, and consolidated financial statements and related disclosures by evaluating the terms and conditions of samples of both standard and non-standard contracts across the Company's in-scope business segments in light of the new standards. The Company identified only slight modifications to accounting for repair work in progress, resulting in immaterial changes to business processes and systems. Specifically, the Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings of \$0.7 million. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. We expect the impact of the adoption of the new standard to be immaterial to our net income on an ongoing basis.

The following table summarizes the cumulative effect of the changes to our condensed consolidated balance sheet as of January 1, 2018 from the adoption of ASC 606 (in thousands):

	December 31, 2017	Adjustments due to ASC 606	January 1, 2018
Assets			
Accounts receivable, net	\$43,804	\$ 3,717	\$47,521
Inventories	54,147	(2,821)	\$51,326
Liabilities			
Deferred tax liability, net	194,084	(226)	193,858

Equity

Retained earnings	514,453	669	515,122
Accumulated other comprehensive loss	(4,710)	(3)	(4,713)

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In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on our condensed consolidated statement of operations and condensed consolidated balance sheet as of and for the periods ended September 30, 2018 was as follows (in thousands):

	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher / (Lower)			
As of September 30, 2018						
Balance Sheet						
Assets						
Accounts receivable, net	\$40,408	\$ 33,496	\$ 6,912			
Inventories	79,655	85,007	(5,352)			
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher / (Lower)	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher / (Lower)
For the three months ended September 30, 2018				For the nine months ended September 30, 2018		
Statement of Operations						
Revenues						
Railcar services	\$26,791	\$26,369	\$ 422	\$67,051	\$63,839	\$3,212
Total revenues	99,984	99,562	422	362,750	359,538	3,212
Cost of Revenues						
Railcar services	(22,892)	(22,526)	(366)	(56,897)	(54,105)	(2,792)
Total cost of revenues	(77,515)	(77,149)	(366)	(280,246)	(277,454)	(2,792)
Gross profit	22,469	22,413	56	82,504	82,084	420
Earnings from operations	21,894	21,838	56	60,296	59,876	420
Earnings before income taxes	17,482	17,426	56	48,042	47,622	420
Income tax expense	(4,409)	(4,395)	(14)	(12,786)	(12,678)	(108)
Net earnings	13,073	13,031	42	35,256	34,944	312

Note 3 — Revenue Recognition

From time to time, ARI enters into contracts with customers for the production of railcars and for the production of railcar and industrial components. ARI's railcar manufacturing contracts are generally structured as an order for any number of railcars that are generally identical in terms of design, technology and function. Each railcar in an order is priced individually but similar railcars are generally sold at the same price. Certain contracts may be structured to cover the production of multiple types of railcars or railcar and industrial components, and the transaction price for such contracts is allocated to products based upon their standalone selling price. ARI assesses these contracts individually to, among other things, identify individual performance obligations. Generally, the only distinct performance obligations identified are the individual products explicitly stated in the contract. As performance obligations related to manufacturing contracts are satisfied at a point in time and railcars manufactured by ARI have an alternative use for the Company, manufacturing revenue is recognized at the point in time at which shipment occurs. A related receivable is recognized as the explicitly stated products are transferred to the customer and the customer obtains control, which is typically at the time of shipment and represents ARI's unconditional right to

consideration.

ARI also enters into contracts with customers for railcar services. Revenues generated from the Railcar Services segment are invoiced to the customer when all agreed-upon services have been provided and the railcar on which the services were performed is shipped from the repair facility or the work has been performed by the Company's repair mobile unit. However, as the customer controls the railcar while ARI's repair services are performed under the contract, ARI satisfies its performance obligations as services are rendered, and revenues are recognized over time. As a result, at any given time, a contract asset

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exists related to railcar services that have been performed but not yet billed. The Company utilizes the input method and performs a calculation at the end of each accounting period whereby it analyzes all work-in-process for the Railcar Services segment, representing the cost of services performed on railcars that have not yet been shipped. The Company then estimates a corresponding amount of revenue based on an average profit margin for the Railcar Services segment. Therefore, the revenue recorded at each period-end reflects the estimated revenue recognition for Railcar Services over time. This method was selected because the costs incurred are proportionate to ARI's progress in satisfying the performance obligation, and therefore it faithfully depicts ARI's performance on the contract.

Revenue from contracts with customers is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. Sales, use, value added, and other taxes we collect concurrent with revenue-producing activities are excluded from revenue.

As discussed further in Note 8, ARI's standard warranty is up to one year for parts and services and five years for new railcars. These warranties provide customers with quality assurance that the delivered product is as specified in the contract. In accordance with ASC 606, ARI accounts for all warranty obligations as a cost accrual.

Payment terms for ARI's products and services do not typically exceed normal payment terms used by the industry, and ARI does not have significant financing components or material collectability concerns in relation to its current contracts. Bill-and-hold arrangements are infrequent, and no bill-and-hold arrangements were in place during the nine months ended September 30, 2018.

Railcar manufacturing contracts generally include a base price per railcar as well as a provision that allows the Company to pass on to the customer material cost escalations and surcharges incurred to produce the railcar, should they occur. The escalations and surcharges included as part of the contract with the customer are considered to be variable consideration that is constrained and allocable to a specific performance obligation. While the amounts of the escalations and surcharges are not known at the time at which the contract begins, these costs are known by the time the railcar is shipped, which is the point at which it is invoiced and revenue is recorded. Therefore, while escalations and surcharges are variable in nature, the amounts that are included in the customer invoice and recorded as revenue generally are not subject to change after revenue has been recognized on the transaction.

Revenue Disaggregation

The following table further illustrates the nature of the Company's revenues reported on a consolidated basis arising from contracts with customers. The Railcar Leasing segment has been included in the tables below to reconcile to ARI's total consolidated revenues; however, revenues generated by the Railcar Leasing segment are recognized in accordance with lease accounting guidance rather than ASC 606.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)		(in thousands)	
Revenues from contracts with customers (manufacturing and railcar services)	\$67,557	\$87,306	\$261,398	\$243,455
Railcar leasing segment revenues	32,427	33,440	101,352	100,992
Total revenue (consolidated)	\$99,984	\$120,746	\$362,750	\$344,447

The following table presents our revenue disaggregated by type of product or service:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)		(in thousands)	
Railcar manufacturing	\$28,857	\$61,165	\$164,291	\$162,808
Railcar and industrial components manufacturing	11,909	7,277	30,056	21,447
Total manufacturing (1)	40,766	68,442	194,347	184,255

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Railcar leasing (2)	32,427	33,440	101,352	100,992
Railcar services (3)	26,791	18,864	67,051	59,200
Total revenue (consolidated)	\$99,984	\$120,746	\$362,750	\$344,447

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- (1) Revenue recognized at a point in time
 (2) Revenue recognition not in scope of ASC 606
 (3) Revenue recognized over time

Contract Balances

In considering the distinction between a contract asset and a receivable, as defined in ASC 606, ARI reviewed its practices as follows. ARI bills its customers once services have been rendered or products have been delivered and the Company has an unconditional right to consideration as only the passage of time is required before payment of that consideration is due. The contract assets that ARI maintains are related to unbilled revenues recognized on repair services that have been performed but the entire project has not yet been completed, and the railcar has not yet been shipped to the customer. These contract assets are included within 'accounts receivable' on the condensed consolidated balance sheets. The contract liabilities that ARI maintains represent deferred revenue related to its manufacturing and repair services segments. The short-term contract liabilities are included within 'accrued expenses' and the long-term contract liabilities are included within 'other liabilities' on the condensed consolidated balance sheets.

The allowance for doubtful accounts reflects ARI's best estimate of probable losses inherent in the accounts receivable balance. The Company determines the allowance based on the history of past write-offs and collections and current credit conditions of its customers. Refer to Note 4 for the balance of the allowance for doubtful accounts for each period presented.

The opening and closing balances of the Company's contract balances are presented below (in thousands):

	2018		
	January	September	\$
	1	30	Change
Contract assets	\$3,717	\$ 6,912	\$3,195
Contract liabilities	1,600	1,500	(100)

The increase in contract assets from January 1, 2018 to September 30, 2018 was due to ramp up of activity at certain repair shops within the Company's repair network leading to certain work that ARI expects will be completed and billed to customers in the coming months. The decrease in contract liabilities during the nine months ended September 30, 2018, was due to revenue being recognized on a completed contract in the current reporting period that was in the contract liability balance at the end of the prior period. Additionally, there were no impairments related to contract assets, including bad debt expense, during the nine months ended September 30, 2018.

Contract Costs

ARI has deemed its costs to obtain a contract as described in ASC Topic 340, Other Assets and Deferred Costs (ASC 340) to be immaterial. Further, in accordance with Topic 340, an entity may elect a practical expedient that allows the entity to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less. ARI has determined that its costs to obtain a contract would be amortized over one year or less and has elected this practical expedient. Therefore, the Company does not recognize assets from the costs to obtain a contract with a customer.

ARI incurs costs in the fulfillment of its contracts such as engineering hours and other salaries and wages. These costs incurred in fulfilling a contract with a customer are within the scope of ASC 330, Inventory. Therefore, in accordance with ASC 340, ARI accounts for these production costs, or costs to fulfill a contract, in accordance with ASC 330, Inventory.

Remaining Performance Obligations

Remaining performance obligations represent the transaction price of firm contractual commitments from customers for which work is partially completed. As of September 30, 2018, the estimated revenue expected to be recognized in the future related to remaining performance obligations was \$963.2 million. Of this total, we expect to recognize \$184.2 million into revenue during the next twelve months and \$779.0 million thereafter.

Note 4 — Accounts Receivable, net

Accounts receivable, net, consists of the following:

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	September 30, 2018	December 31, 2017
	(in thousands)	
Accounts receivable, gross	\$41,742	\$ 45,041
Less allowance for doubtful accounts	(1,334)	(1,237)
Total accounts receivable, net	\$40,408	\$ 43,804

Note 5 — Inventories, net

Inventories consist of the following:

	September 30, 2018	December 31, 2017
	(in thousands)	
Raw materials	\$57,306	\$ 33,498
Work-in-process	23,691	22,040
Finished products	1,956	1,813
Total inventories	82,953	57,351
Less reserves	(3,298)	(3,204)
Total inventories, net	\$79,655	\$ 54,147

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

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

	September 30, 2018	December 31, 2017
	(in thousands)	
Operations / Corporate:		
Buildings	\$189,009	\$ 186,664
Machinery and equipment	231,849	233,025
Land	5,372	5,285
Construction in process	3,437	1,818
	429,667	426,792
Less accumulated depreciation	(276,537)	(264,257)
Property, plant and equipment, net	\$153,130	\$ 162,535
Railcar Leasing:		
Railcars on lease	\$1,231,158	\$ 1,159,868
Less accumulated depreciation	(153,390)	(123,454)
Railcars on lease, net	\$1,077,768	\$ 1,036,414

Railcars on lease agreements

Revenues from railcar leasing are generated from operating leases that are priced as an integrated service that includes amounts related to executory costs, such as certain maintenance, insurance, and ad valorem taxes and are recognized on a straight-line basis per the terms of the underlying lease.

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

As of September 30, 2018, future contractual minimum rental revenues required under non-cancellable operating leases for railcars with terms longer than one year are as follows (in thousands):

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Remaining 3 months of 2018	\$31,994
2019	113,586
2020	79,997
2021	61,449
2022	41,729
2023 and thereafter	95,799
Total	424,554

The future contractual minimum rental revenues shown above include total rental revenues from affiliates of \$7.0 million. See Note 15, Related Party Transactions for further discussion regarding lease agreements with IELP Entities.

Depreciation expense

The following table summarizes depreciation expense:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(in thousands)			
Total depreciation expense	\$15,760	\$14,572	\$46,333	\$42,746
Depreciation expense on leased railcars	\$10,377	\$8,964	\$29,966	\$25,859

Asset Impairments

We review our operating assets whenever indicators of impairment may be present.

In 2015, the Pipeline and Hazardous Materials Safety Administration of the US Department of Transportation ("PHMSA") and Transport Canada ("TC") each issued rules that established new design standards for tank railcars used in flammable liquids service in North America. In addition to setting standards for newly built tank railcars, the regulations established guidelines for modifying existing tank railcars used in certain flammable liquids service and deadlines for modifying or removing those railcars from service. The deadlines ranged from November 2016 to May 2029, depending on the type of railcar and the nature of commodity carried. The PHMSA rule was subsequently modified by legislation adopted by Congress, and in August 2016, PHMSA amended its earlier rule to incorporate the legislative mandates into the final rule, which included expanded retrofit requirements and a shorter phase out period for the older tank railcars.

During the second quarter of 2018, ARI began negotiating an agreement to sell to a customer certain used tank railcars in ARI's lease fleet. In a strategic effort to evaluate its lease fleet composition and meet the customer's needs, ARI offered to sell a quantity of railcars from its lease fleet to the customer at a price that was below ARI's carrying value for those railcars. These railcars are subject to the requirements noted above and will require extensive retrofits in order to continue carrying certain flammable liquids. As of June 30, 2018, ARI deemed it more likely than not that this transaction would occur. Accordingly, ARI determined that an indicator of impairment was present and performed a full impairment analysis on these railcars by calculating their fair value in accordance with ASC 820, Fair Value Measurements and Disclosures. The result of this impairment analysis, which used Level 3 inputs and the market approach for calculating the fair value, was that an impairment loss should be recognized in the amount of \$3.6 million, reflected in the results of the Railcar Leasing segment. In addition, at June 30, 2018, which remained applicable at September 30, 2018, all of the criteria for these railcars to be classified as held for sale were not met.

Once ARI had an expectation that, more likely than not, these railcars would be sold for an amount less than their carrying values, ARI believed that an indicator of impairment was now present for other similar railcars within its lease fleet, and as such, ARI reviewed these assets for impairment. For purposes of these analyses, multiple scenarios of net cash flows were modeled using a range of estimates and assumptions, and recoverability tests were performed on all the railcars of this type in the Company's lease fleet. These recoverability tests, performed on an undiscounted cash flows basis in accordance with ASC 360, Property, Plant and Equipment, concluded that the carrying values of

the assets were recoverable, and no impairment should be recorded.

The assumptions relied upon for purposes of this impairment analysis were based on management's judgments and estimates of current and future market conditions. Actual results could differ from these estimates, and the Company may incur future impairment losses with respect to this railcar group, particularly if railcars are sold or scrapped sooner than anticipated.

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As of September 30, 2018, while the contract with the customer is not yet finalized, ARI still believes it is more likely than not that an agreement to sell these railcars to the customer at a price in line with the assumptions used in the above impairment analysis will occur. Thus, no adjustments to the impairment loss recorded during the second quarter or the asset values were considered necessary.

Note 7 — Investments in and Loans to Joint Ventures

As of September 30, 2018, the Company was party to two joint ventures: Ohio Castings Company LLC (Ohio Castings) and Axis LLC (Axis). Through its wholly-owned subsidiary, Castings, the Company has a 33.3% ownership interest in Ohio Castings, a limited liability company formed to produce various steel railcar parts for use or sale by the ownership group. Through its wholly-owned subsidiary, ARI Component, the Company has a 41.9% ownership interest in Axis, a limited liability company formed to produce railcar axles for use or sale by the ownership group. The Company accounts for these joint ventures using the equity method. Under this method, the Company recognizes its share of the earnings and losses of the joint ventures as they accrue. Advances and distributions are charged and credited directly to the investment accounts. From time to time, the Company also makes loans to its joint ventures that are included in the investment account. The investment balance for these joint ventures is recorded within the Company's manufacturing segment. The carrying amount of investments in and loans to joint ventures, which also represents ARI's maximum exposure to loss with respect to the joint ventures, is as follows:

	September 30, 2018	December 31, 2017
	(in thousands)	

Carrying amount of investments in and loans to joint ventures		
Ohio Castings	\$5,680	\$ 6,202
Axis	14,646	16,369
Total investments in and loans to joint ventures	\$20,326	\$ 22,571

See Note 15, Related Party Transactions, for information regarding financial transactions with ARI's joint ventures.

Ohio Castings

When active, Ohio Castings produces railcar parts that are sold to one of the joint venture partners. This joint venture partner then sells these railcar parts to outside third parties at current market prices and sells them to the Company and the other joint venture partner at Ohio Castings' cost plus a licensing fee.

Based on expected decline in industry demand, Ohio Castings was idled in January 2017 and continues to remain idle. The Company expects that Ohio Castings will remain idle through 2018 and most, if not all, of 2019, and Ohio Castings' status for 2019 and beyond will be evaluated based on changes in future demand expectations. Ohio Castings performed an analysis of long-lived assets as of August 31, 2018, in accordance with ASC 360, Property, Plant and Equipment. Based on this analysis, Ohio Castings concluded that there was no impairment of its long-lived assets. In turn, ARI evaluated its investment in Ohio Castings in accordance with ASC 323, Investments - Equity Method and Joint Ventures and determined there was no impairment. As of September 30, 2018, there were no changes in the assumptions used in this analysis or the conclusions reached. The Company and Ohio Castings will continue to monitor for impairment as necessary.

The Company has determined that, although the joint venture is a variable interest entity (VIE), accounting for its activity under the equity 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 Castings nor the Company 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 the Company and Castings is limited to its investment in Ohio Castings.

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

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	Three Months Ended September 30, 2018 2017		Nine Months Ended September 30, 2018 2017	
	(in thousands)			
Results of operations				
Revenues	\$—	\$15	\$—	\$4,469
Gross loss	\$(387)	\$(396)	\$(1,299)	\$(2,795)
Net loss	\$(618)	\$(712)	\$(1,569)	\$(3,179)

Axis

ARI, through ARI Component, owns a portion of a joint venture, Axis, to manufacture and sell railcar axles. ARI currently owns 41.9% of Axis, while a minority partner owns 9.7% and the other significant partner owns 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.

Under the amended Axis credit agreement (Axis Credit Agreement), whereby ARI and the other significant partner are equal lenders, principal payments are due each fiscal quarter, with the last payment due on December 31, 2019. During the first nine months of 2018 and the full year of 2017, the applicable interest rate for the loans under the Axis Credit Agreement was 7.75%. Interest payments are due and payable monthly.

The balance outstanding on these loans, including interest, due to ARI Component, was \$7.4 million and \$11.8 million as of September 30, 2018 and December 31, 2017, respectively. The Company has evaluated this loan to be fully recoverable.

The Company has determined that, although the joint venture is a VIE, accounting for its activity under the equity 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 neither ARI Component nor the Company has rights to the majority of returns, losses or votes, the executive committee and board of directors of the joint venture are comprised of one representative from each significant partner with equal voting rights and the risk of loss to the Company and ARI Component is limited to its investment in Axis and the loans due to the Company under the Axis Credit Agreement. The Company will continue to monitor its investment in Axis for impairment as necessary.

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

	Three Months Ended September 30, 2018 2017		Nine Months Ended September 30, 2018 2017	
	(in thousands)			
Results of operations				
Revenues	\$ 13,391	\$ 10,432	\$ 39,532	\$ 35,887
Gross profit	\$ 1,928	\$ 1,448	\$ 8,082	\$ 8,644
Net earnings	\$ 1,369	\$ 688	\$ 6,274	\$ 6,180

Note 8 — Warranties

The Company's standard warranty is up to one year for parts and services and five years for new railcars. Factors affecting the Company's warranty liability include the number of units sold, historical and anticipated warranty claim rates and 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.

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

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	Three Months Ended September 30, 2018 2017		Nine Months Ended September 30, 2018 2017	
	(in thousands)			
Liability, beginning of period	\$8,388	\$3,006	\$8,838	\$2,439
Provision for warranties issued during the period, net of adjustments	506	120	869	354
Adjustments to warranties issued during previous periods	91	658	(332)	1,578
Warranty claims	(63)	(113)	(453)	(700)
Liability, end of period	\$8,922	\$3,671	\$8,922	\$3,671

Note 9 — Debt

Subsidiary Lease Fleet Financings

From time to time, the Company, through its wholly-owned subsidiaries LLI, LLII and LLIII, has entered into lease fleet financings to, among other things, support and grow its railcar leasing business. Currently, only the LLIII lease fleet financing remains outstanding. The lease fleet financings are obligations of the respective wholly-owned subsidiary, are generally non-recourse to ARI, and are secured by a first lien on the subject assets of the respective subsidiary, consisting of railcars, railcar leases, receivables and related assets, subject to limited exceptions. 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 railcars, railcar leases, receivables and related assets to be transferred to the respective subsidiary without any adverse selection, to cause the manager of the railcars and their related leases, to maintain, lease, and re-lease the respective subsidiary's equipment no less favorably than similar portfolios serviced by the manager, and to repurchase or replace certain railcars under certain conditions set forth in the respective loan documents. American Railcar Leasing LLC (ARL) historically has acted as the manager under these lease fleet financings. Between June 1, 2017 and April 17, 2018, ARI subcontracted with ARL to provide services to ARL covering the day-to-day management of the LLIII railcars and the leases associated therewith. As of April 17, 2018, ARI became the manager under the LLIII lease fleet financing. See below and Note 15, Related Party Transactions, for further discussion regarding these agreements with ARL and the impact on the Company of the sale of ARL (the ARL Sale) to an unaffiliated third party (Buyer).

January 2015 private placement notes

In January 2015, LLIII issued \$625.5 million in aggregate principal amount of notes pursuant to an indenture, as amended (the Longtrain Indenture). The notes are fixed rate secured railcar equipment notes bearing interest at a rate of 2.98% per annum for the Class A-1 Notes and 4.06% per annum for the Class A-2 Notes (collectively, the Notes), each payable monthly. Of the aggregate principal amount, \$408.5 million was used to refinance previous lease fleet financing facilities, resulting in net proceeds of \$211.6 million. As of September 30, 2018, there were \$155.8 million and \$375.5 million of Class A-1 and Class A-2 notes outstanding, respectively, compared to \$174.9 million and \$375.5 million of Class A-1 and Class A-2 notes outstanding, respectively, as of December 31, 2017. The Notes have a legal final maturity date of January 17, 2045 and an expected principal repayment date of January 15, 2025. While the legal final maturity date of the Notes is January 17, 2045, cash flows from LLIII's assets will be applied, pursuant to the flow of funds provisions of the Longtrain Indenture, so as to achieve monthly targeted principal balances. Also, under the flow of funds provisions of the Longtrain Indenture, early amortization of the Notes may be required in certain circumstances. Pursuant to the terms of the Longtrain Indenture, LLIII is required to maintain deposits in a liquidity reserve bank account equal to nine months of interest payments. The liquidity reserve amount was \$16.6 million as of both September 30, 2018 and December 31, 2017 and is included within 'Restricted cash' on the condensed consolidated balance sheets.

LLIII can now prepay or redeem the Class A-1 Notes, in whole or in part, on any payment date. LLIII can now prepay or redeem the Class A-2 Notes, in whole or in part, on any payment date, subject to the payment of a make-whole amount with respect to certain prepayments or redemptions made on or prior to the payment date occurring in January 2022.

The Indenture contains covenants which limit, among other things, LLIII's ability to incur additional indebtedness or encumbrances on its assets, pay dividends or make distributions, make certain investments, perform its business other than specified activities, enter into certain types of transactions with its affiliates, and sell assets or consolidate or merge with or into other companies. These covenants are subject to a number of exceptions and qualifications. LLIII was in compliance with these covenants as of September 30, 2018.

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The fair value of the Notes was \$537.2 million and \$556.6 million as of September 30, 2018 and December 31, 2017, respectively, and is calculated by taking the net present value of future principal and interest payments using a discount rate that is based on the Company's most recent fixed debt transaction. The inputs used in the calculation are classified within Level 2 of the fair value hierarchy. See the 'Liquidity and Capital Resources' section for further discussion regarding the Longtrain Indenture.

ARI Lease Fleet Financings

December 2015 revolving credit facility

In December 2015, the Company completed a financing of its railcar lease fleet with availability of up to \$200.0 million (the amounts extended under this facility, the Revolving Loan) under a credit agreement, as amended (the 2015 Credit Agreement). See the 'Liquidity and Capital Resources' section for further discussion regarding the 2015 Credit Agreement. As of September 30, 2018, the Company had borrowing availability of \$200.0 million under this facility.

The Revolving Loan accrues interest at a rate per annum equal to Adjusted LIBOR (as defined in the 2015 Credit Agreement) for the applicable interest period, plus 1.45%. Interest is payable on the last day of each 1, 2, or 3-month interest period, the day of any mandatory prepayment, and the maturity date.

The Revolving Loan and the other obligations under the 2015 Credit Agreement are fully recourse to ARI and are secured by a first lien and security interest on certain specified railcars (together with specified replacement railcars), related leases, related receivables and related assets, subject to limited exceptions, a controlled bank account.

Subject to the provisions of the 2015 Credit Agreement, the Revolving Loan may be borrowed and reborrowed until the maturity date. The Revolving Loan may be prepaid at the Company's option at any time without premium or penalty (other than customary LIBOR breakage fees and customary reimbursement of increased costs). The final scheduled maturity of the Revolving Loan is December 10, 2018, or such earlier date as provided in the 2015 Credit Agreement. The Company was in compliance with all of its covenants under the 2015 Credit Agreement as of September 30, 2018.

As of September 30, 2018 and December 31, 2017, the net book value of the railcars that were pledged as part of the Company's and its subsidiaries' lease fleet financings was \$512.2 million and \$524.1 million, respectively.

The future contractual minimum rental revenues related to the railcars pledged as of September 30, 2018 are as follows (in thousands):

Remaining 3 months of 2018	\$15,403
2019	50,783
2020	30,607
2021	20,037
2022	11,384
2023 and thereafter	10,852
Total	\$139,066

The remaining principal payments under the Notes as of September 30, 2018 are as follows (in thousands):

Remaining 3 months of 2018	\$6,427
2019	25,507
2020	26,355
2021	26,358
2022	25,852
2023 and thereafter	420,764
Total	\$531,263

ARL Sale and Railcar Management Transition Agreement

As previously disclosed, on December 16, 2016, ARI entered into a railcar management transition agreement (the RMTA) with ARL in anticipation of the ARL Sale. The RMTA, among other things, addresses the transition, from ARL to ARI following the ARL Sale, of the management of railcars owned by ARI (the ARI Railcars) and railcars owned by LLIII (the Longtrain Railcars). American Entertainment Properties Corporation (AEPC), a company controlled by Mr. Carl Icahn, the Company's

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principal beneficial stockholder through Icahn Enterprises L.P. (IELP), and Buyer and an affiliate of Buyer are also parties to the RMTA for the limited purposes previously disclosed. Immediately prior to the ARL Sale, ARL and its subsidiaries were controlled by Mr. Carl Icahn. Following the ARL Sale, ARL is controlled by Buyer. The ARL Sale was consummated (the ARL Closing) on June 1, 2017 (the ARL Closing Date). In connection with the ARL Closing, the RMTA was amended by a Joinder and Amendment to the RMTA, principally to join ACF Industries, LLC (ACF), a company controlled by Mr. Carl Icahn, as a party thereto, to address certain ACF books and records in the possession of ARL. The Railcar Management Agreement, dated February 29, 2012 (as amended), between ARI and ARL (the ARI RMA), pursuant to which ARL managed the ARI Railcars and marketed them for sale or lease was terminated pursuant to the terms of the RMTA as of the ARL Closing Date. Effective as of the ARL Closing Date, ARI manages the ARI Railcars and markets them for sale or lease.

Pursuant to a Railcar Management Agreement, dated January 29, 2015, between LLIII and ARL (the Longtrain RMA), ARL, as manager, marketed Longtrain Railcars for lease, and also arranged for the operation, storage, re-lease, sublease, service, repair, overhaul, replacement and maintenance of the Longtrain Railcars. In addition, a subsidiary of ARL served as administrator of the accounts used to service the debt under the Longtrain Indenture.

As provided in the RMTA, following the ARL Closing, the Longtrain RMA continued in effect, with ARL remaining as manager of the Longtrain Railcars under the Longtrain RMA and the Longtrain Indenture, until ARI obtained the Noteholder Consent and became the manager of the Longtrain Railcars. The Noteholder Consent was obtained on April 10, 2018 and on April 17, 2018, ARI became the manager of the Longtrain Railcars and the Longtrain RMA was terminated.

ARL Subcontractor Agreement

Further, as contemplated by the RMTA, effective as of the ARL Closing Date, ARI entered into a subcontract arrangement with ARL (the Subcontractor Agreement) to provide services to ARL covering the day-to-day management of the Longtrain Railcars and the leases associated therewith. Under this arrangement, ARL and its subsidiary, as manager and administrator, respectively, remained in control of the accounts used to service the debt under the Longtrain Indenture until the Noteholder Consent was obtained and ARI and its subsidiary became manager and administrator, respectively. During the term of the Subcontractor Agreement, management fees and expenses paid to ARL in respect of management duties subcontracted to ARI were paid by ARL to ARI. The Subcontractor Agreement terminated automatically on April 17, 2018, when ARI became the manager of the Longtrain Railcars following receipt of the Noteholder Consent.

Note 10 — Income Taxes

The Tax Cuts and Jobs Act enacted on December 22, 2017 resulted in substantial changes to the U.S. tax code, effective for 2018. These changes included, but were not limited to, (i) reducing the federal corporate income tax rate from 35% to 21% and (ii) requiring companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. Also, on December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of U.S. GAAP in situations when the taxpayer does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete all the accounting for certain income tax effects of the Tax Reform Act. In accordance with SAB 118 guidance, at December 31, 2017, the Company recorded provisional estimates to re-measure its deferred taxes using the new, 21% statutory rate resulting in a tax benefit of \$107.9 million and recorded an estimated transition tax expense of \$0.6 million.

During the nine months ended September 30, 2018, the Company recorded the income tax effects of the Tax Cuts and Jobs Act with regard to its federal income taxes. The Company filed its U.S. federal tax return for 2017 during the third quarter of 2018 and recognized as a one-time discrete item an increase of \$0.1 million to its provisional transition tax amount of \$0.6 million that was initially recorded at December 31, 2017, which resulted in no effect on the annual effective tax rate. The Company considers the federal tax effects from the deemed repatriation dividend to be complete. The Company still considers any state impacts associated with the repatriation dividend and the remeasurement of its deferred tax assets to be provisional until all such state income tax returns are filed for 2017, which should be completed during the fourth quarter of 2018.

The Company's federal income tax returns for tax years 2015 and beyond remain subject to examination, with the latest statute of limitations expiring in September 2021. Certain of the Company's 2013 state income tax returns and a majority of the Company's state income tax returns for 2014 and beyond remain open and subject to examination, with the latest statute of limitations expiring in December 2022 upon filing of the Company's 2017 state tax returns. The Company's foreign subsidiary's income tax returns for 2014 and beyond remain open to examination by foreign tax authorities.

Note 11 — Pension Plans

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

	Pension Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Service cost	\$85	\$88	\$254	\$265
Interest cost	210	235	631	706
Expected return on plan assets	(281)	(283)	(843)	(848)
Amortization of net actuarial loss/prior service cost	46	184	137	552
Net periodic cost recognized	\$60	\$224	\$179	\$675

Note 12 — Commitments and Contingencies

The Company is subject to comprehensive federal, state, local and international environmental laws and regulations relating to the release or discharge of materials into the environment, the management, use, processing, handling, storage, transport or disposal of hazardous materials and wastes, and other laws and regulations relating to the protection of human health and the environment. These laws and regulations not only expose ARI to liability for the environmental condition of its current or formerly owned or operated facilities, and its own negligent acts, but also may expose ARI to liability for the conduct of others or for ARI's actions that were in compliance with all applicable laws at the time such actions were taken. In addition, these laws may require significant expenditures to achieve compliance and are frequently modified or revised to impose new obligations. Civil and criminal fines and penalties and other sanctions may be imposed for non-compliance with these environmental laws and regulations. ARI's operations that involve hazardous materials also raise potential risks of liability under common law.

Certain real property ARI acquired from ACF in 1994 are, from time to time, the subject of investigation and remediation activities to address contamination both before and after their transfer to ARI. ACF is an affiliate of Mr. Carl Icahn, the Company's principal beneficial stockholder through IELP. Substantially all of the issues identified to date with respect to these properties relate to the use of these properties prior to their transfer to ARI by ACF and for which ACF has retained liability for environmental contamination that may have existed at the time of transfer to ARI. ACF has also agreed to indemnify ARI for any cost that ARI might incur with respect to those existing issues. If ACF fails to honor its obligations to ARI, ARI could be responsible for the cost of any investigation or remediation that may be required. Under applicable environmental laws, ARI would be responsible for the cost of any investigation or remediation relating to these properties that may have occurred after their transfer from ACF to ARI. Any of these costs could be material.

ARI is party to collective bargaining agreements with labor unions at two repair facilities that will expire in January and September 2021, respectively, unless extended or modified. ARI is also party to a collective bargaining agreement with a labor union at a steel component manufacturing facility that will expire in April 2022, unless extended or modified.

The Company has various agreements with and commitments to related parties. See Note 15, Related Party Transactions, for further detail.

Certain claims, suits and complaints arising in the ordinary course of business, as well as the GyanSys, Inc. (GyanSys) litigation discussed below, have been filed or are pending against ARI. In the opinion of management, based on information currently available, all such claims, suits, and complaints 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. However, resolution of certain claims or suits by settlement or otherwise, could impact the operating results of the reporting period in which such resolution occurs.

GyanSys

On October 24, 2014, the Company filed a complaint in United States District Court for the Southern District of New York against GyanSys. The complaint asserted a claim against GyanSys for breaching its contract with ARI to implement an

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enterprise resource planning system. GyanSys denied responsibility and alleged a counterclaim against ARI for breach of contract and wrongful termination, seeking damages of more than \$9 million. After a trial completed in August 2017, the court ruled in favor of ARI and against GyanSys, awarding ARI damages, interest and costs of approximately \$1.8 million. However, as the amount of this judgment has not been realized, no such recovery has been recorded as of September 30, 2018. ARI has filed a motion to recover its attorneys' fees and that motion is currently pending. Both parties have filed notices of appeal, and briefing for the appeals has been completed. As of the date of this report, no date has been set for oral argument.

FRA Directive

On September 30, 2016, the Federal Railroad Administration (FRA) issued Railworthiness Directive (RWD) No. 2016-01 (the Original Directive). The Original Directive addressed, among other things, certain welding practices in one weld area in specified DOT 111 tank railcars manufactured between 2009 and 2015 by ARI and ACF. ACF is an affiliate of Mr. Carl Icahn, the Company's principal beneficial stockholder through IELP. The Company met and corresponded with the FRA following the issuance of the Original Directive to express the Company's concerns with the Original Directive and its impact on ARI, as well as the industry as a whole. On November 18, 2016 (the Issuance Date), the FRA issued RWD No. 2016-01 [Revised] (the Revised Directive). The Revised Directive changed and superseded the Original Directive in several ways.

The Revised Directive required owners to identify their subject tank railcars and then from that population identify the 15% of subject tank railcars then in hazardous materials service with the highest mileage in each tank railcar owner's fleet. Visual inspection of each of the subject tank railcars is required by the railcar operator prior to putting any railcar into service. Owners were required to ensure appropriate inspection, testing and repairs, if needed, within twelve months of the Issuance Date for the 15% of their subject tank railcars identified to be in hazardous materials service with the highest mileage. The FRA reserved the right to impose additional test and inspection requirements for the remaining tank railcars subject to the Revised Directive. The FRA also reserved the right to seek civil penalties or to take any other appropriate enforcement action for violations of the Federal Hazardous Materials Regulations that have occurred.

Although the Revised Directive addressed some of the Company's concerns and clarified certain requirements of the Original Directive, ARI identified significant issues with the Revised Directive. As a result, in December 2016, ARI sought judicial review of and relief from the Revised Directive by filing a petition for review against the FRA in the United States Court of Appeals for the District of Columbia Circuit.

On August 17, 2017, the Company entered into a settlement agreement with the FRA, which covered the subject railcars owned by ARI and certain of its affiliates. This settlement agreement, among other things, extended the deadline for ARI to complete the inspection, testing and repairs, if needed, for the 15% identified railcars to December 31, 2017. Adding clarity regarding certain unknown requirements referenced in the Revised Directive, under the settlement agreement, ARI is required to inspect, test, and if necessary repair the remaining 85% subject tank railcars at the next tank railcar qualification, scheduled routine or regular maintenance, shopping or repair event, but no later than December 31, 2025. However, the settlement agreement permits ARI to: (i) if the FRA does not impose a similar requirement by July 31, 2018 on other owners' railcars subject to the Revised Directive, suspend compliance with this requirement until such time as the FRA imposes requirements on all 85% railcars subject to the Revised Directive, and (ii) elect to be governed by any different requirements later imposed by the FRA on other owners' railcars subject to the Revised Directive. In addition, the settlement agreement also provides that railcars owned by ARI are no longer required to have a surface inspection performed when the railcars are being inspected pursuant to the Revised Directive. Finally, as part of the settlement agreement, ARI dismissed its lawsuit against the FRA.

ARI inspected, tested, and if necessary, repaired all of its 15% identified railcars as required pursuant to the settlement agreement prior to December 31, 2017.

The American Association of Railroads (AAR) issued a Circular Letter and Maintenance Advisory in May 2018 that requires railcar owners to inspect and test the remaining 85% of their subject tank railcars at tank railcar facilities in accordance with the process outlined in the Revised Directive no later than their next qualification, not to exceed 10 years. The tank railcars may continue in service pending inspection by a certified tank facility.

ARI has evaluated its potential exposure related to the Revised Directive and has a loss contingency reserve remaining of \$8.6 million to cover its probable and estimable liabilities, as of September 30, 2018, with respect to the Company's response to the Revised Directive. This loss contingency reserve takes into account information available as of September 30, 2018 and ARI's contractual obligations in its capacity as both a manufacturer and owner of railcars subject to the Revised Directive. This reserve is separated into \$6.4 million included in accrued expenses and \$2.2 million included in other liabilities on the condensed consolidated balance sheet. This amount will continue to be evaluated as the Company's and its customers' compliance with the Revised Directive and the AAR Circular Letter and Maintenance Advisory, and the Company's compliance with the settlement agreement, progresses. Actual results could differ from this estimate.

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It is reasonably possible that a loss exists in excess of the amount accrued by the Company. However, the amount of potential costs and expenses expected to be incurred for compliance with the Revised Directive in excess of the loss contingency reserve of \$8.6 million cannot be reasonably estimated at this time.

Legal fees incurred with respect to this matter are expensed in the period in which they occur, in accordance with ARI's accounting policy.

Note 13 — Share-based Compensation

The following table presents the amounts incurred by ARI for share-based compensation, related to stock appreciation rights (SARs), and the corresponding line items on the condensed consolidated statements of operations that they are classified within:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
	(in thousands)			
Share-based compensation expense (income)				
Cost of revenues: Manufacturing	\$165	\$23	\$168	\$(12)
Cost of revenues: Railcar services	—	—	—	(3)
Selling, general and administrative	1,298	223	1,249	(211)
Total share-based compensation expense (income)	\$1,463	\$246	\$1,417	\$(226)

As of September 30, 2018, unrecognized compensation costs related to the unvested portion of SARs were estimated to be \$2.5 million and were expected to be recognized over a weighted average period of 27 months.

Note 14 — Accumulated Other Comprehensive Income (Loss)

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

	Accumulated Currency Translation	Accumulated Postretirement Transactions	Accumulated Other Comprehensive Income (Loss)
	(in thousands)		
Balance December 31, 2017	\$(838)	\$ (3,872)	\$ (4,710)
Currency translation	(564)	—	(564)
Reclassifications related to pension plans, net of tax effect of \$28 (1)	—	84	84
Balance September 30, 2018	\$(1,402)	\$ (3,788)	\$ (5,190)

These accumulated other comprehensive income components relate to amortization of actuarial loss/(gain) and (1) prior period service costs/(benefits) and are included in the computation of net periodic costs for our pension plans.

See Note 11 for further details and pre-tax amounts.

Note 15 — Related Party Transactions

Agreements with ACF

The Company has the following agreements with ACF, a company controlled by Mr. Carl Icahn, the Company's principal beneficial stockholder through IELP.

Component purchases

The Company has from time to time purchased components from ACF under a long-term agreement, as well as on a purchase order basis. 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. The agreement automatically renews on an annual basis unless written notice of termination is provided by the Company.

In April 2015, ARI entered into a parts purchasing and sale agreement with ACF. The agreement was unanimously approved by the independent directors of ARI's Audit Committee. Under this agreement, ARI and ACF may, from time to time, purchase

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and sell to each other certain parts for railcars (Parts). ARI also provides a non-exclusive and non-assignable license of certain intellectual property to ACF related to the manufacture and sale of Parts to ARI. The buyer under the agreement must pay the market price of the Parts as determined in the agreement or as stated on a public website for all ARI buyers. ARI may provide designs, engineering and purchasing support, including all materials and components to ACF. Subject to certain early termination events, the agreement terminates on December 31, 2020. ARI purchased \$0.7 million and \$2.4 million of components from ACF during the three and nine months ended September 30, 2018, respectively, and \$0.8 million and \$4.3 million during the same periods in 2017.

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. Under this agreement, ARI provides purchasing support and engineering services to ACF in connection with ACF's manufacture and sale of 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 tank railcars during the term of the agreement. Effective December 31, 2017, ARI and ACF amended this agreement to, among other provisions, extend the termination date to December 31, 2018 from December 31, 2017, subject to certain early termination events.

In consideration of the services and license provided by ARI to ACF in conjunction with the agreement, ACF pays ARI a royalty and, if any, a share of the net profits (Profits) earned on each railcar manufactured and sold by ACF under the agreement, in an aggregate amount equal to 30% 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 are provided at fair market value. Under the Agreement, ARI has the exclusive right to any sales opportunities for tank railcars for any new orders scheduled for delivery after January 31, 2014 and through termination of this agreement. ARI 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.

Zero revenue was recorded under this agreement for both the nine months ended September 30, 2018 and 2017 for sales of railcar components to ACF or for royalties and profits on railcars sold by ACF.

Repair services and support agreement

In April 2015, ARI entered into a repair services and support agreement with ACF. The agreement was unanimously approved by the independent directors of ARI's audit committee. Under this agreement, ARI provides certain sales and administrative and technical services, materials and purchasing support and engineering services to ACF to provide repair and retrofit services (Repair Services). Additionally, ARI provides a non-exclusive and non-assignable license of certain intellectual property related to the Repair Services for railcars.

Pursuant to the terms and conditions of the agreement, ARI has the right to assign any sales opportunity related to Repair Services to ACF, and ACF has the right, but not the obligation, to accept such sales opportunity. Subject to certain early termination events, the Repair Services Agreement terminates on December 31, 2020. Effective December 31, 2017, ARI and ACF amended this agreement to, among other provisions, remove any specific rights to sales opportunities by ACF and any difference in net profits provided to ARI related to Repair Services for railcars owned by ARL, a former affiliate of ARI's that was sold to an unaffiliated third party effective June 1, 2017. After giving effect to the Repair Services Amendment, ARI has the exclusive right to sales opportunities related to all Repair Services and ARI will receive 30% of the net profits (as defined in the Repair Services Agreement) for Repair Services related to all railcars, if any, but in any case, does not absorb any losses incurred by ACF.

For both the three and nine months ended September 30, 2018 revenues of less than \$0.1 million were recorded under this agreement, compared to \$0.1 million and \$0.2 million for comparable periods of 2017. This revenue related to profits on repair work performed by ACF and is included under railcar services revenues from affiliates on the condensed consolidated statements of operations.

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Railcar management transition agreement

In connection with the ARL Closing, the RMTA was amended by a Joinder and Amendment to the RMTA, principally to join ACF as a party thereto, to address certain ACF books and records in the possession of ARL. The RMTA requires ARL to transfer to ACF certain books and records in the possession of ARL and has no other impact on ARI's rights or obligations under the RMTA. The Joinder and Amendment to the RMTA was unanimously approved by the independent directors of the Company's Audit Committee.

Railcar purchase and sale agreement

On June 28, 2018, ARI Leasing entered into a Railcar Purchase and Sale Agreement (Railcar Purchase and Sale Agreement) with ACF. The Railcar Purchase and Sale Agreement was unanimously approved by the independent directors of the Company's Audit Committee.

Subject to the terms and conditions of the Railcar Purchase and Sale Agreement, ARI Leasing has agreed to purchase from ACF certain tank railcars (ACF Tank Railcars) to be manufactured at ACF's Milton, Pennsylvania facility. The purchase price for the ACF Tank Railcars will be calculated based on ACF's manufacturing costs with respect to the ACF Tank Railcars plus a certain margin and is subject to certain adjustments, as provided in the Railcar Purchase and Sale Agreement. ACF's manufacturing costs include ACF's standard costs for materials, parts, labor, and overhead. Certain of ACF's start-up expenses related to the manufacture of the ACF Tank Railcars will also be included in the purchase price for the ACF Tank Railcars.

The Railcar Purchase and Sale Agreement prohibits ACF from engaging in the manufacturing or assembly of any railcars other than the ACF Tank Railcars or any other activity that may affect the timely delivery of the ACF Tank Railcars under the Railcar Purchase and Sale Agreement.

ARI Leasing has also agreed to provide ACF with certain designs, engineering, related rights and licenses to use such designs and engineering, and purchasing support necessary to manufacture the ACF Tank Railcars, including with respect to the sourcing of certain materials and components to be incorporated into the ACF Tank Railcars (Materials). ACF may purchase Materials directly from ARI Leasing or ARI Leasing may purchase Materials from third parties on ACF's behalf.

The Agreement also requires ACF to make commercially reasonable efforts to obtain all appropriate certifications required by the AAR for the manufacturing and sale of the ACF Tank Railcars (AAR Certification) as of such date that ACF commences production of the ACF Tank Railcars and to have obtained the AAR Certification as of the date that the ACF Tank Railcars are delivered to ARI Leasing. ACF may terminate the Railcar Purchase and Sale Agreement upon ten (10) days' written notice to ARI Leasing should ACF fail to obtain AAR Certification after using its commercially reasonable efforts to do so.

No ACF Tank Railcars were purchased by ARI under the Railcar Purchase and Sale Agreement during the three or nine months ended September 30, 2018 or 2017. ARI sourced and sold to ACF \$2.6 million of components and raw materials during both the three and nine months ended September 30, 2018, compared to zero for the same periods in 2017.

Agreements with ARL

The Company has or had the following agreements with ARL, a company that was controlled by Mr. Carl Icahn, the Company's principal beneficial stockholder through IELP, prior to ARL's sale to Buyer. ARL is no longer considered a related party to the Company.

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 provided ARL railcar repair, engineering, administrative and other services, on an as needed basis, for ARL's lease fleet at mutually agreed upon prices. The Railcar Services Agreement had an initial term of three years and automatically renewed for additional one-year periods until the Railcar Services Agreement was terminated upon consummation of the ARL Sale, in accordance with the RMTA.

Revenues of zero for both the three and nine months ended September 30, 2018, compared to zero and \$10.1 million for the same periods in 2017 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 Railcar Services Agreement was unanimously approved by the independent directors of the Company's Audit Committee.

Railcar management agreements and subcontractor agreement

From time to time, ARI and its wholly-owned subsidiaries have entered into railcar management agreements with ARL, pursuant to which ARI and its respective wholly-owned subsidiaries engaged ARL to manage, sell, operate, market, store, lease, re-lease, sublease and service ARI's and its subsidiaries' railcars, subject to the terms and conditions of the applicable

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agreement. These agreements provided that ARL would manage the leased railcars (as identified in the respective agreement) including arranging for services, such as repairs or maintenance, as deemed necessary. Each of these railcar management agreements was unanimously approved by the independent directors of the Company's Audit Committee.

On February 29, 2012, ARI entered into the ARI RMA. The agreement, as amended, was effective January 1, 2011, and continued until the ARL Closing Date. Effective as of the ARL Closing Date, ARI manages the ARI Railcars and markets them for sale or lease. In December 2012, LLI entered into a similar agreement with ARL (the LLI railcar management agreement). On October 16, 2014, LLII entered into a railcar management agreement with ARL (the LLII railcar management agreement).

In January 2015, in connection with the Company's refinancing of its lease fleet financings, the LLI and LLII railcar management agreements were terminated and LLIII entered into a similar railcar management agreement with ARL, the Longtrain RMA. Pursuant to the Longtrain RMA, ARL, as manager, marketed Longtrain Railcars for lease, and arranged for the operation, storage, re-lease, sublease, service, repair, overhaul, replacement and maintenance of the Longtrain Railcars. In addition, a subsidiary of ARL served as administrator of the accounts used to service the debt under the Longtrain Indenture.

As provided in the RMTA, following the ARL Closing, the Longtrain RMA continued in effect, with ARL remaining as manager of the Longtrain Railcars under the Longtrain RMA and the Longtrain Indenture, until ARI obtained the Noteholder Consent on April 10, 2018 and became the manager of the Longtrain Railcars on April 17, 2018. Pursuant to the terms of the RMTA, the Longtrain RMA was terminated as of April 17, 2018.

Further, as contemplated by the RMTA, effective as of the ARL Closing Date, ARI entered into the Subcontractor Agreement to provide services to ARL covering the day-to-day management of the Longtrain Railcars and the leases associated therewith. Under this arrangement, ARL and its subsidiary, as manager and administrator, respectively, remained in control of the accounts used to service the debt under the Longtrain Indenture until the Noteholder Consent was obtained and ARI and its subsidiary became manager and administrator, respectively. During the term of the Subcontractor Agreement, management fees and expenses paid to ARL in respect of management duties subcontracted to ARI were paid by ARL to ARI. The Subcontractor Agreement terminated automatically on April 17, 2018, when ARI became the manager of the Longtrain Railcars following receipt of the Noteholder Consent.

Subject to the terms and conditions of each railcar management agreement, ARL received, in respect of leased railcars, a management fee based on the lease revenues. Under the ARI RMA, in addition to the management fee, ARL received a fee consisting of a lease origination fee, and, in respect of railcars sold by ARL, sales commissions. Total lease origination and management fees incurred under the railcar management agreements were zero for both the three and nine months ended September 30, 2018, compared to zero and \$2.8 million for the same periods in 2017. These fees are included in cost of revenues for railcar leasing on the condensed consolidated statements of operations. Sales commissions of zero were incurred for both the three and nine months ended September 30, 2018 compared to zero and \$0.3 million for the same periods in 2017. These costs are included in selling, general and administrative costs on the condensed consolidated statements of operations.

Railcar management transition agreement

As previously disclosed, on December 16, 2016, ARI entered into the RMTA with ARL in anticipation of the ARL Sale. The RMTA, among other things, addresses the transition, from ARL to ARI following the ARL Sale, of the management of the ARI Railcars and the Longtrain Railcars. AEPC, a company controlled by Mr. Carl Icahn, the Company's principal beneficial stockholder through IELP, and an affiliate of Buyer, are also parties to the RMTA for the limited purposes previously disclosed. Immediately prior to the ARL Sale, ARL and its subsidiaries were controlled by Mr. Carl Icahn. In connection with the ARL Closing, the RMTA was amended by a Joinder and Amendment to the RMTA, principally to join ACF, a company controlled by Mr. Carl Icahn, as a party thereto, to address certain ACF books and records in the possession of ARL.

In addition to the provisions of the RMTA related to the railcar management agreements described above, the RMTA, among other things, requires ARL to transfer to ARI certain books and records and electronic data with respect to ARI's and LLIII's railcars and the Company's and LLIII's leasing businesses and otherwise assist in the transfer of the management of the leasing businesses to ARI. Pursuant to the terms and conditions of the RMTA, ARL provides ARI

an irrevocable, fully paid, non-transferable (except as set forth therein), royalty-free license to certain software and databases owned and used by ARL to manage its railcars and ARI's and LIII's railcars. The RMTA also provides for the termination, as of the consummation of the ARL Sale, of the Trademark License Agreement, dated as of June 30, 2005, between ARI and ARL (the Trademark License), pursuant to which ARI granted to ARL a license to use ARI's trademarks "American Railcar" and the "diamond shape" of its logo, and provides for the wind-down of ARL's use of such trademarks.

Pursuant to the terms and conditions of the RMTA, ARI has agreed not to solicit or hire ARL employees until 24 months after the consummation of the ARL Sale, subject to certain exceptions.

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The RMTA, subject to its terms, also provides for the termination of, and the discharge and release of obligations under, certain other agreements that ARI and its subsidiaries are party to on the one hand, and ARL is party to on the other hand, including (i) the ARI RMA, pursuant to which ARI engaged ARL to manage ARI's railcars; (ii) subject to receiving Noteholder Consent (and the terms and conditions thereof), the Longtrain RMA, pursuant to which LLIII engaged ARL to manage LLIII's railcars; (iii) the Railcar Services Agreement, pursuant to which ARI provides ARL railcar repair, engineering, administrative and other services on an as needed basis; (iv) the Consulting Services Agreement, dated as of March 1, 2016, between ARI and ARL, pursuant to which ARI agreed to provide legal services to ARL; and (v) the Trademark License described above.

Pursuant to the terms and conditions of the RMTA, AEPC has agreed to (i) undertake certain payment and performance obligations of ARL to ARI and (ii) pay or reimburse, as applicable, certain costs and expenses of ARI incurred in connection with the ARL Sale and the RMTA. In addition, pursuant to the terms and conditions of the RMTA, Buyer and an affiliate of Buyer have agreed to undertake certain payment and performance obligations of ARL to ARI following the closing of the ARL Sale. The amount receivable from AEPC pursuant to the RMTA, which was recorded within accounts receivable, due from related parties on the condensed consolidated balance sheets was zero as of September 30, 2018 and \$0.4 million as of December 31, 2017.

The independent directors of the Company's Audit Committee reviewed the terms and conditions of the RMTA and received advice from independent legal counsel in connection therewith. The Audit Committee unanimously approved the terms and conditions of, and the Company's entry into, the RMTA and the joinder and amendment thereto.

Agreements with other related parties

Railcar leases

Beginning in 2016, the Company has leased railcars to companies controlled by Mr. Carl Icahn, our principal beneficial stockholder through IELP, including, but not limited to, ARL, prior to its sale to an unaffiliated third party effective as of June 1, 2017 (collectively, the IELP Entities), under operating lease arrangements. Revenues from railcars leased to certain of the IELP Entities were \$0.4 million and \$1.2 million for the three and nine months ended September 30, 2018, respectively, compared to \$0.2 million and \$0.7 million for the same periods in 2017. These revenues are included in railcar leasing revenues from affiliates on the condensed consolidated statements of operations. Any related party railcar lease agreements have been, and will be, subject to the approval or review by the independent directors of the Company's Audit Committee.

Railcar services

In conjunction with the ARL Sale, each of AEPC RemainCo LLC (a wholly-owned subsidiary of AEPC) and AEP Rail RemainCo LLC (a wholly-owned subsidiary of AEP Rail Corp.) (each, a RemainCo and, collectively, the RemainCos) retained ownership of certain railcars that had previously been owned by ARL. Each RemainCo is controlled by Mr. Carl Icahn, ARI's principal beneficial stockholder, through IELP. No revenue was recorded related to railcar services performed on these railcars for both the three and nine months ended September 30, 2018 compared to \$1.1 million and \$1.2 million for the three and nine months ended September 30, 2017, respectively. These revenues are included under railcar services revenues from affiliates on the condensed consolidated statements of operations.

Other Agreements

ARI is party to a scrap agreement with M. W. Recycling (MWR), a company controlled by Mr. Carl Icahn, the Company's principal beneficial stockholder through IELP. Under the agreement, ARI sells and MWR purchases scrap metal from several ARI plant locations. This agreement had an initial term through November 2015 and was renewed in September 2016, with an effective date in December 2015, to among other things, extend the term through May 2019, after which the agreement continues until terminated by either party, in accordance with the provisions of the agreement. MWR collected scrap material totaling \$0.7 million and \$1.1 million for the three and nine months ended September 30, 2018, respectively, compared to \$0.6 million and \$2.1 million for the same periods in 2017. This agreement was unanimously approved by the independent directors of the Company's Audit Committee.

Insight Portfolio Group LLC (Insight Portfolio Group) is an entity formed and controlled by Mr. Carl Icahn to maximize the potential buying power of a group of entities with which Mr. Carl Icahn has a relationship in negotiating with a wide range of suppliers of goods, services and tangible and intangible property at negotiated rates. ARI, and a

number of other entities with which Mr. Carl Icahn has a relationship, have minority ownership interests in, and pay fees as part of being a member of Insight Portfolio Group. Fees incurred as a member of the Insight Portfolio Group were less than \$0.1 million for both the three months ended September 30, 2018 and 2017 and were \$0.1 million for both the nine months ended September 30, 2018 and

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2017. These charges are included in selling, general and administrative costs on the condensed consolidated statements of operations.

Financial information for transactions with joint ventures

Loans to joint ventures

The Company's Axis joint venture entered into a credit agreement in 2007. During 2009, the Company and the other significant partner acquired the debt from the lending party thereto, with each party acquiring a 50.0% interest. The balance outstanding on the debt, due to ARI Component, was \$7.4 million and \$11.8 million as of September 30, 2018 and December 31, 2017, respectively. See Note 7, Investments in and Loans to Joint Ventures, to the condensed consolidated financial statements, for further information regarding this transaction and the terms of the underlying debt.

Railcar component purchases from joint ventures

ARI purchased railcar components from its joint ventures amounting to \$3.4 million and \$10.5 million for the three and nine months ended September 30, 2018, respectively, compared to \$3.4 million and \$14.0 million for the same periods in 2017.

Other agreements with joint ventures

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 additional one-year periods unless written notice is received from either party.

Note 16 — Operating Segments and Sales and Credit Concentrations

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

Manufacturing

Manufacturing consists of railcar manufacturing, and railcar and industrial component manufacturing. Revenues for railcars manufactured for the Company's railcar 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 railcar leasing segment based on revenue determined as described above. Intersegment revenues and profits 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.

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 prior to the ARL Sale. The origination fees represented a percentage of the revenues from the lease over its initial term and were paid up front.

Railcar services

Railcar services consists of railcar repair services provided through the Company's various full service facilities or mini shops and mobile units. Earnings from operations for railcar services include an allocation of selling, general and administrative costs as well as certain operating costs related to this segment's use of a portion of the Company's tank railcar manufacturing facility to perform railcar services.

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.

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Three Months Ended September 30, 2018

Revenues

	External	Intersegment	Total	Earnings (Loss) from Operations
(in thousands)				
Manufacturing	\$40,766	\$ 39,783	\$ 80,549	\$ (1,894)
Railcar leasing (1)	32,427	—	32,427	26,640
Railcar services	26,791	852	27,643	2,731
Corporate	—	—	—	(5,705)
Eliminations	—	(40,635)	(40,635)	122
Total Consolidated	\$99,984	\$ —	\$ 99,984	\$ 21,894

Three Months Ended September 30, 2017

Revenues

	External	Intersegment	Total	Earnings (Loss) from Operations
(in thousands)				
Manufacturing	\$68,442	\$ 33,625	\$ 102,067	\$ 3,733
Railcar leasing	33,440	—	33,440	19,029
Railcar services	18,864	976	19,840	1,941
Corporate	—	—	—	(4,603)
Eliminations	—	(34,601)	(34,601)	(553)
Total Consolidated	\$120,746	\$ —	\$ 120,746	\$ 19,547

Nine Months Ended September 30, 2018

Revenues

	External	Intersegment	Total	Earnings (Loss) from Operations
(in thousands)				
Manufacturing	\$194,347	\$ 62,837	\$ 257,184	\$ 4,784
Railcar leasing (1)	101,352	—	101,352	58,054
Railcar services	67,051	5,063	72,114	7,412
Corporate	—	—	—	(14,016)
Eliminations	—	(67,900)	(67,900)	4,062
Total Consolidated	\$362,750	\$ —	\$ 362,750	\$ 60,296

Nine Months Ended September 30, 2017

Revenues

	External	Intersegment	Total	Earnings (Loss) from Operations
(in thousands)				

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Manufacturing	\$184,255	\$ 149,171	\$333,426	\$ 20,183
Railcar leasing	100,992	—	100,992	56,529
Railcar services	59,200	3,191	62,391	6,986
Corporate	—	—	—	(13,828)
Eliminations	—	(152,362)	(152,362)	(6,258)
Total Consolidated	\$344,447	\$ —	\$344,447	\$ 63,612

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The earnings from operations for the leasing segment include the impact of a gain recorded for a customer's early lease termination payment. The impact of this gain on the leasing segment operating earnings was \$10.1 million for the three and nine months ended September 30, 2018, respectively, and zero for the same periods in 2017.

- (1) The earnings from operations for the leasing segment also include the impact of an impairment loss recognized on certain railcars within the Company's lease fleet. The impact of the impairment loss was zero and \$(3.6) million, net of an intercompany elimination of \$8.0 million, for the three and nine months ended September 30, 2018, respectively, and zero for the same periods in 2017.

Total Assets	September 30, 2018	December 31, 2017
	(in thousands)	
Manufacturing	\$223,949	\$212,508
Railcar leasing	1,415,264	1,375,315
Railcar services	69,032	59,814
Corporate/Eliminations	(210,409)	(174,211)
Total Consolidated	\$1,497,836	\$1,473,426

Sales to Related Parties

As discussed in Note 15, Related Party Transactions, ARI has numerous arrangements with related parties. Below is a summary of revenue from affiliates for each operating segment reflected as a percentage of total consolidated revenue.

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Manufacturing	2.6 %	0.2 %	0.7 %	0.1 %
Railcar leasing	0.4 %	0.2 %	0.3 %	0.2 %
Railcar services — %	1.0 %	— %	— %	3.4 %

Sales Concentration

Manufacturing revenues from customers that accounted for more than 10% of total consolidated revenues are outlined in the table below. The railcar leasing and railcar services segments had no customers that accounted for more than 10% of the total consolidated revenues for both the three and nine months ended September 30, 2018 and 2017.

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Manufacturing revenues from significant customers	% 34.7 %	26.9 %	13.9 %	

Note 17 — Subsequent Events

On October 26, 2018, the board of directors of the Company declared a cash dividend of \$0.40 per share of common stock of the Company to shareholders of record as of December 17, 2018 that will be paid on December 27, 2018, but only if the transactions consummated by the merger have not closed by that time.

Agreement and Plan of Merger

On October 22, 2018, American Railcar Industries, Inc. (the "Company") entered into an Agreement and Plan of Merger (the "Merger Agreement") with STL Parent Corp., a Delaware corporation (the "Parent"), pursuant to which a newly formed North Dakota corporation that is a wholly-owned subsidiary of Parent ("Merger Sub"), will be merged with and into the Company, with the Company continuing as the surviving corporation in the merger (the "Merger"). On

October 26, 2018, Merger Sub executed a joinder agreement with the Company and Parent pursuant to which Merger Sub became a party to the Merger Agreement. Following the consummation of the Merger, the Company will be a wholly-owned subsidiary of Parent.

Pursuant to the terms of the Merger Agreement, at the effective time of the Merger (the “Effective Time”), each share of common stock, par value \$0.01 per share, of the Company issued and outstanding immediately prior to the Effective Time

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(each, a “Share”), will be canceled and each such Share (other than (i) Shares owned by Parent, Merger Sub or any of their respective subsidiaries or affiliates (other than the Company), (ii) Shares owned by the Company or the Company’s subsidiaries, or (iii) Shares owned by holders who have properly exercised appraisal rights under North Dakota law) will be converted into the right to receive \$70.00 per Share in cash, without interest (the “Merger Consideration”). The Merger Consideration may be increased in the event that interest is determined to be payable as a result of Parent’s failure to timely deposit funds into escrow.

Under certain circumstances, a termination of the Merger Agreement may result in a termination fee in the amount of \$65 million payable by the Company to Parent, or a reverse termination fee of \$130 million payable by the Parent to the Company (the “Parent Termination Fee”). Upon termination of the Merger Agreement the parties will also be entitled to seek (A) specific performance and (B) damages incurred or suffered as a result of a material breach of any representations, warranties, covenants or other agreements set forth in the Merger Agreement prior to such termination, in each case to the extent expressly permitted by the Merger Agreement. The Company may also seek to enforce its rights as a third party beneficiary under the Equity Commitment Letter (as defined below), as further described below.

The closing of the transactions contemplated by the Merger Agreement are subject to customary conditions, including, among other things, (i) receiving the required approval of the Company’s stockholders, which approval was effected through the written consent (the “Written Consent”) of IEH ARI Holdings LLC (“IEH ARI Holdings”) that was delivered in connection with the Voting Agreement (as defined below), (ii) twenty days having elapsed since the mailing to the Company’s stockholders of a definitive information statement with respect to adoption of the Merger Agreement by IEH ARI Holdings pursuant to the Written Consent, and (iii) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the “HSR Act”). The transactions contemplated by the Merger Agreement are expected to close in the fourth quarter of 2018. The Company cannot assure you that the transactions will be consummated in a timely manner, if at all.

Equity Commitment Letter

On October 22, 2018, Parent obtained certain equity financing commitments pursuant to an equity commitment letter (the “Equity Commitment Letter”) for the purpose of financing the transactions contemplated by the Merger Agreement and paying related fees and expenses. Subject to the terms and conditions of the Equity Commitment Letter, ITE Rail Fund L.P. (the “Sponsor”) committed to contribute to Parent (including through release of funds from escrow), an equity contribution equal to \$440 million (the “Contribution”) prior to or at the closing. The Sponsor’s obligation to make the Contribution is subject to (i) the Marketing Period (as defined in the Merger Agreement) ending and Parent satisfying or waiving all conditions precedent to the consummation of the transactions contemplated by the Merger Agreement by Parent and Merger Sub (other than those conditions that by their nature are to be satisfied at the closing), (ii) the Debt Financing (as defined in the Merger Agreement), or any Alternative Financing (as defined in the Merger Agreement), having been funded in accordance with the terms of the Merger Agreement (or will be funded substantially contemporaneously with the Contribution), and (iii) (a) the substantially contemporaneous consummation of the Merger in accordance with the terms of the Merger Agreement or (b) the Company shall have obtained an award of specific performance by a court of competent jurisdiction requiring Parent to effect the closing of the Merger, and the Company has irrevocably confirmed in writing to Parent that if the Contribution is funded, then the closing will occur.

The Company is an express third party beneficiary and has the express right to specific performance of the equity financing. Subject to the terms and conditions of the Equity Commitment Letter and the Merger Agreement, the Company may specifically enforce the Sponsor’s obligations under the Equity Commitment Letter upon the occurrence of certain conditions, including the failure of Parent and Merger Sub to effect closing.

Limited Guarantee

On October 22, 2018, the Sponsor and the Company executed a limited guarantee (the “Limited Guarantee”) in favor of the Company. Pursuant to the terms and conditions of the Limited Guarantee and Merger Agreement, the Sponsor has guaranteed the due and punctual payment of (i) Parent’s and/or Merger Sub’s obligation to pay the Parent Termination Fee to the Company and (ii) any amounts that are owed by Parent and/or Merger Sub with respect to monetary damages relating to any material breach of the Merger Agreement by Parent or Merger Sub (in each case, only after a

valid termination of the Merger Agreement by the Company and subject to the terms and limitations of the Merger Agreement) (together, the “Guaranteed Obligations”). The maximum aggregate liability of Sponsor under the Limited Guarantee will not exceed \$130,250,000, less the amount of Guaranteed Obligations actually satisfied by Parent or Merger Sub.

Voting Agreement

In connection with the execution of the Merger Agreement, Parent, IEH ARI Holdings and certain of IEH ARI Holdings’ affiliates entered into a voting agreement (the “Voting Agreement”). Subject to the terms and conditions set forth in the Voting

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Agreement, IEH ARI Holdings and such affiliates have approved the transactions contemplated by the Merger Agreement, including the Merger, through a written consent that was delivered to the Company on October 22, 2018. This consent does not become effective and shall be deemed null and void if, at any time prior to November 26, 2018 (subject to extension as provided in the Merger Agreement), the Merger Agreement has been terminated in accordance with its terms.

Stock Repurchase Program

In connection with the transactions contemplated by the Merger Agreement, on October 21, 2018, the Board terminated the Company's stock repurchase program, effective immediately.

Stock Appreciation Rights

Pursuant to the Merger Agreement, at the Effective Time, any outstanding vested SARs will be canceled in exchange for the right to receive a lump sum cash payment calculated pursuant to the terms of the Merger Agreement. In addition, any SAR that has an exercise or base price per share of common stock that is greater than or equal to the per share Merger Consideration and any unvested SARs will be canceled at closing. The Company estimates that this will increase its expected liability related to vested and outstanding SARs to approximately \$5.2 million compared to \$3.4 million recorded for all outstanding SARs as of September 30, 2018.

The Company has evaluated subsequent events through October 30, 2018.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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 the Company's recently announced merger with Parent, the anticipated timing thereof and the agreements relating thereto, statements regarding various estimates we have made in preparing our financial statements, our plans to address the Federal Railroad Administration (FRA) directive released September 30, 2016 and subsequently revised and superseded on November 18, 2016 (FRA Directive) and the settlement agreement related thereto, the impact of the Tax Cuts and Jobs Act of 2017 (the 2017 Tax Act) on our business and financial statements, expected future trends relating to our industry, products and markets, the potential impact of regulatory developments, including developments related to the FRA Directive and the related settlement, anticipated customer demand for our products and services, trends relating to our shipments, leasing business, railcar services, revenues, profit margin, capacity, financial condition, and results of operations, trends related to railcar shipments for direct sale versus lease, our backlog and any implication that our backlog may be indicative of our future revenues, our strategic objectives and long-term strategies, our results of operations, financial condition and the sufficiency of our capital resources, our capital expenditure plans, short- and long-term liquidity needs, ability to service our current debt obligations and future financing plans, anticipated benefits regarding the growth of our leasing business, the mix of railcars in our lease fleet and our lease fleet financings, anticipated production schedules for our products and the anticipated production schedules of our joint ventures, our plans regarding future dividends and the anticipated performance and capital requirements of our joint ventures. These forward-looking statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those anticipated.

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

- risks relating to our recently announced merger including, but not limited to, risks related to the satisfaction of the conditions to closing the transaction (including the expiration of the waiting period under the HSR Act) in the anticipated timeframe or at all; the ability to realize the anticipated benefits of the transaction; potential negative effects of this announcement on the market price of our common stock; the outcome of any regulatory actions or legal proceedings that may be instituted against the Company or others related to the proposed transaction; and the ability to retain certain key employees of the Company;
- the health of and prospects for the overall railcar industry;
- our prospects in light of the cyclical nature of our business;
- our ability to recruit, retain and train qualified personnel;
- the risk of being unable to market or re-market railcars for sale or lease at favorable prices or on favorable terms or at all;
- the highly competitive nature of the manufacturing, railcar leasing and railcar services industries;
- the risks associated with ongoing compliance with transportation, environmental, health, safety, and regulatory laws and regulations, which may be subject to change;
- the impact, costs and expenses of any warranty claims to which we may be subject now or in the future;
- risks relating to our compliance with, and any developments related to, the FRA Directive and the settlement agreement related thereto;
- the impact of policies and priorities of certain governments, or other issues, that may cause trade and market conditions that result in fluctuations in the supply and costs of raw materials, including steel and railcar components, or delays in the delivery of such raw materials and components, and their impact on customer demand, our ability to deliver products and services, and our margin;
- the variable purchase patterns of our railcar customers and the timing of completion, customer acceptance and shipment of orders, as well as the mix of railcars for lease versus direct sale;
- our ability to manage overhead and variations in production rates;
- our reliance upon a small number of customers that represent a large percentage of our revenues and backlog;

the conversion of our railcar backlog into revenues equal to our reported estimated backlog value;
fluctuations in commodity prices, including oil and gas;
the risks associated with our current operations and joint ventures, including anticipated capital needs and production capabilities;

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- the ongoing risks related to our relationship with Mr. Carl Icahn, our principal beneficial stockholder through Icahn Enterprises L.P. (IELP), and certain of his affiliates;
- the impact, costs and expenses of any litigation to which we may be subject now or in the future;
- risks relating to the transition of the management of our railcar leasing business from ARL to in-house following the ARL Sale;
- risks related to the loss of executive officers;
- the sufficiency of our liquidity and capital resources, including long-term capital needs to support the growth of our lease fleet and the conversion of our backlog into shipments;
- the risks related to our and our subsidiaries' indebtedness and compliance with covenants contained in our and our subsidiaries' financing arrangements;
- uncertainties regarding the 2017 Tax Act or other changes in our tax provisions or positions;
- the integration with other systems and ongoing management of our enterprise resource planning system

In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “could,” “would,” “expect,” “plans,” “anticipates,” “believes,” “estimates,” “projects,” “predicts,” “potential” and similar expressions intended to identify forward-looking statements. Our actual results could be different from the results described in or anticipated by our forward-looking statements due to the inherent uncertainty of estimates, forecasts and projections and may be materially better or worse than anticipated. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Forward-looking statements represent our estimates and assumptions only as of the date of this report. We expressly disclaim any duty to provide updates to forward-looking statements, and the estimates and assumptions associated with them, after the date of this report, in order to reflect changes in circumstances or expectations or the occurrence of unanticipated events except to the extent required by applicable securities laws. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed above and under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017 (Annual Report), as well as the risks and uncertainties discussed elsewhere in this report and the Annual Report. We qualify all of our forward-looking statements by these cautionary statements. We caution you that these risks are not exhaustive. We operate in a continually changing business environment and new risks emerge from time to time.

RECENT DEVELOPMENTS

Agreement and Plan of Merger

As further described in the Company’s Current Report on Form 8-K filed on October 22, 2018, on October 22, 2018, American Railcar Industries, Inc. (the “Company”) entered into an Agreement and Plan of Merger (the “Merger Agreement”) with STL Parent Corp., a Delaware corporation (the “Parent”), pursuant to which a newly formed North Dakota corporation that is a wholly-owned subsidiary of Parent (“Merger Sub”), will be merged with and into the Company, with the Company continuing as the surviving corporation in the merger (the “Merger”). October 26, 2018, Merger Sub executed a joinder agreement with the Company and Parent pursuant to which Merger Sub became a party to the Merger Agreement. Following the consummation of the Merger, the Company will be a wholly-owned subsidiary of Parent.

Pursuant to the terms of the Merger Agreement, at the effective time of the Merger (the “Effective Time”), each share of common stock, par value \$0.01 per share, of the Company issued and outstanding immediately prior to the Effective Time (each, a “Share”), will be canceled and each such Share (other than (i) Shares owned by Parent, Merger Sub or any of their respective subsidiaries or affiliates (other than the Company), (ii) Shares owned by the Company or the Company’s subsidiaries, or (iii) Shares owned by holders who have properly exercised appraisal rights under North Dakota law) will be converted into the right to receive \$70.00 per Share in cash, without interest (the “Merger Consideration”). The Merger Consideration may be increased in the event that interest is determined to be payable as a result of Parent’s failure to timely deposit funds into escrow.

Under certain circumstances, a termination of the Merger Agreement may result in a termination fee in the amount of \$65 million payable by the Company to Parent, or a reverse termination fee of \$130 million payable by the Parent to the Company (the “Parent Termination Fee”). Upon termination of the Merger Agreement the parties will also be entitled to seek (A) specific performance and (B) damages incurred or suffered as a result of a material breach of any representations, warranties, covenants or other agreements set forth in the Merger Agreement prior to such

termination, in each case to the extent expressly permitted by the Merger Agreement. The Company may also seek to enforce its rights as a third party beneficiary under the Equity Commitment Letter (as defined below), as further described below.

The closing of the transactions contemplated by the Merger Agreement are subject to customary conditions, including, among other things, (i) receiving the required approval of the Company's stockholders, which approval was effected through the written consent (the "Written Consent") of IEH ARI Holdings LLC ("IEH ARI Holdings") that was delivered in connection

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with the Voting Agreement (as defined below), (ii) twenty days having elapsed since the mailing to the Company's stockholders of a definitive information statement with respect to adoption of the Merger Agreement by IEH ARI Holdings pursuant to the Written Consent, and (iii) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"). The transactions contemplated by the Merger Agreement are expected to close in the fourth quarter of 2018. The Company cannot assure you that the transactions will be consummated in a timely manner, if at all.

Equity Commitment Letter

On October 22, 2018, Parent obtained certain equity financing commitments pursuant to an equity commitment letter (the "Equity Commitment Letter") for the purpose of financing the transactions contemplated by the Merger Agreement and paying related fees and expenses. Subject to the terms and conditions of the Equity Commitment Letter, ITE Rail Fund L.P. (the "Sponsor") committed to contribute to Parent (including through release of funds from escrow), an equity contribution equal to \$440 million (the "Contribution") prior to or at the closing. The Sponsor's obligation to make the Contribution is subject to (i) the Marketing Period (as defined in the Merger Agreement) ending and Parent satisfying or waiving all conditions precedent to the consummation of the transactions contemplated by the Merger Agreement by Parent and Merger Sub (other than those conditions that by their nature are to be satisfied at the closing), (ii) the Debt Financing (as defined in the Merger Agreement), or any Alternative Financing (as defined in the Merger Agreement), having been funded in accordance with the terms of the Merger Agreement (or will be funded substantially contemporaneously with the Contribution), and (iii) (a) the substantially contemporaneous consummation of the Merger in accordance with the terms of the Merger Agreement or (b) the Company shall have obtained an award of specific performance by a court of competent jurisdiction requiring Parent to effect the closing of the Merger, and the Company has irrevocably confirmed in writing to Parent that if the Contribution is funded, then the closing will occur.

The Company is an express third party beneficiary and has the express right to specific performance of the equity financing. Subject to the terms and conditions of the Equity Commitment Letter and the Merger Agreement, the Company may specifically enforce the Sponsor's obligations under the Equity Commitment Letter upon the occurrence of certain conditions, including the failure of Parent and Merger Sub to effect closing.

Limited Guarantee

On October 22, 2018, the Sponsor and the Company executed a limited guarantee (the "Limited Guarantee") in favor of the Company. Pursuant to the terms and conditions of the Limited Guarantee and Merger Agreement, the Sponsor has guaranteed the due and punctual payment of (i) Parent's and/or Merger Sub's obligation to pay the Parent Termination Fee to the Company and (ii) any amounts that are owed by Parent and/or Merger Sub with respect to monetary damages relating to any material breach of the Merger Agreement by Parent or Merger Sub (in each case, only after a valid termination of the Merger Agreement by the Company and subject to the terms and limitations of the Merger Agreement) (together, the "Guaranteed Obligations"). The maximum aggregate liability of Sponsor under the Limited Guarantee will not exceed \$130,250,000, less the amount of Guaranteed Obligations actually satisfied by Parent or Merger Sub.

Voting Agreement

In connection with the execution of the Merger Agreement, Parent, IEH ARI Holdings and certain of IEH ARI Holdings' affiliates entered into a voting agreement (the "Voting Agreement"). Subject to the terms and conditions set forth in the Voting Agreement, IEH ARI Holdings and such affiliates have approved the transactions contemplated by the Merger Agreement, including the Merger, through a written consent that was delivered to the Company on October 22, 2018. This consent does not become effective and shall be deemed null and void if, at any time prior to November 26, 2018 (subject to extension as provided in the Merger Agreement), the Merger Agreement has been terminated in accordance with its terms.

Stock Repurchase Program

In connection with the transactions contemplated by the Merger Agreement, on October 21, 2018, the Board terminated the Company's stock repurchase program, effective immediately.

Stock Appreciation Rights

Pursuant to the Merger Agreement, at the Effective Time, any outstanding vested SARs will be canceled in exchange for the right to receive a lump sum cash payment calculated pursuant to the terms of the Merger Agreement. In addition, any SAR that has an exercise or base price per share of common stock that is greater than or equal to the per share Merger Consideration and any unvested SARs will be canceled at closing. The Company estimates that this will increase its expected liability related to vested and outstanding SARs to approximately \$5.2 million compared to \$3.4 million recorded for all outstanding SARs as of September 30, 2018.

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EXECUTIVE SUMMARY

We are a prominent North American designer and manufacturer of hopper and tank railcars, which are currently the two largest markets within the railcar industry. We provide our railcar customers with integrated solutions through a comprehensive set of high quality products and related services offered by our three reportable segments: manufacturing, railcar leasing and railcar services. Manufacturing consists of railcar manufacturing and railcar and industrial component manufacturing. We use certain of these components in our own railcar manufacturing and/or sell certain of these products to third parties. Railcar leasing consists of railcars manufactured by us or our affiliates that we lease to third parties under operating leases. Railcar services consist of railcar repair, engineering and field services, for our fleet and for other railcar owners. Our business model combines manufacturing, railcar leasing and railcar services and is designed to support the industry with complete railcar solutions over the full life cycle of a railcar.

During the third quarter of 2018, we experienced an increased level of inquiries for a variety of types of hopper and tank railcars compared to the third quarter of 2017. We believe this increase was driven, in part, by a slight improvement in underlying demand. We continue to expect that our total 2018 shipments will not reach the level of total shipments achieved in 2017. Railcar loadings for the nine months ended September 30, 2018 as reported by the AAR have increased slightly over the prior year, and the number of railcars industry-wide in storage continued to decrease as of September 30, 2018 and reached its lowest month-end total since the middle of 2016.

We received orders for 8,482 railcars during the third quarter of 2018, including 7,650 railcars ordered through the long-term supply agreement with GATX. These orders increased our backlog to 11,215 railcars at September 30, 2018.

The flexibility of our workforce and the proximity of our railcar manufacturing facilities and vertically integrated component plants provide us with the ability to adjust our production rates as market demand may dictate. However, we are operating in an environment with very low unemployment levels and we continue to focus our efforts to attract, train and retain skilled workers to meet current demand, which has increased costs. We cannot assure you that hopper or tank railcar demand will maintain its current pace, that demand for any railcar types or railcar services will improve, or that our railcar backlog, orders, shipments, pricing, lease utilization and/or lease rates will be comparable to our historical results or track industry-wide trends.

Our consolidated operating margin was 16.6% for the nine months ended September 30, 2018, a decrease from 18.5% for the same period in 2017, which reflected the competitive pricing environment currently prevalent in the railcar industry and lower production levels at our railcar manufacturing facilities, as well as an impairment loss on certain railcars in our lease fleet, all partially offset by an early lease termination payment, which is discussed further below. Excluding the impact of the impairment and the early lease termination payment, our consolidated operating margin would have been 14.8% for the nine months ended September 30, 2018. Our year-to-date 2018 operating margin also reflects certain inefficiencies experienced in our railcar production facilities, including the impact of our hiring, training and retention efforts to meet current demand for both hopper and tank railcars.

Our earnings for the nine months ended September 30, 2018 were supported by our railcar leasing segment, with a lease fleet of 13,721 railcars at September 30, 2018. Total railcar shipments were 654 during the third quarter of 2018, a decrease of 31.6% compared to the same period in 2017. These shipments included 387 railcars built for our lease fleet, representing 59.2% of our total railcar shipments compared to 35.4% for the same period in 2017. To the extent we add orders for railcars to our lease fleet, those orders not only help us to maintain a steady level of production during the manufacturing period, but also help provide future cash flows while the lease fleet continues to maintain a strong utilization rate. Because revenues and earnings related to leased railcars are recognized over the life of a lease, our quarterly and annual results may vary depending on the mix of lease versus direct sale railcars that we ship during a given period. Additionally, during the third quarter of 2018, we reached an agreement with one of our lessees to terminate a lease prior to the lease expiration date. This early termination resulted in a gain, net of the impact of related expenses, of approximately \$10.1 million, and was recorded as other operating income during the third quarter of 2018.

Since 2011, we have strategically grown our lease fleet to include a mix of tank and hopper railcars for varying service types. The expiration dates of our operating leases for railcars in our lease fleet are spread over the next

several years, with no more than 20% of the lease fleet expiring in any single year, which helps mitigate the risks of renewing leases at lower rates or any inability we may experience in renewing leases or re-leasing these railcars. Our backlog of 11,215 railcars includes 1,486 railcars we currently expect to build for our lease fleet. With our current liquidity of \$274.5 million, including \$200.0 million available under our revolving credit facility, and additional unencumbered railcars available to borrow against, we have the ability to grow our lease fleet further as demand dictates.

Our railcar services business continues to support the industry, offering repair services over the railcar life cycle. Our tank railcar manufacturing facility provides us additional flexibility not only to produce railcars, but also to perform traditional

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repair and retrofit services in a production line set-up. We have ramped up activity on retrofit projects for third parties during 2018 that will continue for the balance of the year.

As discussed in Note 12, Commitments and Contingencies, in connection with the Federal Railroad Administration's (FRA) Railworthiness (RWD) Directive No. 2016-01 [Revised] (the Revised Directive) and our settlement agreement with the FRA related thereto, a loss contingency reserve remained of \$8.6 million as of September 30, 2018 related to our probable and estimable liabilities with respect to our compliance with the Revised Directive and related settlement agreement. We continue to monitor this contingency and refine our estimates as necessary. In addition to the requirements of the Revised Directive and the related settlement agreement, we are subject to regulation by governmental, regulatory, and industry authorities and by federal, state, local, and foreign agencies. Despite our intention to comply with these laws and regulations in an efficient manner, our compliance efforts may prove to require more resources than we currently anticipate. We may also be subject to increased regulatory scrutiny, whether due to our ongoing compliance with the Revised Directive and the related settlement agreement, or otherwise.

We believe our integrated business model of providing complete life cycle solutions for the railcar industry under the direction of our experienced management team provides a solid foundation of knowledge, which we will leverage as we continue to grow our business as demand dictates. We are confident that this business model, which offers our customers opportunities to purchase or lease railcars from us, provides us with numerous advantages, including increased flexibility and lower costs relative to other lessors in the industry.

RESULTS OF OPERATIONS

Three and nine months ended September 30, 2018 compared to three and nine months ended September 30, 2017
Consolidated Results

	Three Months Ended September 30, 2018 2017				Nine Months Ended September 30, 2018 2017			
			\$	%			\$	%
	(in thousands)		Change	Change	(in thousands)		Change	Change
Revenues:								
Manufacturing	\$40,766	\$68,442	\$(27,676)	(40.4)	\$194,347	\$184,255	\$10,092	5.5
Railcar leasing	32,427	33,440	(1,013)	(3.0)	101,352	100,992	360	0.4
Railcar services	26,791	18,864	7,927	42.0	67,051	59,200	7,851	13.3
Total revenues	\$99,984	\$120,746	\$(20,762)	(17.2)	\$362,750	\$344,447	\$18,303	5.3
Cost of revenues:								
Manufacturing	\$(42,117)	\$(64,235)	\$22,118	(34.4)	\$(184,507)	\$(169,915)	\$(14,592)	8.6
Other operating income (loss)	(15)	(924)	909	*	29	140	(111)	*
Railcar leasing	(12,491)	(10,856)	(1,635)	15.1	(38,871)	(34,532)	(4,339)	12.6
Railcar services	(22,892)	(16,023)	(6,869)	42.9	(56,897)	(49,559)	(7,338)	14.8
Total cost of revenues	\$(77,515)	\$(92,038)	\$14,523	(15.8)	\$(280,246)	\$(253,866)	\$(26,380)	10.4
Selling, general and administrative	(10,993)	(9,263)	(1,730)	18.7	(29,349)	(27,084)	(2,265)	8.4
Net gains on disposition of leased railcars	272	102	170	*	549	115	434	*
Loss on asset impairment	—	—	—	*	(3,554)	—	(3,554)	*
Gain on early lease termination	\$10,146	\$—	10,146	*	\$10,146	\$—	10,146	*
Earnings from operations	\$21,894	\$19,547	\$2,347	12.0	\$60,296	\$63,612	\$(3,316)	(5.2)

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* - Not Meaningful

Revenues

Our total consolidated revenues for the three months ended September 30, 2018 decreased by 17.2% compared to the same period in 2017. This decrease was primarily due to decreased revenues in our manufacturing segment, partially offset by increased revenues in our railcar services segment. Our total consolidated revenues for the nine months ended September 30, 2018 increased 5.3% compared to the same period 2017. This increase was primarily due to increased revenues in our manufacturing and railcar services segments.

During the three months ended September 30, 2018, we shipped 267 direct sale railcars, which excludes 387 railcars (59.2% of total shipments) built for our lease fleet, compared to 618 direct sale railcars for the same period of 2017, which excludes 338 railcars (35.4% of total shipments) built for our lease fleet.

During the nine months ended September 30, 2018, we shipped 1,797 direct sale railcars, which excludes 601 railcars (25.1% of total shipments) built for our lease fleet, compared to 1,698 direct sale railcars for the same period of 2017, which excludes 1,485 railcars (46.7% of total shipments) built for our lease fleet.

Manufacturing revenues decreased by 40.4% during the three month period ended September 30, 2018 compared to the same period in 2017. This change included a 56.4% decrease due primarily to decreased railcar shipments for direct sale. In total, we shipped 351 fewer direct sale railcars during the three months ended September 30, 2018 compared to the same period in 2017. This decrease was partially offset by a 16.0% increase resulting from higher selling prices due to the mix of railcars shipped during the third quarter of 2018 compared to the third quarter of 2017 and, to a lesser extent, higher revenues from material cost changes that we generally pass through to customers.

Manufacturing revenues increased by 5.5% during the nine month period ended September 30, 2018 compared to the same period in 2017. This change included a 11.1% increase due primarily to increased railcar shipments for direct sale and higher revenues from material cost changes that we generally pass through to customers. In total, we shipped 99 more direct sale railcars during the nine month period ended September 30, 2018 compared to the same period in 2017. These increases were partially offset by a 5.6% decrease resulting from lower selling prices due to the mix of types of hopper and tank railcars shipped during the nine months ended September 30, 2018 compared to the same period in 2017 and more competitive pricing across the North American railcar market.

Railcar leasing revenues decreased by 3.0% during the three months ended September 30, 2018 compared to the same period in 2017. This decrease was primarily due to a decline in weighted average lease rates and increased time off lease for reassignments, partially offset by an increase in the number of railcars on lease. Railcar leasing revenues increased 0.4% during the nine months ended September 30, 2018 compared to the same period in 2017 due primarily to an increase in the number of railcars in our lease fleet, partially offset by a decline in weighted average lease rates and increased time off lease for reassignments. The lease fleet grew to 13,721 railcars at September 30, 2018 from 12,749 railcars at September 30, 2017.

Railcar services revenues increased by 42.0% for the three months ended September 30, 2018 compared to the same period in 2017, primarily due to increased revenue generated from retrofit projects, partially offset by lower demand for traditional repair services. Railcar services revenues increased by 13.3% for the nine months ended September 30, 2018 compared to the same period in 2017, primarily due to increased revenue generated from retrofit projects, partially offset by decreased demand for traditional repair services, including from our mobile repair operations, and the use of some repair capacity for reassignment work for our lease fleet, which results in intercompany revenue that is eliminated in consolidation. Our tank railcar manufacturing facility provides us the flexibility not only to produce railcars, but also to perform repair and retrofit services in a production line set-up, offering another option for us to meet our customers' repair needs.

Cost of revenues

Our total consolidated cost of revenues decreased by 15.8% for the three months ended September 30, 2018 compared to the same period in 2017 due primarily to decreased cost of revenues in our manufacturing segment, partially offset by increases in our railcar leasing and railcar services segments. Our total consolidated cost of revenues increased by 10.4% for the nine months ended September 30, 2018 compared to the same period in 2017 due to increased cost of revenues in our manufacturing, railcar leasing, and railcar services segments.

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Cost of revenues decreased for our manufacturing segment by 34.4% for the three months ended September 30, 2018 compared to the same period in 2017. This decrease was primarily driven by a decrease of 56.5% related to decreased railcar shipments for direct sale, partially offset by a 22.1% increase due to higher material costs for key components and steel. These higher material costs are also reflected as an increase in selling prices as our practice is to generally pass changes in these costs through to customers. The increased cost of revenues is also partially driven by the impact of certain inefficiencies encountered in our railcar production environment, including the impact of our efforts to hire, train, and retain skilled workers to meet current demand for both hopper and tank railcars, including direct and indirect costs of training new hires and additional training for current personnel, along with higher fixed costs incurred based on lower production levels. Cost of revenues increased for our manufacturing segment by 8.6% for the nine months ended September 30, 2018 compared to the same period in 2017, including an increase of 11.6% driven primarily by higher railcar shipments for direct sale and increased materials costs that are passed through to customers. These increases to cost of revenues were partially offset by a decrease of 3.0% due to the mix of railcars shipped during these periods.

Cost of revenues for our railcar leasing segment increased by 15.1% and 12.6% for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017, primarily as a result of an increase in the number of railcars in our lease fleet, including increased depreciation expense, and increased maintenance costs associated with both our growing lease fleet and railcars being reassigned to other lessees.

Cost of revenues for our railcar services segment increased by 42.9% and 14.8% for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017, primarily due to increased demand for retrofit projects and an unfavorable mix of repair work causing inefficiencies at certain repair facilities during 2018, partially offset by a decline in traditional repair work, including at our mobile repair operations.

Other operating income (loss)

During the second quarter of 2018, we recorded an impairment loss of \$3.6 million on certain railcars within our lease fleet. See Note 6 - "Property, Plant, Equipment and Railcars on Leases, net" for further details of the facts and circumstances surrounding this impairment and the analysis performed.

During the third quarter of 2018, we reached an agreement with one of our lessees to terminate a lease prior to the lease expiration date. This early termination resulted in a gain, net of the impact of related expenses, of approximately \$10.1 million, which was recorded as other operating income during the third quarter of 2018. The railcars that were subject to the terminated lease have since been reassigned to a new lessee.

Selling, general and administrative expenses

Our total consolidated selling, general and administrative expenses were \$11.0 million and \$29.3 million for the three and nine months ended September 30, 2018, respectively, compared to \$9.3 million and \$27.1 million for the same periods in 2017. These increases were primarily driven by higher expenses for share-based compensation resulting from fluctuations in our stock price as well as increased compensation costs, partially related to additional personnel hired to increase our sales and marketing team and other supporting groups in connection with transitioning our lease fleet management in-house. In 2017, prior to the sale of ARL, most of these expenses were paid for through the management fee paid to ARL, which was recorded as cost of revenues in the railcar leasing segment. These increases were partially offset by decreased legal expenses for both periods.

Interest expense

Our total consolidated interest expense decreased by \$0.2 million and \$0.6 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. These decreases were primarily driven by lower average debt balances during these periods of 2018 compared to the same periods in 2017.

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Earnings from Joint Ventures

The breakdown of our earnings from joint ventures during the three and nine months ended September 30, 2018 and 2017 was as follows:

	Three Months Ended September 30, 2018 2017 Change (in thousands)			Nine Months Ended September 30, 2018 2017 Change (in thousands)		
Ohio Castings	\$(206)	\$(237)	\$ 31	\$(523)	\$(1,059)	\$ 536
Axis	574	469	105	2,769	2,637	132
Total Earnings from Joint Ventures	\$368	\$232	\$ 136	\$2,246	\$1,578	\$ 668

Our joint venture earnings were \$0.4 million and \$2.2 million for the three and nine months ended September 30, 2018, respectively, compared to earnings of \$0.2 million and \$1.6 million for the same periods in 2017. Our Ohio Castings joint venture, which was idled in early 2017, incurring ramp down costs, remains idled and continues to generate losses. We expect that Ohio Castings will remain idle through most, if not all, of 2019, subject to re-evaluation based on changes in demand expectations. We do not expect the idling to have a significant impact to our operations or supply chain, as we expect to fulfill our castings requirements from third party vendors.

Earnings from our Axis joint venture increased during the three and nine months ended September 30, 2018 compared to the same periods in 2017 due primarily to continued profitability and lower interest expense resulting from lower debt levels.

Income Tax Expense

Our income tax expense was \$4.4 million, or 25.2% of our earnings before income taxes, and \$12.8 million, or 26.6% for the three and nine months ended September 30, 2018, respectively, compared to \$6.3 million, or 41.5% of our earnings before income taxes, and \$21.9 million or 41.9% for the same periods in 2017. Our annual effective tax rate in 2018 is lower than our 2017 rate primarily due to the reduction in the federal corporate income tax rate as a result of the Tax Cuts and Jobs Act of 2017 effective for calendar year 2018. Furthermore, based upon our accounting policy for the realization of deferred tax assets, 2017 was impacted by a discrete item in recognizing a valuation allowance against our capital loss carryforward in the second quarter of 2017, increasing our tax expense by \$1.1 million, a 1.9% increase to the effective tax rate for the nine months ended September 30, 2017.

Our annual effective tax rate is impacted by fluctuations in our state effective tax rates as it is based on estimates for allocation and apportionment that may differ from actual results and may vary from year to year. In the third quarter of 2018, we reviewed our year-to-date actual and estimated apportionment results for the current year and adjusted our state effective tax rate in calculating the annual effective tax rate. We also adjusted our inventory of deferred tax assets and liabilities for the state effective rate. These adjustments resulted in a discrete item of \$0.9 million of income tax expense in the quarter.

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.

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	Three Months Ended September 30,						
	2018			2017			
	(in thousands)						
	External	Intersegment	Total	External	Intersegment	Total	Change
Revenues							
Manufacturing	\$40,766	\$ 39,783	\$80,549	\$68,442	\$ 33,625	\$102,067	\$(21,518)
Railcar leasing	32,427	—	32,427	33,440	—	33,440	(1,013)
Railcar services	26,791	852	27,643	18,864	976	19,840	7,803
Eliminations	—	(40,635)	(40,635)	—	(34,601)	(34,601)	(6,034)
Total Consolidated	\$99,984	\$ —	\$99,984	\$120,746	\$ —	\$120,746	\$(20,762)

	Nine Months Ended September 30,						
	2018			2017			
	(in thousands)						
	External	Intersegment	Total	External	Intersegment	Total	Change
Revenues							
Manufacturing	\$ 194,347	\$ 62,837	257,184	\$ 184,255	\$ 149,171	\$ 333,426	\$(76,242)
Railcar leasing	101,352	—	101,352	100,992	—	100,992	360
Railcar services	67,051	5,063	72,114	59,200	3,191	62,391	9,723
Eliminations	—	(67,900)	(67,900)	—	(152,362)	(152,362)	84,462
Total Consolidated	\$ 362,750	\$ —	\$ 362,750	\$ 344,447	\$ —	\$ 344,447	\$ 18,303

Three Months Ended September 30,				Nine Months Ended September 30,			
2018				2017			
(in thousands)				(in thousands)			
	2018	2017	Change	2018	2017	Change	
Earnings (Loss) from Operations							
Manufacturing	\$(1,894)	\$3,733	\$(5,627)	\$4,784	\$20,183	\$(15,399)	
Railcar leasing (1)	26,640	19,029	7,611	58,054	56,529	1,525	
Railcar services	2,731	1,941	790	7,412	6,986	426	
Corporate	(5,705)	(4,603)	(1,102)	(14,016)	(13,828)	(188)	
Eliminations	122	(553)	675	4,062	(6,258)	10,320	
Total Consolidated	\$21,894	\$19,547	\$2,347	\$60,296	\$63,612	\$(3,316)	

The earnings from operations for the leasing segment include the impact of a gain recorded for a customer's early lease termination payment. The impact of this gain on the leasing segment operating earnings was \$10.1 million for the three and nine months ended September 30, 2018, respectively, and zero for the same periods in 2017.

- (1) The earnings from operations for the leasing segment also include the impact of an impairment loss recognized on certain railcars within the Company's lease fleet. The impact of the impairment loss was zero and \$(3.6) million, net of an intercompany elimination of \$8.0 million, for the three and nine months ended September 30, 2018, respectively, and zero for the same periods in 2017.

Three Months Ended September 30,		Nine Months Ended September 30,	
2018	2017	2018	2017
Segment Operating Margins			
Manufacturing	(2.4)%	3.7 %	1.9 %
		6.1 %	

Railcar leasing (1)	82.2	%	56.9	%	57.3	%	56.0	%
Railcar services	9.9	%	9.8	%	10.3	%	11.2	%

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The leasing segment operating margins include the impact of a gain recorded for a customer's early lease termination payment. The impact of this gain on the leasing segment operating margins was 31.3% and 10.0% for the three and nine months ended September 30, 2018, respectively, and zero for the same periods in 2017.

- (1) The leasing segment operating margins include the impact of an impairment loss recognized on certain railcars within the Company's lease fleet. The impact of the impairment loss on the leasing segment operating margins was zero and (3.5)% for the three and nine months ended September 30, 2018, respectively, and zero for the same periods in 2017.

Manufacturing

Our manufacturing segment revenues, including revenues for railcars built for our lease fleet, decreased by \$21.5 million and \$76.2 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. The decrease in revenues for the three months ended September 30, 2018 was primarily due to a decrease in railcar shipments for direct sale and a decrease in average selling prices due to more competitive pricing for both hopper and tank railcars, partially offset by an increase in railcar shipments for our lease fleet and increased pricing due to shift in mix of railcars shipped. The decrease in revenues for the nine months ended September 30, 2018 was primarily due to a decrease in railcar shipments for our lease fleet and lower average selling prices due to a shift in mix of railcars shipped as well as more competitive pricing for both hopper and tank railcars, partially offset by increased railcar shipments for direct sale. The change in mix of railcars shipped impacts manufacturing revenues as hopper railcars generally sell at lower prices than tank railcars due to less material and labor content.

During the third quarter of 2018, we shipped 654 railcars, including 387 railcars built for our lease fleet, compared to 956 railcars, including 338 railcars built for our lease fleet for the same period of 2017. During the first nine months of 2018 we shipped 2,398 railcars, including 601 railcars built for our lease fleet, compared to 3,183 railcars, including 1,485 railcars built for our lease fleet for the same period of 2017.

Manufacturing segment revenues for the three and nine months ended September 30, 2018 included revenues of \$39.6 million and \$62.0 million, respectively, relating to railcars built for our lease fleet compared to \$33.3 million and \$147.2 million for the same periods in 2017. The increase in revenues related to railcars built for our lease fleet for the three months ended September 30, 2018 was due primarily to timing of customer orders. The decrease for the nine months ended September 30, 2018 was due primarily to lower quantities of both hopper and tank railcars shipped for lease as available lease rates in the railcar market made certain opportunities for leasing railcars less appealing during the first half of 2018. These 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 railcar leasing segment are not recognized in consolidated revenues as railcar sales, but rather lease revenues are recognized over the term of the lease in accordance with monthly lease revenues. Railcars built for the lease fleet represented 59.2% and 25.1% of our railcar shipments during the three and nine months ended September 30, 2018, respectively, compared to 35.4% and 46.7% of our railcar shipments during the same periods in 2017.

Earnings from operations for our manufacturing segment, which include an allocation of selling, general and administrative costs and profit for railcars manufactured for our railcar leasing segment, decreased by \$5.6 million and \$15.4 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. Profit on railcars built for our lease fleet, which is eliminated in consolidation, was \$2.6 million and \$4.1 million for the three and nine months ended September 30, 2018, respectively, compared to \$3.3 million and \$14.2 million for the same periods in 2017. The profit on railcars built for our lease fleet is based on an estimated fair market value of revenues as if the railcars had been sold to a third party, less the cost to manufacture.

Operating margin from our manufacturing segment decreased to (2.4)% and 1.9% for the three and nine months ended September 30, 2018, respectively, compared to 3.7% and 6.1% for the same periods in 2017. The decreases for both earnings from operations and operating margin were primarily due to decreased railcar shipments, higher fixed costs incurred based on lower production volumes, more competitive pricing for both tank and hopper railcars, and certain inefficiencies encountered in our railcar manufacturing facilities, including the costs associated with our efforts to hire, train and retain skilled workers to meet current demand for both hopper and tank railcars, including direct and indirect training costs.

Railcar Leasing

Our railcar leasing segment revenues for the three months ended September 30, 2018 decreased by \$1.0 million for the three months ended September 30, 2018 compared to the same period in 2017. This decrease was primarily due to a decline in weighted average lease rates and increased time off lease for reassignments, partially offset by an increase in the number of railcars on lease. Our railcar leasing segment revenues for the nine months ended September 30, 2018 increased by \$0.4 million compared to the same period in 2017. This increase was driven primarily by an increase in railcars on lease with third parties, partially offset by a decline in weighted average lease rates and increased time off-lease for railcar reassignments.

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For the three and nine months ended September 30, 2018, our railcar leasing segment revenues included transactions with affiliates totaling \$0.4 million, or 0.4% of our total consolidated revenues, and \$1.2 million, or 0.3% of our total consolidated revenues, respectively. For the three and nine months ended September 30, 2017, our railcar leasing segment revenues included transactions with affiliates of \$0.2 million, or 0.2% of our total consolidated revenues, and \$0.7 million, or 0.2%, of our total consolidated revenues, respectively.

Earnings from operations for our railcar leasing segment, which include an allocation of selling, general and administrative costs, increased by \$7.6 million and \$1.5 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. Operating margin from our railcar leasing segment increased to 82.2% and 57.3% for the three and nine months ended September 30, 2018, respectively, compared to 56.9% and 56.0% for the same periods in 2017. As discussed above, the railcar leasing segment recorded a gain of \$10.1 million during the third quarter of 2018 related to an early lease termination, which is included in earnings from operations. Additionally, earnings from operations and operating margin for the nine months ended September 30, 2018 included a \$3.6 million impairment loss recognized during the second quarter of 2018 on certain railcars in our lease fleet. Excluding these items, operating margins from our railcar leasing segment would have been 50.9% and 50.8% for the three and nine months ended September 30, 2018, respectively. These decreases were primarily driven by increased maintenance costs and lower lease rates on new railcars on lease, as well as certain renewals and reassignments.

Railcar Services

Our railcar services segment revenues increased by \$7.8 million and \$9.7 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. These increases were primarily due to increased revenue from retrofit projects, as well as increased intercompany revenue for lease fleet reassignment work that is eliminated in consolidation, both partially offset by decreased demand for traditional repair services, including from our mobile repair operations.

For both the three and nine months ended September 30, 2018, our railcar services segment revenues included transactions with affiliates totaling less than \$0.1 million, or less than 0.1% of our total consolidated revenues compared to \$1.2 million, or 1.0% of our total consolidated revenues, and \$11.7 million, or 3.4% of our total consolidated revenues for the same periods in 2017.

Earnings from operations for our railcar services segment, which include an allocation of selling, general and administrative costs, increased to \$2.7 million and \$7.4 million for the three and nine months ended September 30, 2018, respectively, compared to \$1.9 million and \$7.0 million for the same periods of 2017. Operating margins for this segment were 9.9% and 10.3% for the three and nine months ended September 30, 2018, respectively, compared to 9.8% and 11.2% for the same periods in 2017. The decrease in operating margin for the nine months ended was primarily driven by an unfavorable mix of work as well as costs incurred during the ramp up for retrofit projects.

BACKLOG

We define backlog as the number and estimated market value of new railcars we will produce that our customers have committed in writing to purchase or lease from us that have not been shipped, net of cancellations. As of September 30, 2018, our total backlog was 11,215 railcars, of which we currently expect 9,729 railcars with an estimated market value of \$936.7 million to be for direct sale and 1,486 railcars with an estimated market value of \$162.4 million to be added to our lease fleet. As of December 31, 2017, our total backlog was 1,940 railcars, of which we expected 1,551 railcars with an estimated market value of \$132.8 million to be direct sales and 389 railcars with an estimated market value of \$39.8 million to be added to our lease fleet. Our entire backlog at September 30, 2018 related to railcar orders for non-affiliated customers. Our backlog does not include any railcars that may be produced by our affiliate, ACF, and purchased by us.

Railcars for Sale. As of September 30, 2018, 86.7% of the total number of railcars in our backlog were expected to be railcars for direct sale. Estimated backlog value of railcars for direct sale reflects the total revenues expected as if such backlog were converted to actual revenues at the end of the particular period.

Railcars for Lease. As of September 30, 2018, 13.3% of the total number of railcars in our backlog were expected to be added to our lease fleet, all of which we will directly manufacture. Estimated backlog value of railcars for lease reflects the estimated market value of each railcar. Actual revenues for railcars subject to lease are recognized per the

terms of the lease and are not based on the estimated backlog value.

Customer orders may be subject to cancellation or 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. In addition, from time to time, certain orders may be subject to changes from lease to direct sale, or vice versa, which could impact the timing of conversion of orders into revenue because lease revenues are recognized over the term of the lease.

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Historically, we have experienced little variation between the number of railcars ordered and the number of railcars actually delivered. 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. In addition, our backlog totals as of September 30, 2018 include railcars ordered under a multi-year supply agreement that has a fixed quantity based on an assumed mix of tank and hopper railcars. This assumed mix, including the estimated market value based on such assumed mix, is subject to change as railcar types are specified when ordered under this agreement during each year. No railcars subject to an option under this agreement have been included in our backlog and will not be until such time as an option is exercised.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2018, we had net working capital of \$147.0 million, including \$74.5 million of cash and cash equivalents. As of September 30, 2018, we had \$526.6 million of debt outstanding, net of unamortized debt issuance costs of \$4.5 million under an indenture entered into by our wholly-owned subsidiary, Longtrain Leasing III, LLC (LLIII), and we also had \$200.0 million available to us under a revolving loan, as discussed further below.

Outstanding and Available Debt

Subsidiary lease fleet financings

In January 2015, we refinanced the Longtrain Leasing I, LLC (LLI) and Longtrain Leasing II, LLC (LLII) lease fleet financing facilities to, among other things, increase our borrowings. LLIII issued \$625.5 million in aggregate principal amount of notes, pursuant to an Indenture, as amended (the Longtrain Indenture). The notes are fixed rate secured railcar equipment notes bearing interest at a rate of 2.98% per annum for the Class A-1 Notes and 4.06% per annum for the Class A-2 Notes (the Class A-1 Notes and the Class A-2 Notes, collectively, the Notes). As of September 30, 2018, there were \$155.8 million and \$375.5 million of Class A-1 and Class A-2 notes outstanding, respectively. The Notes have a legal final maturity date of January 17, 2045 and an expected principal repayment date of January 15, 2025.

Pursuant to the terms of the Longtrain Indenture, LLIII is required to maintain deposits in a liquidity reserve bank account equal to nine months of interest payments. The liquidity reserve amount was \$16.6 million as of both September 30, 2018 and December 31, 2017 and is included within restricted cash on the condensed consolidated balance sheets.

While the legal final maturity date of the Notes is January 17, 2045, cash flows from LLIII's assets will be applied, pursuant to the flow of funds provisions of the Longtrain Indenture, so as to achieve monthly targeted principal balances. Also, under the flow of funds provisions of the Longtrain Indenture, early amortization of the Notes may be required in certain circumstances. If the Notes are not repaid by the expected principal repayment date on January 15, 2025, additional interest will accrue at a rate of 5.0% per annum and be payable monthly according to the flow of funds.

LLIII can now prepay or redeem the Class A-1 Notes, in whole or in part, on any payment date. LLIII can now prepay or redeem the Class A-2 Notes, in whole or in part, on any payment date, subject to the payment of a make-whole amount with respect to certain prepayments or redemptions made on or prior to the scheduled payment date occurring in January 2022.

The Longtrain Indenture also contains certain customary events of default, including among others, failure to pay amounts when due after applicable grace periods, failure to comply with certain covenants and agreements, and certain events of bankruptcy or insolvency. Certain events of default under the Longtrain Indenture will make the outstanding principal balance and accrued interest on the Notes, together with all amounts then due and owing to the noteholders, immediately due and payable without further action. For other events of default, the Indenture Trustee, acting at the direction of a majority of the noteholders, may declare the principal of and accrued interest on all Notes then outstanding to be due and payable immediately.

The Notes are obligations of LLIII, are generally non-recourse to ARI, and are secured by a first lien on the subject assets of LLIII consisting of railcars, railcar leases, receivables and related assets, subject to limited exceptions. 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 railcars, railcar leases, receivables and related assets to be transferred to LLIII without any adverse selection, to cause the manager to maintain, lease, and re-lease LLIII's equipment no less favorably than similar portfolios serviced by the manager, and to repurchase or replace certain railcars under certain conditions set forth in the respective financing documents.

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On April 17, 2018, LLIII entered into (i) a First Indenture Supplement with U.S. Bank National Association, as indenture trustee (the Indenture Supplement) that amended the Longtrain Indenture and (ii) a Railcar Management Agreement with the Company (the Longtrain-ARI RMA). LLIII also became a pledgor under the New Collateral Agency Agreement (as defined below) and a party to the New Lease Administration Agreement (as defined below). LLIII was permitted to take these actions after it received the consent of the holders of approximately 88% in aggregate principal balance of its unpaid and outstanding Notes on April 10, 2018.

The Indenture Supplement permits the Company to act as the manager of the railcars that serve as collateral under the Longtrain Indenture and permits LLIII to enter into the Longtrain-ARI RMA, the New Collateral Agency Agreement and the New Lease Administration Agreement.

Under the Longtrain-ARI RMA, the Company, as manager, will manage, operate, market, store, lease, re-lease, sublease, service, repair, overhaul, replace, and maintain the railcars on behalf of LLIII. The Company will receive a management fee based on the lease revenues generated by the Longtrain Railcars that are managed by the Company and will also be reimbursed for certain of its expenses and other services. The Longtrain-ARI RMA continues until terminated pursuant to its terms.

ARI lease fleet financings

In December 2015, we completed a financing of our railcar lease fleet with availability of up to \$200.0 million under a credit agreement, as amended (2015 Credit Agreement). The 2015 Credit Agreement contains an incremental borrowing provision under which ARI, as debtor and subject to the conditions set forth in the 2015 Credit Agreement, has the right but not the obligation to increase the amount of the facility in an aggregate amount of up to \$100.0 million (the amounts extended under the 2015 Credit Agreement, inclusive of any amounts extended under the incremental facility, the Revolving Loans), to a maximum principal amount of \$300.0 million. We may use the proceeds of the Revolving Loans to finance the manufacturing of railcars on an ongoing basis, to pay related transaction costs, fees and expenses in connection with the 2015 Credit Agreement, to finance ongoing working capital requirements and for other general corporate purposes. As of the date of this report we have borrowing availability of \$200.0 million under this facility.

The Revolving Loans accrue interest at a rate per annum equal to Adjusted LIBOR (as defined in the 2015 Credit Agreement) for the applicable interest period, plus 1.45%, subject to an alternative rate as set forth in the 2015 Credit Agreement. The interest rate increases by 2.0% following certain defaults or maturity.

The Revolving Loans and the other obligations under the 2015 Credit Agreement are fully recourse to ARI and are secured by a first lien and security interest on certain specified railcars (together with specified replacement railcars), related leases, related receivables and related assets, and subject to limited exceptions, a controlled bank account.

Subject to the provisions of the 2015 Credit Agreement, the Revolving Loans may be borrowed and reborrowed until the maturity date in December 2018. The Revolving Loans may be prepaid at the Company's option at any time without premium or penalty (other than customary LIBOR breakage fees and customary reimbursement of increased costs). See Note 9 to the condensed consolidated financial statements for further discussion of the Revolving Loans. The Revolving Loans are also subject to acceleration upon and following specified events of default. The 2015 Credit Agreement contains certain representations, warranties, and affirmative and negative covenants applicable to us, which are customarily applicable to senior secured facilities. Key defaults and events of default include failure to repay principal, interest, fees and other amounts owed under the 2015 Credit Agreement; making misrepresentations; cross-defaults to certain other indebtedness of the Company; the rendering of certain judgments against the Company; impermissible transfers of equipment; occurrence of a Material Adverse Change (as defined in the 2015 Credit Agreement); and the Company's bankruptcy or insolvency. Many defaults are subject to cure periods prior to such default giving rise to the right of the lenders and administrative agent to accelerate the Revolving Loans and to exercise remedies.

If a default occurs and is not cured within any applicable grace period or is not waived, the lenders and the administrative agent would be entitled to take various actions, including the acceleration of amounts due under the 2015 Credit Agreement. If the indebtedness under the 2015 Credit Agreement were accelerated, the Company may not have sufficient funds to pay such indebtedness. In that event, the lenders and the administrative agent would be entitled to enforce their security interests in the collateral securing such indebtedness.

On April 17, 2018, the Company entered into a First Amendment to Credit Agreement, Chattel Mortgage and Security Agreement, with Credit Agricole Corporate and Investment Bank, as administrative agent, and the financial institutions party thereto, as lenders (the ARI Revolver Amendment) on April 17, 2018. The ARI Revolver Amendment amends the 2015 Credit Agreement to permit (i) the Company's withdrawal from the Collateral Agency Agreement dated as of July 20, 2004, among the Company, ARL, as manager, U.S. Bank National Association, as collateral agent and each manager and pledgor that became

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parties thereto from time to time (the Initial Collateral Agency Agreement) and the Company's entry into a new Collateral Agency Agreement, by and among the Company, as manager, U.S. Bank National Association, as collateral agent, and each other manager and pledgor that becomes party thereto from time to time (the New Collateral Agency Agreement) and (ii) the appointment of an indirect subsidiary controlled by the Company as a new lease administrator and the appointment of a new bank pursuant to a new Lease Administration Agreement, by and among the Company, the lease administrator, and U.S. Bank National Association (the New Lease Administration Agreement). The Company withdrew from the Initial Collateral Agency Agreement and entered into the New Collateral Agency Agreement and New Lease Administration Agreement on April 17, 2018.

In connection with the transactions contemplated by the Merger Agreement, it is currently anticipated that any amounts outstanding under the 2015 Credit Agreement will be repaid on or before the Closing Date (as defined in the Merger Agreement) and that the 2015 Credit Agreement will be terminated on or before the Closing Date.

Additionally, while it is currently anticipated that the merger will be consummated before the end of 2018, we cannot assure that the Merger will be consummated by such time, if at all, and the Company may seek to amend and extend the 2015 Credit Agreement in the event borrowings are needed before the Closing Date.

Cash Flows

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

	Nine Months Ended		
	September 30,		
	2018	2017	Change
	(in thousands)		
Net cash provided by (used in):			
Operating activities	\$90,897	\$91,096	\$(199)
Investing activities	(74,608)	(121,818)	47,210
Financing activities	(42,063)	(42,002)	(61)
Effect of exchange rate changes on cash and cash equivalents	(86)	156	(242)
Net decrease in cash, cash equivalents, and restricted cash	\$(25,860)	\$(72,568)	\$46,708

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, inventory levels, 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, 2018 decreased slightly to \$90.9 million from \$91.1 million for the same period in 2017. The cash flows from operating activities were primarily driven by increased net earnings during the period, including the impact of the early termination gain as discussed above, and fluctuations in balance sheet items, including increased balances related to accounts payable and accrued expenses, partially offset by increases in inventory due to increased production rates and fluctuations in income tax receivable and accounts receivable balances.

Net Cash Used In Investing Activities

Our net cash used in investing activities for the nine months ended September 30, 2018 was \$74.6 million compared to \$121.8 million in the same period in 2017. The decrease was primarily a result of a decrease in the number of railcar shipments for lease during the first nine months of 2018 compared to the same period in 2017.

Net Cash Used In Financing Activities

Our net cash used in financing activities, comprised of debt repayments and dividends paid, for the nine months ended September 30, 2018 was \$42.1 million, compared to \$42.0 million for the same period in 2017.

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 depending on these factors. 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

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continued vertical integration of component parts. From time to time, we may expand our business by acquiring other businesses or pursuing other strategic growth opportunities including, without limitation, joint ventures.

Capital expenditures for the nine months ended September 30, 2018 were \$73.7 million for manufacturing railcars for lease to others to expand our business and \$7.4 million for capital projects that we expect will maintain equipment, improve efficiencies, further enhance the quality of our products and services, and reduce costs. We expect these types of capital expenditures will continue for the remainder of 2018, and we expect that our full year 2018 expenditures will be approximately \$135 to \$145 million, which represents an increase over our previous estimates, reflective primarily of additional lease orders that we have secured from third party customers. We cannot assure you that we will be able to complete any of our projects on a timely basis or within budget, if at all, or that our capital expenditures will align with industry demand for our products and services.

Future Liquidity

As of September 30, 2018, our current liquidity of \$274.5 million consisted of our existing cash and cash equivalents balance, anticipated cash flows from operations, and borrowing availability of \$200.0 million under the 2015 Credit Agreement. We expect to require additional financing over and above our current liquidity position to continue to grow our leasing business in connection with demand, to fulfill our current backlog and to purchase railcars from our affiliate for a leasing customer.

Additionally, we expect our future cash flows from operations could be impacted by the state of the credit markets and the overall economy, the number of railcar orders we receive, our shipments and production rates, as well as costs and expenses related to our compliance with governmental and industry regulations and requirements. Our future liquidity may also be impacted by the number of railcar orders we receive for lease versus direct sale. However, we believe we have a strong balance sheet with good borrowing capacity based on, among other things, our ability to use unencumbered railcars in our lease fleet as collateral in any future financing transaction.

Our operating performance may also be affected by other matters discussed under “Risk Factors,” and trends and uncertainties discussed in this discussion and analysis, as well as elsewhere in this quarterly report. These risks, trends and uncertainties may also materially adversely affect our long-term liquidity.

Our long-term liquidity is contingent upon future operating performance, our and our wholly-owned leasing subsidiary's ability to continue to meet our respective financial covenants under our respective financing facilities, our ability to satisfy our covenants under any other indebtedness we may enter into, and the ability to repay or refinance any such 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, and to comply with governmental and industry regulations and requirements. These capital requirements could be substantial.

Other potential projects, including possible strategic transactions that could complement and expand our business, 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.

Stock Repurchase Program

On July 28, 2015, our board of directors authorized the repurchase of up to \$250.0 million of our outstanding common stock. The Stock Repurchase Program will end upon the earlier of the date on which it is terminated by the Board or when all authorized repurchases are completed. The timing and amount of stock repurchases, if any, will be determined based upon our evaluation of market conditions and other factors. The Stock Repurchase Program may be suspended, modified or discontinued at any time and we have no obligation to repurchase any amount of our common stock under the Stock Repurchase Program. There were no repurchases during the nine months ended September 30, 2018. To date, we have repurchased 2,268,419 shares for \$86.0 million under the Stock Repurchase Program. Board authorization for \$164.0 million remains available for further stock repurchases.

In connection with the transactions contemplated by the Merger Agreement, on October 21, 2018, the Board terminated the Company's stock repurchase program, effective immediately.

Contractual Obligations and Contingencies

As of September 30, 2018, our gross outstanding debt decreased to \$531.3 million from \$550.4 million as of December 31, 2017, primarily in connection with principal payments made on the Notes in accordance with the terms of the Longtrain

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Indenture. See Notes 9 - 12 to the condensed consolidated financial statements for a discussion of the status of other contingencies and contractual obligations. Our contractual obligations and contingencies did not materially change from the information disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

Off-Balance Sheet Arrangements

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

CRITICAL ACCOUNTING POLICIES

The critical accounting policies and estimates used in the preparation of our financial statements that we believe affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements presented in this report are described in Management's Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K, for the year ended December 31, 2017.

Effective January 1, 2018, the Company adopted ASC Topic 606, Revenue from Contracts with Customers (Topic 606). Although the new revenue standard is expected to have an immaterial impact on our ongoing net income, we determined that it was appropriate to identify our updated accounting policy as a critical accounting policy.

Under our previous accounting policy, included in our Annual Report on Form 10-K for the year ended December 31, 2017, revenues from railcar services were recognized upon completion and shipment of railcars from ARI's plants.

Due to the adoption of Topic 606, revenue is now recognized as railcar services are performed, consistent with "over time" revenue recognition under Topic 606.

There have been no other 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, 2017.

Recent accounting pronouncements

See Note 2, Recent Accounting Pronouncements, to the condensed consolidated financial statements located in Part I, Item I of this report for a discussion of recent accounting pronouncements applicable to us.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risks as previously disclosed in Item 7A of our Annual Report on Form 10-K, for the year ended December 31, 2017.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure controls and procedures

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

See Note 12, Commitments and Contingencies, to the condensed consolidated financial statements located in Part I, Item I of this report, which is incorporated by reference into this Part II, Item 1, for a description of the litigation, legal and administrative proceedings.

ITEM 1A. RISK FACTORS

The following risk factors should be considered carefully in addition to the other information contained in this report and in our Annual Report on Form 10-K for the year ended December 31, 2017 (our Annual Report), including the risk factors identified in Part I-Item 1A (Risk Factors) of our Annual Report. This quarterly report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. See “Special Note Regarding Forward-Looking Statements,” above. Our actual results could differ materially from those contained in the forward-looking statements. Factors that may cause such differences include, but are not limited to, those discussed below, as well as those discussed elsewhere in this quarterly report on Form 10-Q and in our Annual Report. Additional risks and uncertainties that management is not aware of or that are currently deemed immaterial may also adversely affect our business operations. If any of the following risks materialize, our business, financial condition and results of operations could be materially adversely affected.

We undertake no obligations to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Risks Relating to the Merger Agreement

The consummation of the transactions contemplated by the Merger Agreement is contingent upon the satisfaction of a number of conditions, including regulatory approval, that may not be satisfied or completed on a timely basis, if at all. Failure to complete the transactions contemplated by the Merger Agreement could negatively impact our stock price, business, financial condition, results of operations or prospects. We will also face risks while the Merger is pending. The closing of the transactions contemplated by the Merger Agreement is subject to conditions to closing that are not wholly within our control, including, among other things, the expiration or termination of the applicable waiting period under the HSR Act. We cannot assure you that each of the conditions will be satisfied or waived in a timely manner, if at all, and the Merger may be delayed or not consummated. If the conditions are not satisfied or waived in a timely manner and the Merger is delayed or not consummated, we may lose some or all of the intended or perceived benefits of the Merger, which could cause our stock price to decline and harm our business.

We are also subject to additional risks in connection with the Merger, including, without limitation: the occurrence of an event or circumstance that could give rise to the payment of a termination fee by us of \$65 million; the outcome of any regulatory actions or legal proceedings that may be instituted against us, our directors or others relating to the transactions contemplated by the Merger Agreement; the failure of the Merger to close for any reason, including due to the failure to obtain necessary regulatory approval; the restrictions imposed on our business, properties and operations pursuant to the affirmative and negative covenants set forth in the Merger Agreement, and the potential impact of such covenants on our business; the risk that the Merger will divert management’s attention, resulting in a potential disruption of our current business plan; potential negative effects of the announcement of the Merger on the market price of our common stock; and potential difficulties in employee retention arising from the Merger. If any of these risks materialize, our stock price may decline and our business, financial condition, results of operations or prospects could be materially harmed.

Uncertainty about the impact of the Merger on our employees, customers, suppliers and other third parties may have an adverse effect on us. These uncertainties may impair our ability to attract, train, retain and motivate key personnel, and could cause customers, suppliers and other third parties that deal with us to seek to change existing business relationships with us, any of which could negatively impact our business, financial condition, results of operations or prospects.

The Merger Agreement contains provisions that may discourage other companies from trying to acquire us for greater Merger consideration.

The Merger Agreement contains provisions that may discourage a third party from submitting a business combination proposal to us that might result in greater value to our stockholders than the value to be received in the Merger, or may

result in a potential competing acquirer proposing to pay a lower per share price to acquire us than it might otherwise have proposed to pay absent such provisions. These provisions include, without limitation, a general prohibition on us soliciting, or, subject to certain exceptions relating to the exercise of fiduciary duties by our board of directors, entering into discussions with any third party regarding any acquisition proposal or offers for competing transactions, and the potential for us to be required to pay a

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termination fee of \$65 million upon termination of the Merger Agreement in certain circumstances. Furthermore, certain stockholders of the Company, who collectively own approximately 62.2% of the outstanding shares of our common stock, have entered into a voting agreement with Parent. Pursuant to the voting agreement, and subject to certain exceptions, such stockholders have approved the transactions contemplated by the Merger Agreement, including the Merger, through a written consent that was delivered to the Company on October 22, 2018. This consent does not become effective and shall be deemed null and void if, at any time prior to November 26, 2018 (subject to extension as provided in the Merger Agreement), the Merger Agreement has been terminated in accordance with its terms.

Risks Relating to Our Business and Common Stock

The highly cyclical nature of the railcar industry may result in lower revenues during economic downturns or due to other factors.

The North American railcar market has been, and we expect it to continue to be, highly cyclical, resulting in volatility in demand for our products and services. Many of our customers operate in cyclical markets, such as the energy, chemical, agricultural, food and construction industries, which are susceptible to macroeconomic downturns. Weakness in certain sectors of the U.S. economy may make it more difficult for us to sell or lease certain types of railcars. The cyclical nature of the railcar industry may result in lower revenues during economic or industry downturns due to decreased demand for both new and replacement railcars, railcar products, railcar services and railcars on lease. Decreased demand could result in lower new railcar volumes for sale and lease, increased downtime, lower volumes of repair services, reduced sales prices and/or lease rates, fewer lease renewals and decreased cash flow.

The market for hopper and tank railcars currently is beginning to show signs of recovery based on recent industry order activity being at its highest level since 2014 and a decline in railcars in storage over the first half of 2018. We cannot assure you that hopper or tank railcar demand will maintain its current pace, that demand for any railcar types or railcar services will improve, or that our railcar backlog, orders, shipments, pricing, lease utilization and/or lease rates will be comparable to our historical results or track industry-wide trends.

Our failure to obtain new orders could materially adversely affect our business, financial condition and results of operations, and may be exacerbated to the extent that our backlog is depleted if shipments of railcars outpace new orders. Downturns in part or all of the railcar manufacturing industry may occur in the future, resulting in decreased demand for our products and services, reduced backlog and adjustments in production at our railcar facilities. For example, a change in environmental regulations, oil prices, competitive pricing, pipeline capacity and other factors could trigger a cyclical shift and could impact demand for railcars in the energy transportation industry.

Further, a change in our product or customer mix due to cyclical shifts in demand could have an adverse effect on our profitability. We have several different railcar types in our hopper and tank railcar families that we manufacture and lease. In addition, we repair a variety of railcars. The demand for specific types of these railcars varies from time to time. These shifts in demand or other pricing pressures during downturns could affect our margins and could have an adverse effect on our profitability. If we fill our production capacity at lower margins and then a cyclical shift occurs, we may be unable to take advantage of higher margins when they become available. In addition, if we fail to manage our overhead costs and variations in production rates, our business could suffer.

If we face labor shortages or increased labor costs, our growth and results of operations could be materially adversely affected.

We depend on skilled labor in our manufacturing and other businesses. Due to the competitive nature of the labor markets in which we operate and the cyclical nature of the railcar industry, the resulting employment cycle increases our risk of not being able to recruit, train, and retain the personnel we require, particularly when the economy expands, production rates are high, we add capacity that requires increased staffing, or competition for such skilled labor increases. We are experiencing many of these conditions presently. These risks are exacerbated during periods of low unemployment rates, which we are also currently experiencing, in areas where we seek to recruit employees. Our costs to recruit, train and retain necessary, qualified personnel may exceed our forecasts. Our inability to recruit, train, and retain adequate numbers of qualified personnel on a timely basis could negatively impact the quality of our manufacturing and railcar services processes, jeopardize our return on investment for capital expenditures intended to

expand our business, threaten our ability to deliver railcar orders in a timely manner, and materially adversely affect our business, financial condition and results of operations.

We may be unable to re-market railcars from expiring leases on favorable terms or maintain railcars on lease at satisfactory terms due to decreases in customer demand, oversupply of railcars in the market, or other changes in supply and demand, which could adversely affect our business, financial condition and results of operations.

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The failure to enter into commercially favorable railcar leases, re-lease or sell railcars upon lease expiration and/or successfully manage existing leases could have a material adverse effect on our business, financial condition and results of operations. Our ability to re-lease or sell leased railcars profitably is dependent upon several factors, including the cost of and demand for leases or ownership of newer or specific use models, the availability in the market of other used or new railcars, and changes in applicable regulations that may impact continued use of older railcars. In addition, low demand for certain types of railcars in our fleet may make it more difficult to lease those railcars to new customers if they are returned at the end of their existing leases or following a customer default. A downturn in the industries in which our lessees operate or the economy in general and decreased demand for railcars could also increase our exposure to re-marketing risk because lessees may demand reduced lease prices or shorter lease terms, which requires us to re-market leased railcars more frequently. Railcars that are returned by our customers often must undergo maintenance and service work before being leased to new customers, causing a delay in our ability to re-market such railcars and sometimes requiring us to invest capital to prepare railcars for sale or re-lease. Furthermore, the resale market for leased railcars has a limited number of potential buyers. Our inability to re-lease or sell leased railcars on favorable terms could result in lower lease rates, lower lease utilization percentages, reduced revenues, and a decline in the value of our lease fleet.

We operate in highly competitive industries and we may be unable to compete successfully, which could materially adversely affect our business, financial condition and results of operations.

We face intense competition in all geographic markets and in each area of our business. In our railcar manufacturing business, we have five primary competitors. Any of these competitors may, from time to time, have greater resources than we do. Our current competitors have increased and may continue to increase their capacity in, or new competitors may enter into, the railcar markets in which we compete. Strong competition within the industry has led to pricing pressures and could limit our ability to maintain or increase prices or obtain better margins on our railcars for both direct sale and lease. Competition may also limit our ability to re-lease railcars if our competitors provide our customers lower rates or other benefits. If we produce any type of railcars other than what we currently produce, we will be competing with other manufacturers that may have more experience with that railcar type. Further, new competitors, or alliances among existing competitors, may emerge in the railcar or industrial components industries and rapidly gain market share. Customer selection of railcars for purchase or for lease may be driven by technological or price factors, and our competitors may provide or be able to provide more technologically advanced railcars or more attractive pricing and/or lease rates than we can provide. Some of our competitors may be able to take better advantage of governmental policies that impact trade and importing and therefore reduce their costs to manufacture railcars and increase their ability to offer more competitive pricing to customers. Likewise, such governmental policies affecting trade and importing may increase our costs of manufacturing and harm our competitive position. Any competitive factors may adversely affect our sales, utilization and/or lease rates, and consequently our revenues. We also have intense competition in our railcar leasing business from railcar manufacturers, leasing companies, banks and other financial institutions. Some of this competition includes certain of our significant customers. Some of our railcar manufacturing competitors also produce railcars for use in their own railcar leasing fleets, competing directly with our railcar leasing business and with leasing companies. In connection with the re-leasing of railcars, we may encounter competition from, among other things, other railcars managed by competitor railcar leasing companies. We compete with numerous companies in our railcar services business, ranging from companies with greater resources than we have to small, local companies. In addition, new competitors, or alliances among existing competitors, may emerge, thereby intensifying the existing competition for our railcar services business.

Technological innovation by any of our existing competitors, or new competitors entering any of the markets in which we do business, could put us at a competitive disadvantage and could cause us to lose market share. Increased competition for our manufacturing, railcar leasing or railcar services businesses could result in price reductions, reduced margins and loss of market share, which could materially adversely affect our prospects, business, financial condition and results of operations.

Failing to comply with laws and regulations imposed by federal, state, local and foreign agencies could materially adversely affect our business, financial condition, results of operations and ability to access capital.

The industries in which we operate are subject to extensive regulation by governmental, regulatory and industry authorities and by federal, state, local and foreign agencies. The risks of substantial costs and liabilities related to compliance with these laws and regulations are an inherent part of our business. Despite our intention to comply with these laws and regulations, we cannot guarantee that we will be able to do so at all times and compliance may prove to be more costly and limiting than we currently anticipate, and compliance requirements could increase in future years. These laws and regulations are complex, change frequently and may become more stringent or the subject of stricter enforcement over time, which could impact our business, financial condition, results of operations and ability to access capital. If we fail to comply with the requirements and regulations of these agencies that impact our manufacturing, other processes and reporting requirements, we may face sanctions and

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penalties that could materially adversely affect our business, financial condition, results of operations and ability to access capital.

We may be subject to increased regulatory scrutiny, whether due to our ongoing compliance with the Revised Directive and the settlement agreement related thereto, or otherwise, which could result in increased costs or have a material adverse effect on our operations. Our railcar and railcar component manufacturing facilities must be certified annually by the Association of American Railroads (AAR), and products that we sell must meet AAR and Federal Railroad Administration (FRA) standards. Future regulatory developments, such as our failure to achieve, maintain or renew required certifications, issues identified by the AAR or the FRA in maintenance advisories or discovered during audits or inspections, new regulations or changes to existing regulations, modified interpretations of existing regulations, enhanced regulatory investigation, stricter regulatory enforcement, or any determination that our processes or products are not in compliance with applicable regulations, could result in increased compliance and other costs, governmental or administrative fines, penalties and proceedings, private litigation, product recalls, or plant shut-downs, any of which could have a material adverse effect on our operations, reputation, financial condition and results of operations.

Our business is subject to various laws, rules and regulations and changes in legal and regulatory requirements applicable to us or the industries in which we operate may adversely impact our business, financial condition and results of operations.

Our business is subject to various laws, rules and regulations administered by authorities in jurisdictions in which we do business. In North America, our railcar lease fleet and manufacturing and repair operations are subject to safety, operations, maintenance and mechanical standards, rules and regulations enforced by various federal and state agencies and industry organizations, including the U.S. Department of Transportation, the FRA, Transport Canada, and the AAR. State and provincial agencies regulate some health and safety matters related to rail operations not otherwise preempted by federal law. Our business and railcar lease fleet may be adversely impacted by new rules and regulations or changes to existing rules or regulations, which could require additional maintenance or substantial modification or refurbishment of our railcars or could make certain types of railcars inoperable or obsolete or require them to be phased out prior to the end of their useful lives.

Derailments in North America of trains transporting crude oil have caused various U.S. and Canadian regulatory agencies, industry organizations, as well as Class I Railroads and community governments, to focus attention on transportation by rail of flammable materials. Recent regulations related to rail transport of certain flammable liquids imposed by Canadian and United States regulators require, among other things, a new tank railcar design standard, a phase out of older DOT-111 railcars that are not retrofitted, and a classification and testing program for unrefined petroleum based products, including crude oil. In addition, railroads and other organizations may impose requirements for railcars that are more stringent than, or in addition to, any governmental regulations that may be adopted. For example, additional laws and regulations have been proposed or may be adopted that may have a significant impact on railroad operations, including the implementation of “positive train control” (PTC) requirements. PTC is a collision avoidance technology intended to override engineer controlled locomotives and stop certain types of train accidents.

We are unable to predict what impact these or other regulatory changes may have, if any, on our business or the industry as a whole. These regulations and the industry’s responsiveness in complying with these regulations may materially impact the rail industry as a whole; railroad operations; older and newer railcars that meet or exceed currently mandated standards; future railcar specifications; and the capability of the North American railcar manufacturing, repair and maintenance infrastructure to implement mandated retrofit configurations, repair or new construction. As a result of such regulations, certain of our railcars could be deemed unfit for further commercial use (which would diminish or eliminate future revenue generated from leased railcars) and/or require retrofits, repairs or modifications. The costs associated with any required retrofits, repairs or modifications could be substantial. While certain regulatory changes could result in increased demand for refurbishment, repairs and/or new railcar manufacturing activity, our business, financial condition and results of operations could be materially adversely affected if we are unable to adapt our business to changing regulations or railroad standards, source critical components and raw materials such as steel in a timely manner and at reasonable cost, or at all, and/or take advantage of any increase in demand for our products and services. We cannot assure that costs incurred to comply with any new

standards and regulations will not be material to our business, financial condition or results of operations. Regulatory changes related to tank railcars in North America may impact future new railcar production rates and orders from our customers, as well as retrofit, repair and maintenance work to existing railcars. In response to current regulations, we invested capital to further expand our manufacturing flexibility and repair capacity to address the needs of the industry. We cannot assure you that any increased manufacturing flexibility or repair capacity will be sufficient to meet the demands of the industry. Similarly, we cannot assure you of the impact of the regulatory changes affecting the North American railcar industry or our business.

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Our manufacturer's warranties expose us to potentially significant claims and our business could be harmed if our products contain undetected defects or do not meet applicable specifications.

We may be subject to significant warranty claims relating to workmanship and materials involving our railcar or component product designs. Such claims may include multiple claims based on one defect repeated throughout our mass production process or claims for which the cost of repairing the defective component is highly disproportionate to the original cost of the part. These types of warranty claims could result in costly product recalls, significant repair costs and damage to our reputation, which could materially adversely affect our business, financial condition and results of operations. Unresolved warranty claims could result in users of our products bringing legal actions against us.

Further, if our railcars or component products are defectively designed or manufactured, are subject to recall for performance or safety-related issues, contain defective components or are misused, we may become subject to costly litigation by our customers or others who may claim to be harmed by our products. Product liability claims could divert management's attention from our business, be expensive to defend and/or settle and result in sizable damage awards against us.

We may incur significant costs, loss to reputation and further regulatory action relating to the FRA's Revised Directive, any of which could materially adversely affect our business, financial condition, results of operations and ability to access capital.

On September 30, 2016, the Federal Railroad Administration (FRA) issued Railworthiness Directive (RWD) No. 2016-01 (the Original Directive). The Original Directive addressed, among other things, certain welding practices in one weld area in specified DOT 111 tank railcars manufactured between 2009 and 2015 by ARI and ACF Industries, LLC (ACF). ACF is an affiliate of Mr. Carl Icahn, our principal beneficial stockholder through IELP. We met and corresponded with the FRA following the issuance of the Original Directive to express our concerns with the Original Directive and its impact on us, as well as the industry as a whole.

On November 18, 2016 (the Issuance Date), the FRA issued RWD No. 2016-01 [Revised] (the Revised Directive). The Revised Directive changed and superseded the Original Directive in several ways.

The Revised Directive required owners to identify their subject tank railcars and then from that population identify the 15% of subject tank railcars then in hazardous materials service with the highest mileage in each tank railcar owner's fleet. Visual inspection of each of the subject tank railcars is required by the railcar operator prior to putting any railcar into service. Owners were required to ensure appropriate inspection, testing and repairs, if needed, within twelve months of the Issuance Date for the 15% of their subject tank railcars identified to be in hazardous materials service with the highest mileage. The FRA reserved the right to impose additional test and inspection requirements for the remaining tank railcars subject to the Revised Directive.

Although the Revised Directive addressed some of the Company's concerns and clarified certain requirements of the Original Directive, ARI identified significant issues with the Revised Directive. As a result, in December 2016, ARI sought judicial review of and relief from the Revised Directive by filing a petition for review against the FRA in the United States Court of Appeals for the District of Columbia Circuit.

On August 17, 2017, the Company entered into a settlement agreement with the FRA, which covered the subject railcars owned by ARI and certain of its affiliates. This settlement agreement, among other things, extended the deadline for ARI to complete the inspection, testing and repairs, if needed, for the 15% identified railcars to December 31, 2017. Adding clarity regarding certain unknown requirements referenced in the Revised Directive, under the settlement agreement, ARI is required to inspect, test, and if necessary repair the remaining 85% subject tank railcars at the next tank railcar qualification, scheduled routine or regular maintenance, shopping or repair event, but no later than December 31, 2025. However, the agreement permits ARI to: (i) if the FRA does not impose a similar requirement by July 31, 2018 on other owners' railcars subject to the Revised Directive, suspend compliance with this requirement until such time as the FRA imposes requirements on all 85% railcars subject to the Revised Directive, and (ii) elect to be governed by any different requirements later imposed by the FRA on other owners' railcars subject to the Revised Directive. In addition, the settlement agreement also provides that railcars owned by ARI are no longer

required to have a surface inspection performed when the railcars are being inspected pursuant to the Revised Directive. Finally, as part of the settlement agreement, ARI dismissed its lawsuit against the FRA.

We inspected, tested, and if necessary, repaired all of our 15% identified railcars as required pursuant to the settlement agreement prior to December 31, 2017.

Owners, including the Company, and lessees of the subject railcars will likely incur costs associated with compliance with the Revised Directive, including but not limited to, costs of inspection, cleaning and repair, if necessary, as well as freight costs for

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transporting covered railcars to and from repair facilities. We, and other lessors of subject railcars, may also experience loss of revenue during periods of rent abatement, if applicable, as a result of railcars being out of service due to compliance with the Revised Directive.

The AAR issued a Maintenance Advisory in May 2018 that requires railcar owners to inspect and test the remaining 85% of their subject tank railcars at tank railcar facilities in accordance with the process outlined in the Revised Directive no later than their next qualification, not to exceed 10 years. The tank railcars may continue in service pending inspection by a certified tank facility.

In accordance with accounting principles generally accepted in the United States of America, as of June 30, 2018, our loss contingency of \$8.6 million covers our probable and estimable liabilities with respect to our response to the Revised Directive, taking into account then available information and our contractual obligations in our capacity as both a manufacturer and owner of railcars subject to the Revised Directive.

It is reasonably possible that a loss exists in excess of the amount accrued by the Company. However, the amount of potential costs and expenses expected to be incurred for compliance with the Revised Directive in excess of the loss contingency of \$8.6 million cannot be reasonably estimated at this time. We cannot assure you that the amount of our loss contingency accrual is adequate to cover our actual costs and losses. Such costs may be substantial and may not be adequately covered by insurance, if at all, and could include costs relating to, among others:

- applicable warranties included in sale and leasing arrangements;
- implementing changes to our manufacturing personnel or processes; and
- claims, litigation, settlements and/or regulatory proceedings.

Complying with the Revised Directive and the settlement agreement could disrupt our operations or restrict our ability to expand our lease fleet. Failure to successfully manage our compliance with the Revised Directive and the settlement agreement and assist other railcar owners with their compliance efforts could cause delays or cancellations of orders, lost revenue, harm to our reputation, deterioration of business and customer relationships, including with our affiliates, and result in an adverse impact on our business, financial condition and results of operations. Any material loss of revenue due to rent abatement, or otherwise, could adversely affect our ability to comply with covenants in our debt facilities. We cannot assure you that costs incurred to comply with any regulations, including the Revised Directive, will not be material to our business, financial condition or results of operations.

Under the Revised Directive, the FRA also reserved the right to seek civil penalties or to take any other appropriate enforcement action for violations of the Federal Hazardous Materials Regulations that have occurred. To the extent we become subject to any such civil penalties and/or enforcement actions, it could result in substantial costs and could harm our business, financial condition and results of operations.

The cost of raw materials and components that we use in our manufacturing operations, particularly steel, is subject to escalation and surcharges and could increase. Any increase in these costs or delivery delays of these raw materials could materially adversely affect our business, financial condition and results of operations.

The cost of raw materials, including steel, and components used in the production of our railcars, represents a significant amount of our direct manufacturing costs per railcar. We generally include provisions in our railcar sales and leasing contracts that allow us to adjust prices as a result of increases and decreases in the cost of certain raw materials and components. From time to time, based on market conditions, we also enter into orders where such changes in material costs are not passed on to customers. The number of customers or orders for which we are not able to pass on price increases may increase in the future, which could adversely affect our operating margins and cash flows. If we are not able to pass on price increases to our customers, we may lose railcar orders or enter into contracts with less favorable contract terms such as contracts with fixed pricing provisions where material costs changes are not passed on to customers, any of which could materially adversely affect our business, financial condition and results of operations. Any fluctuations in the price or availability of steel, or any other material or component used in the production of our railcars or our railcar or industrial components, could materially adversely affect our business, financial condition and results of operations. Such price increases could reduce demand for our railcars or component products. Deliveries of raw materials and components may also fluctuate depending on various factors including supply and demand for the raw material or component, or governmental regulation relating to the raw material or

component, including regulation relating to importation and trade policies. Trade restrictions or tariffs against items we source from foreign manufacturers could increase the cost, delay shipping or reduce the supply of materials available to us or may require us to modify our current business practices, any of which could materially adversely affect our prospects, business, financial condition and results of operations.

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The variable needs of our railcar customers, the timing of completion, customer acceptance and shipment of orders, as well as the mix of railcars for lease versus direct sale, all may cause our revenues and income from operations to vary substantially each quarter, which could result in significant fluctuations in our quarterly and annual results.

Our results of operations in any particular quarterly period may be significantly affected by the number and type of railcars manufactured and shipped in that period, which is impacted by customer needs that may vary greatly quarter to quarter and year to year. In addition, because revenues and earnings related to leased railcars are recognized over the life of the lease, our quarterly results may vary depending on the mix of railcars for lease versus railcars for direct sale that we ship during a given period. Demand for new railcars versus re-leased railcars may vary as well and may cause fluctuations in our backlog and negatively impact lease fleet utilization rates. Customers may decide to lease or buy our railcars based on many factors including tax and accounting considerations, interest rates, and operational flexibility. We have no control over these external considerations and changes in these factors could impact demand for our railcars for sale or lease. The customer acceptance and title transfer or customer acceptance and shipment of our railcars determine when we record the revenues associated with our railcar sales or leases.

Given this, the timing of customer acceptance and title transfer or customer acceptance and shipment of our railcars could cause fluctuations in our quarterly and annual results. The railroads could potentially go on strike or have other service interruptions, which could ultimately create a bottleneck and potentially cause us to slow down or halt our shipment and production schedules, which could materially adversely affect our business, financial condition and results of operations.

As a result of these fluctuations, we believe that comparisons of our sales and operating results between quarterly periods within the same year and between quarterly periods within different years may not be meaningful and, as such, these comparisons should not be relied upon as indicators of our future performance.

If we lose any of our executive officers or key employees, our operations and ability to manage the day-to-day aspects of our business could be materially adversely affected.

Our future performance will substantially depend on our ability to retain and motivate our executive officers and key employees, both individually and as a group. If we lose any of our executive officers or key employees, who have many years of experience with our company and within the railcar industry and other manufacturing industries, or are unable to recruit qualified personnel, our ability to manage the day-to-day aspects of our business could be materially adversely affected. The loss of the services of one or more of our executive officers or key employees, who also have strong personal ties with customers and suppliers, could materially adversely affect our business, financial condition and results of operations. We do not currently maintain “key person” life insurance. Further, we do not have employment contracts with our executive officers and key employees. Our entry into the Merger Agreement may exacerbate these risks, as discussed above.

We may encounter challenges integrating the intellectual property that we have licensed for use in our leasing business, managing the cessation of use of certain of our intellectual property and protecting our intellectual property and confidential information from misuse.

Pursuant to the terms and conditions of the RMTA, ARL provides us an irrevocable, fully paid, non-transferable (except as set forth therein), royalty-free license to certain software and databases owned and used by ARL to manage leased railcars. We have substantially completed the initial transition, but we could experience problems or delays related to further integration of our systems or implementing improvements or enhancements to the software and databases. We may experience compatibility issues, additional training requirements, higher than expected costs for the integration, improvements or enhancements, or other challenges and delays. If we experience problems or delays with integration and/or potential system enhancements, this could negatively impact our customers and customer relationships, our ability to maintain and grow our leasing business and our reputation as a railcar lessor. It could also have an adverse effect on our ability to generate and interpret accurate management and financial reports and other information on a timely basis, which could materially adversely affect our financial reporting system and internal controls and our ability to manage our business.

The RMTA also provides for the termination, as of the consummation of the ARL Sale, of a Trademark License Agreement between us and ARL, pursuant to which we granted to ARL a license to use our trademarks “American Railcar” and the “diamond shape” of its logo, and provides for the wind-down of ARL’s use of such trademarks. We may

experience problems with market and customer confusion as ARL transitions away from using the trademark American Railcar and its logo. The wind down of ARL's use of our trademarks will occur over a period of time depending on when railcars are in need of service and can be remarked and whether railcars are subject to a financing that requires railcars to bear certain marks.

Although we have contractually agreed to certain protections, we may not be able to prevent ARL, under the Buyer's management, from improperly using our proprietary information and intellectual property obtained by ARL in connection with its performance of duties as our lease fleet manager. If our intellectual property rights and confidential information are not

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adequately protected, our competitors could commercialize our technologies and use our information to compete against us in the market, which could result in a decrease in our sales and market share and could materially adversely affect our business, financial condition and results of operations.

We depend upon a small number of customers that represent a large percentage of our revenues. The loss of any single significant customer, a reduction in sales to any significant customer or any significant customer's inability to pay us in a timely manner could materially adversely affect our business, financial condition and results of operations.

Railcars are typically sold pursuant to large, periodic orders, and therefore, a limited number of customers typically represent a significant percentage of our revenue in any given year. We also lease our railcars and provide railcar services to a limited number of customers. The loss of any significant portion of our sales, leases or railcar services to any major customer, the loss of a single major customer or a material adverse change in the financial condition of any one of our major customers could materially adversely affect our business, financial condition and results of operations. In particular, we cannot provide any assurances that we will continue to provide railcar services or to sell railcars to ARL now that the ARL Sale has been completed and ARL is under the Buyer's management. If one of our significant customers was unable or unwilling to pay for our products or services, it could materially adversely affect our business, financial condition and results of operations.

Exposure to fluctuations in commodity and energy prices or reduced demand for commodities may impact our results of operations.

Fluctuations in commodity or energy prices, including crude oil and gas prices, or reduced demand for commodities could negatively impact the activities of our customers resulting in a corresponding adverse effect on the demand for our products and services. These shifts in demand could affect our results of operations and could have an adverse effect on our profitability.

Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of other economic factors that are beyond our control. Worldwide economic, political and military events, including war, trade war, terrorist activity, events in the Middle East and initiatives by the Organization of the Petroleum Exporting Countries (OPEC), have contributed, and are likely to continue to contribute, to price and volume volatility. Most recently, the increasing global supply of oil in conjunction with weakening demand from slowing economic growth in Europe and Asia has created downward pressure on crude oil prices. Changes in environmental or governmental regulations, pipeline capacity, the price of crude oil and gas and related products and other factors have reduced, and may continue to reduce demand for railcars in the energy transportation industry, including our primary railcar products, and have a material adverse effect on our financial condition and results of operations.

Demand for railcars that are used to transport ethanol and other renewable fuels may be affected by government subsidies and mandates, which may be enacted, changed or eliminated from time to time. It is possible that the reduction or elimination of current US mandates for ethanol blending in motor fuels could reduce the production of ethanol, which would reduce demand for portions of our tank railcar fleet and negatively impact our revenue and profitability.

The level of our reported railcar backlog may not necessarily indicate what our future revenues will be, and our actual revenues may fall short of the estimated revenue value attributed to our railcar backlog or may be delayed in conversion beyond our original estimates.

We define backlog as the number of new railcars to which our customers have committed in writing to purchase or lease from us that have not been shipped, net of any cancellations. The estimated backlog value in dollars is the anticipated revenue on the railcars included in the backlog for purchase and the estimated fair market value of the railcars included in the backlog for lease, though actual revenues for these leases are recognized pursuant to the terms of each lease. These amounts may include certain assumptions related to the railcars to be delivered. We cannot guarantee that the actual revenue from these orders will equal our reported estimated backlog value or that our future revenue efforts will be successful. Our competitors may not define railcar backlog in the same manner as we do, which could make comparisons of our railcar backlog with theirs misleading. 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 our railcar backlog from being shipped and converted into revenues. Further, especially during

economic downturns or industry-specific downturns, some of our customers may attempt to cancel or modify their contracts even if not permitted to do so under the contract. Examples of such modifications include delivery deferral, substituting a used railcar in place of a new railcar, or replacing a railcar that was ordered for direct sale with a leased railcar, or vice versa. Consequently, we may not be able to recover all revenue or earnings lost in the event of a breach of contract or if we agree to a customer accommodation, either of which could also impact the timing of conversion of our backlog into revenues. Additionally, converting our reported backlog into revenues may be adversely impacted by production issues or delays, including those related to third parties that may assist with completing customer orders or that play a significant role in our supply chain. Our reported railcar backlog may not be converted into revenues in any particular period, if at all, and the actual revenues may not equal our reported estimates of railcar backlog value.

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Fluctuations in the supply of components and raw materials we use in manufacturing railcars, which are often only available from a limited number of suppliers, could cause production delays or reductions in the number of railcars we manufacture, which could materially adversely affect our business, financial condition and results of operations.

Our railcar manufacturing business depends on the adequate supply of numerous railcar components, such as railcar wheels, axles, brakes, bearings, yokes, sideframes, bolsters and other heavy castings and raw materials, such as steel. Some of these components and raw materials are only available from a limited number of domestic suppliers. Strong demand can cause industry-wide shortages of many critical components and raw materials as reliable suppliers could reach capacity production levels. Supply constraints in our industry are exacerbated because, although multiple suppliers may produce certain components, railcar manufacturing regulations and the physical capabilities of manufacturing facilities restrict the types and sizes of components and raw materials that manufacturers may use.

In addition, we do not carry significant inventories of certain components and procure most of our components on an as-needed basis. In the event that our suppliers of railcar components and raw materials were to stop or reduce the production of railcar components and raw materials that we use, or refuse to do business with us for any reason, our business would be disrupted. Our inability to obtain components and raw materials in required quantities or of acceptable quality could result in significant delays or reductions in railcar shipments and could materially adversely affect our business, financial condition and results of operations.

We rely on a small number of suppliers for the materials we purchase for our business. If any of our significant suppliers of raw materials and components were to shut down operations, our business and financial results could be materially adversely affected as we may incur substantial delays and significant expense in finding alternative sources. The quality and reliability of alternative sources may not be the same and these alternative sources may charge significantly higher prices. While we do not expect a significant impact to our operations or supply chain, our Ohio Castings joint venture is expected to remain idled through most, if not all, of 2018, and this requires us to procure select components from third party vendors.

Unanticipated changes in our tax provisions, exposure to additional tax liabilities, or contests with the Internal Revenue Service regarding tax positions we may take could affect our financial condition and profitability.

Judgment is required to determine our provision for income taxes. Changes in estimates of projected future operating results, loss of deductibility of items, or recapture of prior deductions could result in significant increases to our tax expense and liabilities that could adversely affect our financial condition and profitability.

Further, we may take tax positions that the Internal Revenue Service (IRS) or other tax authorities may contest. If the IRS or other tax authorities successfully contest a position that we take, we may be required to pay additional taxes, interest or fines and any payments could have an effect on our results of operations or financial position.

State effective tax rates can fluctuate year-to-year as a result of allocation and apportionment changes due to the geographic mix of the Company's revenues and railcar shipments. The Company uses prior year estimates for projections until current year results can be reasonably determined to provide adjustments to the state effective tax rate.

Companies affiliated with Mr. Carl Icahn are important to our business.

We manufacture railcars and railcar components for, lease railcars to, and provide railcar services to companies affiliated with Mr. Carl Icahn, our principal beneficial stockholder through IELP. We are currently subject to agreements, and may enter into additional agreements, with certain of these affiliates that are important to our business. To the extent our relationships with affiliates of Mr. Carl Icahn change due to the sale of his interest in us, such affiliates or otherwise, our business, financial condition and results of operations could be materially adversely affected.

Affiliates of Mr. Carl Icahn accounted for approximately 3.0% and 1.0% for the three and nine months ended September 30, 2018, respectively, and accounted for approximately 1.4% and 3.7% for the same periods in 2017. This revenue in 2018 is primarily attributable to railcars leased to certain of the IELP Entities, and in 2017 was primarily attributable to railcar services provided to ARL. Upon consummation of the ARL Sale as of June 1, 2017, ARL is no longer affiliated with us or Mr. Carl Icahn. ARL has no obligation to purchase our railcars or services and we cannot assure you that we will receive any revenues from ARL in the future. Our revenue from affiliates also has been and could continue to be generated from a purchasing and engineering services agreement and license with ACF, under

which we provide purchasing support and engineering services to ACF in connection with ACF's manufacture and sale of certain tank railcars at its facility. Additionally, we have a repair services and support agreement and license with ACF, under which we provide certain sales and administrative and technical services, materials and purchasing support and engineering services to ACF to provide repair and retrofit services. We also have entered into a parts purchasing and sale agreement and license with ACF, under which we from time to time, purchase from and sell to ACF certain parts for railcars. In addition, pursuant to the Railcar Purchase and Sale Agreement we entered into with

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ACF in June 2018, we have agreed to purchase certain tank railcars from ACF for our lease fleet. To the extent our relationships with Mr. Carl Icahn or companies affiliated with him change, our business, financial condition and results of operations could be materially adversely affected.

Mr. Carl Icahn exerts significant influence over us and his interests may conflict with the interests of our other stockholders.

Mr. Carl Icahn currently controls approximately 62% of the voting power of our common stock, through IELP, and is able to control or exert substantial influence over us, including controlling the election of our directors and most matters requiring board or stockholder approval, including business strategies, mergers, business combinations, acquisitions or dispositions of significant assets, issuances of common stock, incurrence of debt or other financing and the payment of dividends. The existence of a controlling stockholder may have the effect of making it difficult for, or may discourage or delay, a third party from seeking to acquire a majority of our outstanding common stock, or a significant amount of our assets, which could adversely affect the market price of our stock.

Mr. Carl Icahn owns, controls and has an interest in a wide array of companies, some of which, such as ACF and, prior to the ARL Sale, ARL, may compete directly or indirectly with us. As a result, his interests may not always be consistent with our interests or the interests of our other stockholders. For example, ACF has previously manufactured railcars for us and under a purchasing and engineering services agreement and license has been manufacturing and selling tank railcars with engineering, purchasing and design support from us. Mr. Carl Icahn and entities controlled by him may also pursue acquisitions or business opportunities that may be in competition with or complementary to our business. Our articles of incorporation allow Mr. Carl Icahn, entities controlled by him, and any director, officer, member, partner, stockholder or employee of Mr. Carl Icahn or entities controlled by him, to take advantage of such corporate opportunities without first presenting such opportunities to us, unless such opportunities are expressly offered to any such party solely in, and as a direct result of, his or her capacity as our director, officer or employee. As a result, corporate opportunities that may benefit us may not be available to us in a timely manner, or at all. To the extent that conflicts of interest may arise among us, Mr. Carl Icahn and his affiliates, those conflicts may be resolved in a manner adverse to us or you.

Litigation claims could increase our costs and weaken our financial condition.

We are currently, and may from time to time be, involved in various claims or legal proceedings arising out of our operations. The nature of our businesses and assets expose us to the potential for claims and litigation related to personal injury, property damage, environmental claims, regulatory claims, contractual disputes and various other matters. In particular, railcars we manufacture and lease will be used in a variety of manners, which may include carrying hazardous, flammable, and/or corrosive materials. An accident involving a railcar carrying such materials could lead to litigation and subject us to significant liability, particularly where the accident involves serious personal injury or loss of life. Our railcars, as well as our railcar and industrial components, are subject to risks of breakdowns, malfunctions, casualty and other negative events and it is possible that claims for personal injury, loss of life, property damage, business losses and other liability arising out of these or other types of incidents will be made against us. Additionally, in our normal course of business from time to time we enter into contracts with third parties that may lead to contractual disputes. Our failure to manufacture and maintain railcars in compliance with governmental regulations and industry rules could also expose us to fines and claims. Adverse outcomes in some or all of these matters could result in judgments against us for significant monetary damages that could increase our costs and weaken our financial condition. We seek contractual recourse and indemnification in the ordinary course of business, maintain reserves for reasonably estimable liabilities, and purchase liability insurance at coverage levels based upon commercial norms in our industries in an effort to mitigate our liability exposure. Nevertheless, our reserves may be inadequate to cover the uninsured portion of claims or judgments. Any such claims or judgments could materially adversely affect our business, financial condition and results of operations.

We are subject to a variety of environmental, health and safety laws and regulations and the cost of complying, or our failure to comply, with such requirements could materially adversely affect our business, financial condition, and results of operations.

We are subject to a variety of federal, state, local and foreign 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; or otherwise relating to the protection of public and employee health, safety and the environment. These laws and regulations expose us to liability for the environmental condition of our current or formerly owned or operated facilities and may expose us to liability for the conduct of others or for our actions that complied with all applicable laws at the time these actions were taken. They may also expose us to liability for claims of personal injury or property damage related to alleged exposure to hazardous or toxic materials on our properties or as a result of a spill or discharge of material from a railcar we own. Despite our intention to be in compliance, we cannot guarantee that we will at all times comply with such

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requirements. The cost of complying with these requirements may also increase substantially in future years. If we violate or fail to comply with these requirements, we could be fined or otherwise sanctioned by regulators. In addition, these requirements are complex, change frequently and may become more stringent over time, which could materially adversely affect our business, financial condition and results of operations.

Our failure to maintain and comply with environmental and other permits that we are required to maintain could result in fines, penalties or other sanctions and could materially adversely affect our business, financial condition and results of operations. Additionally, as these permits expire and are renewed, new or different requirements could be imposed on us, which may give rise to additional compliance and other costs that could materially adversely affect our business, financial condition and results of operations. Future events, such as new environmental or other regulations, changes in or modified interpretations of existing laws and regulations or enforcement policies, newly discovered information or further investigation or evaluation of the potential health hazards of products or business activities, may give rise to additional compliance and other costs that could materially adversely affect our business, financial condition and results of operations.

Our transition to managing our own railcar lease fleet is subject to various risks and uncertainties and may adversely impact our customer relationships, business, financial condition, results of operations and prospects.

In anticipation of the sale of ARL (the ARL Sale) to an unaffiliated third party (the Buyer) on June 1, 2017, we entered into a railcar management transition agreement (the RMTA) to manage the transition, from ARL to us, of the management of railcars owned by us and our subsidiaries. The RMTA, among other things, (i) permits us to assume the management of our railcars following the consummation of the ARL Sale; (ii) requires us to use commercially reasonable efforts to obtain the consent of noteholders (the Noteholder Consent) for ARI to replace ARL as manager of railcars owned by our subsidiary, Longtrain Leasing III, LLC (LLIII) under that certain Indenture, dated January 29, 2015, between LLIII and U.S. Bank National Association, as indenture trustee, as amended (the Longtrain Indenture), and certain related documents; and (iii) requires ARL to transfer to us certain books and records and electronic data with respect to our railcars and leasing business and otherwise assist in the transfer of the management of the leasing business to us. The Noteholder Consent was obtained on April 10, 2018, and, on April 17, 2018, ARI became the manager of the LLIII railcars and the railcar management agreement with ARL was terminated.

The ARL Sale was completed on June 1, 2017. The process of transitioning the management of our leasing business may cause confusion among our customers and may lead our customers to attempt to negotiate changes in our existing relationships or cause them to consider entering into business relationships with other parties, including ARL, under the Buyer's management, to our detriment. Further, we have engaged, and continue to engage, in a process to separate documentation of our leases from ARL's leases. This process requires the cooperation of our leasing customers, may take significant time to complete, and may involve unexpected costs and expenses. If our customers do not cooperate or we are delayed in completing this transition, we may need to rely on ARL's continued cooperation, under the Buyer's management, to enforce our rights as lessor under certain of our leases.

Under our railcar management agreements, we historically relied on ARL to manage and market our railcars for lease and re-lease. We added several key employees throughout 2017, who have joined our lease fleet management and sales team from ARL, as well as from elsewhere in the industry. Our ability to continue to successfully manage our own railcar leasing business will depend in part on these employees continuing to support and manage our railcar leasing business. If we are unable to recruit, retain and train qualified personnel, and do so in a timely manner, our ability to manage our lease fleet could be materially adversely affected.

We cannot ensure that the transition of the management of our leasing business from ARL to ARI will be effective. If we are unsuccessful in this endeavor, we may experience a material adverse effect on our business, financial condition, results of operations and prospects. Further, this transition could disrupt our business by causing unforeseen operating difficulties, diverting management's attention from day-to-day operations and requiring significant financial resources that would otherwise be used for the ongoing development of our business.

Volatility in the global financial markets or certain industries may adversely affect our customers and suppliers, resulting in adverse effects on our business, financial condition and results of operation.

During periods of volatility in the global financial markets, certain of our customers could delay or otherwise reduce their purchases of railcars and other products and services or could attempt to cancel, terminate, delay or renegotiate

orders for sale or ongoing leases. If volatile conditions in the global credit markets prevent our customers' access to credit, order volumes may decrease or customers may default on payments owed to us or return railcars to us at the end of a lease rather than re-leasing those railcars. Some of the end users of our railcars acquire them through leasing arrangements with our leasing company customers. Economic conditions that result in higher interest rates may result in stricter borrowing conditions that could increase the cost of, or potentially deter or delay, new leasing arrangements. These factors may cause our customers to purchase

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or lease fewer railcars, which could materially adversely affect our business, financial condition and results of operations. If customers attempt to cancel, terminate, delay or renegotiate purchase orders or lease contracts, we may experience increased enforcement costs, including for litigation.

The railcars in our lease fleet consist of tank and hopper railcars. The lessees of these types of railcars have historically been concentrated for use in certain industries and for certain products and our lessees generally reflect such industry and product concentrations. Consequently, any significant economic downturn in these industries or product markets could have a material adverse effect on the creditworthiness of the lessees and on the ability of such lessees to perform under the leases, which may impact our ability to re-lease railcars to those lessees or to other potential lessees with a need for railcars of the types we operate, reduce our revenue, divert management's attention or limit our ability to further attract financing to add liquidity in the future.

If our suppliers face challenges obtaining credit, selling their products, or otherwise operating their businesses, the supply of materials we purchase from them to manufacture our products may be interrupted. Any of these conditions or events could result in reductions in our revenues, increased price competition, or increased operating costs, which could adversely affect our business, financial condition and results of operations.

Train derailments or other accidents involving our products could subject us to legal claims that may adversely impact our business, financial condition and results of operations.

We manufacture railcars for our customers to transport a variety of commodities, including railcars that transport hazardous materials such as crude oil and other petroleum products. We also manufacture railcar components, as well as industrial components for use in several markets, including the trucking, construction, mining and oil and gas exploration markets. We could be subject to various legal claims, including claims for negligence, personal injury, physical damage and product liability, as well as potential penalties and liability under environmental or other laws and regulations, in the event of a train derailment or other accident involving our products or services. If we become subject to any such claims and are unable to resolve them successfully, our business, financial condition and results of operations could be materially adversely affected.

Our relationships with our joint ventures could be unsuccessful, which could materially adversely affect our business. We have entered into joint venture agreements with other companies to increase our sourcing alternatives and reduce costs. We also may seek to expand our relationships or enter into new agreements with other companies. In addition, we may experience managerial or other conflicts with our joint venture partners. If our joint venture partners are unable to fulfill their contractual obligations or if these relationships are otherwise not successful in the future, our manufacturing costs could increase, we could encounter production disruptions, growth opportunities could fail to materialize, or we could be required to fund such joint ventures in amounts significantly greater than initially anticipated, any of which could materially adversely affect our business, financial condition and results of operations. If any of our joint ventures generate significant losses, it could adversely affect our results of operations. For example, if our Axis joint venture is unable to operate as anticipated, incurs significant losses or otherwise is unable to honor its obligation to us under the Axis loan, our financial results or financial position could be materially adversely affected. In addition, any fluctuation in the price or availability of castings from other sources while the Ohio Castings plant is idled could materially adversely affect our business, financial condition and results of operations.

Our investment in our lease fleet may use significant amounts of cash, which may require us to secure additional capital and we may be unable to arrange capital on favorable terms, or at all.

We use existing cash and cash generated through lease fleet financings to manufacture railcars we lease to customers, while cash from lease revenues is received over the term of the applicable lease. Depending upon the number of railcars that we lease and the amount of cash used in other operations, our cash balances and our availability under any of our lease fleet financings could be depleted, requiring us to seek additional capital. We rely on banks and capital markets to fund our lease fleet financings. These markets may experience high levels of volatility and access to capital may be limited for extended periods of time. In addition to conditions in the capital markets, changes in our financial performance or credit ratings or ratings outlook, as determined by rating agencies, could cause us to incur increased borrowing costs or to have greater difficulty accessing public and private markets for debt. Further, changes in interest rates could make it more difficult for us to incur additional debt or could impact the costs of our current financing facilities. Our inability to secure additional capital, on commercially reasonable terms, or at all, may limit our ability

to support operations, maintain or expand our existing business, or take advantage of new business opportunities. We could also experience defaults on leases that could further constrain cash, impact our ability to re-lease railcars, reduce our revenues, divert management's attention or limit our ability to further attract financing to add liquidity in the future.

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The success of our railcar leasing business is dependent, in part, on our lessees performing their obligations. The ability of each lessee to perform its obligations under a lease will depend primarily on such lessee's financial condition, as well as various other factors. The financial condition of a lessee may be affected by numerous factors beyond our control, including, but not limited to, competition, operating costs, general economic conditions and environmental and other governmental regulation of or affecting the lessee's industry. High default rates on leases could increase the portion of railcars that may need to be re-marketed after they are repossessed from defaulting lessees, impact our ability to re-lease railcars to lessees, reduce our revenues, divert management's attention or limit our ability to further attract financing to add liquidity in the future. There can be no assurance that the historical default experience with respect to our lease fleet will continue in the future.

We may not be able to generate sufficient cash flow to service our obligations and we may not be able to refinance our indebtedness on commercially reasonable terms, or at all.

Our ability to make payments on and to refinance our indebtedness and to fund planned capital expenditures, strategic transactions, joint venture capital requirements or expansion efforts will depend on our ability to generate cash in the future. This, to a certain extent, is subject to economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

Our business may not be able to generate sufficient cash flow from operations and there can be no assurance that future borrowings will be available to us in amounts sufficient to enable us to pay our indebtedness as such indebtedness matures and to fund our other liquidity needs, or at all. If this is the case, we will need to refinance all or a portion of our indebtedness on or before maturity, and we cannot be certain that we will be able to refinance any of our indebtedness on commercially reasonable terms, or at all. We might have to adopt one or more alternatives, such as reducing or delaying planned expenses and capital expenditures, selling assets, restructuring debt, or obtaining additional equity or debt financing. These financing strategies may not be implemented on satisfactory terms, if at all. Our ability to refinance our indebtedness or obtain additional financing and to do so on commercially reasonable terms will depend on our financial condition at the time, restrictions in any agreements governing our indebtedness and other factors, including the condition of the financial markets and the railcar industry.

If we do not generate sufficient cash flow from operations and additional borrowings, refinancing or proceeds of asset sales are not available to us, we may not have sufficient cash to enable us to meet all of our obligations.

Our indebtedness could materially adversely affect our business, financial condition and results of operations and prevent us from fulfilling our indebtedness obligations.

As of June 30, 2018, our total debt was \$526.6 million, net of unamortized debt issuance costs of \$4.5 million, consisting of borrowings under our lease fleet financings. In February 2016, we repaid amounts outstanding under our revolving loan in full and as of the date of this report, we have borrowing availability of \$200.0 million under this facility.

Our indebtedness could materially adversely affect our business, financial condition and results of operations. For example, it could:

- increase our vulnerability to general economic and industry conditions;
 - require us to dedicate a substantial portion of our cash flow from operations to payments of our indebtedness, which would reduce the availability of our cash flow to fund working capital, capital expenditures, expansion efforts and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, including by restricting our ability to manage our own lease fleet following the ARL Sale;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit, among other things, our ability to borrow additional funds for working capital, capital expenditures, general corporate purposes or acquisitions.

Our inability to comply with covenants in place or our inability to make the required principal and interest payments may cause an event of default, which could have a substantial adverse impact to our business, financial condition and results of operations. In the event of a default on our lease fleet financings, the debtors may foreclose on all or a portion of the fleet of railcars and related leases used to secure the financing. Such foreclosure, if a significant number of railcars or related leases are affected, could result in the loss of a significant amount of our assets and adversely

affect revenues.

Our wholly-owned subsidiary, LLIH's, lease fleet financing is an obligation of LLIH, is generally non-recourse to ARI, and is secured by a first lien on the subject assets of LLIH consisting of railcars, railcar leases, receivables and related assets, subject to limited exceptions.

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Despite our indebtedness, we may still be able to incur substantially more debt, as may our subsidiaries, which could further exacerbate the risks associated with our indebtedness.

Despite our indebtedness, we may be able to incur future indebtedness, including secured indebtedness, and this debt could be substantial. If new debt is added to our or our subsidiaries' current debt levels, the related risks that we or they now face could be magnified.

We may pursue strategic opportunities, including new joint ventures, acquisitions, new business endeavors or the sale of all or a portion of our business or assets, that involve inherent risks, any of which may cause us not to realize anticipated benefits and we may have difficulty integrating the operations of any joint ventures that we form, companies that we acquire or new business endeavors, which could materially adversely affect our results of operations.

On October 22, 2018, we entered into the Merger Agreement. In addition to the risks described below relating to strategic opportunities, including a sale of our business, we discuss risks associated with the Merger Agreement under "Risk Factors-Risks Relating to the Merger Agreement," above.

We may not be able to successfully identify suitable joint venture, acquisition, disposition, business combination, new business endeavor or sale opportunities or complete any particular transaction on acceptable terms. Our identification of suitable joint venture opportunities, acquisition candidates, new business endeavors or buyers and the integration of new and acquired business operations involve risks inherent in assessing the values, strengths, weaknesses, risks and profitability of these opportunities. This includes their effects on our business, diversion of our management's attention and risks associated with unanticipated problems or unforeseen liabilities. These issues may require significant financial resources that could otherwise be used for the ongoing development of our current operations. The difficulties of integration may be increased by the necessity of coordinating geographically dispersed organizations, integrating personnel with disparate business backgrounds and combining different corporate cultures. These difficulties could be further increased to the extent we pursue opportunities internationally or in new markets where we do not have significant experience. In addition, we may not be effective in retaining key employees or customers of the combined businesses. We may face integration issues pertaining to the internal controls and operations functions of the acquired companies and we may not realize cost efficiencies or synergies that we anticipated when selecting our acquisition or sale candidates. Any of these items could adversely affect our results of operations.

Our failure to identify suitable joint ventures, acquisition or disposition opportunities, business combinations, new business endeavors or sales may restrict our ability to grow our business. If we are successful in pursuing such opportunities, we may be required to expend significant funds, incur additional debt, issue additional securities or sell our business or assets, which could materially adversely affect our results of operations and be dilutive to our stockholders. If we spend significant funds, incur additional debt or dispense with assets or stock, our ability to obtain financing for working capital or other purposes could decline and we may be more vulnerable to economic downturns and competitive pressures.

Our integration of our enterprise resource planning (ERP) system could negatively impact our business.

During the third quarter of 2015, we implemented an ERP system for our manufacturing, and corporate segments that supports substantially all of our operating and financial functions. We implemented this ERP system for our railcar services segment during the second quarter of 2016. We further integrated certain functions related to our railcar leasing segment in the second quarter of 2018. We experienced delays with the initial implementation and terminated and filed suit against a systems implementer we previously hired to implement this system. Although we hired a new systems implementer and the ERP system has been implemented, we could experience unforeseen issues, including compatibility issues, training requirements and other challenges and delays related to further integration or enhancements and upgrades that may be necessary. Additionally, a significant problem with the integration with other systems or ongoing management of an ERP system and related systems could have an adverse effect on our ability to generate and interpret accurate management and financial reports and other information on a timely basis, which could have a material adverse effect on our financial reporting system and internal controls and adversely affect our ability to manage our business or comply with various regulations.

Increasing insurance claims and expenses could lower profitability and increase business risk.

The nature of our business subjects us to product liability, property damage, and personal injury claims, especially in connection with the manufacture, repair or other servicing of products or components that are used in the transport or handling of hazardous, toxic, or volatile materials. We maintain reserves for reasonably estimable liability claims and liability insurance coverage at levels based upon commercial norms in the industries in which we operate and our historical claims experience. There is no guarantee that cost-effective insurance will consistently be available to us. Over the last several years, insurance carriers have raised premiums for many companies operating in our industries. Increased insurance premiums may further

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increase our insurance expense as coverages expire or cause us to raise our self-insured retention. If the number or severity of claims within our self-insured retention increases, we could suffer costs in excess of our reserves. An unusually large liability claim or a series of claims based on a failure repeated throughout our mass production process may exceed our insurance coverage or result in direct damages if we were unable or elected not to insure against certain hazards because of high premiums or other reasons. In addition, the availability of, and our ability to collect on, insurance coverage is often subject to factors beyond our control. Moreover, any accident or incident involving us, even if we are fully insured or not held to be liable, could negatively affect our reputation among customers and the public, thereby making it more difficult for us to compete effectively, and could materially adversely affect the cost and availability of insurance in the future.

Uncertainty surrounding acceptance of our new product offerings by our customers, and costs associated with those new offerings, could materially adversely affect our business.

Our strategy depends in part on our continued development and sale of new products, particularly new railcar designs, in order to expand or maintain our market share in our current and new markets. Any new or modified product design that we develop may not gain widespread acceptance in the marketplace and any such product may not be able to compete successfully with existing or new product designs that our competitors may have. Furthermore, we may experience significant initial costs of production of new products, particularly railcar products, related to training, labor and operating inefficiencies. To the extent that the total costs of production significantly exceed our anticipated costs of production, we may incur losses on the sale of any new products.

Equipment failures, delays in deliveries or extensive damage to our facilities, particularly our railcar manufacturing plants in Paragould or Marmaduke, Arkansas, could lead to production or service curtailments or shutdowns.

An interruption in manufacturing capabilities at our railcar plants in Paragould or Marmaduke or at any of our manufacturing facilities, whether as a result of equipment failure or any other reason, could reduce, prevent or delay production of our railcars or railcar and industrial components, which could alter the scheduled delivery dates to our customers and affect our production schedule. This could result in the delay or termination of orders, the loss of future sales and a negative impact to our reputation with our customers and in the railcar industry, all of which could materially adversely affect our business, financial condition and results of operations.

All of our facilities and equipment are subject to the risk of catastrophic loss due to unanticipated events, such as fires, earthquakes, explosions, floods, tornados, hurricanes or weather conditions. If there is a natural disaster or other serious disruption at any of our facilities, we may experience plant shutdowns or periods of reduced production as a result of equipment failures, loss of power, delays in equipment deliveries, or extensive damage to any of our facilities, which could materially adversely affect our business, financial condition or results of operations.

Additionally, our insurance coverage may not adequately compensate us for losses incurred as a result of natural or other disasters.

Our mobile units and mini shop facilities may expose us to additional risks that may materially adversely affect our business.

Our mobile units and mini shop repair facilities are available to assist customers in quickly resolving railcar maintenance issues and services may be performed on a customer's property, thereby increasing our susceptibility to liability. Additionally, the resources available to employees to assist in providing services out of these facilities are less than what is available at a full repair facility. The effects of these risks may, individually or in the aggregate, materially adversely affect our business, financial condition and results of operations.

Our failure to complete capital expenditure projects on time and within budget, or the failure of these projects to operate as anticipated could materially adversely affect our business, financial condition and results of operations. Our capital expenditure projects are subject to a number of risks and contingencies over which we may have little control and that may adversely affect the cost and timing of the completion of those projects, or the capacity or efficiencies of those projects once completed. If these capital expenditure projects do not achieve the results anticipated, we may not be able to satisfy our operational goals or contractual obligations on a timely basis, if at all. If we are unable to complete such capital expenditure projects on time or within budget, or if those projects do not achieve the capacity or efficiencies anticipated, our business, financial condition and results of operations could be materially adversely affected.

The price of our common stock is subject to volatility.

The market price for our common stock has varied between a high closing sales price of \$48.60 per share and a low closing sales price of \$34.58 per share in the past twenty-four months as of September 30, 2018. This volatility may affect the price at

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which our common stock could be sold. In addition, the broader stock market has experienced price and volume fluctuations. This volatility has affected the market prices of securities issued by many companies for reasons unrelated to their operating performance and may adversely affect the price of our common stock. The price for our common stock is likely to continue to be volatile and subject to price and volume fluctuations in response to market and other factors, including the other factors discussed in these risk factors.

In the past, following periods of volatility in the market price of their stock, many companies have been the subject of securities class action litigation. If we became involved in securities class action litigation in the future, it could result in substantial costs and diversion of our management's attention and resources and could harm our stock price, business, prospects, financial condition and results of operations.

Various other factors could cause the market price of our common stock to fluctuate substantially, including financial market and general economic changes, changes in governmental regulation, significant railcar industry announcements or developments, the introduction of new products or technologies by us or our competitors, and changes in other conditions or trends in our industry or in the markets of any of our significant customers.

Other factors that could cause our stock's price to fluctuate could be actual or anticipated variations in our or our competitors' quarterly or annual financial results or other significant press releases from us or our competitors, financial results failing to meet expectations of analysts or investors, including the level of our backlog and number of orders received during the period, changes in securities analysts' estimates of our future performance or of that of our competitors and the general health and outlook of our industry.

Risks related to our activities or potential activities outside of the U.S. and any potential expansion into new geographic markets could adversely affect our results of operations.

Conducting business outside the U.S. subjects us to various risks, including changing economic, legal and political conditions, work stoppages, exchange controls, currency fluctuations, terrorist activities directed at U.S. companies, armed conflicts and unexpected changes in the U.S. and the laws of other countries relating to tariffs, trade restrictions, transportation regulations, foreign investments and taxation. Further, anti-corruption laws in the U.S. and in some foreign countries could conflict with certain local customs and practices and any failure to comply with laws governing international business practices may result in substantial penalties and fines. Some foreign countries in which we operate have regulatory authorities that regulate railroad safety, railcar design and railcar component part design, performance and manufacturing.

In addition, changes in regulatory requirements, tariffs and other trade barriers, more stringent rules relating to labor or the environment, adverse tax consequences and price exchange controls could make the manufacturing and distribution of our products internationally more difficult. The failure to comply with laws governing international business practices may result in substantial penalties and fines. Any international expansion or acquisition that we undertake could heighten these risks related to operating outside of the U.S.

Some of our railcar services and component manufacturing employees belong to labor unions and strikes or work stoppages by them or unions formed by some or all of our other employees in the future could materially adversely affect our operations.

As of September 30, 2018, the employees at our sites that were party to collective bargaining agreements represented, in the aggregate, approximately 11.3% of our total workforce. Disputes with regard to the terms of these agreements or our potential inability to negotiate acceptable contracts with these unions in the future could result in, among other things, strikes, work stoppages or other slowdowns by the affected workers. We cannot guarantee that our relations with our union workforce will remain positive nor can we guarantee that union organizers will not succeed in future attempts to organize our railcar manufacturing employees or employees at our other facilities. If our workers were to engage in a strike, work stoppage or other slowdown, other employees were to become unionized or the terms and conditions in future labor agreements were renegotiated, we could experience a significant disruption of our operations and higher ongoing labor costs. In addition, we could face higher labor costs in the future as a result of severance or other charges associated with layoffs, shutdowns or reductions in the size and scope of our operations. If ACF does not, or is unable to, honor its remedial or indemnity obligations to us regarding environmental matters, such environmental matters, as well as other exposure for environmental issues, could materially adversely affect our business, financial condition and results of operations.

Certain real properties we acquired from ACF in 1994 are, from time to time, the subject of investigation and remediation activities to address contamination both before and after their transfer to ARI. ACF is an affiliate of Mr. Carl Icahn, our principal beneficial stockholder through IELP. Substantially all of the issues identified to date with respect to these properties

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relate to the use of these properties prior to their transfer to us by ACF and for which ACF has retained liability for environmental contamination that may have existed at the time of transfer to us. ACF has also agreed to indemnify us for any cost that we might incur with respect to those existing issues. If ACF fails to honor its obligations to us, we could be responsible for the cost of any investigation or remediation activities relating to these properties that may be required. Under applicable environmental laws, ARI would be responsible for the cost of any investigation or remediation relating to these properties that may have occurred after their transfer from ACF to ARI. Any of these costs could be material or could interfere with the operation of our business. Any environmental liabilities we may incur that are not covered by adequate insurance or indemnification will also increase our costs and have a negative impact on our profitability.

If we are unable to protect our intellectual property and prevent its improper use by third parties, our ability to compete in the market may be harmed.

Various patent, copyright, trade secret and trademark laws afford only limited protection and may not prevent our competitors from duplicating our products or gaining access to our proprietary information and technology. These means also may not permit us to gain or maintain a competitive advantage. To the extent we expand internationally, we become subject to the risk that foreign intellectual property laws will not protect our intellectual property rights to the same extent as intellectual property laws in the U.S.

Any of our patents may be challenged, invalidated, circumvented or rendered unenforceable. We cannot guarantee that we will be successful should one or more of our patents be challenged for any reason. If our patent claims are rendered invalid or unenforceable, or narrowed in scope, the patent coverage afforded our products could be impaired, which could significantly impede our ability to market our products, negatively affect our competitive position and could materially adversely affect our business, financial condition and results of operations.

Our pending or future patent applications may not result in an issued patent and, if patents are issued to us, such patents may not provide meaningful protection against competitors or against competitive technologies. The U.S. federal courts may invalidate our patents or find them unenforceable. Competitors may also be able to design around our patents. Other parties may develop and obtain patent protection for more effective technologies, designs or methods. If these developments were to occur, it could have an adverse effect on our sales. If our intellectual property rights are not adequately protected we may not be able to commercialize our technologies, products or services and our competitors could commercialize our technologies, which could result in a decrease in our sales and market share and could materially adversely affect our business, financial condition and results of operations.

Our products could infringe the intellectual property rights of others, which may lead to litigation that could itself be costly, result in the payment of substantial damages or royalties, and prevent us from using technology that is essential to our products.

We cannot guarantee that our products, manufacturing processes or other methods do not infringe the patents or other intellectual property rights of third parties. Infringement and other intellectual property claims and proceedings brought against us, whether successful or not, could result in substantial costs and harm our reputation. Such claims and proceedings can also distract and divert our management and key personnel from other tasks important to the success of our business. In addition, intellectual property litigation or claims could force us to do one or more of the following:

- cease selling or using any of our products that incorporate the asserted intellectual property, which would adversely affect our revenues;
- pay substantial damages for past use of the asserted intellectual property;
- obtain a license from the holder of the asserted intellectual property, which license may not be available on reasonable terms, if at all; and
- redesign or rename, in the case of trademark claims, our products to avoid infringing the intellectual property rights of third parties, which may be costly and time-consuming, if possible at all.

In the event of an adverse determination in an intellectual property suit or proceeding, or our failure to license essential technology, our sales could be harmed and our costs could increase, which could materially adversely affect our business, financial condition and results of operations.

Our investment activities are subject to risks that could materially adversely affect our results of operations, liquidity and financial condition.

From time to time, we may invest in marketable securities, or derivatives thereof, including higher risk equity securities and high yield debt instruments. These securities are subject to general credit, liquidity, and market risks and interest rate

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fluctuations that have affected various sectors of the financial markets and in the past have caused overall tightening of the credit markets and declines in the stock markets. The market risks associated with any investments we may make could materially adversely affect our business, financial condition, results of operations and liquidity. Our investments at any given time also may become highly concentrated within a particular company, industry, asset category, trading style or financial or economic market. In that event, our investment portfolio will be more susceptible to fluctuations in value resulting from adverse economic conditions affecting the performance of that particular company, industry, asset category, trading style or economic market than a less concentrated portfolio would be. As a result, our investment portfolio could become concentrated and its aggregate return may be volatile and may be affected substantially by the performance of only one or a few holdings. For reasons not necessarily attributable to any of the risks set forth in this report (for example, supply/demand imbalances or other market forces), the prices of the securities in which we invest may decline substantially.

Changes in assumptions or investment performance related to pension plans that we sponsor could materially adversely affect our financial condition and results of operations.

We are responsible for making funding contributions to two frozen pension plans and are liable for any unfunded liabilities that may exist should any of our plans be terminated. Our liability and resulting costs for these plans may increase or decrease based upon a number of factors, including actuarial assumptions used, the discount rate used in calculating the present value of future liabilities, and investment performance, which could materially adversely affect our financial condition and results of operations. There is no assurance that interest rates will remain constant or that our pension fund assets can earn the expected rate of return, and our actual experience may be significantly different. Our pension expenses and funding may also be greater than we currently anticipate if our assumptions regarding plan earnings and expenses turn out to be incorrect.

We may be required to reduce the value of our inventory, long-lived assets, investment in joint ventures, and/or goodwill, which could materially adversely affect our business, financial condition and results of operations.

We may be required to reduce inventory carrying values using the lower of cost or market approach due to a decline in market conditions in the industries in which we operate, which could materially adversely affect our business, financial condition and results of operations. Events, such as a weak economic environment or challenging market conditions, new or modified laws and regulations affecting our railcars, and events related to particular customers or railcar types could cause us to conclude that impairment indicators exist and that our investment in our joint ventures or our goodwill associated with our acquired businesses is impaired. Any resulting impairment loss related to reductions in the value of our inventory, long-lived assets, investments in joint ventures, or our goodwill could materially adversely affect our business, financial condition and results of operations.

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the long-lived assets may not be recoverable. As discussed in Note 6 above, we identified an impairment in certain of the railcars in our lease fleet during the second quarter of 2018. This impairment resulted in recording a loss of \$3.6 million for the nine months ended September 30, 2018. We will continue to monitor our long-lived assets for impairment as necessary.

As discussed in Note 7, based on declined industry demand, Ohio Castings was idled in January 2017 and continues to remain idle. The Company expects that Ohio Castings will remain idle through most, if not all, of 2019, subject to re-evaluation based on changes in future demand expectations. Therefore, Ohio Castings performed an analysis of long-lived assets as of August 31, 2018, in accordance with ASC 360, Property, Plant and Equipment. Based on this analysis, Ohio Castings concluded that there was no impairment of its long-lived assets. In turn, ARI evaluated its investment in Ohio Castings and determined there was no impairment. The Company and Ohio Castings will continue to monitor for impairment as necessary.

As discussed in Note 3 of our consolidated financial statements to our Annual Report on Form 10-K for the year ended December 31, 2017, no other triggering events occurred in 2017 to cause concern that our goodwill would be impaired, and thus, no impairment loss was noted in 2017. Additionally, no indications were identified that would suggest we need to reduce our inventory carrying values that are not already reflected in the current balances. We perform an annual goodwill impairment test each year. Assumptions used in our impairment tests regarding future operating results of our reporting units could prove to be inaccurate. This could cause an adverse change in our

valuation and thus any of our impairment tests may have been flawed. Any future impairment tests are subject to the same risks.

The use of railcars as a significant mode of transporting freight could decline, become more efficient over time, experience a shift in types of modal transportation, and/or certain railcar types could become obsolete.

As the freight transportation markets we serve continue to evolve and become more efficient, the use of railcars may decline in favor of other more economic modes of transportation. Features and functionality specific to certain railcar types could result in those railcars becoming obsolete as customer requirements for freight delivery change. Our operations may be adversely

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impacted by changes in the preferred method used by customers to ship their products or changes in demand for particular products. The industries in which our customers operate are driven by dynamic market forces and trends, which are in turn influenced by economic and political factors in the U.S. and abroad. Demand for our railcars may be significantly affected by changes in the markets in which our customers operate. A significant reduction in customer demand for transportation or manufacture of a particular product or change in the preferred method of transportation used by customers to ship their products could result in the economic obsolescence of our railcars, including those leased by our customers.

Changes in accounting standards or inaccurate estimates or assumptions in the application of accounting policies could materially adversely affect our financial condition and results of operations.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Some of these policies require use of estimates and assumptions that may affect the reported value of our assets or liabilities and financial results and are critical because they require management to make difficult, subjective, and complex judgments about matters that are inherently uncertain. Accounting standard setters and those who interpret the accounting standards, such as the Financial Accounting Standards Board and the SEC may amend or even reverse their previous interpretations or positions on how these standards should be applied. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements.

We are a “controlled company” within the meaning of the NASDAQ Global Select Market rules and therefore we are not subject to all of the NASDAQ Global Select Market corporate governance requirements.

As we are a “controlled company” within the meaning of the corporate governance standards of the NASDAQ Global Select Market, we have elected, as permitted by those rules, not to comply with certain corporate governance requirements. For example, our board of directors does not have a majority of independent directors and we do not have a nominating committee or compensation committee consisting of independent directors. As a result, our officers' compensation is not determined by our independent directors, and director nominees are not selected or recommended by a majority of independent directors.

Payments of cash dividends on our common stock may be made only at the discretion of our board of directors and may be restricted by North Dakota law.

Any decision to pay dividends will be at the discretion of our board of directors and will depend upon our obligations under the Merger Agreement, our operating results, strategic plans, capital requirements, financial condition, provisions of our borrowing arrangements and other factors our board of directors considers relevant. Furthermore, North Dakota law imposes restrictions on our ability to pay dividends. Accordingly, we may not be able to continue to pay dividends in any given amount in the future, or at all.

We are governed by the North Dakota Publicly Traded Corporations Act. Interpretation and application of this act is scarce and such lack of predictability could be detrimental to our stockholders.

The North Dakota Publicly Traded Corporations Act, which we are governed by, was enacted in 2007 and, to our knowledge, no other companies are yet subject to its provisions and interpretations of its likely application are scarce. Although the North Dakota Publicly Traded Corporations Act specifically provides that its provisions must be liberally construed to protect and enhance the rights of stockholders in publicly traded corporations, this lack of predictability could be detrimental to our stockholders.

We may be affected by climate change or market or regulatory responses to climate change.

Changes in laws, rules, and regulations, or actions by authorities under existing laws, rules, or regulations, to address greenhouse gas emissions and climate change could negatively impact our customers and business. For example, restrictions on emissions could significantly increase costs for our customers whose production processes require significant amounts of energy. Customers' increased costs could reduce their demand to purchase or lease our railcars. In addition, railcars in our fleet that are used to carry fossil fuels, such as petroleum, could see reduced demand if new government regulations mandate a reduction in fossil fuel consumption. Potential consequences of laws, rules, or regulations addressing climate change could have an adverse effect on our financial position, results of operations, and cash flows.

We are subject to cybersecurity risks and other cyber incidents resulting in disruption.

Threats to information technology systems associated with cybersecurity risks and cyber incidents or attacks continue to grow. We depend on information technology systems. In addition, we collect, process and retain sensitive and confidential employee and customer information in the normal course of business. Despite the security measures we have in place and any additional measures we may implement in the future, our facilities and systems, and those of our third-party service providers, could be

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vulnerable to security breaches, computer viruses, lost or misplaced data, programming errors, human errors, acts of vandalism or other events. Any steps we take to deter and mitigate these risks may not be successful and may cause us to incur increasing costs. Any disruption of our systems or security breach or event resulting in the misappropriation, loss or other unauthorized disclosure of confidential information, whether by us directly or our third-party service providers, could damage our reputation, expose us to the risks of litigation and liability, disrupt our business or otherwise affect our results of operations.

Terrorist attacks could negatively impact our operations and profitability and may expose us to liability.

Terrorist attacks may negatively affect our operations. Such attacks in the past have caused uncertainty in the global financial markets and economic instability in the U.S. and elsewhere, and further acts of terrorism, violence or war could similarly affect global financial markets and trade, as well as the industries in which we and our customers operate. In addition, terrorist attacks or hostilities may directly impact our physical facilities or those of our suppliers or customers, which could adversely impact our operations. These uncertainties could also adversely affect our ability to obtain additional financing on terms acceptable to us, or at all.

It is also possible that our products, particularly railcars we produce, could be involved in a terrorist attack. Although the terms of our lease agreements require lessees to indemnify us and others against a broad spectrum of damages arising out of the use of the railcars, and we currently carry insurance to potentially offset losses in the event that customer indemnifications prove to be insufficient, we may not be fully protected from liability arising from a terrorist attack that involves our railcars. In addition, any terrorist attack involving any of our railcars may cause reputational damage, or other losses, which could materially and adversely affect our business.

National and international political developments in response to a terrorist attack or uncertainties related to potential attacks may cause governments to enact legislation or regulations directed toward improving the security of railcars, could cause decreased demand for railcars and result in downturns in the industries in which we or our customers operate. Depending on the severity, scope, and duration of these circumstances, the impact on our financial position, results of operations and cash flows could be material.

Our internal controls over financial accounting and reporting may not detect all errors or omissions in our financial statements.

If we fail to maintain adequate internal controls over financial accounting, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 and related regulations. Effective internal and disclosure controls are necessary for us to provide reliable financial reports and effectively prevent fraud and to operate successfully as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed.

Although management has concluded that adequate internal control procedures are in place as of September 30, 2018, no system of internal control provides absolute assurance that the financial statements are accurate and free of error.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

This table provides information with respect to purchases by us of shares of our Common Stock on the open market as part of the Stock Repurchase Program during the quarter ended September 30, 2018:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan
July 1, 2018 through July 31, 2018	—	\$	—	\$163,975,779
August 1, 2018 through August 31, 2018	—	\$	—	\$163,975,779
September 1, 2018 through September 30, 2018	—	\$	—	\$163,975,779

Total

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(1) - There were no repurchases under the Stock Repurchase Program during the quarter ended September 30, 2018.

(2) - On July 28, 2015, our board of directors authorized the Stock Repurchase Program pursuant to which we may, from time to time, repurchase up to \$250.0 million of our common stock. The Stock Repurchase Program will end upon the earlier of the date on which it is terminated by the board or when all authorized repurchases are completed.

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In connection with the transactions contemplated by the Merger Agreement, on October 21, 2018, our board of directors terminated the Stock Repurchase Program, effective immediately.

ITEM 6. EXHIBITS

Exhibit No. Description of Exhibit

<u>2.4</u>	Agreement and Plan of Merger, dated as of October 22, 2018, by and between STL Parent Corp. and American Railcar Industries, Inc. (incorporated by reference to exhibit 2.1 of the Company's Current Report on Form 8-K dated October 22, 2018).
<u>10.2</u>	Long-term Supply Agreement by and between American Railcar Industries, Inc. and GATX Corporation, dated July 30, 2018. †
<u>31.1</u>	Rule 13a-14(a), 15d-14(a) Certification of the Chief Executive Officer*
<u>31.2</u>	Rule 13a-14(a), 15d-14(a) Certification of the Chief Financial Officer*
<u>32.1</u>	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

† Confidential treatment has been requested and/or granted with respect to the redacted portions of this agreement. A complete copy of this agreement, including the redacted portions has been filed separately with the SEC.

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: October 30, 2018 By: /s/ John O'Bryan

John O'Bryan, President and Chief Executive Officer

By: /s/ Luke M. Williams

Luke M. Williams, Senior Vice President, Chief Financial Officer and Treasurer