

American Railcar Industries, Inc.

Form 10-K

March 02, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

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 Number: 000-51728

American Railcar Industries, Inc.

(Exact name of Registrant as Specified in its Charter)

North Dakota
(State or Other Jurisdiction of

43-1481791
(I.R.S. Employer

Incorporation or Organization)

Identification Number)

100 Clark Street

St. Charles, Missouri 63301

(Address of principal executive offices, including zip code)

Telephone (636) 940-6000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$0.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 a shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

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The aggregate market value of the voting stock held by non-affiliates of the registrant as of the last business day or the registrant's most recently completed second fiscal quarter was approximately \$228 million, based on the closing sales price of \$23.45 per share of such stock on The NASDAQ Global Select Market on June 30, 2011.

As of March 2, 2012, as reported on the NASDAQ Global Select Market, there were 21,352,297 shares of common stock, par value \$0.01 per share, of the Registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the following document are incorporated by reference in Part III of this Form 10-K Report:

(1) Proxy Statement for the Registrant's 2012 Annual Meeting of Stockholders Items 10, 11, 12, 13 and 14.

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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). These statements involve known and unknown risks, uncertainties and other factors, which may cause our or our industry's actual results, performance, or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding:

any financial or other information included herein based upon or otherwise incorporating judgments or estimates based upon future performance or events;

the impact of the recent economic downturn, adverse market conditions and restricted credit markets and the impact of the continuation of these conditions;

our reliance upon a small number of customers that represent a large percentage of our revenues and backlog;

the health of and prospects for the overall railcar industry;

our prospects in light of the cyclical nature of our business;

anticipated trends relating to our shipments, leasing, railcar services, revenues, financial condition or results of operations;

our ability to manage overhead and variations in production rates;

the highly competitive nature of the railcar manufacturing industry;

fluctuations in the costs of raw materials, including steel and railcar components, and delays in the delivery of such raw materials and components;

fluctuations in the supply of components and raw materials we use in railcar manufacturing;

anticipated production schedules for our products and the anticipated financing needs, construction and production schedules of our joint ventures;

the risks associated with potential joint ventures, acquisitions or new business endeavors;

the risks associated with international operations and joint ventures;

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the risk of the lack of acceptance of new railcar offerings by our customers and the risk of initial production costs for our new railcar offerings being significantly higher than expected;

the risk of the lack of customers entering into new railcar leases;

the sufficiency of our liquidity and capital resources;

the conversion of our railcar backlog into revenues;

compliance with covenants contained in our unsecured senior notes;

the impact and anticipated benefits of any acquisitions we may complete;

the implementation, integration with other systems or ongoing management of our new enterprise resource planning system;

the impact and costs and expenses of any litigation we may be subject to now or in the future; and

the ongoing benefits and risks related to our relationship with Mr. Carl Icahn, the chairman of our board of directors and, through Icahn Enterprises L.P. (IELP), our principal beneficial stockholder, and certain of his affiliates.

In some cases, you can identify forward-looking statements by terms such as may, will, should, could, would, expects, 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.

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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 forward-looking statements are qualified in their entirety by reference to the factors discussed above and under Risk Factors set forth in Part I Item 1A of this report, as well as the risks and uncertainties discussed elsewhere in this report. We qualify all of our forward-looking statements by these cautionary statements. We caution you that these risks are not exhaustive. We operate in a continually changing business environment and new risks emerge from time to time.

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AMERICAN RAILCAR INDUSTRIES, INC.

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AMERICAN RAILCAR INDUSTRIES, INC.

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PART I

Item 1: Business

INTRODUCTION

We are a leading North American designer and manufacturer of hopper and tank railcars. We also lease, repair and refurbish railcars, provide fleet management services and design and manufacture certain railcar and industrial components. We provide our railcar customers with integrated solutions through a comprehensive set of high quality products and related services.

Our primary customers include companies that purchase railcars for lease by third parties, or leasing companies, industrial companies and those that use railcars for freight transport, or shippers, and Class I railroads. In servicing this customer base, we believe our integrated railcar repair, refurbishment, engineering and fleet management services and our railcar components manufacturing business help us further penetrate the general railcar manufacturing market. In addition, we offer our customers the opportunity to lease railcars. These products and services provide us with cross-selling opportunities and insights into our customers' railcar needs that we use to improve our products and services and enhance our reputation.

We operate in two reportable segments: manufacturing operations and railcar services. Manufacturing operations consist of railcar manufacturing, railcar leasing and railcar and industrial component manufacturing. Railcar services consist of railcar repair, refurbishment, engineering and fleet management services. Financial information about our business segments for the years ended December 31, 2011, 2010 and 2009 is set forth in Note 21 of our Consolidated Financial Statements.

We were incorporated in Missouri in 1988, reincorporated in Delaware in January 2006 and reincorporated again in North Dakota in June 2009. Unless the context otherwise requires, references to our company, we, us and our, refer to us and our consolidated subsidiaries and our predecessors.

ADDITIONAL INFORMATION

Our principal executive offices are located at 100 Clark Street, St. Charles, Missouri, 63301, our telephone number is (636) 940 6000 and our website is <http://www.americanrailcar.com>.

We are a reporting company and file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (SEC). You may read and copy these materials at the Public Reference Room maintained by the SEC at Room 1580, 100 F Street N.E., Washington, D.C. 20549. You may call the SEC at 1-800-SEC-0330 for more information on the operation of the public reference room. The SEC maintains a website <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. Copies of our annual, quarterly and current reports, Audit Committee Charter, Code of Business Conduct and Code of Ethics for Senior Financial Officers are available on our website <http://www.americanrailcar.com> or free of charge by contacting our Investor Relations Department at American Railcar Industries, Inc., 100 Clark Street, St. Charles, Missouri, 63301.

ARI®, Pressureaide®, CenterFlow® and our railcar logo are our U.S. registered trademarks. Each trademark, trade name or service mark of any other company appearing in this report belongs to its respective holder.

OUR HISTORY

Since our formation in 1988, we have grown our business from being a small provider of railcar components and maintenance services to one of North America's leading integrated providers of railcars, railcar components, railcar maintenance services and fleet management services.

At our Paragould, Arkansas manufacturing plant, we primarily manufacture hopper railcars, but have the ability to manufacture many other types of railcars. At our Marmaduke, Arkansas manufacturing plant, we primarily manufacture tank railcars, but have the ability to produce other railcar types.

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Our operations include two railcar manufacturing plants; three sub-assembly and fabrication facilities; three railcar and industrial component manufacturing facilities; six railcar repair plants; and ten mobile repair and mini-shop locations. Our services business has grown to include online access by customers, remote fleet management, expanded painting, lining and cleaning offerings, regulatory consulting and engineering support.

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We are party to three joint ventures. Our Ohio Castings Company, LLC (Ohio Castings) joint venture manufactures various railcar parts for sale, through one of the joint venture partners, to third parties and the other joint venture partners. Ohio Castings was temporarily idled in June 2009 due to the weak railcar market; however, it resumed production and began shipping product during the third quarter of 2011. Our Axis, LLC (Axis) joint venture manufactures and sells axles to two joint venture partners for use and distribution both domestically and internationally. Axis began production in the third quarter of 2009. Our Amtek Railcar Industries Private Limited (Amtek Railcar) joint venture will manufacture and sell railcars for distribution to third parties in India following the construction of its manufacturing facility. For further discussion of our joint ventures refer to Note 11 to our Consolidated Financial Statements.

OUR PRODUCTS AND SERVICES

We design, manufacture and sell special, customized and general-purpose railcars and a wide range of components primarily for the North American railcar and industrial markets. In addition, we offer railcars for lease. We also support the railcar industry through a variety of integrated railcar services, including repair, maintenance, consulting, engineering and fleet management services.

Manufacturing Operations

We primarily manufacture two types of railcars, hopper railcars and tank railcars, but have the ability to produce additional railcar types. We offer our customers the option to buy or lease railcars. We also manufacture various components for railcar and industrial markets.

Hopper railcars

We manufacture both general service and specialty hopper railcars at our Paragould complex. All of our hopper railcars may be equipped with varying combinations of hatches, discharge outlets and protective coatings to provide our customers with a railcar designed to perform in precise operating environments. The flexible nature of our hopper railcar design allows it to be quickly modified to suit changing customer needs. This flexibility can continue to provide value after the initial purchase because our railcars may be converted for reassignment to other services.

Our hopper railcars are specifically designed for shipping a variety of dry bulk products, from light density products, such as plastic pellets, to high-density products, such as cement and sand. Depending upon the equipment on the railcars, they can operate in a gravity, positive pressure or vacuum pneumatic unloading environment. Since its introduction, we have improved our CenterFlow® line of hopper railcars to provide protection for a wide range of dry bulk products and to enhance the associated loading, unloading and cleaning processes. Examples of these improvements include new designs of the shape of the railcars, joint designs, outlet mounting frames, loading hatches, discharge outlets and rotary-dump, which enhance the cargo loading and unloading processes.

We have several versions of our hopper railcar that target specific customers and specific loads, including:

Grain Railcars. These railcars are a large group of hopper railcars within our general service hopper railcar product offering. These grain railcars service the food markets. For example, these railcars carry shipments of grain to animal feedstock processing plants, grain mills and ethanol facilities.

Cement and Sand Railcars. Cement and sand loads are heavier than many other loads of comparable volume, and therefore cement and sand railcars are smaller to compensate for the weight.

Plastic Pellet Railcars. These railcars are designed to transport, load and unload plastic pellets under precise specifications to preserve the purity of the load. Examples of such cargo would be food grade plastic pellets used in the production of food and medical product containers.

Pressureaide® Railcars. Our Pressureaide® railcar is targeted towards the bulk powder markets. Pressureaide® railcars typically handle products such as clays, industrial and food grade starches and flours. They operate with internal pressures up to 14.5 pounds per square inch, which expedites unloading, and are equipped with several safety devices, such as pressure relief valves and a rupture disc.

Ore Railcars. These railcars are designed to transport heavy ore mineral loads, and may be either bottom or rotary-dumped.

Specialized Railcars. Custom-designed to meet unique load/unload/transportation requirements for high-value specialty products.

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Tank railcars

We manufacture non-pressure and high pressure tank railcars at our Marmaduke complex. Our tank railcars are designed to enable the handling of a variety of commodities including petroleum products, ethanol, asphalt, vegetable oil, corn syrup and other food products. Our high pressure tank railcars transport products that require a pressurized state due to their liquid, semi-gaseous or gaseous nature, including chlorine, anhydrous ammonia, liquid propane and butane. Our pressure tank railcars feature a thicker pressure retaining inner shell that is separated from a jacketed outer shell by layers of insulation, thermal protection or both. Our pressure tank railcars are made from specific grades of normalized steel that are selected for toughness and ease of welding. Most of our tank railcars feature a sloped bottom tank that provides improved drainage. Many of our tank railcars feature coils that are steam-heated to decrease cargo viscosity, which speeds unloading. We can alter the design of our tank railcars to address specific customer requirements and we also offer to apply linings to tank railcars.

Other railcar types

We have the ability to produce other railcar types including intermodal, gondola and iron ore railcars with bottom and rotary discharge.

Railcar leasing

Customers may lease our railcars through various leasing options, including full service leases. Maintenance of leased railcars could be provided, in part, through our railcar repair and refurbishment facilities.

Component manufacturing

In addition to manufacturing railcars, we also manufacture custom and standard railcar components. Our products include tank railcar components and valves, tank heads, discharge outlets for hopper railcars, manway covers and valve body castings, outlet components and running boards for industrial and railroad customers and hitches for the intermodal market. We use these components in our own railcar manufacturing and sell certain of these products to third parties, including our competitors.

We also manufacture aluminum and special alloy steel castings that we sell primarily to industrial customers. These products include castings for the trucking, construction, mining and oil and gas exploration markets, as well as finished, machined aluminum castings and other custom machined products.

Consulting agreements

We have used some of our engineering workforce for certain international engineering consulting projects in 2011. We entered into a consulting agreement with a company in Russia to design railcars and a railcar facility. We entered into a second consulting agreement with the Indian Railways Research and Design Standards Organization to design and develop certain railcars.

Railcar Services

Our railcar services group focuses on repair services, engineering and field services, and fleet management services. Our primary customers for services provided by this group are leasing companies and shippers of tank and specialty hopper railcars. Our service offerings cover entire railcar fleets, including equipment manufactured by other companies. Railcar services provide insight into our customers' railcar needs. We use this knowledge to improve service and product offerings.

Repair Services

This component of our business includes our full service repair and refurbishment plants, which are strategically located to serve our customers. Our repair plants have full cleaning, interior and exterior coating, heavy repair / rebuilding, and non-destructive testing capabilities. We have the capacity to handle large reassignment projects, heavy wreck repair, and conversions to make, or keep, railcars regulatory compliant.

Engineering and Field Services

We offer a wide array of engineering services including failure analysis, retrofit drawings, procedure preparation, regulatory compliance assistance, trouble shooting and railcar inspections. This line of business also includes our mobile units and mini shops. Working together with our mobile / mini shop network, our engineers are able to quickly resolve railcar maintenance and regulatory compliance issues. Information

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learned in the field is used to educate other aspects of our business allowing us to recognize and address maintenance and compliance issues that affect our customers' fleets.

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Our fleet management business includes maintenance planning, project management, tracking and tracing, regulatory compliance, mileage audit, rolling stock taxes and online service access. We manage and monitor maintenance activities to assure that all maintenance is performed in approved facilities and in compliance with regulations. We use data collected from these activities to reduce fleet downtime and to minimize maintenance cost.

SALES AND MARKETING

We utilize an integrated sales and marketing effort to coordinate relationships in our manufacturing and services operations. We sell and market our products and services in North America through our sales and marketing staff, including sales representatives who sell directly to customers and catalogs through which our customers have access to our railcar and industrial components. Our marketing activities also include participation in trade shows, participation in industry forums and distribution of sales literature. In addition, American Railcar Leasing LLC (ARL) markets our railcars for sale or lease and acts as our manager to lease railcars on our behalf for a fee. ARL is an affiliate of Mr. Carl Icahn, the chairman of our board of directors and, through IELP, our principal beneficial stockholder.

In 2011, sales to our top ten customers accounted for approximately 77% of our revenues. In 2011, our top three customers, CIT Group, Inc; Banc of America Leasing and Capital LLC; and First Union Rail Corporation, accounted for approximately 34%, 12% and 7% of our consolidated revenues, respectively.

BACKLOG

We define backlog as the number and sales value of railcars that our customers have committed in writing to purchase or lease from us that have not been shipped. As of December 31, 2011, our total backlog was approximately 6,530 railcars, of which approximately 4,330 railcars with an estimated value of \$398.6 million were to be sold and approximately 2,200 railcars with an estimated market value of \$223.0 million are orders for railcars that will be subject to lease. As of December 31, 2010, our total backlog was approximately 1,050 railcars with an estimated value of \$87.6 million, all of which were sold.

Railcars for Sale. We estimate that, as of December 31, 2011, approximately 66% of the total number of railcars in our backlog will be sold during 2012.

Railcars for Lease. We estimate that, as of December 31, 2011, approximately 31% and 3% of the total number of railcars in our backlog will be leased during 2012 and 2013, respectively. We have firm orders to manufacture the railcars in our backlog, as of December 31, 2011 that will be subject to lease.

The following table shows our reported railcar backlog and estimated future revenue value attributable to such backlog at the end of the periods shown. 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 dollar amount of our backlog.

	September 30, Years Ended December 31, 2011	September 30, December 31, 2010
Railcar backlog at January 1	1,050	550
New railcars delivered	(5,230)	(2,090)
New railcar orders	10,710	2,590
Railcar backlog at December 31	6,530	1,050
Estimated railcar backlog value at end of period (in thousands) ⁽¹⁾	\$ 621,553	\$ 87,573

(1)

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Estimated backlog value reflects the total revenues expected to be attributable to the backlog reported at the end of the particular period as if such backlog were converted to actual revenues. Estimated backlog reflects known price adjustments for material cost changes but does not reflect a projection of any future material price adjustments that are provided for in our customer contracts. Estimated backlog value of railcars that will be subject to lease reflects the estimated market value of each railcar. Actual revenues for railcars subject to lease are recognized per the terms of the lease and are not based on the estimated backlog value.

Customer orders may be subject to requests for delays in deliveries, inspection rights and other customary industry terms and conditions, which could prevent or delay railcars in our backlog from being shipped and converted into revenue. Historically, we have experienced little variation between the number of railcars ordered and the number of railcars actually delivered. As delivery dates could be extended on certain orders, we cannot guarantee that our reported railcar backlog will convert to revenue in any particular period, if at all.

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SUPPLIERS AND MATERIALS

Our business depends on the adequate supply of numerous railcar components, including railcar wheels, brakes, axles, bearings, yokes, tank railcar heads, sideframes, bolsters and other heavy castings, and raw materials, such as steel and normalized steel plate, used in the production of railcars. Due to our vertical integration efforts, including through our involvement in joint ventures, we are currently able to produce axles, castings and tank railcar heads and assemble wheel sets, along with numerous other railcar components.

The cost of raw materials and railcar components represents more than half of the direct manufacturing costs of most of our railcar product lines. Certain of our railcar manufacturing contracts contain provisions for price adjustments that track fluctuations in the prices of certain raw materials and railcar components, including steel, so that increases in our manufacturing costs caused by increases in the prices of these raw materials and components are passed on to our customers. Conversely, if the price of those materials or components decreases, a discount is applied to reflect the decrease in cost.

Our customers often specify particular railcar components and the suppliers of such components. We continually monitor inventory levels to support production.

In 2011, no single supplier accounted for more than 16.1% of our total purchases and our top ten suppliers accounted for approximately 60% of our total purchases.

Steel

We use hot rolled steel coils, as-rolled steel plate and normalized steel plate to manufacture railcars. We can acquire hot rolled steel coils and as-rolled steel plate from several suppliers. There are a limited number of qualified domestic suppliers of the form and size of normalized steel plate that we need for our manufacturing operations, and these suppliers are our only source of this product. Normalized steel plate is a special form of heat-treated steel that is stronger and is more resistant to puncture than as-rolled steel plate. Normalized steel plate is required by federal regulations to be used in tank railcars carrying certain types of hazardous cargo, including liquefied petroleum gas. We use normalized steel plate in the production of many of our tank railcars.

Castings

Heavy castings that we use in our railcar manufacturing primarily include bolsters, sideframes, couplers and yokes. These castings form part of the truck assemblies and running gears upon which railcars are mounted and coupled together. We obtained a significant portion of our castings requirements from our joint venture, Ohio Castings, until production was temporarily idled in June 2009. When production idled, we purchased all of our castings requirements from third party vendors. Ohio Castings resumed shipping product in the third quarter of 2011, which has allowed us to obtain a significant portion of our castings requirement from our joint venture since that time.

Wheels and brakes

In the past, there have been supply constraints and shortages of wheels and brakes used in railcar manufacturing. Currently, there are a limited number of domestic suppliers for each of these components. In the past, we have also imported some wheels. We also obtain limited quantities of refurbished wheels from scrapped railcars.

Axles

Axles have historically been capacity constrained critical components of manufacturing railcars. Our joint venture, Axis, produces railcar axles and is our primary supplier.

COMPETITION

The railcar manufacturing industry has historically been extremely competitive. We compete primarily with Trinity Industries, Inc. (Trinity), The Greenbrier Companies, Inc. (Greenbrier) and National Steel Car Limited (National Steel) in the hopper railcar market and with Trinity, Greenbrier and Union Tank Car Company (Union Tank) in the tank railcar market. Competitors have expanded and may continue to expand their capabilities into our core railcar markets.

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We face intense competition in our other markets as well. Our competition for the sale of railcar components includes our competitors in the railcar manufacturing market as well as a concentrated group of companies whose primary business focus is the production of one or more specialty components. We compete with numerous companies in our railcar services businesses, ranging from companies with greater resources than we have to small, local companies.

We also experience intense competition in our railcar leasing business from railcar manufacturers, banks and other financial institutions. We are competing with certain of our significant customers through our entry into the railcar leasing market. Some of our railcar manufacturing competitors also produce railcars for use in their own railcar leasing fleet, competing directly with our new railcar leasing business and with leasing companies.

In addition to price, competition in all of our markets is based on quality, reputation, reliability of delivery, customer service and other factors.

INTELLECTUAL PROPERTY

We believe that manufacturing expertise, the improvement of existing technology and the development of new products may be more important than patent protection in establishing and maintaining a competitive advantage. Nevertheless, we have obtained several patents and will continue to make efforts to obtain patents, when available, in connection with our product development and design activities.

EMPLOYEES

As of December 31, 2011, we had 2,413 full-time employees in various locations throughout the United States and Canada, of which 14.3% were covered by domestic collective bargaining agreements at two of our repair facilities and at our Texas steel foundry.

REGULATION

The Federal Railroad Administration (FRA) administers and enforces U.S. Federal laws and regulations relating to railroad safety. These regulations govern equipment and safety compliance standards for railcars and other rail equipment used in interstate commerce. The Association of American Railroads (AAR) promulgates a wide variety of rules and regulations governing safety and design of equipment, relationships among railroads with respect to railcars in interchange and other matters. The AAR also certifies railcar manufacturers and component manufacturers that provide equipment for use on railroads in the United States. New products must generally undergo AAR testing and approval processes. Because of these regulations, we must maintain certifications with the AAR as a railcar manufacturer, and products that we sell must meet AAR and FRA standards. We must comply with the rules of the U.S. Department of Transportation and we are subject to oversight by Transport Canada that also requires certification. To the extent that we expand our business internationally, we will increasingly be subject to the regulations of other non-U.S. jurisdictions.

ENVIRONMENTAL MATTERS

We are subject to comprehensive federal, state, local and international environmental laws and regulations relating to the release or discharge of materials into the environment, the management, use, processing, handling, storage, transport or disposal of hazardous materials and wastes, or otherwise relating to the protection of human health and the environment. These laws and regulations expose us to liability for the environmental condition of our current or formerly owned or operated facilities and negligent acts, and also 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. 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. Our operations that involve hazardous materials also raise potential risks of liability under common law.

Environmental operating permits are, or may be, required for our operations under these laws and regulations. These operating permits are subject to modification, renewal and revocation. We regularly monitor and review our operations, procedures and policies for compliance with permits, laws and regulations. Despite these compliance efforts, risk of environmental liability is inherent in the operation of our businesses, as it is with other companies engaged in similar businesses.

Certain real property we acquired from ACF Industries LLC (ACF) in 1994 has been involved in investigation and remediation activities to address contamination. ACF is an affiliate of Mr. Carl Icahn, the chairman of our board of directors and, through IELP, our principal beneficial stockholder. Substantially all of the issues identified relate to the use of this property prior to its 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 might be incurred with those existing issues. As of

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the date of this report, we do not believe we will incur material costs in connection with any investigation or remediation activities relating to these properties, but we cannot assure that this will be the case. If ACF fails to honor its obligations to us, we could be responsible for the cost of such remediation.

We believe that our operations and facilities are in substantial compliance with applicable laws and regulations and that any noncompliance is not likely to have a material adverse effect on our financial condition or results of operations.

Future events, such as new environmental regulations or changes in or modified interpretations of existing laws and regulations or enforcement policies, 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 operations. In addition, we have historically conducted investigation and remediation activities at properties that we own to address historic contamination. To date, such costs have not been material. Although we believe we have satisfactorily addressed all known material contamination through our remediation activities, there can be no assurance that these activities have addressed all historic contamination. The discovery of past contamination or the release of hazardous substances into the environment at our current or formerly owned or operated facilities could require us in the future to incur investigative or remedial costs or other liabilities that could be material or that could interfere with the operation of our business.

In addition to environmental laws, the transportation of commodities by railcar raises potential risks in the event of a derailment or other accident and we could face environmental claims for railcars that we sell or lease to others. Generally, liability under existing law in the United States for a derailment or other accident depends on the negligence of the party, such as the railroad, the shipper or the manufacturer of the railcar or its components. However, for hazardous commodities being shipped, strict liability concepts may apply.

Item 1A: Risk Factors

The following risk factors should be considered carefully in addition to the other information contained in this Annual Report on Form 10-K. This Annual Report on Form 10-K 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 Annual Report on Form 10-K. 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.

The highly cyclical nature of the railcar industry and restricted credit markets may result in lower revenues during economic downturns.

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. Though we have seen improvements in the railcar market in 2011, these improvements may or may not continue.

Although the railcar market is beginning to recover, the recent economic downturn adversely affected the overall railcar industry. Sales of our railcars and other products slowed significantly in 2010 resulting in decreased production rates. For example, from the last half of 2007 through 2010, we experienced a decrease in demand and an increase in pricing pressures in our railcar markets, and saw our new railcar orders fluctuate from approximately 2,510 in 2007, to approximately 280 in 2008, none in 2009 and approximately 2,590 in 2010.

Currently, we estimate that approximately 97% of our December 31, 2011 backlog will be shipped during 2012. As a result, our failure to obtain new orders would materially adversely affect our business, financial condition and results of operations. Downturns in part or all of the railcar manufacturing industry may occur in the future, resulting in decreased demand for our products and services.

Most of the end users of our railcars that we sell acquire them through leasing arrangements with our leasing company customers. The recent economic downturn and restricted credit markets have resulted in stricter borrowing conditions and, in some cases, higher interest rates for new borrowings, either of which could increase the cost of, or potentially deter, new leasing arrangements. These factors have caused and could cause in the future our leasing company customers to purchase fewer railcars, which could materially adversely affect our business, financial condition and results of operations.

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We operate in a highly competitive industry 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 of our markets. In our railcar manufacturing business we have four primary competitors. Any of these competitors may, from time to time, have greater resources than we do. Our current competitors may increase their participation in, or new competitors may enter into, the railcar markets in which we compete. Strong competition within the industry, which has been exacerbated by the recent economic downturn, has led to pricing pressures and could limit our ability to maintain or increase prices or obtain better margins on our railcars. These pressures may intensify if consolidation among our competitors occurs. If we produce any types of railcars other than what we currently produce, we will be competing with other manufacturers that may have more experience with that railcar type.

We also have intense competition in our railcar leasing business from railcar manufacturers, banks and other financial institutions. We are competing with certain of our significant customers through our entry into the railcar leasing market. Some of our railcar manufacturing competitors also produce railcars for use in their own railcar leasing fleet, competing directly with our new railcar leasing business and with leasing companies.

New competitors, or alliances among existing competitors, may emerge in the railcar components industry and rapidly gain market share. We compete with numerous companies in our railcar fleet management and railcar repair services businesses, ranging from companies with greater resources than we have to small, local companies.

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 the sales of our railcars, our fleet management and repair services and our railcar components 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.

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 such significant customer or any such 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 railcar sales in any given year. Our top ten customers represented approximately 78%, 76% and 89% of our total consolidated revenues in 2011, 2010 and 2009, respectively. Moreover, our top three customers accounted for approximately 53%, 58% and 84% of our total consolidated revenues in 2011, 2010 and 2009, respectively. The loss of any significant portion of our sales 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. If one of our significant customers was unable to pay due to financial condition, it could materially adversely affect our business, financial condition and results of operations.

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.

We define backlog as the number of railcars to which our customers have committed in writing to purchase or lease from us that have not been shipped. 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 per the terms of the lease. 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 converted into revenues. Our reported railcar backlog may not be converted into revenues in any particular period, if at all, and the actual revenues from such sales may not equal our reported estimates of railcar backlog value.

The cost of raw materials and components that we use to manufacture railcars, particularly steel, are 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, including scrap metal, used in the production of our railcars, represents more than half of our direct manufacturing costs per railcar. We have provisions in our current railcar manufacturing orders that allow us to pass on to our customers price fluctuations in and surcharges related to certain raw materials, including steel, as well as certain components. The number of customers to which we are not able to pass on price increases may increase in the future, and any such increase could adversely affect our

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operating margins and cash flows. Any fluctuations in the price or availability of steel, or any other material or component used in the production of our railcars, could materially adversely affect our business, financial condition and results of operations. Such price increases could reduce demand for our railcars. 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, any of which could materially adversely affect our business, financial condition and results of operations.

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If any of our raw material or component suppliers were unable to continue their businesses, the availability or price of the materials we use could be adversely affected. Deliveries of our 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.

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. Some of these components are only available from a limited number of domestic suppliers. Strong demand can cause industry-wide shortages of many critical components 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 many 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.

If any of our significant suppliers of railcar 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.

Our relationships with our joint ventures could be unsuccessful, which could materially adversely affect our business.

We have entered into several joint venture agreements with other companies to increase our sourcing alternatives, reduce costs, and to produce new railcars. We may seek to expand our relationships or enter into new agreements with other companies. 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.

To the extent we expand internationally, through joint ventures or otherwise, we will increase our exposure to international economic and political risks.

Conducting business outside the U.S., for example through our joint venture in India, 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. Some foreign countries in which we operate have regulatory authorities that regulate railroad safety, railcar design and railcar component part design, performance and manufacturing. If our joint venture fails to obtain and maintain certifications of its railcars and railcar parts in the country where it may operate, it may be unable to market and sell its railcars in that country.

In addition, unexpected 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 limit the joint venture's operations and make the manufacturing and distribution of its products internationally more difficult. Furthermore, any material changes in the quotas, regulations or duties on imports imposed by the U.S. government and agencies or on exports by non-U.S. governments and their respective agencies could adversely affect the joint venture's ability to import railcar parts or manufacture railcars. The uncertainty of the legal environment or geo-political risks in countries such as India could also limit our ability to enforce effectively our rights related to our investment in our international joint venture. Because we have operations outside the U.S., we could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-corruption laws. We operate in parts of the world that have experienced governmental corruption to some degree, and in certain circumstances, strict compliance with anti-corruption laws may conflict with local customs and practices. 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 amplify these risks related to operating outside of the U.S.

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We may pursue joint ventures, acquisitions or new business endeavors 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 companies that we acquire, joint ventures that we form, or new business endeavors, which could materially adversely affect our results of operations.

We may not be able to successfully identify suitable joint venture, acquisition or new business endeavor opportunities or complete any particular joint venture, acquisition, business combination, other transaction or new business endeavors on acceptable terms. Our identification of suitable joint ventures opportunities, acquisition candidates and new business endeavors 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, such as our joint venture in India, or in new railcar 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 candidates. In addition, we may experience managerial or other conflicts with our joint venture partners. Any of these items could adversely affect our results of operations.

Our failure to identify suitable joint venture, acquisition opportunities or new business endeavors 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 or issue additional securities, which could materially adversely affect our results of operations and be dilutive to our stockholders. If we spend significant funds or incur additional debt, 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.

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.

Our failure, or the failure of our joint ventures, to complete capital expenditure projects on time and within budget, or the failure of these projects, once constructed, to operate as anticipated could materially adversely affect our business, financial condition and results of operations.

Construction plans we may have from time to time, and the current and any future construction plans of our joint ventures 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 constructed. If these capital expenditure projects do not achieve the results anticipated, we may not be able to satisfy our operational goals on a timely basis, if at all. If we or our joint ventures are unable to complete the construction of any of 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. For example, if Amtek Railcar is unable to start up operations effectively and in a timely manner or incurs significant losses at the onset of operations, our results of operations or financial condition could be materially adversely impacted.

Uncertainty surrounding acceptance of our new railcar 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 railcar designs to expand or maintain our market share in our current railcar markets and new railcar markets. Any new or modified railcar 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 railcar designs or new railcar designs that may be introduced by our competitors. Furthermore, we may experience significant initial costs of production of new railcar product lines 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 a loss on our sale of new railcar product lines.

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

An interruption in manufacturing capabilities at our complexes in Paragould or Marmaduke or at any of our component 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 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 are subject to the risk of catastrophic loss due to unanticipated events, such as fires, earthquakes, explosions, floods, tornados or weather conditions. 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.

Our entry into the railcar leasing market may use significant amounts of cash and we may be unable to re-market railcars from expiring leases on favorable terms, which could adversely affect our business, financial condition and results of operations.

We will utilize existing cash to manufacture railcars we lease to customers, while cash from lease revenues will be received over the term of the lease or leases relating to those railcars. Depending upon the number of railcars that we lease and the amount of cash used in other operations, our cash balances could be depleted, which 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.

The failure to enter into commercially favorable railcar leases, re-lease or sell railcars upon lease expiration and successfully manage existing leases could materially adversely affect 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, and the availability in the market of other used or new railcars.

A downturn in the industries in which our lessees operate and decreased demand for railcars could also increase our exposure to re-marketing risk because lessees may demand shorter lease terms or newer railcars, requiring us to re-market leased railcars more frequently. Furthermore, the resale market for previously 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 and reduced revenues.

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 and local 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. Despite our intention to be in compliance, we cannot guarantee that we will at all times comply with all such 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 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. Future events, such as new environmental 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.

In addition to environmental, health and safety laws, the transportation of commodities by railcar raises potential risks in the event of a derailment or other accident. Generally, liability under existing law in the United States for a derailment or other accident depends on the negligence of the party, such as the railroad, the shipper, or the manufacturer of the railcar or its components. However, for certain hazardous commodities being shipped, strict liability concepts may apply.

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The variable purchase patterns of our railcar customers and the timing of completion, customer acceptance and shipment of orders 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.

Railcar sales comprised approximately 76%, 63% and 79% of our total consolidated revenues in 2011, 2010 and 2009, respectively. 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 vary greatly year to year, as discussed above. The customer acceptance and title transfer or customer acceptance and shipment of our railcars determines 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 or 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.

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 December 31, 2011, the employees at our sites covered by collective bargaining agreements collectively represent approximately 14% 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 be successful in future attempts to organize our railcar manufacturing employees or employees at some of 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 we face labor shortages or increased labor costs, our growth and results of operations could be materially adversely affected.

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 retain, recruit and train the personnel we require in our railcar manufacturing and other businesses, particularly in periods of economic expansion. Our inability to recruit, retain and train adequate numbers of qualified personnel on a timely basis could materially adversely affect our businesses, financial condition and results of operations.

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

We are responsible for making funding contributions to two pension plans and are liable for any unfunded liabilities that may exist should the plans be terminated. Under certain circumstances, such liability could be senior to our unsecured senior notes. 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 business, financial condition and results of operations. There is no assurance that

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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 more negative. 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 also provide certain postretirement benefits for certain of our salaried and hourly employees and retirees. Our postretirement benefit obligations and related expense with respect to these postretirement benefits also increase or decrease based on several factors and could similarly materially adversely affect our business, financial condition and results of operations due to changes in these factors.

Our manufacturer s warranties expose us to potentially significant claims.

We may be subject to significant warranty claims in the future relating to workmanship and materials. 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.

Our unsecured senior notes contain, and any additional financing we may obtain could contain, covenants that restrict our ability to engage in certain transactions and may impair our ability to respond to changing business and economic conditions.

Complying with the covenants under our unsecured senior notes may limit our management s discretion by restricting our ability to:

incur additional debt;

redeem our common stock;

enter into certain transactions with affiliates;

pay dividends and make other distributions;

make investments and other restricted payments; and

create liens.

Certain covenants, including those that restrict our ability to incur additional indebtedness and issue disqualified or preferred stock, become more restrictive if our fixed charge coverage ratio, as defined, is less than 2.0 to 1.0 as measured on a rolling four-quarter basis. Any additional financing we may obtain could contain similar or more restrictive covenants. Our ability to comply with any covenants could be materially adversely affected by general economic conditions, political decisions, industry conditions and other events beyond our control. As a result, we cannot assure you that we will be able to comply with these covenants as they apply to us or when and if they become applicable to us. Our failure to comply with these covenants should they become applicable to us, could result in an event of default, which could materially adversely affect our business, financial condition, results of operations and liquidity.

If there were an event of default related to our outstanding unsecured senior notes, the holders of the defaulted debt could cause all amounts outstanding with respect to that debt to be due and payable immediately. We cannot assure you that our assets or cash flow would be sufficient to fully repay amounts due under any of our financing arrangements if accelerated upon an event of default, or that we would be able to repay, refinance or restructure the payments under any such arrangements.

Our substantial indebtedness, as a result of our outstanding unsecured senior notes, could materially adversely affect our business, financial condition and results of operations and prevent us from fulfilling our obligations under the notes.

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Our substantial indebtedness, consisting of our \$275.0 million of unsecured senior notes, could have important consequences to our investors. 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;

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.

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These consequences could materially adversely affect our business, financial condition and results of operations. Failure to comply with covenants in the indenture could result in an event of default, which, if not cured or waived, could materially adversely affect our business, financial condition and results of operations.

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

Despite our restrictions under our unsecured senior notes, we may be able to incur future indebtedness, including secured indebtedness, and this debt could be substantial. Any additional secured borrowings by us and any borrowings by our subsidiaries would be senior to the notes. 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 not be able to generate sufficient cash flow to service all of our obligations, including our obligations under our unsecured senior notes and we may not be able to refinance our indebtedness on commercially reasonable terms.

Our ability to make payments on and to refinance our indebtedness, including the indebtedness incurred under our unsecured senior notes, 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. If this is the case, we will need to refinance all or a portion of our indebtedness on or before maturity, and we cannot assure you that we will be able to refinance any of our indebtedness, including our unsecured senior notes, on commercially reasonable terms, or at all. We could 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 effected 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, the indenture governing the notes, 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, refinancings 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, including payments on the unsecured senior notes.

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, market risks and interest rate fluctuations that have affected various sectors of the financial markets and 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 Form 10-K (for example, supply/demand imbalances or other market forces), the prices of the securities in which we invest may decline substantially.

If ACF does not, or is unable to, honor its remedial or indemnity obligations to us regarding environmental matters, such environmental matters could materially adversely affect our business, financial condition and results of operations.

Certain real property we acquired from ACF in 1994 has been involved in investigation and remediation activities to address contamination. ACF is an affiliate of Mr. Carl Icahn, the chairman of our board of directors and, through IELP, our principal beneficial stockholder. Substantially all of these issues identified relate to the use of this property prior to its 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 might be incurred with those existing issues. As of the date of this

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report, we do not believe we will incur material costs in connection with any investigation or remediation activities relating to these properties, but we cannot assure that this will be the case. If ACF fails to honor its obligations to us, we could be responsible for the cost of such remediation. The discovery of historic contamination or the release of substances into the environment at our current or formerly owned or operated facilities could require ACF or us in the future to incur investigative or remedial costs or other liabilities that could be material or that 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.

Our failure to comply with regulations imposed by federal and foreign agencies could materially adversely affect our business, financial condition and results of operations.

New regulatory rulings and regulations from federal or foreign regulatory agencies may impact our business, financial condition and results of operations. If we fail to comply with the requirements and regulations of these agencies that impact our manufacturing, safety and other processes we may face sanctions and penalties that could materially adversely affect our business, financial condition and results of operations.

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 repair and manufacture of products that transport 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. Over the last several years, insurance carriers have raised premiums for many companies operating in our industries. Increased insurance premiums may further 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.

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. As we expand internationally, through our joint ventures or otherwise, 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 United States 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.

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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 you 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, even if possible.

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.

Reductions in the availability of energy supplies or an increase in energy costs may increase our operating costs.

Various factors including hostilities between the United States and a foreign power or natural disasters could result in a real or perceived shortage of petroleum and/or natural gas, which could result in an increase in the cost of electricity and the energy sources we use to manufacture our railcars. Future limitations on the availability or consumption of petroleum products or an increase in energy costs, particularly electricity for plant operations, could materially adversely affect our business, financial condition and results of operations.

We may be required to reduce the value of our inventory, long-lived assets 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 in the future due to a decline in market conditions in the railcar business, which could materially adversely affect our business, financial condition and results of operations. Future events could cause us to conclude that impairment indicators exist and that goodwill associated with our acquired businesses is impaired. Any resulting impairment loss related to reductions in the value of our long-lived assets 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 9 to our Consolidated Financial Statements, no triggering events occurred in 2011. We perform an annual goodwill impairment test as of March 1 of each year. As discussed in Note 10 to our Consolidated Financial Statements, no goodwill impairment loss was noted in 2011. 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 long-lived assets or goodwill 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 implementation of new enterprise resource planning (ERP) systems could result in problems that could negatively impact our business.

We are currently designing and implementing an ERP system that supports substantially all of our operating and financial functions. We could experience problems in connection with such implementation, including compatibility issues, training requirements, higher than expected implementation costs and other integration challenges and delays. A significant implementation problem, if encountered, could negatively impact our business by disrupting our operations. Additionally, a significant problem with the implementation, integration with other systems or ongoing management of ERP 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.

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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, SEC, and our independent registered public accounting firm, 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.

As a public company, we are required to comply with the reporting obligations of the Securities Exchange Act of 1934 (the Exchange Act) and are required to comply with Section 404 of the Sarbanes-Oxley Act. If we fail to comply with the reporting obligations of the Exchange Act and Section 404 of the Sarbanes-Oxley Act, or if we fail to maintain adequate internal controls over financial reporting, our business, financial condition, results of operations, and investors' confidence in us, could be materially adversely affected.

As a public company, we are required to comply with the periodic reporting obligations of the Exchange Act, including preparing annual, quarterly and current reports. Our failure to prepare and disclose this information in a timely manner could subject us to penalties under federal securities laws, expose us to lawsuits and restrict our ability to access financing. If we fail to achieve and maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal controls are necessary for us to produce reliable financial reports and are important to help prevent fraud. Our failure to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act on a timely basis could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our common stock.

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 \$28.74 per share and a low closing sales price of \$8.90 per share in the past twenty-four months as of December 31, 2011. This volatility may affect the price at which you could sell our common stock. 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, financial results failing to meet expectations of analysts or investors, changes in securities analysts' estimates of our future performance or of that of our competitors and the general health and outlook of our industry.

Our stock price may decline due to sales of shares beneficially owned by Mr. Carl Icahn through IELP.

Sales of substantial amounts of our common stock, or the perception that these sales may occur, may materially adversely affect the price of our common stock and impede our ability to raise capital through the issuance of equity securities in the future. Of our outstanding shares of common stock, 55.5% are beneficially owned by Mr. Carl Icahn, the chairman of our board of directors and, through IELP, our principal beneficial stockholder.

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Certain stockholders are contractually entitled, subject to certain exceptions, to exercise their demand registration rights to register their shares under the Securities Act of 1933. If this right is exercised, holders of any of our common stock subject to these agreements will be entitled to participate in such registration. By exercising their registration rights, and selling a large number of shares, these holders could cause the price of our common stock to decline. Approximately 11.6 million shares of common stock are covered by such registration rights.

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

We manufacture railcars and railcar components and provide railcar services for companies affiliated with Mr. Carl Icahn, the chairman of our board of directors and, through IELP, our principal beneficial stockholder. 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.

An affiliate of Mr. Carl Icahn accounted for approximately 5%, 35% and 28% of our consolidated revenues in 2011, 2010 and 2009, respectively. This revenue is currently attributable to railcar repairs and historically has been attributable to our sale of railcars to ARL, which currently purchases all of its railcar services from us, but is not required to do so in the future.

We have entered into a lease management agreement with ARL through which ARL markets our railcars for sale or lease and acts as our manager to lease railcars on our behalf for a fee. We could compete directly with ARL in our lease business if ARL provides a potential customer with better terms than what we would offer. ARL also leases railcars and therefore markets our railcars and its own railcars to the same customer base. To the extent our relationships with ARL or Mr. Carl Icahn change our business, financial condition and results of operations could be materially adversely affected.

As a public company, we may have reduced access to resources of, and benefits provided by, entities affiliated with Mr. Carl Icahn.

We believe that our relationship with entities affiliated with Mr. Carl Icahn has, in many cases, provided us with a competitive advantage in identifying and attracting partners for critical supply and buying arrangements. Specifically, Icahn Sourcing, LLC (Icahn Sourcing) is an entity formed and controlled by Mr. Carl Icahn in order to maximize the potential buying power of a group of entities with which Mr. Carl Icahn has a relationship in negotiating with a wide range of suppliers of goods, services and tangible and intangible property. We are a member of the buying group and, as such, are afforded the opportunity to purchase goods, services and property from vendors with whom Icahn Sourcing has negotiated rates and terms. Icahn Sourcing does not guarantee that we will purchase any goods, services or property from any such vendors, and we are under no obligation to do so. We do not pay Icahn Sourcing any fees or other amounts with respect to the buying group arrangement. We have purchased a variety of goods and services as members of the buying group at prices and on terms that we believe are more favorable than those that would be achieved on a stand-alone basis.

If we were unable to participate in supply and buying group arrangements, our manufacturing costs could increase, which could materially adversely affect our business, financial condition and results of operations.

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

Mr. Carl Icahn, the chairman of our board of directors, controls 55.5% of the voting power of our common stock, through IELP, and is able to control or exert substantial influence over us, including the election of our directors and controlling 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, 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 ARL and ACF as described below, 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, ARL competes directly with our leasing customers and may compete directly with us in the railcar leasing business, and ACF has supplied us and our competitors with critical components. ACF has previously manufactured railcars for us. Mr. Carl Icahn and entities controlled by him may also pursue acquisitions or business opportunities that may be 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

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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.

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, our officers' compensation is not determined by our independent directors, and director nominees are not selected or recommended by a majority of independent directors. As a result, we do not have a majority of independent directors and we do not have a nominating committee nor do we have a compensation committee consisting 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. Our unsecured senior notes contain provisions that limit our ability to pay dividends.

Our board of directors has suspended dividend payments indefinitely and may, at its discretion, continue to refuse to declare future dividends depending upon our operating results, strategic plans, capital requirements, financial condition, provisions of our borrowing arrangements and other factors our board of directors considers relevant. In addition, our unsecured senior notes restrict our ability to declare and pay dividends on our capital stock. Furthermore, North Dakota law imposes restrictions on our ability to pay dividends. Accordingly, we may not be able 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 only recently enacted 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.

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. 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 liability, and purchase liability insurance at coverage levels based upon commercial norms in our industries in an effort to mitigate our liability exposures. 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.

Repercussions from terrorist activities or armed conflict could harm our business.

Terrorist activities, antiterrorist efforts, and other armed conflict involving the United States or its interests abroad may adversely affect the U.S. and global economies, potentially preventing us from meeting our financial and other obligations. In particular, the negative impacts of these events may affect the industries in which we operate. This could result in delays in or cancellations of the purchase of our products or shortages in raw materials, parts, or components. Any of these occurrences could materially adversely affect our business, financial condition and results of operations.

Item 1B: Unresolved Staff Comments

None

Item 2: Properties

Our headquarters is located in St. Charles, Missouri. We lease this facility from an entity owned by Mr. James Unger, vice chairman of our board of directors, pursuant to a lease agreement that expires December 31, 2021, as described in Note 20 to our Consolidated Financial

Statements.

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The following table presents information about our railcar manufacturing and components manufacturing facilities as of December 31, 2011:

Location	September 30, Use	September 30, Leased or Owned	September 30, Lease Expiration Date
Paragould, Arkansas	Railcar manufacturing	Owned	N/A
Marmaduke, Arkansas	Railcar manufacturing	Owned	N/A
Jackson, Missouri	Railcar components manufacturing	Owned	N/A
Kennett, Missouri	Railcar sub-assembly and small components manufacturing	Owned	N/A
Longview, Texas	Steel foundry	Owned	N/A
St. Charles, Missouri	Aluminum foundry and machining	Leased	2/28/2016

The following table presents information about our railcar services facilities as of December 31, 2011 where we provide railcar repair, cleaning, maintenance and other services:

Location	September 30, Leased or Owned	September 30, Lease Expiration Date
Longview, Texas	Owned	N/A
Goodrich, Texas	Owned	N/A
North Kansas City, Missouri	Owned	N/A
Tennille, Georgia	Owned	N/A
Milton, Pennsylvania	Owned	N/A(1)
La Porte, Texas	Owned	N/A
Bude, Mississippi	Leased	4/30/2012(2)
Sarnia, Ontario	Leased	10/31/2026(3)
Gonzales, Louisiana	Leased	3/31/2013(4)
Green River, Wyoming	Leased	12/1/2017(5)

- (1) This facility has been idle since 2003. Effective November 1, 2011, this facility was leased to a third party for use in an unrelated industry.
- (2) The majority of the facility in Bude, Mississippi is subject to a lease from the city that automatically renews for one-year terms and contains a termination clause requiring six months advance notice. We currently intend to remain in this facility. The remaining portion of the facility in Bude, Mississippi is subject to a county lease that expires on February 28, 2014.
- (3) The land this facility is located on is subject to a lease that expires on October 31, 2026 and automatically renews for twenty years.
- (4) This facility is subject to a lease that expires on March 31, 2013.

- (5) The land this facility is located on is subject to a lease from the State that expires on December 1, 2017.

Item 3: Legal Proceedings

On December 16, 2010, a complaint was filed by Steve Garvin, Deloris Garvin, and Garvin Enterprise, Inc. (the Plaintiffs) against our subsidiaries Southwest Steel I, LLC, Southwest Steel II, LLC and Southwest Steel III, LLC, d/b/a Southwest Steel Casting Co., in the District Court of Harris County, Texas, 295th Judicial District. On July 25, 2011, the complaint was

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amended to include us as a party to the litigation. The Plaintiffs alleged that we improperly used their former employees to source components from Chinese suppliers in violation of contractual arrangements among the parties and in a manner that compromised the Plaintiffs' relationships with the Chinese suppliers. The case was settled and a related charge was included in our financial results as of December 31, 2011.

We are from time to time party to various other legal proceedings arising out of our business. Such proceedings, even if not meritorious, could result in the expenditure of significant financial and managerial resources. We believe that there are no proceedings pending against us that, were the outcome to be unfavorable, would materially adversely affect our business, financial condition and results of operations.

Item 4: Mine Safety Disclosures

Not applicable.

PART II**Item 5: Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information**

Our common stock has been traded on the NASDAQ Global Select Market under the symbol ARII since January 20, 2006. There were approximately 11 holders of record of common stock as of February 26, 2012 including multiple beneficial holders at depositories, banks and brokers listed as a single holder of record in the street name of each respective depository, bank or broker.

The following table shows the price range of our common stock by quarter for the years ended December 31, 2011, 2010 and 2009:

	September 30, Prices	
	High	Low
Year Ended December 31, 2011		
Quarter ended March 31, 2011	\$ 25.09	\$ 18.36
Quarter ended June 30, 2011	28.74	18.89
Quarter ended September 30, 2011	26.47	13.68
Quarter ended December 31, 2011	26.26	14.49
Year Ended December 31, 2010		
Quarter ended March 31, 2010	\$ 12.38	\$ 8.90
Quarter ended June 30, 2010	19.03	12.06
Quarter ended September 30, 2010	16.13	10.39
Quarter ended December 31, 2010	22.31	15.01
Year Ended December 31, 2009		
Quarter ended March 31, 2009	\$ 11.44	\$ 6.59
Quarter ended June 30, 2009	9.44	6.83
Quarter ended September 30, 2009	12.72	7.30
Quarter ended December 31, 2009	12.12	9.76

Dividend Policy and Restrictions

We declared cash dividends of \$0.03 per share in every quarter of 2006, 2007 and 2008 and the first two quarters of 2009 before our board of directors suspended the dividend indefinitely. Any future declaration and payment of dividends will be at the discretion of our board of directors and will depend upon our operating results, strategic plans, capital requirements, financial condition, provisions of any borrowing arrangements and other factors our board of directors considers relevant. Additionally, the indenture relating to our unsecured senior notes contains certain covenants that may restrict our payments of dividends if certain conditions are present.

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Performance Graph

The following Performance Graph and related information shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934 (the Exchange Act), each as amended, except to the extent that we specifically incorporate it by reference into such filing.

The following graph illustrates the cumulative total stockholder return on our common stock during the period from January 20, 2006, the date our common stock began trading on the NASDAQ Global Select Market, through December 31, 2011, and compares it with the cumulative total return on the NASDAQ Composite Index and DJ Transportation Index. The comparison assumes \$100 was invested on January 20, 2006, in our common stock and in each of the foregoing indices and assumes reinvestment of dividends, if any. The performance shown is not necessarily indicative of future performance.

Table of Contents**Stock Performance Graph****Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The table below reflects open market purchases during the three months ended December 31, 2011 of our common stock by Mr. Carl Icahn, the chairman of our board of directors and, through IELP, our principal beneficial stockholder, and certain of his affiliates, each of whom may be deemed to be an affiliated purchaser as such term is defined in Rule 10b-18(b)(3) under the Exchange Act. The information contained in this table is based upon filings with the SEC made by Mr. Carl Icahn and his affiliates. We did not repurchase any shares of our common stock during the period covered by this annual report.

	September 30, Total Number of Shares Purchased	September 30, Average Price Paid Per Share	September 30, Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	September 30, Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 31, 2011	38,300	\$ 15.04		
November 1 30, 2011				
December 1 31, 2011				
Total	38,300	\$ 15.04		

(1) No purchases were made pursuant to a publicly announced plan or program.

Item 6: Selected Consolidated Financial Data.

The following table sets forth our selected consolidated financial data for the periods presented. The consolidated statements of operations and cash flow data for the years ended December 31, 2011, 2010 and 2009 and the consolidated balance sheet data as of December 31, 2011 and 2010 are derived from our audited consolidated financial statements and related notes included elsewhere in this annual report. The consolidated statements of operations and cash flow data for the years ended December 31, 2008 and 2007 and the consolidated balance sheet data as of December 31, 2009, 2008 and 2007 are derived from our historical consolidated financial statements not included in this filing. See Index to Consolidated Financial Statements.

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	September 30, 2011	September 30, 2010	September 30, 2009	September 30, 2008	September 30, 2007
	Years ended December 31, (in thousands, except per share data)				
Consolidated statement of operations data:					
Revenues					
Manufacturing operations (1)	\$ 454,167	\$ 206,094	\$ 365,329	\$ 757,505	\$ 648,124
Railcar services (2)	65,218	67,469	58,102	51,301	50,003
Total revenues	519,385	273,563	423,431	808,806	698,127
Cost of revenues					
Manufacturing operations	(410,990)	(210,269)	(329,025)	(682,744)	(568,023)
Railcar services	(50,599)	(54,353)	(47,015)	(41,653)	(41,040)
Total cost of revenues	(461,589)	(264,622)	(376,040)	(724,397)	(609,063)
Gross profit	57,796	8,941	47,391	84,409	89,064
Selling, general and administrative (3)	(25,047)	(25,591)	(25,141)	(26,535)	(27,379)
Earnings (loss) from operations	32,749	(16,650)	22,250	57,874	61,685
Interest income (4)	3,654	3,519	6,613	7,835	13,829
Interest expense	(20,291)	(21,275)	(20,909)	(20,299)	(17,027)
Other (loss) income (5)	(10)	394	20,869	3,657	
(Loss) income from joint ventures	(7,900)	(7,789)	(6,797)	718	881
Earnings (loss) before income taxes	8,202	(41,801)	22,026	49,785	59,368
Income tax (expense) benefit	(3,866)	14,795	(6,568)	(18,403)	(22,104)
Net earnings (loss)	\$ 4,336	\$ (27,006)	\$ 15,458	\$ 31,382	\$ 37,264
Net earnings (loss) per common share basic	\$ 0.20	\$ (1.27)	\$ 0.73	\$ 1.47	\$ 1.75
Weighted average common shares outstanding basic	21,352	21,302	21,302	21,302	21,274
Net earnings (loss) per common share diluted	\$ 0.20	\$ (1.27)	\$ 0.73	\$ 1.47	\$ 1.74
Weighted average common shares outstanding diluted	21,352	21,302	21,302	21,302	21,357
Dividends declared per common share	\$	\$	\$ 0.06	\$ 0.12	\$ 0.12
Consolidated balance sheet data:					
Cash and cash equivalents	\$ 307,172	\$ 318,758	\$ 347,290	\$ 291,788	\$ 303,882
Net working capital	364,229	362,763	374,965	376,106	380,111
Property, plant and equipment, net	194,242	181,255	199,349	206,936	175,166
Total assets	703,770	654,367	664,364	679,654	654,384
Total liabilities	393,601	346,591	328,724	364,929	363,396
Total stockholders equity	310,169	307,776	335,640	314,725	290,988
Consolidated cash flow data:					
Net cash provided by (used in) operating activities	\$ 28,123	\$ (12,141)	\$ 84,143	\$ 44,603	\$ 60,219
Net cash used in investing activities	(40,460)	(16,692)	(26,842)	(54,110)	(67,434)
Net cash provided by (used in) financing activities	756	294	(1,917)	(2,564)	270,164

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Effect of exchange rate changes on cash and cash equivalents	(5)	7	118	(23)	11
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You should read this information together with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes thereto included elsewhere in this annual report.

- (1) Includes revenues from affiliates of \$1.2 million, \$81.9 million, \$105.2 million, \$182.8 million and \$140.2 million in 2011, 2010, 2009, 2008 and 2007, respectively.
- (2) Includes revenues from affiliates of \$24.7 million, \$15.0 million, \$14.4 million, \$15.3 million and \$16.0 million in 2011, 2010, 2009, 2008 and 2007, respectively.
- (3) Includes costs to a related party of \$0.6 million in 2011, 2010, 2009, 2008 and 2007.
- (4) Includes income from related parties of \$2.8 million, \$2.6 million and \$1.0 million in 2011, 2010 and 2009, respectively, and less than \$0.1 million in 2008 and 2007.
- (5) Includes income from a related party of less than \$0.1 million in 2011, 2010 and 2009 and zero in 2008 and 2007.

Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with Selected Consolidated Financial Data and our consolidated financial statements and related notes included in this annual report. This discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about our business and operations. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements, including as a result of the factors we describe under Risk Factors and elsewhere in this annual report. See Special Note Regarding Forward-Looking Statements appearing at the beginning of this report and Risk Factors set forth in Item 1A of this report.

OVERVIEW

We are a leading North American designer and manufacturer of hopper and tank railcars. We also lease, repair and refurbish railcars, provide fleet management services and design and manufacture certain railcar and industrial components. We provide our railcar customers with integrated solutions through a comprehensive set of high quality products and related services.

The North American railcar market has been, and we expect it to continue to be highly cyclical. We have seen consistent improvements in the railcar manufacturing market despite the recent economic downturn and restricted credit markets, though these improvements may or may not continue. Throughout 2011, railcar loadings have increased and the number of railcars in storage decreased, as reported by an independent third party industry analyst. However, we cannot assure you that the railcar market will continue to improve or that our railcar orders and shipments will continue to increase.

As of December 31, 2011, we have a backlog of approximately 6,530 railcars, up from a total backlog of approximately 1,050 railcars as of December 31, 2010. Our backlog as of December 31, 2011 included approximately 2,200 railcars that we will lease. For the year ended December 31, 2011, we had orders of approximately 10,710 railcars, the most orders we have had since 2005. In response to the increased customer demand seen in 2011, we increased production rates at our railcar manufacturing facilities and intend to continue increasing them as demand requires.

During the year ended December 31, 2011, our railcar shipments and manufacturing revenues increased compared to the same period in the prior year and the gross profit margin of both of our segments increased. Our railcar shipments of approximately 5,230 railcars in 2011 surpassed our 2010 shipments of approximately 2,090 railcars. The lower shipments in 2010 resulted from the economic downturn, which increased competition and pricing pressures. This downturn adversely affected the sales of our railcars and other products and caused us to slow our production rates in 2010 compared to 2009, resulting in a significant decrease in comparable shipments and revenues.

In 2011, our railcar services segment experienced increased volumes at railcar repair facilities and a decrease in railcar repair projects performed at our railcar manufacturing facilities. As railcar production increases at our railcar manufacturing facilities we expect repair projects performed at these facilities to decrease.

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The following table summarizes our historical operations as a percentage of revenues for the periods shown. Our historical results are not necessarily indicative of operating results that may be expected in the future.

	September 30, 2011	September 30, Years Ended December 31, 2010	September 30, 2009
Revenues:			
Manufacturing operations	87.4%	75.3%	86.3%
Railcar services	12.6%	24.7%	13.7%
Total revenues	100.0%	100.0%	100.0%
Cost of revenues:			
Manufacturing operations	(79.1%)	(76.8%)	(77.7%)
Railcar services	(9.7%)	(19.9%)	(11.1%)
Total cost of revenues	(88.8%)	(96.7%)	(88.8%)
Gross profit	11.2%	3.3%	11.2%
Selling, general and administrative	(4.8%)	(9.4%)	(5.9%)
Earnings (loss) from operations	6.4%	(6.1%)	5.3%
Interest income	0.7%	1.3%	1.6%
Interest expense	(3.9%)	(7.8%)	(4.9%)
Other income	0.0%	0.1%	4.9%
Loss from joint ventures	(1.5%)	(2.8%)	(1.6%)
Earnings (loss) before income taxes	1.7%	(15.3%)	5.3%
Income tax (expense) benefit	(0.7%)	5.4%	(1.6%)
Net earnings (loss)	1.0%	(9.9%)	3.7%

Year ended December 31, 2011 compared to year ended December 31, 2010**Revenues**

Our revenues in 2011 increased 89.9% to \$519.4 million from \$273.6 million in 2010. This increase was primarily due to increased revenues from our manufacturing operations, partially offset by a slight decrease in revenues from our railcar services segment.

Our manufacturing operations revenues increased 120.4% to \$454.2 million in 2011 from \$206.1 million in 2010. The primary reason for the increase in revenues was an increase in railcar shipments. Our shipments in 2011 were approximately 5,230 railcars compared to approximately 2,090 railcars in 2010. This increase was due to an increase in customer demand and higher production rates at our manufacturing plants. In 2011, our manufacturing operations revenues included \$1.2 million, or 0.2% of our total consolidated revenues, from transactions with American Railcar Leasing LLC (ARL), compared to \$81.9 million, or 29.9% of our total consolidated revenues, from transactions with ARL in 2010. ARL is an affiliate of Mr. Carl Icahn, the chairman of our board of directors and, through Icahn Enterprises L.P. (IELP), our principal beneficial stockholder.

Our railcar services revenues decreased 3.3% to \$65.2 million in 2011 from \$67.5 million in 2010. The decrease was primarily attributable to the decreased number of railcar repair projects performed at the manufacturing facilities, as this capacity was returned to new railcar manufacturing, partially offset by an increase in revenues at our railcar repair facilities. In 2011, our railcar services revenues included \$24.7 million, or 4.8% of our total consolidated revenues, from transactions with ARL, compared to \$15.0 million, or 5.5% of our total consolidated revenues, in 2010.

Gross profit

Our gross profit increased to \$57.8 million in 2011 from \$8.9 million in 2010. Our gross profit margin increased to 11.1% in 2011 from 3.3% in 2010, driven primarily by an increase in gross profit margin from our manufacturing operations.

Gross profit from our manufacturing operations increased to \$43.2 million in 2011 compared to a loss of \$4.2 million in 2010. Gross profit margin for our manufacturing operations increased to 9.5% in 2011 compared to a loss of 2.0% in 2010. These increases were primarily attributable to an increase in railcar shipments, improved pricing and leverage created by higher production volumes.

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Gross profit from our railcar services operations increased to \$14.6 million in 2011 compared to \$13.1 million in 2010 primarily due to increased efficiencies due to a more favorable mix of work. Gross profit margin for our railcar services operations increased to 22.4% in 2011 from 19.4% in 2010. The increase was primarily attributable to an increase in volumes and efficiencies at our railcar repair facilities, partially offset by a decrease in railcar repair projects performed at our railcar manufacturing facilities.

Selling, general and administrative expenses

Our selling, general and administrative expenses decreased in 2011 to \$25.0 million from \$25.6 million in 2010. The decrease of \$0.6 million was primarily attributable to a decrease of \$1.2 million in stock based compensation expense due to fluctuations in our stock price in 2011 compared to 2010, partially offset by stock appreciation rights (SARs) granted during 2011. In 2011, we recognized stock based compensation expense of \$2.7 million compared to \$4.0 million in 2010.

Interest expense and interest income

Net interest expense for 2011 was \$16.6 million, representing \$3.7 million of interest income and \$20.3 million of interest expense, compared to \$17.8 million of net interest expense for 2010, representing \$3.5 million of interest income and \$21.3 million of interest expense. Interest expense decreased due to interest that was capitalized in 2011 related to our unsecured senior notes recorded for the investment in our joint venture, which is in the development stage. Interest income increased due to an increase in return on investments and loans.

Other (loss) income

Other loss of less than \$0.1 million was recognized in 2011 compared to income of \$0.4 million in 2010 related to realized gains on the sale of common stock.

Loss from joint ventures

Loss from joint ventures was \$7.9 million and \$7.8 million for the years ended December 31, 2011 and 2010, respectively. The losses for Axis LLC (Axis) decreased as it continued to ramp-up production levels to meet demand. The losses for Ohio Castings LLC (Ohio Castings) increased slightly due to the initial costs of resuming production at Ohio Castings in 2011. The losses for Amtek Railcar Industries Private Limited (Amtek Railcar) increased due to the continued development of its business and being in the construction and development stage.

Income tax (expense) benefit

Our income tax expense in 2011 was \$3.9 million, or 47.1%, of our earnings before income taxes, compared to a benefit of \$14.8 million in 2010, or 35.4%, of our loss before income taxes. The effective tax rate increase was primarily attributable to not recognizing a tax benefit on foreign losses associated with our Indian joint venture, other unrecognized tax benefits and certain state tax adjustments.

Year ended December 31, 2010 compared to year ended December 31, 2009

Revenues

Our revenues in 2010 decreased 35.4% to \$273.6 million from \$423.4 million in 2009. This decrease was attributable to a decrease in revenues from manufacturing operations partially offset by an increase in revenues from railcar services.

Our manufacturing operations revenues decreased 43.6% to \$206.1 million in 2010 from \$365.3 million in 2009. The primary reasons for the decrease in revenues were a decrease in railcar shipments and an overall decrease in average selling prices due to competitive pricing and a change in product mix. Our shipments in 2010 were approximately 2,090 railcars compared to approximately 3,690 railcars in 2009. In 2010, our manufacturing operations revenues included \$81.9 million, or 29.9% of our total consolidated revenues, from transactions with ARL, compared to \$105.2 million, or 24.8% of our total consolidated revenues, from transactions with ARL and ACF, in 2009. ACF Industries LLC (ACF) and ARL are affiliates of Mr. Carl Icahn, the chairman of our board of directors and, through IELP, our principal beneficial stockholder.

Our railcar services revenues increased 16.1% to \$67.5 million in 2010 from \$58.1 million in 2009. This increase was primarily attributable to higher volumes at railcar repair plants and the utilization of our railcar manufacturing facilities for railcar repair projects. In 2010, our railcar services revenues included \$15.0 million, or 5.5% of our total consolidated revenues, from transactions with ARL, compared to \$14.4 million, or 3.4% of our total consolidated revenues, in 2009.

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Gross profit

Our gross profit decreased to \$8.9 million in 2010 from \$47.4 million in 2009. Our gross profit margin decreased to 3.3% in 2010 from 11.2% in 2009 primarily driven by a decrease in gross profit margin from our manufacturing operations.

Gross profit from our manufacturing operations decreased to a loss of \$4.2 million in 2010 compared to a profit of \$36.3 million in 2009. Gross profit margin for our manufacturing operations decreased to a loss of 2.0% in 2010 compared to a profit of 9.9% in 2009, primarily attributable to lower shipments, lower average selling prices and the impact of fixed costs in a low production environment.

Gross profit from our railcar services operations increased to \$13.1 million in 2010 compared to \$11.1 million in 2009. Gross profit margin for our railcar services operations increased to 19.4% in 2010 from 19.1% in 2009 primarily attributable to increased volumes at railcar repair plants and repair projects performed at our railcar manufacturing facilities.

Selling, general and administrative expenses

Our selling, general and administrative expenses increased in 2010 to \$25.6 million from \$25.1 million in 2009. The increase of \$0.5 million was primarily attributable to a \$3.1 million increase in stock based compensation expense, partially offset by a decrease in incentive compensation, outside services and a non-recurring legal settlement recorded in 2009. The increase in stock based compensation expense was due to increased expense related to our SARs driven by an increase in the stock price in 2010 compared to 2009.

Interest expense and income

Net interest expense for 2010 was \$17.8 million, representing \$3.5 million of interest income and \$21.3 million of interest expense, compared to \$14.3 million of net interest expense for 2009, representing \$6.6 million of interest income and \$20.9 million of interest expense.

The \$3.1 million decrease in interest income from 2009 to 2010 was primarily attributable to the higher interest rate that was earned on corporate bonds purchased and sold in 2009, as the sale proceeds were reinvested at a lower rate of return. The \$0.4 million increase in interest expense from 2009 to 2010 was primarily due to a decrease in capitalized interest caused by a decrease in capital expenditures.

Other (loss) income

Other income of \$0.4 million was recognized in 2010 related to realized gains on the sale of common stock. During 2009, we sold our investment in corporate bonds resulting in a realized gain of \$23.9 million partially offset by a \$2.9 million other-than-temporary impairment of common stock and a realized loss of less than \$0.1 million on the sale of common stock. See further discussion of our short-term investment activity in Note 3 to our Consolidated Financial Statements.

Loss from joint ventures

Loss from joint ventures was \$7.8 million in 2010 compared to \$6.8 million in 2009. The \$1.0 million increase was due to Axis not starting production until the last half of 2009 and operating at a low level in 2010. This was partially offset by a decrease in losses at Ohio Castings due to one-time expenses recorded in 2009 related to the plant idling. We reported a loss of \$0.2 million for Amtek Railcar in 2010.

Income tax (expense) benefit

Our income tax benefit in 2010 was \$14.8 million, or 35.4% of our loss before income taxes, compared to income tax expense of \$6.6 million in 2009, or 29.8% of our earnings before income taxes. During 2010, we recorded a valuation allowance for a deferred tax asset that became unrealizable. We plan to file for a loss carry-back to prior years. In 2009, we recorded a one-time \$1.0 million adjustment to accrued taxes due to certain tax benefits becoming recognizable.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2011, we had net working capital of \$364.2 million, including \$307.2 million of cash and cash equivalents. Our cash position as of December 31, 2011 consists of cash proceeds from our unsecured senior notes issued in February 2007 and overall cash provided by operations.

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Outstanding and Available Debt

Unsecured senior notes

In February 2007, we issued \$275.0 million of unsecured senior fixed rate notes, which were subsequently exchanged for registered notes in March 2007 (Notes). The offering resulted in net proceeds to us of \$270.7 million. The terms of the Notes contain restrictive covenants that limit our ability to, among other things, incur additional debt, issue disqualified or preferred stock, make certain restricted payments and enter into certain significant transactions with stockholders and affiliates. We were in compliance with all of our covenants under the Notes as of December 31, 2011.

Commencing on March 1, 2012, the redemption price is set at 101.88% of the principal amount of the Notes plus accrued and unpaid interest, and will decline to 100.0% of the principal amount of the Notes plus accrued and unpaid interest from and after March 1, 2013. The Notes are due in full plus accrued unpaid interest on March 1, 2014.

Cash Flows from Operating Activities

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

Our net cash provided by operating activities for the year ended December 31, 2011 was \$28.1 million. Our net earnings of \$4.3 million were impacted by non-cash items including depreciation and amortization expense of \$22.9 million, provision for deferred income taxes of \$6.5 million, joint venture losses of \$7.9 million, stock based compensation of \$3.5 million (relating to SARs that settle in cash) and other smaller items.

Cash used in operating activities included an increase of \$13.8 million of accounts receivable (including those from affiliates), an increase of \$45.8 million of inventory, partially offset by an increase of \$33.5 million in accounts payable (including those to affiliates) and a decrease in income taxes receivable of \$10.6 million.

The increase in accounts receivable and inventory was primarily due to increased sales and production levels in 2011 compared to 2010. The increase in accounts payable is primarily due to an increase in production and inventory levels and the timing of payments in 2011 compared to 2010.

Cash Flow from Investing Activities

Net cash used in investing activities was \$40.5 million for the year ended December 31, 2011. This amount includes \$35.6 million of purchases of property, plant and equipment, including lease railcars, and \$4.9 million related to loan advances and capital contributions to our joint ventures. Some of these purchases are described in further detail below under **Capital Expenditures**.

Capital expenditures

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

Capital expenditures for the year ended December 31, 2011 were \$35.6 million, including significant expenditures related to manufacturing railcars for lease to others, as well as costs that were capitalized for projects that maintain equipment, improve efficiencies and reduce costs.

Future Liquidity

We believe that our existing cash balance of \$307.2 million will provide sufficient liquidity to meet our expected operating requirements over the next twelve months. We expect our future cash flows from operations to be impacted by the state of the credit markets and the overall economy, the number of our railcar orders and shipments and our production rates. Our future liquidity may also be impacted by the number of our new railcar orders leased versus sold.

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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 annual report. These risks, trends and uncertainties may also materially adversely affect our long-term liquidity.

Our current capital expenditure plans for 2012 include projects that we expect will maintain equipment, improve efficiencies and reduce costs. We also plan to significantly increase our railcar lease fleet in 2012 to meet customer demand for leased railcars that have been ordered. We cannot assure that we will be able to complete any of our projects on a timely basis or within budget, if at all.

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

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

Dividends

During each quarter since our initial public offering in January 2006 until the second quarter of 2009, our board of directors declared cash dividends of \$0.03 per share of our common stock to stockholders of record as of a given date. The last dividend was declared in May 2009 and paid in July 2009.

Subsequently, in August 2009, our board of directors indefinitely suspended our quarterly dividend payments and any decision to pay future dividends will be at the discretion of our board of directors and will depend upon our operating results, strategic plans, capital improvements, financial condition, debt covenants and other factors, including provisions of our indenture.

Contractual Obligations and Off-Balance Sheet Arrangements

The following table summarizes our contractual obligations as of December 31, 2011, and the effect that these obligations and commitments are expected to have on our liquidity and cash flow in future periods.

Contractual Obligations	September 30,	September 30,	September 30,	September 30,	September 30,
	Total	1 year	2-3 years (in thousands)	4-5 years	After 5 years
Operating Lease Obligations ¹	\$ 13,568	\$ 1,410	\$ 3,029	\$ 2,702	\$ 6,427
Senior Unsecured Notes ²	275,000		275,000		
Interest Payments on Senior Unsecured Notes ³	44,686	20,625	24,061		
Pension and Postretirement Funding ⁴	8,541	1,363	2,679	2,992	1,507
Service Agreement	6,421	6,100	321		
Total	\$ 348,216	\$ 29,498	\$ 305,090	\$ 5,694	\$ 7,934

- (1) The operating lease commitment includes the future minimum rental payments required under non-cancelable operating leases for property and equipment leased by us.
- (2) On February 28, 2007, we issued \$275.0 million of unsecured senior notes that are due on March 1, 2014.
- (3) The interest rate on these notes is 7.5%. These notes have interest payments due semiannually on March 1 and September 1 of every year.

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- (4) Our pension funding commitments include minimum funding contributions required by law for our two funded pension plans as well as expected benefit payments for our one unfunded pension plan. Our postretirement benefits are also unfunded thus the participants and we fund benefit payments.

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We have excluded from the contractual obligations table above, our gross amount of unrecognized tax benefits of \$1.8 million. While it is uncertain as to the amount, if any, of these unrecognized tax benefits that will be settled by means of a cash payment, we reasonably expect some change to this balance of up to \$1.0 million to occur within the next twelve months.

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

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

Contingencies

We are subject to comprehensive federal, state, local and international environmental laws and regulations relating to the release or discharge of materials into the environment, the management, use, processing, handling, storage, transport or disposal of hazardous materials and wastes, or otherwise relating to the protection of human health and the environment. These laws and regulations not only expose us to liability for the environmental condition of our current or formerly owned or operated facilities, and negligent acts, but also may expose us to liability for the conduct of others or for our actions that were in compliance with all applicable laws at the time these actions were taken. In addition, these laws may require significant expenditures to achieve compliance, and are frequently modified or revised to impose new obligations. Civil and criminal fines and penalties and other sanctions may be imposed for non-compliance with these environmental laws and regulations. Our operations that involve hazardous materials also raise potential risks of liability under common law. Certain real property we acquired from ACF in 1994 has been involved in investigation and remediation activities to address contamination. Substantially all of the issues identified relate to the use of this property prior to its 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 might be incurred with those existing issues. As of the date of this report, we do not believe that we will incur material costs in connection with any investigation or remediation activities relating to these properties, but we cannot assure that this will be the case. If ACF fails to honor its obligations to us, we could be responsible for the cost of such remediation. We believe that our operations and facilities are in substantial compliance with applicable laws and regulations and that any noncompliance is not likely to have a material adverse effect on our financial condition or results of operations.

We are from time to time party to various other legal proceedings arising out of our business. Such proceedings, even if not meritorious, could result in the expenditure of significant financial and managerial resources. We believe that there are no proceedings pending against us that, were the outcome to be unfavorable, would materially adversely affect our business, financial condition and results of operations.

Axis Loan

Axis entered into a credit agreement in December 2007 (as amended, the Axis Credit Agreement). During 2009, we, through our wholly-owned subsidiary, ARI Component Venture, LLC (ARI Component), and the other initial partner acquired this loan from the lenders party thereto, with each party acquiring a 50.0% interest in the loan for \$29.5 million, the then outstanding principal amount of the portion of the loan we acquired. The total commitment under the term loan is \$60.0 million with an additional \$10.0 million commitment under the revolving loan. ARI Component is responsible to fund 50.0% of the loan commitments. The balance outstanding on these loans, due to ARI Component, was \$31.4 million of principal and \$5.7 million of accrued interest, both as of December 31, 2011. ARI Component's share of the remaining commitment on these loans, term and revolving, was \$3.6 million as of December 31, 2011. See Note 11 to our Consolidated Financial Statements for further information.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

We prepare our Consolidated Financial Statements in accordance with U.S. GAAP (generally accepted accounting principles). The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of sales and expenses during the reporting period. Estimates and assumptions are periodically evaluated and may be adjusted in future periods. A summary of our significant accounting policies are described in Note 2 to our Consolidated Financial Statements included elsewhere in this annual report. Some of these policies involve a high degree of judgment in their application. The critical accounting policies, in management's judgment, are those described below. If different assumptions or conditions prevail, or if our estimates and assumptions prove to be incorrect, actual results could be materially different from those reported.

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Revenue Recognition

Revenues from railcar sales are recognized following completion of manufacturing, inspection, customer acceptance and title transfer, which is when the risk for any damage or loss with respect to the railcars passes to the customer. Revenues from railcar leasing are recognized on a straight-line basis per terms of the lease. Revenues from railcar and industrial components are recorded at the time of product shipment, in accordance with our contractual terms. Revenues for railcar maintenance services is recognized upon completion and shipment of railcars from our plants. Revenues for fleet management services is recognized as performed.

Revenues related to consulting type contracts are accounted for under the proportional performance method. Profits expected to be realized on these contracts are based on the total contract revenues and costs based on the estimate of the percentage of project completion. Revenues recognized in excess of amounts billed are recorded to unbilled revenues and included in other current assets on the consolidated balance sheets. Billings in excess of revenues recognized on in-progress contracts are recorded to unbilled costs and included in other current liabilities on the consolidated balance sheets. These estimates are reviewed and revised periodically throughout the term of the contracts and any adjustments are recorded on a cumulative basis in the period the revisions are made.

Inventories

Inventories are stated at the lower of cost or market, on a first-in, first-out basis, and include the cost of materials, direct labor and manufacturing overhead. We allocate fixed production overheads to the costs of conversion based on the normal capacity of our production facilities. If any of our production facilities are not operating at normal capacity, unallocated production overheads are recognized as a current period charge. We evaluate our ability to realize the value of our inventory based on a combination of factors including historical usage rates, forecasted sales or usage, product end of life dates, estimated current and future market values and new product introductions. Assumptions used in determining our estimates of future product demand may prove to be incorrect; in which case, the provision required for excess and obsolete inventory would have to be adjusted in the future. When recorded, our reserves are intended to reduce the carrying value of our inventory to its net realizable value.

Long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the long-lived assets may not be recoverable. During the year ended December 31, 2011, no triggering events occurred. The criteria for determining impairment of such long-lived assets to be held and used is determined by comparing the carrying value of these long-lived assets to be held and used to management's best estimate of future undiscounted cash flows expected to result from the use of the long-lived assets. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the long-lived assets exceeds the fair value of the long-lived assets. The estimated fair value of the long-lived assets is measured by estimating the present value of the future discounted cash flows to be generated.

The North American railcar market has been, and we expect it to continue to be highly cyclical, generally fluctuating in correlation with the U.S. economy. The railcar industry recovered in 2011, which was reflected in our railcar orders increasing. This portrayed that the recent economic downturn had a temporary effect on our business driving the railcar market to weak levels throughout 2009 and 2010, demonstrating the cyclical nature of the industry. We continually monitor our long-lived assets for impairment in response to events or changes in circumstances.

Goodwill

As of December 31, 2011, we had \$7.2 million of goodwill recorded in conjunction with a past business acquisition, all allocated to a reporting unit that is part of our manufacturing operations segment. We evaluate goodwill for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Whether an impairment of goodwill is required is determined by comparing the fair value of the reporting unit to its carrying value, which is determined using a combination of methods, including management's best estimate of future discounted cash flows expected to result from the business. If the estimated fair value is less than the carrying value, goodwill is considered impaired and the impairment recognized equals such difference. We performed the annual impairment test as of March 1, 2011, noting no adjustment was required. Since March 1, 2011, no significant or unusual events have occurred that would indicate a change in valuation.

We utilized the market and income approaches and significant assumptions, discussed below, in the March 1, 2011 impairment test.

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Market Approach

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

Income Approach

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

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

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

The March 1, 2011 evaluation equally weighted the values derived from each approach to arrive at the fair value of the reporting unit. The reporting unit with a goodwill balance passed Step 1 of the March 1, 2011 goodwill impairment analysis. All Step 1 results had fair values in excess of carrying values by at least 60%, resulting in no impairment of goodwill.

Product Warranties

We record a liability for an estimate of costs that we expect to incur under our basic limited warranty when manufacturing revenue is recognized. Warranty terms are based on the negotiated railcar sales contracts and typically are for periods of up to five years. Factors affecting our warranty liability include the number of units sold and historical and anticipated rates of claims and costs per claim. On a quarterly basis, we assess the adequacy of our warranty liability based on changes in these factors. Actual results differing from estimates could have a material effect on results from operations in the event that unforeseen warranty issues were to occur.

Income Taxes

For financial reporting purposes, income tax expense or benefit is estimated based on planned tax return filings. The amounts anticipated to be reported in those filings may change between the time the financial statements are prepared and the time the tax returns are filed. Further, because tax filings are subject to review by taxing authorities, there is also the risk that a position on a tax return may be challenged by a taxing authority. If the taxing authority is successful in asserting a position different from that taken by us, differences in a tax expense or between current and deferred tax items may arise in future periods. Any such differences, which could have a material impact on our financial statements, would be reflected in the consolidated financial statements when management considers them probable of occurring and the amount reasonably estimable.

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. We regularly evaluate for recoverability of our deferred tax assets and establish a valuation allowance, if necessary, based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax-planning strategies. We consider whether it is more likely than not that some portion or that all of the deferred tax assets will be realized. It is possible that some or all of our deferred tax assets could ultimately expire unused.

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Pension and Postretirement Benefits

Pension and other postretirement benefit costs and liabilities are dependent on assumptions used in calculating such amounts. The primary assumptions include factors such as discount rates, expected return on plan assets, and mortality and retirement rates, as discussed below:

Discount rates

The discount rate assumptions used to determine the December 31, 2011 benefit obligations and the 2012 expense amounts were 4.25% for our pension plans and 4.18% for our postretirement benefit plans. We review these rates annually and adjust them to reflect current conditions. We deemed these rates appropriate based on the Citigroup Pension Discount curve analysis along with expected payments to retirees.

Expected return on plan assets

Our expected return on plan assets for our funded pension plans of 7.5% for 2011 is derived from detailed periodic studies, which include a review of asset allocation strategies, anticipated future long-term performance of individual asset classes, risks (standard deviations) and correlations of returns among the asset classes that comprise the plans' asset mix. While the studies give appropriate consideration to recent plan performance and historical returns, the assumptions are primarily long-term, prospective rates of return.

Mortality and retirement rates

Mortality and retirement rates are based on actual and anticipated plan experience.

In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect our pension and postretirement obligations and future expense.

The following information illustrates the sensitivity to a change in certain assumptions for our pension plans:

Change in Assumption	September 30, Effect on 2012 Pre- Tax Pension Expense (in thousands)	September 30, Effect on December 31, 2011 Projected Benefit Obligation (in thousands)
1% decrease in discount rate	135	2,732
1% increase in discount rate	(195)	(2,641)
1% decrease in expected return on assets	133	N/A
1% increase in expected return on assets	(133)	N/A

The following information illustrates the sensitivity to a change in certain assumptions for our postretirement benefit plan:

Change in Assumption	September 30, Effect on 2012 Pre- Tax Postretirement Service Cost and Interest Cost (in thousands)	September 30, Effect on December 31, 2011 Projected Benefit Obligation (in thousands)
1% decrease in discount rate	1	16
1% increase in discount rate	1	(13)

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This sensitivity analysis reflects the effects of changing one assumption. Various economic factors and conditions often affect multiple assumptions simultaneously and the effects of changes in key assumptions are not necessarily linear.

Environmental

Certain real property we acquired from ACF in 1994 has been involved in investigation and remediation activities to address contamination. Substantially all of the issues identified relate to the use of this property prior to its 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

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has also agreed to indemnify us for any cost that might be incurred with those existing issues. As of the date of this report, we do not believe that we will incur material costs in connection with any investigation or remediation activities relating to these properties, but we cannot assure that this will be the case. If ACF fails to honor its obligations to us, we could be responsible for the cost of such remediation. Further, we cannot assure that we will not become involved in future litigation or other proceedings, or that we will be able to recover under our indemnity provisions if we were found to be responsible or liable in any litigation or proceeding, or that such costs would not be material to us.

Stock Based Compensation

Our share-based awards have included stock options, SARs and restricted stock awards. We use the Black-Scholes-Merton (Black-Scholes) model to estimate the fair value of our equity instrument awards and other share based awards issued under the 2005 Equity Incentive Plan. The Black-Scholes model requires estimates of the expected term of the equity award, future volatility, dividend yield, forfeiture rate and the risk-free interest rate. We estimate the expected term of SARs based on SEC Staff Accounting Bulletin Official Text Topic 14D2, which addressed the expected term aspect of the Black-Scholes model. It stated that companies that did not have adequate exercise history on equity instruments were allowed to use the simplified method prescribed by the SEC, which called for an average of the vesting period and the expiration period of grants with plain vanilla characteristics. These characteristics included service based vesting instruments granted at the money along with certain other requirements.

Both our stock options and SARs have fair value estimates that are generated from the Black-Scholes calculation. This calculation requires inputs as mentioned above that may require some judgment or estimation. We used our best judgment at the time of the grant to estimate fair value on the stock options to record the expense of those options over the vesting period of those options. All SARs granted are classified as liabilities on the consolidated balance sheets, given that they settle in cash, and thus, must be revalued every period. As such, the fair value estimates on the SARs we granted to our employees are subject to volatility inherent in the stock price since it is based on current market values at the end of every period. Stock based compensation on all equity awards is expensed using a graded vesting method over the vesting period of the instrument.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, amounts due to/from affiliates and accounts payable approximate fair values because of the short-term maturity of these instruments. The fair value of long-term debt is determined by the market close price. Fair value estimates are made at a specific point in time, based on relevant market information about the financial instrument. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision.

Recent accounting pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued authoritative guidance related to intangibles goodwill and other, which allows for companies to first consider qualitative factors as a basis for assessing impairment and determining the necessity of a detailed impairment test. This guidance is effective for fiscal years beginning after December 15, 2011 with early adoption permitted. We plan on adopting the guidance for the first quarter of 2012. We do not anticipate that the adoption of the new guidance will have an impact on our consolidated financial statements.

In June 2011, the FASB issued authoritative guidance to amend current comprehensive income guidance. The new guidance eliminates the option to present the components of other comprehensive income as part of the statement of stockholders' equity. Instead, we must report comprehensive income in either a single continuous statement of comprehensive income, which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. This guidance is effective for the interim and annual periods beginning after December 15, 2011 with early adoption permitted. We adopted the guidance for the fourth quarter of 2011. The adoption of the new guidance did not have an impact on our consolidated financial statements as it only required a change in the format of the current presentation.

Item 7A: Quantitative and Qualitative Disclosures About Market Risk

We are exposed to price risks associated with the purchase of raw materials, especially steel and heavy castings. The cost of steel, heavy castings and all other materials used in the production of our railcars represents more than half of our direct manufacturing costs per railcar. Given the significant volatility in the price of raw materials, this exposure can affect our costs of production. We believe that the risk to our margins and profitability has been somewhat reduced by the variable pricing provisions in place with our current railcar manufacturing contracts. These contracts adjust the purchase prices of our railcars to reflect fluctuations in the cost of certain raw materials and components and, as a result, we are able to pass on to our customers any increased raw material and component costs with respect to the railcars we plan to produce and deliver to them during 2012. We believe that we currently have excellent supplier relationships and do not currently anticipate that material constraints

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will limit our production capacity. Such constraints may exist if railcar production was to increase beyond current levels, or other economic changes were to occur that affect the availability of our raw materials.

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Item 8: Financial Statements and Supplementary Data

American Railcar Industries, Inc.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

American Railcar Industries, Inc.

We have audited American Railcar Industries, Inc. and Subsidiaries (a North Dakota Corporation) internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). American Railcar Industries, Inc. and Subsidiaries management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Annual Report. Our responsibility is to express an opinion on American Railcar Industries, Inc. and Subsidiaries internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, American Railcar Industries, and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of American Railcar Industries, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011, and our report dated March 2, 2012 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

St. Louis, Missouri

March 2, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

American Railcar Industries, Inc.

We have audited the accompanying consolidated balance sheets of American Railcar Industries, Inc. and Subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Railcar Industries, Inc. and Subsidiaries as of December 31, 2011 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 2, 2012 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

St. Louis, Missouri

March 2, 2012

Table of Contents**CONSOLIDATED BALANCE SHEETS**

(In thousands, except share and per share amounts)

	September 30, As of December 31, 2011	September 30, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 307,172	\$ 318,758
Accounts receivable, net	33,626	21,002
Accounts receivable, due from related parties	6,106	4,981
Income taxes receivable	4,074	14,939
Inventories, net	95,827	50,033
Deferred tax assets	3,203	3,029
Prepaid expenses and other current assets	4,539	2,654
Total current assets	454,547	415,396
Property, plant and equipment, net	194,242	181,255
Deferred debt issuance costs	1,335	1,951
Interest receivable, due from related parties	292	187
Goodwill	7,169	7,169
Investment in and loans to joint ventures	45,122	48,169
Other assets	1,063	240
Total assets	\$ 703,770	\$ 654,367
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 62,318	\$ 29,334
Accounts payable, due to related parties	800	275
Accrued expenses and taxes	5,879	5,095
Accrued compensation	14,446	11,054
Accrued interest expense	6,875	6,875
Total current liabilities	90,318	52,633
Senior unsecured notes	275,000	275,000
Deferred tax liability	14,923	7,938
Pension and post-retirement liabilities, net of current	9,280	6,707
Other liabilities	4,080	4,313
Total liabilities	393,601	346,591
Commitments and contingencies		
Stockholders equity:		
Common stock, \$0.01 par value, 50,000,000 shares authorized, 21,352,297 and 21,316,296 shares issued and outstanding at December 31, 2011 and 2010, respectively	213	213
Additional paid-in capital	239,609	238,947
Retained earnings	71,545	67,209
Accumulated other comprehensive (loss) income	(1,198)	1,407

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Total stockholders' equity	310,169	307,776
Total liabilities and stockholders' equity	\$ 703,770	\$ 654,367

See Notes to the Consolidated Financial Statements.

Table of Contents**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except share and per share amounts)

	September 30, 2011	September 30, 2010	September 30, 2009
	For the Years Ended December 31,		
Revenues:			
Manufacturing operations (including revenues from affiliates of \$1,230, \$81,905 and \$105,216 in 2011, 2010 and 2009, respectively)	\$ 454,167	\$ 206,094	\$ 365,329
Railcar services (including revenues from affiliates of \$24,730, \$15,041 and \$14,434 in 2011, 2010 and 2009, respectively)	65,218	67,469	58,102
Total revenues	519,385	273,563	423,431
Cost of revenues:			
Manufacturing operations	(410,990)	(210,269)	(329,025)
Railcar services	(50,599)	(54,353)	(47,015)
Total cost of revenues	(461,589)	(264,622)	(376,040)
Gross profit	57,796	8,941	47,391
Selling, general and administrative (including costs from a related party of \$582, \$627 and \$616 in 2011, 2010 and 2009, respectively)	(25,047)	(25,591)	(25,141)
Earnings (loss) from operations	32,749	(16,650)	22,250
Interest income (including income from related parties of \$2,839, \$2,620 and \$986 in 2011, 2010 and 2009, respectively)	3,654	3,519	6,613
Interest expense	(20,291)	(21,275)	(20,909)
Other (loss) income (including income from a related party of \$16, \$17 and \$9 in 2011, 2010 and 2009, respectively)	(10)	394	20,869
Loss from joint ventures	(7,900)	(7,789)	(6,797)
Earnings (loss) before income taxes	8,202	(41,801)	22,026
Income tax (expense) benefit	(3,866)	14,795	(6,568)
Net earnings (loss)	\$ 4,336	\$ (27,006)	\$ 15,458
Net earnings (loss) per common share basic and diluted	\$ 0.20	\$ (1.27)	\$ 0.73
Weighted average common shares outstanding basic and diluted	21,352	21,302	21,302

See Notes to the Consolidated Financial Statements.

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

	September 30, For the Years Ended December 31, 2011	September 30, For the Years Ended December 31, 2010	September 30, For the Years Ended December 31, 2009
Operating activities:			
Net earnings (loss)	\$ 4,336	\$ (27,006)	\$ 15,458
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:			
Depreciation	22,167	23,597	23,405
Amortization of deferred costs	699	699	718
Loss on disposal of property, plant and equipment	171	33	222
Stock based compensation	3,537	5,358	1,174
Change in interest receivable, due from affiliates	(105)	796	(982)
Loss from joint ventures	7,900	7,789	6,797
Unrealized loss on derivative assets			88
Provision (benefit) for deferred income taxes	6,533	(438)	1,492
(Adjustment) provision for losses on accounts receivable	(22)	113	(101)
Item related to investing activities:			
Realized loss on derivative assets			10
Realized gain on sale of short-term investments available for sale securities		(379)	(23,825)
Impairment of short-term investments available for sale securities			2,884
Changes in operating assets and liabilities:			
Accounts receivable, net	(12,616)	(9,664)	28,483
Accounts receivable, due from affiliates	(1,170)	(3,625)	8,928
Income taxes receivable	10,590	(13,171)	(1,768)
Inventories, net	(45,813)	(9,925)	57,260
Prepaid expenses and other current assets	(1,885)	2,244	331
Accounts payable	32,988	12,446	(25,366)
Accounts payable, due to affiliates	525	(301)	(4,617)
Accrued expenses and taxes	207	(486)	(5,517)
Other	81	(221)	(931)
Net cash provided by (used in) operating activities	28,123	(12,141)	84,143
Investing activities:			
Purchases of property, plant and equipment	(35,646)	(6,144)	(15,047)
Sale of property, plant and equipment	122	163	71
Purchases of short-term investments available for sale securities			(36,841)
Sales of short-term investments available for sale securities		4,180	60,795
Realized loss on derivative assets			(10)
Investments in and loans to joint ventures	(4,936)	(14,891)	(35,810)
Net cash used in investing activities	(40,460)	(16,692)	(26,842)
Financing activities:			
Common stock dividends			(1,917)
Proceeds from stock option exercises	756	294	
Net cash provided by (used in) financing activities	756	294	(1,917)
Effect of exchange rate changes on cash and cash equivalents	(5)	7	118
(Decrease) increase in cash and cash equivalents	(11,586)	(28,532)	55,502
Cash and cash equivalents at beginning of year	318,758	347,290	291,788

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Cash and cash equivalents at end of year	\$	307,172	\$	318,758	\$	347,290
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See Notes to the Consolidated Financial Statements.

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	September 30, 2011	September 30, 2010	September 30, 2009
Net earnings (loss)	\$ 4,336	\$ (27,006)	\$ 15,458
Currency translation adjustment	(285)	511	1,246
Effect of short-term investment activity, net of tax effect of \$0, \$0 and \$478 in 2011, 2010 and 2009, respectively			888
Impairment of short-term investments, net of tax effect of \$0, \$0 and \$1,197 in 2011, 2010 and 2009, respectively			1,687
Minimum pension liability adjustment, net of tax effect of \$1,285, \$243 and \$1,509 in 2011, 2010 and 2009, respectively	(2,014)	(393)	2,914
Amortization of postretirement adjustment, net of tax effect of \$189, \$189 and \$0 in 2011, 2010 and 2009, respectively	(306)	(306)	
Comprehensive income (loss)	\$ 1,731	\$ (27,194)	\$ 22,193

See Notes to the Consolidated Financial Statements.

Table of Contents**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY****(In thousands)**

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	Retained earnings	Common Stock-Shares	Common stock	Additional paid-in capital	Accumulated other comprehensive (loss) income	Total stockholders equity
Balance December 31, 2008	\$ 80,035	21,302	\$ 213	\$ 239,617	\$ (5,140)	\$ 314,725
Net earnings	15,458					15,458
Currency translation adjustment					1,246	1,246
Effect of short-term investment activity, net of tax effect of \$478					888	888
Impairment of short-term investments, net of tax effect of \$1,197					1,687	1,687
Minimum pension liability adjustment, net of tax effect of \$1,509					2,914	2,914
Dividends on common stock	(1,278)					(1,278)
Balance December 31, 2009	\$ 94,215	21,302	\$ 213	\$ 239,617	\$ 1,595	\$ 335,640
Net loss	(27,006)					(27,006)
Currency translation adjustment					511	511
Minimum pension liability adjustment, net of tax effect of \$243					(393)	(393)
Amortization of postretirement adjustment, net of tax effect of \$189					(306)	(306)
Proceeds from stock options exercises		14		294		294
Tax deficiency related to stock option exercises				(34)		(34)
Purchase of fixed assets from affiliate				(930)		(930)
Balance December 31, 2010	\$ 67,209	21,316	\$ 213	\$ 238,947	\$ 1,407	\$ 307,776
Net earnings	4,336					4,336
Currency translation adjustment					(285)	(285)
Minimum pension liability adjustment, net of tax effect of \$1,285					(2,014)	(2,014)

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Amortization of postretirement adjustment, net of tax effect of \$189							(306)		(306)		
Proceeds from stock options exercises	36			756					756		
Tax deficiency related to stock option exercises				(94)					(94)		
Balance December 31, 2011	\$	71,545	21,352	\$	213	\$	239,609	\$	(1,198)	\$	310,169

See Notes to the Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2011, 2010 and 2009

Note 1 Description of the Business

American Railcar Industries, Inc. (a North Dakota corporation) and its wholly-owned subsidiaries (collectively the Company or ARI) manufactures railcars, which are offered for sale or lease, custom designed railcar parts and other industrial products, primarily aluminum and special alloy steel castings. These products are sold to various types of companies including leasing companies, railroads, industrial companies and other non-rail companies. ARI provides railcar repair and maintenance services for railcar fleets. In addition, ARI provides fleet management, maintenance, engineering and field services for railcars owned by certain customers. Such services include maintenance planning, project management, tracking and tracing, regulatory compliance, mileage audit, rolling stock taxes and online service access.

The accompanying consolidated financial statements have been prepared by ARI and include the accounts of ARI and its direct and indirect wholly-owned subsidiaries; Castings, LLC (Castings), ARI Component Venture, LLC (ARI Component), American Railcar Mauritius I (ARM I), American Railcar Mauritius II (ARM II) and ARI Longtrain, Inc. (Longtrain). From time to time, the Company makes investments through Longtrain. All intercompany transactions and balances have been eliminated.

The Company's operations are located in the United States and Canada. The Company operates a railcar repair facility in Sarnia, Ontario, Canada. Canadian revenues were 1.2%, 2.0% and 0.7% of total consolidated revenues for 2011, 2010 and 2009, respectively. Canadian assets were 1.7% of total consolidated assets as of both December 31, 2011 and 2010. In addition, the Company's subsidiaries ARM I and ARM II are located in Mauritius, through which the Company holds a 50% interest in an Indian joint venture. Refer to Note 11 for further information. Assets held by ARM I and ARM II were 1.2% and 1.5% of total consolidated assets as of December 31, 2011 and 2010, respectively.

Note 2 Summary of Accounting Policies

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

The Company maintains cash balances at financial institutions in the U.S. that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 or the Securities Investor Protection Corporation (SIPC) up to \$500,000, including a maximum of \$100,000 for free cash balances. Effective December 31, 2010, the FDIC is providing unlimited coverage of noninterest-bearing checking or demand deposit accounts until December 31, 2012. The Company's cash balances on deposit exceeded the insured limits by \$305.6 million as of December 31, 2011. The Company has not experienced any losses on such amounts and believes it is not subject to significant risks related to cash.

Short-term investments

The Company has held investments in equity securities and classified them as available for sale, based upon whether it intended to hold the investment for the foreseeable future. Available for sale securities are reported at fair value on the Company's consolidated balance sheets while unrealized holding gains and losses on available for sale securities are excluded from earnings and reported as a separate component of stockholders' equity and when the available for sale securities sold the unrealized gains and losses are realized in the consolidated statements of operations. For purposes of determining gains and losses, the cost of securities was based on specific identification.

When applicable, the Company evaluates its investments in unrealized loss positions for other-than-temporary impairment on an annual basis or whenever events or changes in circumstances indicated that the unit cost of the investment may not have been recoverable.

Derivative contracts or financial instruments

The Company has in the past entered into derivative contracts, specifically total return swap contracts and a foreign currency option contract. The Company did not use hedge accounting and accordingly, all realized and unrealized gains and losses on derivative contracts were reflected in its consolidated statements of operations.

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Revenue recognition

Revenues from railcar sales are recognized following completion of manufacturing, inspection, customer acceptance and title transfer, which is when the risk for any damage or loss with respect to the railcars passes to the customer. Revenues from railcar leasing are recognized on a straight-line basis per terms of the lease. Revenues from railcar and industrial components are recorded at the time of product shipment, in accordance with the Company's contractual terms. Revenues for railcar maintenance services is recognized upon completion and shipment of railcars from ARI's plants. The Company does not currently bundle railcar service contracts with new railcar sales. Revenues for fleet management services is recognized as performed.

Revenues related to consulting type contracts are accounted for under the proportional performance method. Profits expected to be realized on these contracts are based on the total contract revenues and costs based on the estimate of the percentage of project completion. Revenues recognized in excess of amounts billed are recorded to unbilled revenues and included in other current assets on the consolidated balance sheets. Billings in excess of revenues recognized on in-progress contracts are recorded to unbilled costs and included in other current liabilities on the consolidated balance sheets. These estimates are reviewed and revised periodically throughout the term of the contracts and any adjustments are recorded on a cumulative basis in the period the revisions are made.

The Company records amounts billed to customers for shipping and handling as part of sales and records related costs in cost of revenues.

ARI presents any sales tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer on a net basis.

Accounts receivable, net

On a routine basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts based on the history of past write-offs and collections and current credit conditions. Accounts are placed for collection on a limited basis once all other methods of collection have been exhausted. Once it has been determined that the customer is no longer in business and/or refuses to pay, the accounts are written off.

Inventories

Inventories are stated at the lower of cost or market on a first-in, first-out basis, and include the cost of materials, direct labor and manufacturing overhead. The Company allocates fixed production overheads to the costs of conversion based on the normal capacity of its production facilities. If any of the Company's production facilities are not operating at normal capacity, unallocated production overheads are recognized as a current period charge.

Property, plant and equipment, net

Land, buildings, machinery and equipment are carried at cost, which could include capitalized interest on borrowed funds. Maintenance and repair costs are charged directly to earnings. Tooling is generally capitalized and depreciated over a period of approximately five years. Internally developed software is capitalized and amortized over a period of approximately five years.

Buildings are depreciated over estimated useful lives that range from 15 to 39 years. The estimated useful lives of other depreciable assets, including machinery, equipment and leased railcars vary from three to 30 years. Depreciation is calculated using the straight-line method for financial reporting purposes and on accelerated methods for tax purposes.

Long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. The criteria for determining impairment of such long-lived assets to be held and used is determined by comparing the carrying value of these long-lived assets to be held and used to management's best estimate of future undiscounted cash flows expected to result from the use of the long-lived assets. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the long-lived assets exceeds the fair value of the long-lived assets. The estimated fair value of long-lived assets is measured by estimating the present value of the future discounted cash flows to be generated. For further discussion of long-lived assets refer to Note 9.

Debt issuance costs

Debt issuance costs were incurred in connection with ARI's issuance of long-term debt as described in Note 13, and are amortized over the term of the related debt. Debt issuance costs as of December 31, 2011 were \$1.3 million related to the Company's unsecured senior notes and will be amortized according to the following table (in thousands):

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	September 30,
2012	\$ 616
2013	616
2014	103
Total	\$ 1,335

Goodwill

Goodwill and other intangible assets with indefinite useful lives are not amortized but are tested for impairment at least annually and more frequently if indicators exist by comparing the fair value of the reporting unit to its carrying value. As of December 31, 2011 and 2010, the Company reported goodwill of \$7.2 million related to the acquisition of Custom Steel Inc. (Custom Steel), as described in Note 10.

Investment in and loans to joint ventures

The Company uses the equity method to account for its investment in various joint ventures that it is partner to as described in Note 11. Under the equity 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 account. From time to time, the Company also makes loans to its joint ventures that are included in the investment account.

Income taxes

ARI accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial reporting basis and the tax basis of ARI's assets and liabilities at enacted tax rates expected to be in effect when such amounts are recovered or settled. ARI regularly evaluates for recoverability of its deferred tax assets and establishes a valuation allowance, if necessary, based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax-planning strategies. The Company also records unrecognized tax positions, including potential interest and penalties. For further discussion of income taxes refer to Note 14.

Pension plans and other postretirement benefits

Certain ARI employees participate in noncontributory, defined benefit pension plans and a supplemental executive retirement plan. Benefits for the salaried employees are based on salary and years of service, while those for hourly employees are based on negotiated rates and years of service.

ARI also sponsors defined contribution retirement plans and health care plans covering certain employees. Benefit costs are accrued during the years employees render service. For further discussion of employee benefit plans refer to Note 15.

Fair value of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable, amounts due to/from affiliates and accounts payable approximate fair values because of the short-term maturity of these instruments. The fair value of long-term debt is determined by the market close price. Fair value estimates are made at a specific point in time, based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision.

Foreign currency translation

Balance sheet amounts from the Company's Canadian operations are translated at the exchange rate effective at year-end and the statement of operations amounts are translated at the average rate of exchange prevailing during the year. Currency translation adjustments are included in stockholders' equity as part of accumulated other comprehensive (loss) income.

Comprehensive income (loss)

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Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income (loss) consists of net earnings, foreign currency translation adjustment and minimum pension liability adjustments, which are shown net of tax and changes resulting from unrealized gains and losses on short-term investments. Accumulated other comprehensive (loss) income, after tax, as of December 31, 2011 and 2010, consisted of foreign currency translation gains of \$1.3 million and \$1.6 million, respectively, and pension and postretirement charges of \$2.2 million and \$0.2 million, respectively.

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Earnings (loss) per common share

Basic earnings (loss) per common share is calculated as net earnings (loss) attributable to common stockholders divided by the weighted-average number of common shares outstanding during the respective period. Diluted earnings per common share is calculated by dividing net earnings (loss) attributable to common stockholders by the weighted-average common number of shares outstanding plus dilutive potential common shares outstanding during the year.

Use of estimates

ARI has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Significant items subject to estimates and assumptions include, but are not limited to, deferred taxes, workers compensation accrual, valuation allowances for accounts receivable and inventory obsolescence, depreciable lives of assets, goodwill impairment, stock based compensation fair values, the reserve for warranty claims and revenues recognized under the proportional performance method. Actual results could differ from those estimates.

Stock based compensation

The stock-based compensation cost recorded for stock options, restricted stock and stock appreciation rights (SARs) is based on their fair value. For further discussion of stock based compensation refer to Note 18.

Reclassifications

Certain reclassifications of prior years' presentations have been made to conform to the 2011 presentation.

Recent accounting pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued authoritative guidance related to intangibles—goodwill and other, which allows for companies to first consider qualitative factors as a basis for assessing impairment and determining the necessity of a detailed impairment test. This guidance is effective for fiscal years beginning after December 15, 2011 with early adoption permitted. The Company plans on adopting the guidance for the first quarter of 2012. ARI does not anticipate that the adoption of the new guidance will have an impact on the Company's consolidated financial statements.

In June 2011, the FASB issued authoritative guidance to amend current comprehensive income guidance. The new guidance eliminates the option to present the components of other comprehensive income as part of the statement of stockholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income, which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. This guidance is effective for the interim and annual periods beginning after December 15, 2011 with early adoption permitted. The Company adopted the guidance for the fourth quarter of 2011. The adoption of the new guidance did not have an impact on the Company's consolidated financial statements as it only required a change in the format of the current presentation.

Note 3 Short-term Investments Available for Sale Securities

During January 2008, Longtrain purchased approximately 1.5 million shares of common stock in the open market for \$27.9 million. Subsequently, Longtrain sold a majority of the shares it owned. During the year ended December 31, 2010, the remaining approximately 0.4 million shares of common stock were sold for proceeds of \$4.1 million and realized gains totaling \$0.4 million. During the year ended December 31, 2009, approximately 7,000 shares of common stock were sold for proceeds of \$0.1 million and a realized loss of less than \$0.1 million. The cost basis of the shares sold was determined through specific identification.

The Company performed a review of its investment in common stock as of December 31, 2009 to determine if an other-than-temporary impairment existed. Factors considered in the assessment included but were not limited to the following: the Company's ability and intent to hold the security until loss recovery, the sale of shares at a loss, the number of quarters in an unrealized loss position and other market conditions. Based on this analysis, the Company recorded an impairment charge of \$2.9 million related to the investment.

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As of December 31, 2009, the market value of the remaining approximately 0.4 million shares owned by the Company was \$3.8 million. There were no unrealized losses as of December 31, 2009, due to recognizing the other-than-temporary impairment charge in 2009. This investment was classified as a short-term investment available for sale security, as the Company did not intend on holding this investment long-term.

During 2009, Longtrain purchased corporate bonds for a total of \$36.8 million and subsequently sold all of these bonds, resulting in proceeds of \$60.7 million and a realized gain of \$23.9 million.

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Note 4 Derivative Contracts or Financial Instruments

The Company accounted for its derivative contracts by reporting derivatives as either assets or liabilities in the consolidated balance sheets at their fair value. The accounting for changes in fair value depends on the intended use of the derivative and its resulting designation. As the derivatives did not qualify for hedge accounting, all unrealized gains and losses were reflected in the Company's consolidated statements of operations and the fair value was recorded on the consolidated balance sheets. During 2011 and 2010, the Company did not have any outstanding derivative contracts or financial instruments.

Foreign currency option

The Company entered into a foreign currency option in October 2008, to purchase Canadian Dollars (CAD) for \$5.3 million U.S. Dollars (USD) from October 2008 through April 2009, with fixed exchange rates and exchange limits each month. ARI entered into this option agreement to reduce the exposure to foreign currency exchange risk related to capital expenditures for the expansion of the Company's Canadian repair facility.

In 2009, the Company expended \$3.3 million USD to purchase CAD under this option resulting in a realized loss of less than \$0.1 million for the year ended December 31, 2009, based on the exchange spot rate on the various exercise dates.

Note 5 Fair Value Measurements

The fair value hierarchical disclosure framework prioritizes and ranks the level of market price observability used in measuring investments and non-recurring nonfinancial assets and liabilities at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment or nonfinancial assets and liabilities. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Financial assets and liabilities measured and reported at fair value are classified and disclosed in one of the following categories:

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

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

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

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

The carrying amount of cash and cash equivalents, accounts receivable, other current assets and accounts payable approximate fair value due to their short-term nature. For the fair value of the Company's senior unsecured notes refer to Note 13.

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Accounts receivable, net, consists of the following:

	September 30, December 31, 2011	September 30, December 31, 2010
	(in thousands)	
Accounts receivable, gross	\$ 34,272	\$ 21,770
Less allowance for doubtful accounts	(646)	(768)
Total accounts receivable, net	\$ 33,626	\$ 21,002

The allowance for doubtful accounts consists of the following:

	September 30, 2011	September 30, Years Ended December 31, 2010	September 30, 2009
	(in thousands)		
Beginning balance	\$ 768	\$ 677	\$ 815
(Adjustment) provision	(22)	113	(101)
Write-offs	(100)	(22)	(43)
Recoveries			6
Ending balance	\$ 646	\$ 768	\$ 677

Note 7 Inventories

Inventories consist of the following:

	September 30, December 31, 2011	September 30, December 31, 2010
	(in thousands)	
Raw materials	\$ 62,141	\$ 30,676
Work-in-process	26,731	14,270
Finished products	8,967	7,183
Total inventories	97,839	52,129
Less reserves	(2,012)	(2,096)
Total inventories, net	\$ 95,827	\$ 50,033

Inventory reserves consist of the following:

September 30, December 31,	September 30, December 31,
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	2011		2010	
	(in thousands)			
Beginning Balance	\$	2,096	\$	1,926
Provision		47		1,254
Write-offs		(131)		(1,084)
Ending Balance	\$	2,012	\$	2,096

Table of Contents**Note 8 Property, Plant and Equipment, net**

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

	September 30, December 31, 2011	September 30, December 31, 2010
	(in thousands)	
Buildings	\$ 149,597	\$ 149,021
Machinery and equipment	205,521	177,217
	355,118	326,238
Less accumulated depreciation	(168,686)	(149,304)
Net plant and equipment	186,432	176,934
Land	3,335	3,335
Construction in process	4,475	986
Total property, plant and equipment, net	\$ 194,242	\$ 181,255

Depreciation expense

Depreciation expense for the years ended December 31, 2011, 2010 and 2009 was \$22.2 million, \$23.6 million and \$23.4 million, respectively.

Capitalized interest

In conjunction with the interest costs incurred related to the unsecured senior notes offering described in Note 13, the Company began recording capitalized interest on certain property, plant and equipment capital projects. ARI also capitalizes interest related to the unsecured senior notes for investments made in equity method joint ventures but only for those investments made while the joint venture is in the development phase.

Lease agreements

The Company leases railcars to third parties under multiple year agreements. One of the leases includes a provision that allows the lessee to purchase any portion of the leased railcars at any time during the lease term for a stated market price, which approximates fair value. These agreements have been classified as operating leases and the leased railcars have been included in machinery and equipment and will be depreciated in accordance with the Company's depreciation policy.

Note 9 Long-Lived Asset Impairment Charges

The Company reviews 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. The Company has determined that there were no triggering events that required an assessment for impairment of long-lived assets, therefore no impairment charges were recognized on any long-lived assets during the years ended December 31, 2011, 2010 or 2009.

The North American railcar market has been, and the Company expects it to continue to be highly cyclical, generally fluctuating in correlation with the U.S. economy. The railcar industry recovered in 2011, which was reflected in the Company's railcar orders increasing. This portrayed that the recent economic downturn had a temporary effect on the Company's business driving the railcar market to weak levels throughout 2009 and 2010, demonstrating the cyclical nature of the industry. ARI continually monitors its long-lived assets for impairment in response to events or changes in circumstances.

Note 10 Goodwill

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On March 31, 2006, the Company acquired all of the common stock of Custom Steel, a subsidiary of Steel Technologies, Inc. Custom Steel operated a facility located adjacent to the Company's component manufacturing facility in Kennett, Missouri, which produces value-added fabricated parts that primarily support the Company's railcar manufacturing operations. Prior to the acquisition, ARI was Custom Steel's primary customer. The acquisition resulted in goodwill of \$7.2 million. The results of Custom Steel are included in the manufacturing operations segment.

Goodwill and other intangible assets with indefinite useful lives are not amortized but are tested for impairment annually and when a triggering event occurs by comparing the fair value of the asset to its carrying value. The Company performs the annual goodwill impairment test as of March 1 of each year. There were no triggering events since the March 1, 2011 goodwill impairment test. The valuation uses a combination of methods to determine the fair value of the reporting unit including prices of comparable businesses, a present value technique and recent transactions involving businesses similar to the Company. ARI performed the annual impairment test as of March 1, 2011 and 2010 noting no adjustment was required.

The Company utilized the market and income approaches and significant assumptions, discussed below, in the March 1 impairment tests.

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Market Approach

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

Income Approach

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

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

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

The March 1, 2011 evaluation equally weighted the values derived from each approach to arrive at the fair value of the reporting unit. The reporting unit with a goodwill balance passed Step 1 of the March 1, 2011 goodwill impairment analysis. All Step 1 results had fair values in excess of carrying values by at least 60%, resulting in no impairment of goodwill.

Note 11 Investments in and Loans to Joint Ventures

As of December 31, 2011, the Company was party to three joint ventures: Ohio Castings LLC (Ohio Castings), Axis LLC (Axis) and Amtek Railcar Industries Private Limited (Amtek Railcar). Through its wholly-owned subsidiary, Castings, the Company has a one-third ownership interest in Ohio Castings, a limited liability company formed to produce various steel railcar parts for use or sale by the ownership group. Through its wholly-owned subsidiary, ARI Component, the Company has a 41.9% ownership interest in Axis, a limited liability company formed to produce railcar axles for use or sale by the ownership group. The Company has a wholly-owned subsidiary, ARM I that wholly-owns ARM II. Through ARM II, the Company has a 50.0% ownership interest in Amtek Railcar, a joint venture that was formed to produce railcars and railcar components in India for sale by the joint venture.

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.

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The carrying amount of investments in and loans to joint ventures are as follows:

	September 30, December 31, 2011	September 30, December 31, 2010
	(in thousands)	
Carrying amount of investments in and loans to joint ventures		
Ohio Castings	\$ 6,236	\$ 5,232
Axis	29,362	33,436
Amtek Railcar	9,524	9,501
Total investments in and loans to joint ventures	\$ 45,122	\$ 48,169

The maximum exposure to loss as a result of investments in and loans to joint ventures are as follows:

	September 30, December 31, 2011
	(in thousands)
Maximum exposure to loss by joint venture	
Ohio Castings	
Investment	\$ 5,741
Note and accrued interest receivable ¹	550
Total Ohio Castings exposure	6,291
Axis	
Investment	
Loans, accrued interest receivable and accrued unused line fee ¹	29,626
Total Axis exposure	29,626
Amtek Railcar exposure	9,524
Total maximum exposure to loss due to joint ventures	\$ 45,441

¹ Accrued interest receivable is included in interest receivable, due from affiliates and accrued unused line fee is included in accounts receivable, due from related parties on the consolidated balance sheets.

Ohio Castings

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

In June 2009, Ohio Castings temporarily idled its manufacturing facility due to the decline in the railcar industry. Due to the facility remaining temporarily idle, as of August 31, 2010, Ohio Castings performed an analysis of its long-lived assets and concluded that no impairment existed.

Ohio Castings first reported a loss in the first quarter of 2009 and continued to report losses due to its temporarily idled state. ARI obtained Ohio Castings' long-lived asset impairment analysis and reviewed it for reasonableness. The assumptions used in the impairment analysis are consistent with the market data reported by an independent third party analyst and historical financial results. The decline in earnings capacity is

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consistent with industry forecasts, as reported by an independent third party analyst, and is considered temporary. The Company and Ohio Castings will continue to monitor for impairment. During the second quarter of 2011, ARI and the other joint venture partners agreed to restart production at Ohio Castings and Ohio Castings began shipping product in the third quarter of 2011.

Ohio Castings has notes payable to ARI and the other two partners, with a current balance of \$0.5 million, each, that were due February 2012. Interest continued to accrue but interest payments had been deferred until August 2011. Accrued interest for this note as of both December 31, 2011 and 2010 was less than \$0.1 million. Ohio Castings and the joint venture partners renegotiated the terms during the third quarter of 2011 and the notes are now due November 2012. Interest will continue to accrue but interest payments have been deferred until May 2012.

During the year ended December 31, 2011, ARI made capital contributions totaling \$2.1 million to Ohio Castings to fund the restart of production. The other two partners made matching contributions. In 2010, ARI made capital contributions to Ohio Castings totaling \$0.6 million to fund expenses including debt payments during the temporary plant idling. The other two partners made matching contributions.

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The Company, along with the other members of Ohio Castings, guaranteed a state loan issued to Ohio Castings by the state of Ohio and bonds payable to the state of Ohio. The state loan and bonds payable were paid off in June 2011 and December 2010, respectively, and ARI was released from the respective guarantees. The value of the guarantee of the state loan was less than \$0.1 million as of December 31, 2010.

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

See Note 20 for information regarding financial transactions among the Company, Ohio Castings and Castings.

Summary combined financial position information for Ohio Castings, the investee company, in total, is as follows:

	September 30, 2011	September 30, December 31, 2010
	(in thousands)	
Financial position:		
Current assets	\$ 12,800	\$ 1,882
Property, plant and equipment, net	10,214	11,219
Total assets	23,014	13,101
Current liabilities	8,148	492
Long-term debt	494	1,482
Total liabilities	8,642	1,974
Members' equity	14,372	11,127
Total liabilities and members' equity	\$ 23,014	\$ 13,101

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

	September 30, 2011	September 30, Years Ended December 31, 2010	September 30, 2009
	(in thousands)		
Results of operations:			
Revenues	\$ 31,007	\$	\$ 10,898
Gross loss	(3,099)		(3,335)
Loss before interest	(3,011)	(2,925)	(5,399)
Net loss	\$ (3,054)	\$ (3,025)	\$ (5,455)

Axis

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In June 2007, ARI, through a wholly-owned subsidiary, entered into an agreement with another partner to form a joint venture, Axis, to manufacture and sell railcar axles. In February 2008, the two original partners sold equal equity interests in Axis to two new minority partners. During 2010, one of the minority partners sold its interest to the other initial partner. Although the other initial partner's interest in Axis is greater than ARI's as a result of the sale, the sale did not result in the other initial partner gaining a controlling interest in Axis.

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

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During 2010, the executive committee of Axis issued a capital call. The minority partners elected not to participate in the capital call and ARI and the other initial partner equally contributed the necessary capital, which amounted to \$0.5 million for each as of December 31, 2010. The capital contributions were utilized to provide working capital. The partners' ownership percentages have been adjusted accordingly. As a result, as of December 31, 2011, ARI's ownership interest has been adjusted to 41.9%.

Effective August 5, 2009, ARI Component and a wholly-owned subsidiary of the other initial partner acquired a loan to Axis from its initial lenders (the Axis Credit Agreement), with each party acquiring a 50.0% interest in the loan. Under the Axis Credit Agreement, the original lenders made financing available to Axis in an aggregate amount of up to \$70.0 million, consisting of up to \$60.0 million in term loans and up to \$10.0 million in revolving loans. The purchase price paid by the Company for its 50.0% interest was \$29.5 million, which equaled the then outstanding principal amount of the portion of the loan acquired by the Company.

The Axis Credit Agreement was amended on March 31, 2011. Under the amendment, the commitment to make term loans expired on December 31, 2011. The first payment on the term loans will become due and payable on March 31, 2012. Thereafter payments are due each fiscal quarter in equal installments, with the last payment due on December 31, 2016. The commitment to make revolving loans under the amended Axis Credit Agreement will expire and the revolving loans will become due and payable on December 28, 2012. Axis may borrow revolving loans up to \$10.0 million, subject to borrowing base availability.

Subject to certain limitations, at the election of Axis, the interest rate for the loans under the Axis Credit Agreement is based on LIBOR or the prime rate. For LIBOR-based loans, the interest rate is equal to the greater of 7.75% or adjusted LIBOR plus 4.75%. For prime-based loans, the interest rate is equal to the greater of 7.75% or the prime rate plus 2.5%. Interest on LIBOR-based loans is due and payable, at the election of Axis, every one, two, three or six months, and interest on prime-based loans is due and payable monthly. In accordance with the terms of the Axis Credit Agreement as amended, Axis elected to satisfy interest on the term loan by increasing the outstanding principal by the amount of interest that was otherwise due and payable in cash. As of December 31, 2010, all outstanding term loan interest was added to the outstanding principal balance.

The balance outstanding on these loans, due to ARI Component, was \$31.4 million in principal and \$5.7 million of accrued interest as of December 31, 2011 and was \$31.9 million in principal and \$3.6 million of accrued interest as of December 31, 2010. ARI Component is responsible for funding 50.0% of the loan commitments. ARI Component's share of the remaining commitment on these loans, term and revolving, was \$3.6 million as of December 31, 2011.

ARI currently intends to fund the cash needs of Axis through loans and capital contributions through at least March 31, 2013. The other initial joint venture partner has indicated its intent to also fund the cash needs of Axis through loans and capital contributions through at least March 31, 2013.

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

See Note 20 for information regarding financial transactions among the Company, ARI Component and Axis.

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Summary combined financial position information for Axis, the investee company, in total, is as follows:

	September 30, December 31, 2011	September 30, 2010
	(in thousands)	
Financial position:		
Current assets	\$ 14,619	\$ 7,359
Property, plant and equipment, net	52,421	60,308
Long-term assets	44	183
Total assets	67,084	67,850
Current liabilities	31,319	16,470
Long-term debt	56,624	58,430
Total liabilities	87,943	74,900
Members' deficit	(20,859)	(7,050)
Total liabilities and members' equity	\$ 67,084	\$ 67,850

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

	September 30, 2011	September 30, Years Ended December 31, 2010	September 30, 2009
	(in thousands)		
Results of operations:			
Revenues	\$ 40,217	\$ 18,926	\$ 1,927
Gross loss	(7,249)	(8,808)	(8,339)
Loss before interest	(8,184)	(9,772)	(9,140)
Net loss	\$ (13,809)	\$ (15,022)	\$ (12,361)

Revenues and net loss for Axis have improved as production volumes have increased and inefficiencies from the ramp up of production have decreased. The new railcar axle market is directly related to the new railcar market. The new railcar market has begun to improve consistent with industry forecasts, as reported by an independent third party analyst. As such, Axis has not performed a long-lived asset impairment analysis.

As of December 31, 2011, the investment in Axis was comprised entirely of ARI's term loan, revolver, related accrued interest and related accrued unused line fees due from Axis. Based on the discussion above, this loan has been evaluated to currently be fully recoverable. The Company will continue to monitor its investment in Axis for impairment.

Amtek Railcar

In June 2008, the Company, through ARM I and ARM II, entered into an agreement with a partner in India to form a joint venture company to manufacture, sell and supply freight railcars and their components in India and other countries to be agreed upon at a facility to be constructed in India by the joint venture. In March 2010, the Company made a \$9.8 million equity contribution to Amtek Railcar. ARI's ownership in this joint

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venture is 50.0%. Amtek Railcar is considered a development stage enterprise as it has not completed construction of its manufacturing facility nor started production.

The Company accounts for its investment in Amtek Railcar using the equity method. The Company has determined that, although the joint venture is a VIE, this method is appropriate given that the Company is not the primary beneficiary, does not have a controlling financial interest and does not have the ability to individually direct the activities of Amtek Railcar that most significantly impact its economic performance. The significant factors in this determination were that Amtek Railcar is a development stage enterprise, the Company and its wholly-owned subsidiaries do not have the rights to the majority of returns, losses or votes and the risk of loss to the Company and subsidiaries is limited to its investment in Amtek Railcar.

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

	September 30, December 31, 2011	September 30, December 31, 2010
	(in thousands)	
Financial position:		
Current assets	\$ 4,061	\$ 9,475
Property, plant, and equipment, net	35,414	20,149
Long-term assets	192	40
Total assets	39,667	29,664
Current liabilities	6,635	6,521
Long-term debt	19,066	4,319
Long-term liabilities	29	21
Total liabilities	25,730	10,861
Stockholders' equity	13,937	18,803
Total liabilities and stockholders' equity	\$ 39,667	\$ 29,664

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

	September 30, Years Ended December 31, 2011	September 30, December 31, 2010
	(in thousands)	
Results of operations:		
Revenues	\$	\$
Gross loss		
Loss before interest and taxes	(1,713)	(789)
Net loss	\$ (1,905)	\$ (619)

The change in ARI's investment in joint venture consists of interest capitalized as a result of the joint venture currently constructing its facility and being considered a development stage enterprise, offset by its 50.0% share in the net loss of the entity.

USRC

In February 2010, ARI, through its wholly-owned subsidiary, ARI DMU LLC, formed USRC, a joint venture with two other partners that the Company expected would design, manufacture and sell DMUs to public transit authorities and communities upon order. DMUs are self-propelled passenger railcars in both single- and bi-level configurations. During the fourth quarter of 2010, ARI dissolved USRC due to market conditions. The Company made equity contributions totaling \$0.3 million throughout 2010 and those contributions were fully offset by losses.

Note 12 Warranties

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

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

	September 30, 2011	September 30, Years Ended December 31, 2010 (in thousands)	September 30, 2009
Liability, beginning of year	\$ 1,151	\$ 1,094	\$ 2,595
Provision for warranties issued during the year, net of adjustments	1,098	1,003	1,160
Provision for warranties issued in previous years, net of adjustments	(466)	(208)	(1,182)
Warranty claims	(853)	(738)	(1,479)
Liability, end of year	\$ 930	\$ 1,151	\$ 1,094

Note 13 Long-term Debt

In February 2007, the Company completed the offering of \$275.0 million unsecured senior fixed rate notes, which were subsequently exchanged for registered notes in March 2007 (Notes). The fair value of these Notes was \$275.0 million and \$281.5 million as of December 31, 2011 and 2010, respectively, based on the closing market price as of that date which is a Level 1 input. For definition and discussion of a Level 1 input for fair value measurement, refer to Note 5.

The Notes bear a fixed interest rate that is set at 7.5% and are due in 2014. Interest on the Notes is payable semi-annually in arrears on March 1 and September 1. The terms of the Notes contain restrictive covenants that limit the Company's ability to, among other things, incur additional debt, issue disqualified or preferred stock, make certain restricted payments and enter into certain significant transactions with stockholders and affiliates. The Company was in compliance with all of its covenants under the Notes as of December 31, 2011.

As of March 1, 2012, the Company has been able to redeem the Notes in whole or in part at a redemption price equal to 101.88% of the principal amount of the Notes plus accrued and unpaid interest. The redemption price will decline to 100.0% of the principal amount of the Notes plus accrued and unpaid interest beginning on March 1, 2013. The Notes are due in full plus accrued and unpaid interest on March 1, 2014.

Note 14 Income Taxes

Income tax expense (benefit) consists of:

	September 30, 2011	September 30, For the Years Ended December 31, 2010 (in thousands)	September 30, 2009
Current:			
Federal	\$ (3,556)	\$ (14,651)	\$ 4,739
State and local	803	213	327
Foreign	86	81	10
Total current	(2,667)	(14,357)	5,076
Deferred			
Federal	5,761	1,209	1,612
State and local	734	(1,675)	(159)
Foreign	38	28	39
Total deferred	6,533	(438)	1,492
Total income tax expense (benefit)	\$ 3,866	\$ (14,795)	\$ 6,568

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Income tax expense (benefit) attributable to earnings (loss) from operations differed from the amounts computed by applying the U.S. Federal statutory income tax rate of 35.0% to earnings (loss) from operations by the following amounts:

	September 30, 2011	September 30, 2010	September 30, 2009
	For the Years Ended December 31,		
	(in thousands)		
Computed income tax expense (benefit)	\$ 2,871	\$ (14,626)	\$ 7,709
State and local tax expense (benefit)	525	(1,357)	27
Expiration of stock options	756		
Valuation allowance stock options	(756)	756	
Excludable loss from foreign joint venture	354	87	
Tax credits, federal and state	(228)	(278)	(258)
Loss of domestic production activities deduction due to net operating loss carry back		641	
Non-deductible items	(43)	(107)	(128)
Adjustments for uncertain tax positions	162	70	(589)
Other, net	225	19	(193)
Total income tax expense (benefit)	\$ 3,866	\$ (14,795)	\$ 6,568

	September 30, 2011	September 30, 2010	September 30, 2009
	For the Years Ended December 31,		
Computed income tax expense (benefit)	35.0%	(35.0%)	35.0%
State and local tax expense (benefit)	6.4%	(3.2%)	0.1%
Expiration of stock options	9.2%		
Valuation allowance stock options	(9.2%)	1.8%	
Excludable loss from foreign joint venture	4.3%	0.2%	
Tax credits, federal and state	(2.8%)	(0.7%)	(1.2%)
Loss of domestic production activities deduction due to net operating loss carry back		1.5%	
Non-deductible items	(0.5%)	(0.3%)	(0.6%)
Adjustments for uncertain tax positions	2.0%	0.2%	(2.7%)
Other, net	2.7%	0.1%	(0.8%)
Effective income tax rate	47.1%	(35.4%)	29.8%

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The tax effects of temporary differences that have given rise to deferred tax assets and liabilities are presented below:

	September 30, December 31, 2011	September 30, December 31, 2010
	(in thousands)	
Current deferred tax assets		
Provisions not currently deductible	\$ 3,002	\$ 2,667
Tax credits and deferred revenues	39	536
Net operating loss state	162	
Total gross current deferred tax asset	3,203	3,203
Valuation allowance		(174)
Total current deferred tax asset	3,203	3,029
Non-current deferred tax assets		
Provisions not currently deductible	3,206	3,294
Stock based compensation	3,138	2,505
Net operating loss carryforwards federal and state	1,628	1,736
Tax credits federal and state	1,480	
Pensions and post retirement	4,084	3,220
Total gross non-current deferred tax asset	13,536	10,755
Valuation allowance	(2)	(582)
Total non-current deferred tax asset	13,534	10,173
Total deferred tax asset	\$ 16,737	\$ 13,202
Non-current deferred tax liabilities		
Investment in joint ventures	\$ (3,043)	\$ (1,827)
Property, plant and equipment	(25,363)	(16,189)
Other	(50)	(95)
Total deferred tax liability	\$ (28,456)	\$ (18,111)

The net deferred tax asset (liability) is classified in the consolidated balance sheets as follows:

	September 30, December 31, 2011	September 30, December 31, 2010
	(in thousands)	
Current deferred tax assets	\$ 3,203	\$ 3,029
Non-current deferred tax assets	13,534	10,173
Non-current deferred tax liability	(28,456)	(18,111)
Non-current deferred tax liability, net	(14,922)	(7,938)

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Current deferred tax asset	3,203	3,029
Non-current deferred tax liability, net	(14,922)	(7,938)
Net deferred tax liability	\$ (11,719)	\$ (4,909)

In the consolidated balance sheets, these deferred tax assets and liabilities are classified as either current or non-current based on the classification of the related asset or liability for financial reporting. A deferred tax asset or liability that is not related to an asset or liability for financial reporting, including deferred taxes related to carryforwards, is classified according to the expected reversal date of the temporary differences as of the end of the year.

ARI considers its Canadian earnings to be permanently reinvested, and therefore has not recorded a provision for U.S. income tax or foreign withholding taxes on the cumulative undistributed earnings of its Canadian subsidiary. Such undistributed earnings from ARI's Canadian subsidiary have been included in consolidated retained earnings in the amount of \$1.5 million and \$1.2 million as of December 31, 2011 and 2010, respectively. If ARI were to change its intentions and such earnings were remitted to the U.S., these earnings would be subject to U.S. income taxes. However, as of December 31, 2011 and 2010 foreign tax credits would be available to offset these taxes such that the U.S. tax impact would be insignificant. ARI's other foreign entity has losses and no positive earnings yet. However, ARI considers all of its foreign entities earnings to be permanently reinvested.

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As of December 31, 2011, the Company had state net operating losses in the amount of \$27.5 million, which expire between 2014 and 2031. The Company also had federal net operating losses of \$16.7 million, of which \$15.6 million will be carried back to prior year's taxable income. The federal net operating loss carry forward, \$1.1 million expires in 2031. The Company has federal tax credits of \$0.2 million to be carried forward as a general business credit until 2031. In 2010, ARI had state net operating loss carry forwards of \$40.0 million and state tax credits of \$0.5 million. In addition, no tax benefit has been provided on the losses associated with the Company's Indian joint venture.

As of December 31, 2011, the Company's gross unrecognized tax benefits were \$1.8 million, of which \$1.3 million, net of federal benefit on state matters, would impact the effective tax rate if reversed. As of December 31, 2010, the Company's gross unrecognized tax benefits were \$1.6 million, of which \$1.2 million, net of federal benefit on state matters, would impact the effective tax rate if reversed.

The aggregate changes in the balance of unrecognized tax benefits were as follows (in thousands):

	September 30,
Gross unrecognized tax benefits at January 1, 2010	\$ (2,024)
Increases in tax positions for prior years	(110)
Decreases in tax positions for prior years	536
Increases in tax positions for current years	(9)
Liability activity, net	417
Gross unrecognized tax benefits at December 31, 2010	\$ (1,607)
Increases in tax positions for prior years	(154)
Increases in tax positions for current years	(52)
Liability activity, net	(206)
Gross unrecognized tax benefits at December 31, 2011	\$ (1,813)

The Company accounts for interest expense and penalties related to income tax issues as income tax expense. The total amount of accrued interest included in the tax provision for both years ended December 31, 2011 and 2010 was \$0.1 million and included less than \$0.1 million of federal income tax benefits and penalties. The Company believes it is reasonably possible that within the next twelve months its unrecognized tax benefits could change up to \$1.0 million as a result of the Company's analysis of state tax filing requirements.

The statute of limitation on the Company's 2008 through 2011 federal income tax returns will expire on September 15, 2012, 2013, 2014 and 2015, respectively. The Company's state income tax returns for the 2007 through 2011 tax years remain open to examination by various state authorities with the latest closing period on November 15, 2016. The Company's foreign subsidiary's income tax returns for the 2008 through 2011 tax years remain open to examination by foreign tax authorities.

Note 15 Employee Benefit Plans

The Company is the sponsor of two defined benefit pension plans that cover certain employees at designated repair facilities. One plan, which covers certain salaried and hourly employees, is frozen and no additional benefits are accruing thereunder. The second plan, which covers only certain union employees of the Company, was frozen effective as of January 1, 2012 and no additional benefits will accrue thereunder. The assets of the defined benefit pension plans are held by independent trustees and consist primarily of equity and fixed income securities. The Company is also the sponsor of an unfunded, non-qualified supplemental executive retirement plan (SERP) in which several of its current and former employees are participants. The SERP is frozen and no additional benefits are accruing thereunder.

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The Company also provides postretirement healthcare benefits for certain of its retired employees and life insurance benefits for certain of its union employees. Employees may become eligible for healthcare benefits, and union employees may become eligible for life insurance benefits, only if they retire after attaining specified age and service requirements. These benefits are subject to deductibles, co-payment provisions and other limitations. During 2009, postretirement healthcare premium rates for retirees were increased. This change resulted in a decrease to the postretirement benefit liability of \$2.8 million that was recorded to accumulated other comprehensive income (loss) as of December 31, 2009. This adjustment is being recognized over the remaining weighted-average service period of active plan participants.

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The Company's measurement date is December 31 and costs of benefits relating to current service for those employees to whom the Company is responsible to provide benefits are currently expensed.

The change in benefit obligation, change in plan assets and the funded status is as follows:

	September 30, Pension Benefits 2011	September 30, 2010	September 30, Postretirement Benefits 2011	September 30, 2010
	(in thousands)			
Change in benefit obligation				
Benefit obligation at January 1	\$ 19,922	\$ 18,414	\$ 90	\$ 83
Service cost	317	267	1	1
Interest cost	1,015	1,025	5	5
Actuarial loss	2,552	1,427	19	1
Assumed administrative expenses	(180)	(147)		
Benefits paid	(1,058)	(1,064)	(9)	
Benefit obligation at December 31	\$ 22,568	\$ 19,922	\$ 106	\$ 90
Change in plan assets				
Plan assets at January 1	\$ 13,194	\$ 12,105	\$	\$
Actual return on plan assets	122	1,639		
Administrative expenses	(183)	(170)		
Employer contributions	1,203	684		
Benefits paid	(1,058)	(1,064)		
Plan assets at fair value at December 31	\$ 13,278	\$ 13,194	\$	\$
Funded status				
Benefit obligation in excess of plan assets at December 31	\$ (9,291)	\$ (6,728)	\$ (106)	\$ (90)
Amounts recognized in the consolidated balance sheets are as follows:				
	September 30, Pension Benefits 2011	September 30, 2010	September 30, Postretirement Benefits 2011	September 30, 2010
	(in thousands)			
Accrued benefit liability - short term	\$ (114)	\$ (108)	\$ (3)	\$ (3)
Accrued benefit liability - long term	(9,177)	(6,620)	(103)	(87)
Net liability recognized at December 31	\$ (9,291)	\$ (6,728)	\$ (106)	\$ (90)
Net actuarial (loss) gain	\$ (8,584)	\$ (5,530)	\$ 894	\$ 1,003
Net prior service (cost) credit	(50)	(57)	2,480	2,871

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Accumulated other comprehensive (loss) income pre-tax at December 31	\$	(8,634)	\$	(5,587)	\$	3,374	\$	3,874
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The short-term liability has been reported on the consolidated balance sheets in accrued expenses and taxes.

The components of net periodic benefit cost for the years ended December 31, 2011, 2010 and 2009 are as follows:

	September 30, 2011	September 30, Pension Benefits 2010	September 30, 2009 (in thousands)	September 30, 2011	September 30, Postretirement Benefits 2010	September 30, 2009
Components of net periodic benefit cost						
Service cost	\$ 316	\$ 267	\$ 235	\$ 1	\$ 1	\$ 47
Interest cost	1,015	1,025	1,034	5	5	151
Expected return on plan assets	(997)	(885)	(757)			
Curtailed loss		57				
Recognized actuarial loss (gain)	377	345	368	(90)	(100)	(92)
Amortization of prior service cost (gain)	7	7	14	(391)	(391)	(85)
Total net periodic benefit cost	\$ 718	\$ 816	\$ 894	\$ (475)	\$ (485)	\$ 21

Additional information

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	September 30, Pension Benefits (in thousands)	September 30, Postretirement Benefits
2012	\$ 1,076	\$ 3
2013	1,086	4
2014	1,121	4
2015	1,145	5
2016	1,163	5
2017 and thereafter	6,583	31
Total	\$ 12,174	\$ 52

The Company expects to contribute \$1.4 million to its pension and postretirement plans in 2012.

Pension and other postretirement benefit costs and liabilities are dependent on assumptions used in calculating such amounts. The primary assumptions include factors such as discount rates, expected return on plan assets, mortality rates and retirement rates, as discussed below:

Discount rates

The Company reviews these rates annually and adjusts them to reflect current conditions. The Company deemed these rates appropriate based on the Citigroup Pension Discount curve analysis along with expected payments to retirees.

Expected return on plan assets

The Company's expected return on plan assets is derived from detailed periodic studies, which include a review of asset allocation strategies, anticipated future long-term performance of individual asset classes, risks (standard deviations) and correlations of returns among the asset classes that comprise the plans' asset mix. While the studies give appropriate consideration to recent plan performance and historical returns, the assumptions are primarily long-term, prospective rates of return.

Mortality and retirement rates

Mortality and retirement rates are based on actual and anticipated plan experience.

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The decrease in the discount rates resulted in an increase in the benefit obligation, which will be amortized through actuarial losses. The assumptions used to determine end of year benefit obligations are shown in the following table:

	September 30, Pension Benefits 2011	September 30, 2010	September 30, Postretirement Benefits 2011	September 30, 2010
Discount rate	4.25%	5.25%	4.18%	5.31%

The assumptions used in the measurement of net periodic cost are shown in the following table:

	September 30, 2011	September 30, Pension Benefits 2010	September 30, 2009	September 30, 2011	September 30, Postretirement Benefits 2010	September 30, 2009
Discount rate	5.25%	5.75%	6.25%	5.31%	5.31%	5.83%
Expected return on plan assets	7.50%	7.50%	7.25%	N/A	N/A	N/A

The Company's pension plans' asset valuation in the fair value hierarchy levels, discussed in detail in Note 5, along with the weighted average asset allocations as of December 31, 2011, by asset category, are as follows:

Asset Category	September 30, Level 1	September 30, Level 2 (in thousands)	September 30, Level 3	September 30, Total	September 30, Percentage of Total
Cash and cash equivalents	\$ 570	\$	\$	\$ 570	4%
Equities					
Large cap value equity		1,062		1,062	8%
Mid cap growth equity		307		307	2%
Mid cap value equity		286		286	2%
Small cap value equity		322		322	2%
International growth equity		501		501	4%
Funds					
Large cap growth equity			1,655	1,655	12%
Small cap growth equity			416	416	3%
International value equity		536		536	4%
International markets core equity		815		815	6%
International small to mid cap		265		265	2%
Large cap enhanced core equity			1,939	1,939	15%
High yield		387		387	3%
Core bond			1,754	1,754	13%
International bond		265		265	2%
Fixed income		760		760	6%
Commodity		602		602	5%
Debt securities					
US Treasury bonds		397		397	3%
Asset backed securities			439	439	4%
	\$ 7,075	\$ 6,203	\$	\$ 13,278	100%

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The Company's pension plans' asset valuation in the fair value hierarchy levels along with the weighted average asset allocations as of December 31, 2010, by asset category, are as follows:

Asset Category	September 30,	September 30,	September 30,	September 30,	September 30,
	Level 1	Level 2 (in thousands)	Level 3	Total	Percentage of Total
Cash and cash equivalents	\$ 355	\$	\$	\$ 355	3%
Equities					
Large cap value equity	1,109			1,109	8%
Mid cap growth equity	237			237	2%
Mid cap value equity	173			173	1%
Small cap value equity	294			294	2%
International growth equity	620			620	5%
Funds					
Large cap growth equity		1,228		1,228	9%
Small cap growth equity		327		327	2%
International value equity	658			658	5%
International markets core equity	547			547	4%
Large cap enhanced core equity		2,200		2,200	17%
High yield	532			532	4%
Core bond		1,895		1,895	14%
International bond	518			518	4%
Fixed income	736			736	6%
Commodity	681			681	5%
Debt securities					
US Treasury bonds	693			693	5%
Asset backed securities		391		391	3%
	\$ 7,153	\$ 6,041	\$	\$ 13,194	100%

The Company invests in a balanced portfolio of individual equity securities, collective funds, mutual funds and individual debt securities to maintain a diversified portfolio structure with distinguishable investment objectives. The objective of the total portfolio is long-term growth and appreciation along with capital preservation, to maintain the value of plan assets over time in real terms net of fees, distributions and liquidity obligations. The objective in value equities and funds is to provide a competitive rate of return through investment in attractively valued companies relative to their underlying fundamentals. The objective of investments in growth equities and funds is to benefit from earnings growth potential. The objective of investments in core equities is to produce consistent, market-like return with relatively low tracking error to the broader equity market. The high yield, bond funds, fixed income, U.S. Treasury bonds and asset backed securities' objective is to provide fixed-income exposure that adds diversification and contributes to total return through both appreciation and income generation. The commodity fund's objective is to provide a competitive rate of return. Asset classes and securities are diversified by market capitalization (large cap, mid cap, small cap), by geographic orientation (domestic versus international) and by style (core, growth, value). All conventional investments are traded on major exchanges and are readily marketable.

The overall objective of the pension plans' investments is to grow plan assets in relation to liabilities, while prudently managing the risk of a decrease in the pension plans' assets. The pension plans' investments