American Railcar Industries, Inc.
Form 10-Q
November 02, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2010

Or

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

for the transition period from __________ to __________

Commission File No. 000-51728

AMERICAN RAILCAR INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

North Dakota	43-1481791
(State of Incorporation)	(I.R.S. Employer Identification No.)
100 Clark Street, St. Charles, Missouri	63301
(Address of principal executive offices)	(Zip Code)

(636) 940-6000

(Registrant s telephone number, including area code)

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

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

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 o Accelerated filer þ Non accelerated filer o Smaller Reporting Company o

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

The number of shares of the registrant s common stock, without par value, outstanding on November 1, 2010 was 21,302,296 shares.

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CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	As of	
	September 30, 2010 (unaudited)	**December 31, 2009**
Assets		
Current assets:		
Cash and cash equivalents	$ 310,588	$ 347,290
Short-term investments available-for-sale securities		3,802
Accounts receivable, net	19,025	11,409
Accounts receivable, due from affiliates	5,957	1,356
Income taxes receivable	937	1,768
Inventories, net	58,124	40,063
Deferred tax assets	2,855	2,018
Prepaid expenses and other current assets	3,866	4,898
Total current assets	401,352	412,604
Property, plant and equipment, net	185,509	199,349
Deferred debt issuance costs	2,105	2,568
Interest receivable, due from affiliates	145	982
Goodwill	7,169	7,169
Investments in and loans to joint ventures	49,390	41,155
Deferred tax assets	3,950	
Other assets	201	537
Total assets	$ 649,821	$ 664,364
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 32,343	$ 16,874
Accounts payable, due to affiliates	380	576
Accrued expenses and taxes	6,184	4,515
Accrued compensation	9,307	8,799
Accrued interest expense	1,719	6,875
Total current liabilities	49,933	37,639
Senior unsecured notes	275,000	275,000
Deferred tax liability		7,120
Pension and post-retirement liabilities	6,197	6,279
Other liabilities	3,223	2,686
Total liabilities	334,353	328,724

Commitments and contingencies		
Stockholders equity:		
Common stock, $.01 par value, 50,000,000 shares authorized, 21,302,296 shares issued and outstanding at September 30, 2010 and December 31, 2009	213	213
Additional paid-in capital	238,687	239,617
Retained earnings	75,058	94,215
Accumulated other comprehensive income	1,510	1,595
Total stockholders equity	315,468	335,640
Total liabilities and stockholders equity	$ 649,821	$ 664,364

See Notes to the Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts, unaudited)

	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009
Revenues:		
Manufacturing operations (including revenues from affiliates of $19,274 and $8,011 for the three months ended September 30, 2010 and 2009, respectively)	$ 48,404	$ 62,047
Railcar services (including revenues from affiliates of $4,263 and $3,563 for the three months ended September 30, 2010 and 2009, respectively)	16,393	16,051
Total revenues	64,797	78,098
Cost of revenue:		
Manufacturing operations	(49,366)	(56,348)
Railcar services	(13,141)	(12,940)
Total cost of revenue	(62,507)	(69,288)
Gross profit	2,290	8,810
Selling, administrative and other (including costs related to affiliates of $154 for both the three months ended September 30, 2010 and 2009)	(6,232)	(6,484)
(Loss) earnings from operations	(3,942)	2,326
Interest income (including income related to affiliates of $717 and $366 for the three months ended September 30, 2010 and 2009, respectively)	1,058	1,925
Interest expense	(5,316)	(5,286)
Other income (including income related to affiliates of $4 for both the three months ended September 30, 2010 and 2009)	4	3,121
Loss from joint ventures	(1,946)	(2,217)
Loss before income taxes	(10,142)	(131)
Income tax benefit	3,890	1,223
Net (loss) earnings	$ (6,252)	$ 1,092
Net (loss) earnings per common share basic and diluted	$ (0.29)	$ 0.05
Weighted average common shares outstanding basic and diluted	21,302	21,302
Dividends declared per common share	$	$

See Notes to the Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts, unaudited)

	For the Nine Months Ended September 30, 2010	2009
Revenues:		
Manufacturing operations (including revenues from affiliates of $65,401 and $93,770 for the nine months ended September 30, 2010 and 2009, respectively)	$ 127,262	$ 301,325
Railcar services (including revenues from affiliates of $10,283 and $11,548 for the nine months ended September 30, 2010 and 2009, respectively)	51,011	43,646
Total revenues	178,273	344,971
Cost of revenue:		
Manufacturing operations	(131,643)	(271,552)
Railcar services	(40,814)	(35,423)
Total cost of revenue	(172,457)	(306,975)
Gross profit	5,816	37,996
Selling, administrative and other (including costs related to affiliates of $462 for both the nine months ended September 30, 2010 and 2009)	(17,925)	(19,158)
(Loss) earnings from operations	(12,109)	18,838
Interest income (including income related to affiliates of $1,938 and $376 for the nine months ended September 30, 2010 and 2009, respectively)	2,557	4,910
Interest expense	(15,956)	(15,562)
Other income (including income related to affiliates of $12 and $4 for the nine months ended September 30, 2010 and 2009, respectively)	381	3,038
Loss from joint ventures	(5,999)	(5,030)
(Loss) earnings before income taxes	(31,126)	6,194
Income tax benefit (expense)	11,969	(1,244)
Net (loss) earnings	$ (19,157)	$ 4,950
Net (loss) earnings per common share basic and diluted	$ (0.90)	$ 0.23
Weighted average common shares outstanding basic and diluted	21,302	21,302
Dividends declared per common share	$	$ 0.06

See Notes to the Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, unaudited)

	For the Nine Months Ended September 30, 2010	2009
Operating activities:		
Net (loss) earnings	$ (19,157)	$ 4,950
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation	17,777	17,477
Amortization of deferred costs	524	513
Loss on disposal of property, plant and equipment	34	223
Stock based compensation	2,353	852
Change in interest receivable, due from affiliates	837	
Change in investments in joint ventures as a result of loss	5,999	5,030
Unrealized loss on derivatives		88
(Benefit) provision for deferred income taxes	(12,320)	1,626
Provision (recovery) for doubtful accounts receivable	68	(117)
Investing activities reclassified from operating activities:		
Interest income on short-term investments available-for-sale securities		(3,653)
Realized loss on derivatives		10
Realized gain on short-term investments available-for-sale securities	(379)	(3,115)
Dividends received from short-term investments available-for-sale securities		(15)
Changes in operating assets and liabilities:		
Accounts receivable, net	(7,663)	23,068
Accounts receivable, due from affiliate	(4,601)	8,268
Income taxes receivable	831	
Inventories, net	(18,049)	40,638
Prepaid expenses and other current assets	1,032	1,211
Accounts payable	15,462	(19,548)
Accounts payable, due to affiliate	(196)	(4,867)
Accrued expenses and taxes	(4,408)	(9,767)
Other	19	(820)
Net cash (used in) provided by operating activities	(21,837)	62,052
Investing activities:		
Purchases of property, plant and equipment	(4,852)	(13,170)
Proceeds from sale of property, plant and equipment	104	69
Sale (purchase) of short-term investments available-for-sale securities	4,180	(36,841)
Sales of short-term investments available-for-sale securities		15,450
Interest income on short-term investments available-for-sale securities		3,653
Realized loss on derivatives		(10)
Dividends received from short-term investments available-for-sale securities		15
Investments in and loans to joint ventures	(14,298)	(34,115)
Net cash used in investing activities	(14,866)	(64,949)
Financing activities:		

Common stock dividends		(1,917)
Net cash used in financing activities		(1,917)
Effect of exchange rate changes on cash and cash equivalents	1	117
Decrease in cash and cash equivalents	(36,702)	(4,697)
Cash and cash equivalents at beginning of period	347,290	291,788
Cash and cash equivalents at end of period	$ 310,588	$ 287,091

See Notes to the Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

The condensed consolidated financial statements included herein have been prepared by American Railcar Industries, Inc. (a North Dakota corporation) and subsidiaries (collectively the Company or ARI), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosure normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. The condensed consolidated balance sheet as of December 31, 2009 has been derived from the audited consolidated balance sheets as of that date. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s latest annual report on Form 10-K for the year ended December 31, 2009. In the opinion of management, the information contained herein reflects all adjustments necessary to make the results of operations for the interim periods fairly stated. The results of operations of any interim period are not necessarily indicative of the results that may be expected for a fiscal year.

Note 1 Description of the Business

ARI manufactures railcars, 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 also provides railcar maintenance services for railcar fleets. In addition, ARI provides fleet management and maintenance services for railcars owned by certain customers. Such services include inspecting and supervising the maintenance and repair of such railcars.

The condensed consolidated financial statements of the Company include the accounts of ARI and its wholly-owned subsidiaries. Through its wholly-owned subsidiary, Castings, LLC (Castings), the Company has a one-third ownership interest in Ohio Castings Company, LLC (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 Venture, LLC (ARI Component), the Company has a 41.9% ownership interest in Axis, LLC (Axis), which in turn has a 100.0% interest in Axis Operating Company, LLC, a limited liability company formed to produce railcar axles, for use or sale by the ownership group. The Company has a wholly-owned subsidiary, American Railcar Mauritius I (ARM I) that wholly-owns American Railcar Mauritius II (ARM II). Through ARM II, the Company has a 50.0% ownership interest in Amtek Railcar Industries Private Limited (Amtek Railcar), a joint venture in India that was formed to produce railcars and railcar components in India for sale by the joint venture. Through its wholly-owned subsidiary, ARI DMU LLC, the Company has a 3.8% ownership interest in US Railcar Company LLC (USRC), a joint venture that the Company expects will design, manufacture and sell Diesel Multiple Units (DMUs) to public transportation authorities and communities upon order. Through its wholly-owned subsidiary, ARI Longtrain, Inc. (Longtrain), the Company makes investments from time to time. All intercompany transactions and balances have been eliminated.

The Company operates a railcar repair facility in Sarnia, Ontario Canada. Canadian revenues were 2.0% and 1.0% of total consolidated revenues for the three months ended September 30, 2010 and 2009, respectively. Canadian revenues were 2.3% and 0.6% of total consolidated revenues for the nine months ended September 30, 2010 and 2009, respectively. Canadian assets were 1.8% and 1.6% of total consolidated assets as of September 30, 2010 and December 31, 2009, respectively. In addition, the Company s subsidiaries ARM I and ARM II are located in Mauritius. Assets held by ARM I and ARM II were 1.5% and less than 0.1% of total consolidated assets as of September 30, 2010 and December 31, 2009, respectively. ARM I and ARM II have not had any revenues to date.

Note 2 Summary of Accounting Policies

Reclassifications

Certain reclassifications of prior year presentations that are of a normal recurring nature have been made to conform to the 2010 presentation.

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Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board issued authoritative guidance to amend the accounting and disclosure requirements for variable interest entities (VIE). The new guidance requires on-going assessments to determine the primary beneficiary of a VIE and amends the primary beneficiary assessment and disclosure requirements. This guidance is effective for the first interim and annual reporting period that begins after November 15, 2009. This guidance did not have a material impact on the condensed consolidated financial statements.

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

During January 2008, Longtrain purchased approximately 1.5 million shares of common stock of The Greenbrier Companies, Inc. (GBX) in the open market for $27.9 million. During the second half of 2008, Longtrain sold a majority of the GBX shares it owned. 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.

The Company performed a review of its investment in GBX 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. As such, there were no unrealized losses as of December 31, 2009. The market value of the approximately 0.4 million shares of GBX common stock owned by the Company at December 31, 2009 was $3.8 million.

During the nine months ended September 30, 2010, the remaining approximately 0.4 million shares of GBX common stock were sold for proceeds of $4.1 million and realized gains totaling $0.4 million. As the shares were sold in the first half of 2010, there was no effect on the three months ended September 30, 2010. The cost basis of the shares sold was determined through specific identification.

During the first quarter of 2009, Longtrain purchased corporate bonds for a total of $36.8 million. For both the three and nine months ended September 30, 2009, the Company sold $20.0 million of corporate bonds, par value, resulting in realized gains of $3.1 million. The remainder of these bonds were sold in the fourth quarter of 2009.

Note 4 Foreign Currency Option

The Company accounted for its foreign currency option as either an asset or liability in the balance sheet at fair value. As the foreign currency option did not qualify for hedge accounting, all unrealized gains and losses were reflected in the Company s condensed consolidated statements of operations and the fair value was recorded on the balance sheet. 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. During the second quarter of 2009, the final portion of the option was exercised, thus nothing was recorded related to this option for the three months ended September 30, 2009. This option resulted in a realized loss of less than $0.1 million for the nine months ended September 30, 2009, based on the exchange spot rate on the various exercise dates.

Note 5 Fair Value Measurements

The fair value hierarchal disclosure framework prioritizes and ranks the level of market price observability used in measuring investments and non-recurring nonfinancial assets and nonfinancial 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.

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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 Company has no financial assets or liabilities that were accounted for at fair value as of September 30, 2010.

The following table summarizes the valuation of the Company s financial assets by the above fair value hierarchy levels as of December 31, 2009 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Short-term investments available-for-sale securities	$ 3,802	$	$	$ 3,802

Note 6 Inventories

Inventories consist of the following:

	September 30, 2010	December 31, 2009
	(in thousands)	
Raw materials	$ 31,312	$ 21,307
Work-in-process	21,944	8,411
Finished products	7,578	12,271
Total inventories	60,834	41,989
Less reserves	(2,710)	(1,926)
Total inventories, net	$ 58,124	$ 40,063

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Note 7 Property, Plant and Equipment

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

	September 30, 2010	December 31, 2009
	(in thousands)	
Property, plant and equipment		
Buildings	$ 147,613	$ 146,064
Machinery and equipment	176,293	174,021
	323,906	320,085
Less accumulated depreciation	(143,528)	(126,074)
Net property, plant and equipment	180,378	194,011
Land	3,335	3,306
Construction in process	1,796	2,032
Total property, plant and equipment	$ 185,509	$ 199,349

Depreciation expense

Depreciation expense for both the three months ended September 30, 2010 and 2009 was $5.9 million. Depreciation expense for the nine months ended September 30, 2010 and 2009 was $17.8 million and $17.5 million, respectively.

Capitalized interest

In conjunction with the interest costs incurred related to the Unsecured Senior Fixed Rate Notes offering described in Note 11, the Company has been recording capitalized interest on certain property, plant and equipment capital projects. ARI also capitalized interest related to the investment in Axis during its developmental stage. The amount of interest capitalized for the three months ended September 30, 2010 and 2009 was less than $0.1 million and $0.1 million, respectively. The amount of interest capitalized for the nine months ended September 30, 2010 and 2009 was less than $0.1 million and $0.7 million, respectively.

Lease agreements

During 2008, the Company entered into two agreements to lease a fixed number of railcars to third parties for multiple years. 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 are depreciated in accordance with the Company s depreciation policy.

Note 8 Goodwill

Goodwill is not amortized but it is tested for impairment at least annually by comparing the fair value of the asset to its carrying value. The Company has $7.2 million of goodwill related to the acquisition of Custom Steel in 2006, all of which is allocated to our Kennett and Custom railcar sub-assembly plants reporting unit (Kennett/Custom) that is part of the Company s manufacturing operations segment.

The Company performs an annual goodwill impairment test as of March 1 of each year utilizing the market and income approaches and significant assumptions discussed below:

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.

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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 Kennett/Custom and used a discounted net cash flow method to determine the fair value. Net cash flow consists of after-tax operating income, plus depreciation, less capital expenditures and working capital needs. The discounted cash flow method considers a five-year projection of net cash flow and adds to those cash flows a residual value at the end of the projection period.

Significant estimates and assumptions used in the evaluation were forecasted revenues and profits, the weighted average cost of capital and tax rates. Forecasted revenues of Kennett/Custom were estimated based on historical trends of the ARI plants that the reporting unit supplies parts to, which are driven by the railcar market forecast. Forecasted margins were based on historical experience. Kennett/Custom does not have a selling, administrative or executive staff, therefore, an estimate of salaries and benefits for key employees was added to selling, administrative and other 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 Kennett/Custom s cost structure and negatively impact the projection of financial performance. If the railcar industry forecasts or ARI s market share were to change significantly, the fair value of Kennett/Custom 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, 2010 evaluation equally weighted the values derived from each approach to arrive at the fair value of Kennett/Custom. The resulting fair value exceeded the carrying value by over 20% resulting in no impairment.

Note 9 Investments in and Loans to Joint Ventures

The Company is party to four joint ventures; Ohio Castings, Axis, Amtek Railcar and USRC, which are accounted for using the equity method. 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 accounts. The carrying amount of investments in and loans to joint ventures are as follows:

	September 30, 2010	December 31, 2009
	(in thousands)	
Carrying amount of investments in and loans to joint ventures		
Ohio Castings	$ 5,514	$ 5,644
Axis	34,239	35,511
Amtek Railcar	9,637	
USRC		
Total investments in and loans to joint ventures	$ 49,390	$ 41,155

The following are the current balances representing the loss exposure as a result of investments in and loans to joint ventures:

		September 30, 2010 (in thousands)
Loss exposure by joint venture		
Ohio Castings		
Investment	$	5,017
Loan guarantee		3
Note and accrued interest receivable [1]		525
Total Ohio Castings exposure		5,545
Axis		
Investment		
Loans and accrued interest receivable [1]		34,353
Total Axis exposure		34,353
Amtek Railcar Investment		9,637
USRC Investment		
Loss exposure due to joint ventures	$	49,535

1 Accrued interest receivable is included in interest receivable, due from affiliates and not investments in and loans to joint ventures on the condensed consolidated balance sheet.

Ohio Castings

In June 2009, Ohio Castings temporarily idled its manufacturing facility. In conjunction with the temporary idling, Ohio Castings performed an analysis of long-lived assets. Based on this analysis, Ohio Castings concluded that its long-lived assets were not impaired. In turn, ARI evaluated its investment in Ohio Castings and determined there was no impairment. As of August 31, 2010, Ohio Castings re-evaluated its analysis of its long-lived assets and concluded that no impairment exists.

ARI updated its evaluation of its investment in Ohio Castings and determined that the decrease in value was temporary and there was no impairment as of September 30, 2010. Ohio Castings first reported a loss in the first quarter of 2009 and subsequently the facility was temporarily idled in the second quarter of 2009 due to the decline in the railcar industry. Ohio Castings has continued to report losses due to its idled state. ARI obtained Ohio Castings long-lived asset impairment analysis and reviewed it for reasonableness. Based on that evaluation, ARI currently expects that the joint venture, pending the approval of all joint venture partners, will restart production when the demand for new railcars returns to sufficient levels. 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 current decline in earnings capacity is 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.

Ohio Castings has equal notes payable to ARI and the other two partners, with a current balance of $0.5 million, each, that are due February 2012. Interest will continue to accrue but interest payments have been deferred until August 2011. Accrued interest for this note as of September 30, 2010 and December 31, 2009 was less than $0.1 million.

The Company and the other members of Ohio Castings, have equally guaranteed bonds payable and a state loan issued to Ohio Castings by the State of Ohio, as further discussed in Note 14. The value of the guarantee was less than $0.1 million at both September 30, 2010 and December 31, 2009. It is anticipated that Ohio Castings will continue to make principal and interest payments while its facility is temporarily idled, through equity contributions by ARI and the other partners. 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.

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 no partner, including the Company and Castings, has rights to the majority of returns, losses or votes, Ohio Castings operations are temporarily idled and the risk of loss to Castings and the Company is limited to the Company s investment through Castings, the note due to ARI and Ohio Castings subsidiary s debt with the State of Ohio, which the Company has guaranteed.

See Note 19 for information regarding financial transactions among the Company, Ohio Castings and Castings.

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

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
	(in thousands)		(in thousands)	
Financial results				
Sales	$	$ 32	$	$ 10,898
Gross profit (loss)		(745)		(2,995)
Loss before interest	(915)	(1,166)	(2,126)	(4,744)
Net loss	$ (918)	$ (1,201)	$ (2,185)	$ (4,766)

Axis

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. Production began and the joint venture ceased classification as a development stage enterprise in the third quarter of 2009.

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 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. 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 have equally contributed the necessary capital, which amounted to $0.5 million for each as of September 30, 2010. The capital contributions are utilized to provide working capital. The partners ownership percentages have been adjusted accordingly. As a result, as of September 30, 2010, ARI s ownership interest has been adjusted to 41.9%. During the third quarter 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 a credit agreement entered into in December 2007 among Axis, Bank of America, as administrative agent (Axis Agent), and the lenders party thereto (as amended, 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. In July 2009, the Axis Agent alleged that Axis was in default under the Axis Credit Agreement and in connection therewith proposed certain amendments to the Axis Credit Agreement. Axis disputed the alleged default. Following discussions with the Axis Agent and Axis, effective August 5, 2009, ARI

Component and a wholly-owned subsidiary of the other initial partner acquired the Axis Credit Agreement, with each party acquiring a 50.0% interest in the loan. The purchase price paid by the Company for its 50.0% interest was approximately $29.5 million, which equaled the then outstanding principal amount of the portion of the loan acquired by the Company. In connection with the purchase of the Axis loan, the associated guarantees of the Company and the other initial partner were canceled and certain modifications were made, including to the interest rate.

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%. In either case, the interest rate is subject to increase upon the occurrence of certain events of default. 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 quarterly. In accordance with the terms of the agreement, in the third quarter 2010, Axis elected to satisfy interest on the term loan as of September 30, 2010 by increasing the outstanding principal amount of the term loan by the amount of interest otherwise due and payable in cash.

The commitment to make term loans under the Axis Credit Agreement expires on December 31, 2010. Beginning on March 31, 2011, the term loans will become due and payable on the last day of each fiscal quarter in twenty-two equal installments, with the last payment to become due on June 26, 2016. The commitment to make revolving loans under the Axis Credit Agreement will expire and the revolving loans will become due and payable on December 28, 2012. Upon certain events described more fully in the Axis Credit Agreement, principal and interest may become due and payable sooner than described above.

Axis may borrow revolving loans up to $10.0 million, as described above, of which $7.0 million is subject to borrowing base availability and the remaining $3.0 million may be borrowed without restriction until December 31, 2010. At January 1, 2011, the $3.0 million becomes subject to borrowing base availability.

The balance outstanding on these loans, due to ARI Component, was $34.7 million in principal and $0.1 million of accrued interest as of September 30, 2010 and $31.5 million in principal and $1.0 million of accrued interest as of December 31, 2009. 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 $3.1 million as of September 30, 2010.

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 no partner, including the Company and its wholly-owned subsidiary, has rights to the majority of votes, the Company does not have 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 and accrued interest 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 19 for information regarding financial transactions among the Company, ARI Component and Axis.

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
Financial Results				
Sales	$ 5,681	$ 324	$ 11,849	$ 326
Gross profit (loss)	(1,723)	(2,765)	$ (7,125)	(2,765)
Operating loss	(2,000)	(2,950)	(7,749)	(6,666)
Net loss	$ (3,438)	$ (4,394)	$ (11,633)	$ (8,662)

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Axis is in its early stages and has been operating at low levels for 16 months. As a result, Axis has incurred losses since starting production in the third quarter of 2009. The new railcar axle market is directly related to the new railcar market and the current weakness in the railcar market is causing the axle volumes to remain low. The current downturn is consistent with industry forecasts, as reported by an independent third party analyst, and is considered temporary. As such, Axis has not performed a long-lived asset impairment analysis.

In the third quarter of 2010, an increase in volume resulted in an improvement in financial results. As of September 30, 2010, the investment in Axis was comprised entirely of ARI s term loan and revolver to Axis. Based on the discussion above, this loan has been evaluated to currently be fully recoverable. The Company will continue to monitor 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 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 and 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, no partner, including the Company and its wholly-owned subsidiaries, has rights to the majority of returns, losses or votes and the risk of loss to the Company and subsidiaries is limited to its investment in Amtek Railcar.

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

	Three months ended September 30, 2010	Nine months ended September 30, 2010
	(in thousands)	
Financial Results		
Sales	$	$
Gross profit		
Loss before interest	(180)	(322)
Net loss	$ (180)	$ (322)

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 expects will 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. As of September 30, 2010, the Company made equity contributions totaling $0.3 million resulting in an ownership interest of 3.8%. ARI s ownership interest is determined by equity contributions. However, under the terms of the joint venture agreement, ARI is entitled to 47.5% of USRC s profits and losses regardless of ownership interest. As production has not begun and USRC is in its beginning stages, the joint venture is considered a development stage enterprise.

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The Company accounts for its investment in USRC 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 USRC that most significantly impact its economic performance. The significant factors in this determination were that USRC is a development stage enterprise, no partner, including the Company and its wholly-owned subsidiary, has rights to the majority of returns, losses or votes and the risk of loss to the Company and subsidiary is limited to its investment in USRC.

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

	Three months ended September 30, 2010		Nine months ended September 30, 2010	
	(in thousands)			
Financial Results				
Sales	$		$	
Gross profit				
Loss before interest		(456)		(754)
Net loss	$	(456)	$	(754)

Note 10 Warranties

The Company typically provides limited warranties such as 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.

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

	Three months ended September 30,				Nine months ended September 30,			
	2010		2009		2010		2009	
	(in thousands)				(in thousands)			
Liability, beginning of period	$	1,060	$	1,591	$	1,094	$	2,595
Provision for warranties issued during the year, net of adjustments		303		234		758		953
Provision for warranties issued in previous years, net of adjustments		(109)		(169)		(185)		(930)
Warranty claims		(119)		(293)		(532)		(1,255)
Liability, end of period	$	1,135	$	1,363	$	1,135	$	1,363

Note 11 Long-term Debt

In February 2007, the Company issued $275.0 million unsecured senior fixed rate notes that were subsequently exchanged for registered notes in March 2007 (Notes). The fair value of these Notes was approximately $279.1 million at September 30, 2010, 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, make certain restricted payments and enter into certain significant transactions with stockholders and affiliates. As of September 30, 2010, based on the Company s fixed charge coverage ratio, as defined and as measured on a rolling four-quarter basis, certain of these covenants, including the Company s ability to incur additional debt, have become further restricted. The Company was in compliance with all of its covenants under the Notes as of September 30, 2010.

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Prior to March 1, 2011, ARI may redeem the Notes in whole or in part at a redemption price equal to 100.0% of the principal amount, plus an applicable premium based upon a present value calculation using an applicable treasury rate plus 0.5%, plus accrued and unpaid interest. Commencing on March 1, 2011, the redemption price is set at 103.75% of the principal amount of the Notes plus accrued and unpaid interest, and declines annually until it is reduced 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.

Note 12 Income Taxes

For Federal purposes, the Company s tax years 2007-2009 remain open to examination. For State purposes, the Company s tax years 2006-2009 remain open to examination by various taxing jurisdictions with the latest expiration of the statute in 2013. The Company s foreign tax returns for years 2007-2009 remain open to examination.

Note 13 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 of the Company s union employees, is currently active and benefits will continue to accrue thereunder until January 1, 2012, when the plan will be frozen. The assets of all funded plans are held by independent trustees and consist primarily of equity, fixed income funds and equity funds. The Company is also the sponsor of an unfunded, non-qualified supplemental executive retirement plan (SERP) in which several of its current as well as former employees are participants. The SERP is frozen and no additional benefits are accruing thereunder.

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 as of December 31, 2009. This adjustment is being recognized over the remaining weighted-average service period of active plan participants.

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

	Pension Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
Service cost	$ 66	$ 59	$ 200	$ 176
Interest cost	257	258	769	775
Expected loss on plan assets	(222)	(189)	(664)	(567)
Amortization of unrecognized net gain	86	92	258	276
Amortization of unrecognized prior service cost	2	4	6	11
Adjustment to benefits	15		43	
Net periodic benefit cost recognized	$ 204	$ 224	$ 612	$ 671

	Postretirement Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
Service cost	$	$ 11	$ 1	$ 35
Interest cost	1	38	4	113
Amortization of prior service cost	(97)	(21)	(293)	(63)
Amortization of loss	(25)	(23)	(75)	(69)
Net periodic (income) benefit cost recognized	$ (121)	$ 5	$ (363)	$ 16

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
Pension	$ 204	$ 224	$ 612	$ 671
Postretirement	(121)	5	(363)	16
Total net periodic benefit cost recognized for all plans	$ 83	$ 229	$ 249	$ 687

The Company also maintains qualified defined contribution plans, which provide benefits to ARI s employees based on employee contributions, years of service, and employee earnings with discretionary contributions allowed. Expenses related to these plans were $0.2 million for both the three months ended September 30, 2010 and 2009. Expenses related to these plans were $0.6 million for both the nine months ended September 30, 2010 and 2009.

Note 14 Commitments and Contingencies

In connection with the Company s investment in Ohio Castings, ARI has guaranteed bonds amounting to $10.0 million issued by the State of Ohio to Ohio Castings, of which $0.3 million was outstanding as of September 30, 2010. ARI also has guaranteed a $2.0 million state loan that was provided for purchases of capital equipment, of which $0.3 million was outstanding as of September 30, 2010. The two other partners of Ohio Castings have made identical guarantees of these obligations. It is anticipated that Ohio Castings will continue to make principal and interest payments while its facility is temporarily idled through equity contributions by ARI and the other partners. The bonds and state loan are scheduled to be paid in full in November 2010 and June 2011, respectively.

The Company s Axis joint venture entered into a credit agreement in December 2007. Effective August 5, 2009, the Company and the other initial partner acquired this loan from the lenders party thereto, with each party acquiring a 50.0% interest in the loan. The 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 $34.7 million of principal and $0.1 million of accrued interest, both as of September 30, 2010. ARI Component s share of the remaining commitment on these loans was $3.1 million as of September 30, 2010. In accordance with the terms of the agreement, in the third quarter 2010, Axis elected to satisfy interest on the term loan as of September 30, 2010 by increasing the outstanding principal amount of the term loan by the amount of interest otherwise due and payable in cash. This does not affect the remaining funding commitment on these loans. See Note 9 for further information regarding this transaction and the terms of the underlying loan.

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The Company is subject to comprehensive federal, state, local and international environmental laws and regulations relating to the release or discharge of materials into the environment, the management, use, processing, handling, storage, transport or disposal of hazardous materials and wastes, or otherwise relating to the protection of human health and the environment. These laws and regulations not only expose ARI to liability for the environmental condition of its current or formerly owned or operated facilities, and its own negligent acts, but also may expose ARI to liability for the conduct of others or for ARI s actions that were in compliance with all applicable laws at the time these actions were taken. In addition, these laws may require significant expenditures to achieve compliance, and are frequently modified or revised to impose new obligations. Civil and criminal fines and penalties and other sanctions may be imposed for non-compliance with these environmental laws and regulations. ARI s operations that involve hazardous materials also raise potential risks of liability under common law. Management believes that there are no current environmental issues identified that would have a material adverse affect on the Company. ARI is involved in investigation and remediation activities at a property that it now owns to address historical contamination and potential contamination by third parties. The Company is also involved with a state agency in the cleanup of this site under these laws. These investigations are in process but it is too early to be able to make a reasonable estimate, with any certainty, of the timing and extent of remedial actions that may be required, and the costs that would be involved in such remediation. When it is possible to make a reasonable estimate of the liability with respect to such a matter, a provision will be made as appropriate. Actual cost to be incurred in future periods may vary from any such estimates. Substantially all of the issues identified relate to the use of this property prior to its transfer to ARI in 1994 by ACF Industries LLC (ACF) and for which ACF has retained liability for environmental contamination that may have existed at the time of transfer to ARI. ACF has also agreed to indemnify ARI for any cost that might be incurred with those existing issues. However, if ACF fails to honor its obligations to ARI, ARI would be responsible for the cost of such remediation. The Company believes that its operations and facilities are in substantial compliance with applicable laws and regulations and that any noncompliance is not likely to have a material adverse effect on its operations or financial condition.

ARI is a party to collective bargaining agreements with labor unions at two repair facilities and one parts manufacturing facility that expire beginning April 2011 through September 2013.

ARI was named the defendant in a wrongful death lawsuit, *Nicole Lerma v. American Railcar Industries, Inc.,* filed on August 17, 2007 in the Circuit Court of Greene County, Arkansas Civil Division. The court reached a verdict in favor of ARI on May 24, 2010. The plaintiff did not appeal the decision.

Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against ARI. In the opinion of management, all such claims, suits and complaints arising in the ordinary course of business are without merit or would not have a significant effect on the future liquidity, results of operations or financial position of ARI if disposed of unfavorably.

In July 2007, ARI entered into an agreement with its joint venture, Axis, to purchase new railcar axles from the joint venture. The Company has no minimum volume purchase requirements under this agreement.

Note 15 Comprehensive (Loss) Income

The components of comprehensive (loss) income, net of related tax, are as follows:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(in thousands)		(in thousands)	
Net (loss) earnings	$ (6,252)	$ 1,092	$ (19,157)	$ 4,950
Unrealized gain on available-for-sale securities and derivatives		16,995		23,061
Income tax expense of unrealized gain on available-for-sale securities and derivatives		(5,948)		(8,071)
Foreign currency translation adjustment	311	609	145	1,035

Comprehensive (loss) income	$	(5,941)	$	12,748	$	(19,012)	$	20,975

Note 16 (Loss) Earnings per Share

The shares used in the computation of the Company s basic and diluted (loss) earnings per common share for the three and nine months ended September 30, 2010 and 2009 are reconciled as follows:

Weighted average basic common shares outstanding	21,302,296	
Dilutive effect of employee stock options		(1)
Weighted average diluted common shares outstanding	21,302,296	

(1) Stock options to purchase 390,353 shares of common stock were not included in the calculation for diluted earnings per share for both the three and nine months ended September 30, 2010 and 2009. These options would have resulted in an antidilutive effect to the (loss) earnings per share calculation.

Note 17 Stock-Based Compensation

The Company accounts for stock-based compensation granted under the 2005 Equity Incentive Plan, as amended (the 2005 Plan) based on the fair values calculated using the Black-Scholes-Merton option-pricing formula. Stock-based compensation is expensed using a graded vesting method over the vesting period of the instrument.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	($ in thousands)		($ in thousands)	
Stock-based compensation expense				
Cost of revenue: manufacturing operations	$ 350	$ 129	$ 523	$ 172
Cost of revenue: railcar services	59	23	88	30
Selling, administrative and other	1,123	499	1,742	650
Total stock-based compensation expense	$ 1,532	$ 651	$ 2,353	$ 852

Stock options

No options were exercised in 2009 or 2010. All stock options fully vested in January 2009. As such, the Company did not recognize any compensation expense related to stock options during both the three and nine months ended September 30, 2010 and 2009.

The following is a summary of option activity under the 2005 Plan for January 1, 2010 through September 30, 2010:

	Shares Covered by Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Weighted Average Grant-date Fair Value of Options Granted	Aggregate Intrinsic Value ($000)
Outstanding at the beginning of the period, January 1, 2010	390,353	$ 21.00			
Outstanding and exercisable at the end of the period, September 30, 2010	390,353	$ 21.00	3 months	$ 7.28	$ (1)

(1) Options to purchase 390,353 shares of the Company s common stock have an exercise price that is above market price, based on the closing market price of $15.68 per share of the Company s common stock on the last business day of the period ended September 30, 2010.

As of September 30, 2010, an aggregate of 515,124 shares were available for issuance in connection with future grants under the Company s 2005 Plan. Shares issued under the 2005 Plan may consist in whole or in part of authorized but unissued shares or treasury shares.

Stock appreciation rights

The compensation committee of the board of directors of the Company granted awards of stock appreciation rights (SARs) to certain employees pursuant to the 2005 Plan during April 2007, April 2008, September 2008, March 2009 and March 2010. On May 14, 2010, ARI completed an exchange offer and exchanged 190,200 eligible SARs granted on April 4, 2007 at an exercise price per SAR of $29.49 for 95,100 SARs granted on May 14, 2010 at an exercise price per SAR of $14.12.

All of the SARs granted in 2007, 196,900 of the SARs granted in 2008 and 212,850 of the SARs granted in 2009 vest in 25.0% increments on the first, second, third and fourth anniversaries of the grant date. The SARs granted in March and May 2010 vest in three equal increments on the first, second and third anniversaries of the grant date. Each holder must remain employed by the Company through each such date in order to vest in the corresponding number of SARs. Additionally, 77,500 of the SARs granted in 2008 and 93,250 of the SARs granted in 2009 similarly vest in 25.0% increments on the first, second, third and fourth anniversaries of the grant date, but only if the closing price of the Company s common stock achieves a specified price target during the applicable twelve month period for twenty trading days during any sixty day trading day period. If the Company s common stock does not achieve the specified price target during the applicable twelve-month period, the related portion of these performance-based SARs will not vest. Each holder must further remain employed by the Company through each anniversary of the grant date in order to vest in the corresponding number of SARs.

The SARs have exercise prices that represent the closing price of the Company s common stock on the date of grant. Upon the exercise of any SAR, the Company shall pay the holder, in cash, an amount equal to the excess of (A) the aggregate fair market value (as defined in the 2005 Plan) in respect of which the SARs are being exercised, over (B) the aggregate exercise price of the SARs being exercised, in accordance with the terms of the Stock Appreciation Rights Agreement (the SAR Agreement). The SARs are subject in all respects to the terms and conditions of the 2005 Plan and the SAR Agreement, which contain non-solicitation, non-competition and confidentiality provisions.

The following table provides an analysis of SARs granted in 2010, 2009, 2008 and 2007:

	2010 Grants	**2009 Grant**	**2008 Grants**	**2007 Grant**
Grant date	3/31/2010 & 5/14/2010	3/3/2009	4/28/2008 & 9/12/2008	4/4/2007
# SARs outstanding at September 30, 2010	236,750	296,450	189,975	12,150
Weighted average exercise price	$12.95	$6.71	$20.80	$29.49
Contractual term	7 years	7 years	7 years	7 years
September 30, 2010 SARs black scholes valuation components:				
Stock volatility range	58.6% 62.1%	59.3% 65.0%	62.1% 67.2%	70.3%
Expected life range	3.5 4.6 years	2.7 3.9 years	2.3 3.4 years	1.8 2.0 years
Risk free interest rate range	0.6% 1.3%	0.6%	0.4% 0.6%	0.4%
Dividend yield	0.0%	0.0%	0.0%	0.0%
Forfeiture rate	2.0%	2.0%	2.0%	2.0%

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As there was not adequate history for the stock prices of the Company at the time of valuation, the stock volatility rate was determined using historical volatility rates for ARI and several other similar companies within the railcar industry. The expected life ranges represent the use of the simplified method prescribed by the SEC, which uses the average of the vesting period and expiration period of each group of SARs that vest equally over a three or four-year period. The interest rates used were the government Treasury bill rate on the date of valuation. Dividend yield was based on the indefinite suspension of dividends by the Company. The forfeiture rate was based on a Company estimate of expected forfeitures over the contractual life of each grant of SARs for each period.
The Company recognized compensation expense of $1.5 million and $0.7 million during the three months ended September 30, 2010 and 2009, respectively, related to SARs granted under the 2005 Plan. The Company recognized compensation expense of $2.4 million and $0.9 million during the nine months ended September 30, 2010 and 2009, respectively, related to SARs granted under the 2005 Plan.
The following is a summary of SARs activity under the 2005 Plan for January 1, 2010 through September 30, 2010:

	Stock Appreciation Rights (SARs)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Weighted Average Fair Value of SARs	Aggregate Intrinsic Value ($000)
Outstanding at the beginning of the period, January 1, 2010	788,550	$ 18.13			
Cancelled / Forfeited	(281,900)				
Granted	236,750	$ 12.95			
Exercised	(8,075)	$ 6.71			
Outstanding at the end of the period, September 30, 2010	735,325	$ 14.66	63 months	$ 8.08	$ 3,306(1)
Exercisable at the end of the period, September 30, 2010	159,950	$ 15.29	59 months	$ 7.19	$ 614(1)

(1) SARs with an exercise price of $29.49, $20.88 and $16.46 have no intrinsic value based on the closing market price of $15.68 for a share of the Company s common stock on September 30, 2010. However, the SARs granted in 2009

and 2010 with an exercise price of \$6.71, \$12.16 and \$14.12 have an intrinsic value of \$3.3 million including \$0.6 million related to the exercisable SARs granted in 2009.

As of September 30, 2010, unrecognized compensation costs related to the unvested portion of stock appreciation rights were estimated to be \$2.2 million and were expected to be recognized over a weighted average period of 29 months.

Note 18 Common Stock and Dividends on Common Stock

During each quarter from the Company s initial public offering in January 2006 until the second quarter of 2009, the board of directors of the Company declared cash dividends of \$0.03 per share of common stock of the Company to shareholders of record as of a given date. The last dividend was declared in May 2009 and paid in July 2009. Subsequently, in August 2009, the Company indefinitely suspended its quarterly dividend payments.

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Note 19 Related Party Transactions

Agreements with ACF

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

Manufacturing Services Agreement

Under the manufacturing services agreement entered into in 1994 and amended in 2005, ACF agreed to manufacture and distribute, at the Company s instruction, various railcar components. In consideration for these services, the Company agreed to pay ACF based on agreed upon rates. In the three months ended September 30, 2010 and 2009, ARI purchased inventory of less than $0.1 million and $1.9 million, respectively, of components from ACF. In the nine months ended September 30, 2010 and 2009, ARI purchased inventory of $1.1 million and $12.7 million, respectively, of components from ACF. The agreement automatically renews unless written notice is provided by the Company.

Supply Contracts

The Company from time to time manufactures and sells specified components to ACF on a purchase order basis. No revenue was recorded from ACF for the three and nine months ended September 30, 2010. Revenue recorded from ACF was less than $0.1 million for both the three and nine months ended September 30, 2009. Such amounts are included under manufacturing operations revenue from affiliates on the condensed consolidated statement of operations. Profit margins on sales to related parties approximate the margins on sales to other large customers.

Railcar Manufacturing Agreement

In May 2007, the Company entered into a manufacturing agreement with ACF, pursuant to which the Company agreed to purchase approximately 1,390 tank railcars from ACF. The profit realized by ARI upon sale of the tank railcars to ARI customers was first paid to ACF to reimburse it for the start-up costs involved in implementing the manufacturing arrangements contemplated under the agreement and thereafter, the profit was split evenly between ARI and ACF. The commitment under this agreement was satisfied in March 2009 and the agreement was terminated at that time.

For both the three months ended September 30, 2010 and 2009, ARI incurred no costs under this agreement. For the nine months ended September 30, 2010, ARI incurred no costs under this agreement. For the nine months ended September 30, 2009, ARI incurred costs under this agreement of $4.1 million in connection with railcars that were manufactured and delivered to customers during that period, which includes payments made to ACF for its share of the profits along with ARI s costs. Such amounts are included under manufacturing operations cost of revenue on the statement of operations. The Company recognized no revenue under this agreement for both the three months ended September 30, 2010 and 2009. The Company recognized no revenue under this agreement for the nine months ended September 30, 2010 and $19.0 million of revenue related to railcars shipped under this agreement for the nine months ended September 30, 2009.

Asset Purchase Agreement

On January 29, 2010, ARI entered into an agreement to purchase certain assets from ACF for approximately $0.9 million that will allow the Company to manufacture railcar components previously purchased from ACF.

The purchase price of approximately $0.9 million was determined using various factors, including but not limited to, independent appraisals that assessed fair market value for the purchased assets, each asset s remaining useful life and the replacement cost of each asset. Given that ACF and ARI have the same majority stockholder, the assets purchased were recorded at ACF s net book value and the remaining portion of the purchase price will be a reduction to stockholder s equity. As of September 30, 2010, all of the assets had been received and paid for in accordance with the agreement.

Other Agreements

In April 2005, the Company entered into a consulting agreement with ACF in which both parties agreed to provide labor, litigation, labor relations support and consultation, and labor contract interpretation and negotiation services to one another. No services were rendered and no amounts were paid during the three and nine months ended September 30, 2009. This agreement terminated January 5, 2010.

In addition, the Company has agreed to provide ACF with engineering and consulting advice. Fees paid to one another are based on agreed upon rates. No services were rendered and no amounts were paid during the three and nine months ended September 30, 2010 and 2009.

Agreements with ARL

The Company has or had the following agreements with American Railcar Leasing LLC (ARL), a company controlled by Mr. Carl Icahn, the Company s principal beneficial stockholder (through IELP) and chairman of the Company s board of directors:

Railcar Servicing Agreement and Fleet Services Agreement

Effective as of January 1, 2008, the Company entered into a fleet services agreement with ARL, which replaced a 2005 railcar servicing agreement between the parties. This agreement reflects a reduced level of fleet management services, relating primarily to logistics management services, for which ARL now pays a fixed monthly fee. Additionally, under this agreement, the Company continues to provide railcar repair and maintenance services to ARL for a charge of labor, components and materials. The Company currently provides such repair and maintenance services for approximately 27,000 railcars for ARL. This agreement extends through December 31, 2010, and is automatically renewed for additional one-year periods unless either party gives at least sixty days prior notice of termination. There is no termination fee if the Company elects to terminate this agreement. For the three months ended September 30, 2010 and 2009, revenues of \$4.3 million and \$3.5 million were recorded under this agreement, respectively. For the nine months ended September 30, 2010 and 2009, revenues of \$10.3 million and \$11.5 million were recorded under this agreement, respectively. Such amounts are included under railcar services revenue from affiliates on the condensed consolidated statement of operations. Profit margins on sales to related parties approximate the margins on sales to other large customers.

Services Agreement, Separation Agreement and Rent and Building Services Extension Agreement

Under the Company s services agreement with ARL, ARL agreed to provide the Company certain information technology services, rent and building services and limited administrative services. The rent and building services includes the use of a facility owned by the Company s former chief executive officer and current vice chairman of the board of directors, which is further described later in this footnote. Under this agreement, the Company agreed to provide purchasing and engineering services to ARL. Consideration exchanged between the companies is based upon an agreed fixed annual fee.

On March 30, 2007, ARI and ARL agreed, pursuant to a separation agreement, to terminate, effective December 31, 2006, all services provided to ARL by the Company under the services agreement. Additionally, the separation agreement provided that all services provided to the Company by ARL under the services agreement would be terminated except for rent and building services. Under the separation agreement, ARL agreed to waive the six-month notice requirement for termination required by the services agreement.

In February 2008, ARI and ARL agreed, pursuant to an extension agreement, that effective December 31, 2007, all rent and building services would continue unless otherwise terminated by either party upon six months prior notice or by mutual agreement between the parties.

Total fees paid to ARL under these agreements were \$0.2 million for both the three months ended September 30, 2010 and 2009. Total fees paid to ARL under these agreements were \$0.5 million for both the nine months ended September 30, 2010 and 2009. The fees paid to ARL are included in selling, administrative and other costs related to affiliates on the condensed consolidated statement of operations.

Trademark License Agreement
Under the Trademark License Agreement, effective as of June 30, 2005, ARI granted a nonexclusive, perpetual, worldwide license to ARL to use ARI s common law trademarks American Railcar and the diamond shape logo. ARL may only use the licensed trademarks in connection with the railcar leasing business. ARI is entitled to annual fees of $1,000 in exchange for this license.
Sales Contracts
The Company from time to time manufactures and sells railcars to ARL under long-term agreements as well as on a purchase order basis. Revenue for railcars sold to ARL was $19.3 million and $8.0 million for the three months ended September 30, 2010 and 2009, respectively. Revenue for railcars sold to ARL was $65.4 million and $93.8 million for the nine months ended September 30, 2010 and 2009, respectively. Revenue for railcars sold to ARL is included under manufacturing revenue from affiliates on the accompanying condensed consolidated statements of operations. Profit margins on sales to related parties approximate the margins on sales to other large customers.
Agreements with other affiliated parties
In September 2003, Castings loaned Ohio Castings $3.0 million under a promissory note, which was due in January 2004. The note has been renegotiated resulting in a new principal amount and interest rate of 4.0%. The note is due February 2012. Interest will continue to accrue but interest payments have been deferred until August 2011. This note receivable is included in investment in joint venture on the accompanying condensed consolidated balance sheet. Total amounts due from Ohio Castings under this note were $0.5 million at both September 30, 2010 and December 31, 2009. Accrued interest on this note as of September 30, 2010 and December 31, 2009, was less than $0.1 million. The other partners in the joint venture have made identical loans to Ohio Castings.
In connection with the Company s investment in Ohio Castings, ARI has guaranteed bonds amounting to $10.0 million issued by the State of Ohio to one of Ohio Castings subsidiaries, of which $0.3 million was outstanding as of September 30, 2010. ARI also has guaranteed a $2.0 million state loan to one of Ohio Castings subsidiaries that provides for purchases of capital equipment, of which $0.3 million was outstanding as of September 30, 2010. The two other partners of Ohio Castings have made identical guarantees of these obligations. It is anticipated that Ohio Castings will continue to make principal and interest payments while its facility is temporarily idled through equity contributions by ARI and the other partners.
One of the Company s joint ventures, Axis, entered into a credit agreement in December 2007. Effective August 5, 2009, the Company and the other initial partner acquired this loan, with each party acquiring a 50.0% interest in the loan. The purchase price paid by the Company for its 50.0% interest was approximately $29.5 million, which equaled the then outstanding principal amount of the portion of the loan acquired by the Company. The total commitment under the loan is up to $70.0 million, consisting of up to $60.0 million in term loans and up to $10.0 million under the revolving loans. The balance outstanding on the portion of these loans due to ARI Component was $34.7 million in principal and $0.1 million of accrued interest both as of September 30, 2010 and $31.5 million in principal and $1.0 million of accrued interest both as of December 31, 2009. ARI Component is responsible to fund 50.0% of the loan commitments. ARI Component s share of the remaining commitment on these loans, term and revolving, was $3.1 million as of September 30, 2010. In accordance with the terms of the agreement, in the third quarter 2010, Axis elected to satisfy interest on the term loan as of September 30, 2010 by increasing the outstanding principal amount of the term loan by the amount of interest otherwise due and payable in cash. This does not affect the remaining funding commitment on these loans. See Note 9 for further information regarding this transaction and the terms of the underlying loan.
The Company purchases railcar parts from its joint ventures under long-term contracts. During the three and nine months ended September 30, 2010, the Company purchased $1.7 million and $3.9 million of railcar parts from its joint ventures, respectively. During both the three and nine months ended September 30, 2009, the Company purchased $0.4 million of railcar parts from its joint ventures.
Effective January 1, 2009, ARI entered into a services agreement with a term of one year to provide Axis accounting, tax, human resources and information technology assistance for an annual fee of $0.2 million. Effective January 1, 2010, this agreement was replaced by a new services agreement for ARI to provide Axis accounting, tax, human resources, information technology and purchasing assistance for an annual fee of $0.3 million. This agreement has a

term of one year and automatically renews for additional one-year periods unless written notice is received from either party.

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Effective April 1, 2009, Mr. James J. Unger, the Company s former chief executive officer, assumed the role of vice chairman of the board of directors and became a consultant to the Company. In exchange for these services, Mr. Unger received an annual consulting fee of $135,000 and an annual director fee of $65,000 that were both payable quarterly, in advance. The Company also agreed to provide Mr. Unger with an automobile allowance related to his role as vice chairman. Mr. Unger s consulting agreement terminated in accordance with its terms as of April 1, 2010. In his role as consultant, Mr. Unger reported to and served at the discretion of the Company s Board. Mr. Unger continues in his role as vice chairman in connection with which he is provided an annual director fee of $65,000 and an automobile allowance.

The Company leases one of its parts manufacturing facilities from an entity owned by its vice chairman of the board of directors. Expenses paid for this facility were $0.1 million for both the three months ended September 30, 2010 and 2009. Expenses paid for this facility were $0.3 million for both the nine months ended September 30, 2010 and 2009. These costs are included in manufacturing operations cost of revenue.

Financial information for transactions with affiliates

As of September 30, 2010 and December 31, 2009, accounts receivable of $6.0 million and $1.4 million, respectively, were due from ACF, ARL, Amtek Railcar and Axis.

As of September 30, 2010 and December 31, 2009, interest receivable of $0.1 million and $1.0 million, respectively, were due from Ohio Castings and Axis.

As of September 30, 2010 and December 31, 2009, accounts payable of $0.4 million and $0.6 million, respectively, were due to ACF, ARL and Axis.

Manufacturing operations cost of revenue for the three and nine months ended September 30, 2010 included $5.0 million and $9.2 million in railcar parts produced by joint ventures, respectively. Manufacturing operations cost of revenue for the three and nine months ended September 30, 2009 included $7.4 million and $32.4 million in railcar parts produced by joint ventures, respectively.

Inventory at September 30, 2010 and December 31, 2009 included $0.6 million and $0.3 million, respectively, of purchases from joint ventures. At September 30, 2010 and December 31, 2009, all profit from related parties for inventory still on hand was eliminated.

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Note 20 Operating Segment and Sales/Credit Concentrations

ARI operates in two reportable segments: manufacturing operations and railcar services. Performance is evaluated based on revenue and operating profit. Intersegment sales and transfers are accounted for as if sales or transfers were to third parties. The information in the following tables is derived from the segments internal financial reports used for corporate management purposes:

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For the Three Months Ended September 30, 2010	Manufacturing Operations	Railcar Services	Corporate & all other (in thousands)	Eliminations	Totals
Revenues from external customers	$ 48,404	$ 16,393	$	$	$ 64,797
Intersegment revenues	449	56		(505)	
Cost of revenue external customers	(49,366)	(13,141)			(62,507)
Cost of intersegment revenue	(353)	(61)		414	
Gross (loss) profit	(866)	3,247		(91)	2,290
Selling, administrative and other	(1,590)	(638)	(4,004)		(6,232)
(Loss) earnings from operations	$ (2,456)	$ 2,609	$ (4,004)	$ (91)	$ (3,942)

For the Three Months Ended September 30, 2009	Manufacturing Operations	Railcar Services	Corporate & all other (in thousands)	Eliminations	Totals
Revenues from external customers	$ 62,047	$ 16,051	$	$	$ 78,098
Intersegment revenues	172	32		(204)	
Cost of revenue external customers	(56,348)	(12,940)			(69,288)
Cost of intersegment revenue	(119)	(31)		150	
Gross profit (loss)	5,752	3,112		(54)	8,810
Selling, administrative and other	(1,482)	(536)	(4,466)		(6,484)
Earnings (loss) from operations	$ 4,270	$ 2,576	$ (4,466)	$ (54)	$ 2,326

For the Nine Months Ended September 30, 2010	Manufacturing Operations	Railcar Services	Corporate & all other (in thousands)	Eliminations	Totals
Revenues from external customers	$ 127,262	$ 51,011	$	$	$ 178,273
Intersegment revenues	833	273		(1,106)	
Cost of revenue external customers	(131,643)	(40,814)			(172,457)
Cost of intersegment revenue	(637)	(255)		892	
Gross (loss) profit	(4,185)	10,215		(214)	5,816
Selling, administrative and other	(4,328)	(1,722)	(11,875)		(17,925)
(Loss) earnings from operations	$ (8,513)	$ 8,493	$ (11,875)	$ (214)	$ (12,109)

For the Nine Months Ended September 30, 2009	Manufacturing Operations	Railcar Services	Corporate & all other (in thousands)	Eliminations	Totals
Revenues from external customers	$ 301,325	$ 43,646	$	$	$ 344,971
Intersegment revenues	1,185	77		(1,262)	
Cost of revenue external customers	(271,552)	(35,423)			(306,975)
Cost of intersegment revenue	(990)	(73)		1,063	
Gross profit (loss)	29,968	8,227		(199)	37,996
Selling, administrative and other	(5,577)	(1,578)	(12,003)		(19,158)
Earnings (loss) from operations	$ 24,391	$ 6,649	$ (12,003)	$ (199)	$ 18,838

As of	Manufacturing Operations	Railcar Services	Corporate & all other (in thousands)	Eliminations	Totals
September 30, 2010					
Total assets	$ 295,405	$ 48,257	$ 306,159	$	$ 649,821
December 31, 2009					
Total assets	$ 271,862	$ 47,283	$ 345,219	$	$ 664,364

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Manufacturing operations

Manufacturing revenues from affiliates were 29.7% and 10.3% of total consolidated revenues for the three months ended September 30, 2010 and 2009, respectively. Manufacturing revenues from affiliates were 36.7% and 27.2% of total consolidated revenues for the nine months ended September 30, 2010 and 2009, respectively.

Manufacturing revenues from the most significant customer, an affiliate, totaled 29.7% of total consolidated revenues for the three months ended September 30, 2010. Manufacturing revenues from the most significant customer totaled 36.9% of total consolidated revenues for the three months ended September 30, 2009. Manufacturing revenues from the most significant customer, an affiliate, totaled 36.7% and 32.0% for the nine months ended September 30, 2010 and 2009, respectively.

Manufacturing revenues from the two most significant customers (including an affiliated customer) were 58.3% and 60.6% of total consolidated revenues for the three months ended September 30, 2010 and 2009, respectively. Manufacturing revenues from the two most significant customers (including an affiliated customer) were 47.1% and 59.2% of total consolidated revenues for the nine months ended September 30, 2010 and 2009, respectively.

Manufacturing receivables from the most significant customer were 17.2% of total consolidated accounts receivable including due from affiliates at September 30, 2010. Manufacturing receivables from the two most significant customers (including an affiliated customer) were 33.3% of total consolidated accounts receivable including due from affiliates at September 30, 2010. Manufacturing receivables from the most significant customer were 10.8% of total consolidated accounts receivable including due from affiliates at December 31, 2009. No other customer accounted for more than 10.0% of total consolidated accounts receivable as of September 30, 2010 and December 31, 2009.

Railcar services

Railcar services revenues from affiliates were 6.6% and 4.6% of total consolidated revenues for the three months ended September 30, 2010 and 2009, respectively. Railcar services revenues from affiliates were 5.8% and 3.3% of total consolidated revenues for the nine months ended September 30, 2010 and 2009, respectively.

No single railcar services customer accounted for more than 10.0% of total consolidated revenues for the three and nine months ended September 30, 2010 and 2009. No single railcar services customer accounted for more than 10.0% of total consolidated accounts receivable as of September 30, 2010 and December 31, 2009.

Note 21 Supplemental Cash Flow Information

ARI received interest income of $3.4 million and $2.7 million for the nine months ended September 30, 2010 and 2009, respectively.

ARI paid interest expense, net of capitalized interest, of $20.6 million and $20.2 million for the nine months ended September 30, 2010 and 2009, respectively.

ARI paid taxes of $0.3 million and $0.5 million for the nine months ended September 30, 2010 and 2009, respectively.

Note 22 Subsequent Event

On October 29, 2010, ARI entered into a lease agreement with a term of eleven years and total base rent of $6.4 million, over the term of the agreement, with an entity owned by the Company s vice chairman of the board of directors. The lease is for ARI s headquarters location in St. Charles, Missouri, that is currently leased through ARL under the Company s services agreement with ARL, which expires December 31, 2010. The term under the new lease agreement commences at the time the Company s current lease under the services agreement with ARL expires.

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

Some of the statements contained in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (Exchange Act), including statements regarding our plans, objectives, expectations and intentions. Such statements include, without limitation, statements regarding various estimates we have made in preparing our financial statements, statements regarding expected future trends relating to our industry, our results of operations and the sufficiency of our capital resources and statements regarding anticipated production schedules for our products and the anticipated construction and production schedules of our joint ventures. These forward-looking statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those anticipated.

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

- the impact of the current 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 and the current economic environment;
- anticipated trends relating to our shipments, 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;
- fluctuating 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;
- risks associated with potential joint ventures or acquisitions;
- the risks associated with international operations and joint ventures;
- the risk of the lack of acceptance of new railcar offerings by our customers and the risk of initial production costs for our new railcar offerings being significantly higher than expected;
- the sufficiency of our liquidity and capital resources;
- the 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 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, plans, anticipates, believes, estimates, projects, predicts, potential and similar expressions intended to iden 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 better or worse than anticipated. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Forward-looking statements represent our estimates and assumptions only as of the date of this report. We expressly disclaim any duty to provide updates to forward-looking statements, and the estimates and assumptions associated with them, after the date of this report, in order to reflect changes in circumstances or expectations or the occurrence of unanticipated events except to the extent required by applicable securities laws. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed above and under Risk Factors in our Annual Report on Form 10-K filed on March 12, 2010 (the Annual Report) and in Part II Item 1A of this report, as well as the risks and uncertainties discussed elsewhere in the Annual Report and in this report. We qualify all of our forward-looking statements by these cautionary statements. We caution you that these risks are not exhaustive. We operate in a continually changing business environment and new risks emerge from time to time.

OVERVIEW

We are a leading North American designer and manufacturer of hopper and tank railcars. We also 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.

We operate in two segments: manufacturing operations and railcar services. Manufacturing operations consist of railcar manufacturing as well as railcar and industrial component manufacturing. Railcar services consist of railcar repair and refurbishment services and fleet management services.

The North American railcar market has been, and we expect it to continue to be highly cyclical. The recent economic downturn and restricted credit markets continue to have an adverse effect on the railcar manufacturing market in which we compete, resulting in substantially reduced orders in the marketplace, increased competition and significant pricing pressures. This downturn has adversely affected the sales of our railcars and other products and has caused us to slow our production rates significantly in the first nine months of 2010 as compared to the first nine months of 2009, resulting in a significant decrease in comparable shipments and revenues. For the three and nine months ended September 30, 2010 we reported net losses.

Thus far in 2010, railcar loadings have increased and the number of railcars in storage is slowly decreasing, as reported by an independent third party industry analyst. Along with this modest improvement, which may or may not continue, we have received an increased number of requests for quotations and have been successful in securing several railcar orders in 2010. We believe these improvements appear to indicate the railcar market is continuing to modestly improve, although we cannot assure it will continue to do so.

Our railcar services segment has experienced growth primarily through expansion projects and railcar repair projects completed at our railcar manufacturing facilities, which have generated higher volumes. These higher volumes along with our seasoned workforce have generated additional efficiencies in completing repair projects. We plan to continue to use available capacity at these facilities for certain repair projects in 2010.

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RESULTS OF OPERATIONS

Three Months ended September 30, 2010 compared to Three Months ended September 30, 2009

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.

	For the Three Months Ended, September 30, 2010	2009
Revenues:		
Manufacturing Operations	74.7%	79.4%
Railcar services	25.3%	20.6%
Total revenues	100.0%	100.0%
Cost of revenue:		
Cost of manufacturing operations	(76.2%)	(72.1%)
Cost of railcar services	(20.3%)	(16.6%)
Total cost of revenues	(96.5%)	(88.7%)
Gross profit	3.5%	11.3%
Selling, administrative and other	(9.6%)	(8.3%)
(Loss) earnings from operations	(6.1%)	3.0%
Interest income	1.7%	2.4%
Interest expense	(8.2%)	(6.8%)
Other income	0.0%	4.0%
Loss from joint venture	(3.0%)	(2.8%)
Loss before income tax expense	(15.6%)	(0.2%)
Income tax benefit	6.0%	1.6%
Net (loss) earnings	(9.6%)	1.4%

Revenues

Our revenues for the three months ended September 30, 2010 decreased 17.0% to $64.8 million from $78.1 million in the three months ended September 30, 2009. This decrease was primarily due to decreased revenues from our manufacturing operations.

Our manufacturing operations revenues for the three months ended September 30, 2010 decreased 22.0% to $48.4 million from $62.0 million for the three months ended September 30, 2009. The primary reasons for the decrease in revenues were a decrease in railcar shipments and a change in product mix. During the three months ended September 30, 2010, we shipped approximately 420 railcars compared to approximately 610 railcars in the same period of 2009.

For the three months ended September 30, 2010, our manufacturing operations included $19.3 million, or 29.7%, of our total consolidated revenues, from transactions with affiliates, compared to $8.0 million, or 10.3% of our total consolidated revenues in the three months ended September 30, 2009. These revenues were attributable to sales to companies controlled by Mr. Carl Icahn.

Our railcar services revenues in the three months ended September 30, 2010 increased to $16.4 million compared to $16.1 million for the three months ended September 30, 2009. The increase was primarily attributable to the utilization of our railcar manufacturing facilities for railcar repair projects. For the third quarter of 2010, our railcar services revenues included $4.3 million, or 6.6% of our total consolidated revenues, from transactions with affiliates, compared to $3.6 million, or 4.6% of our total consolidated revenues, from transactions with affiliates, in the third quarter of 2009. These revenues were attributable to sales to companies controlled by Mr. Carl Icahn.

Gross Profit

Our gross profit decreased to $2.3 million in the three months ended September 30, 2010 from $8.8 million in the three months ended September 30, 2009. Our gross profit margin decreased to 3.5% in the third quarter of 2010 from 11.3% in the third quarter of 2009, driven primarily by a decrease in our gross profit margins from our manufacturing operations.

Gross profit from our manufacturing operations decreased to a loss of $1.0 million for the three months ended September 30, 2010 compared to gross profit of $5.7 million for the three months ended September 30, 2009. Gross profit margin, for our manufacturing operations, decreased to a loss of 2.0% for the three months ended September 30, 2010 compared to a profit of 9.2% for the three months ended September 30, 2009. These decreases are primarily attributable to lower shipments, competitive pricing pressures and the impact of fixed costs in a low production environment.

Gross profit for our railcar services operations increased to $3.3 million for the three months ended September 30, 2010 compared to $3.1 million for the three months ended September 30, 2009 primarily due to an increase in revenue driven by increased volume and efficiencies. Gross profit margin for our railcar services operations increased to 19.8% in the three months ended September 30, 2010 from 19.4% in the three months ended September 30, 2009. The increase is primarily attributable to efficiencies created by increased volume due to completed expansion projects and repair projects performed at our railcar manufacturing facilities.

Selling, Administrative and Other Expenses

Our total selling, administrative and other expenses decreased to $6.2 million for the third quarter of 2010, compared to $6.5 million for the third quarter of 2009. The decrease of $0.3 million was primarily attributable to a decrease in incentive compensation and outside services of $0.9 million, partially offset by a $0.6 million increase in stock-based compensation expense, due to an increase in our stock price.

During the three months ended September 30, 2010, we recognized expense related to stock-based compensation of $1.1 million, attributable to stock appreciation rights (SARs), as compared to $0.5 million for the three months ended September 30, 2009. Stock-based compensation increased due to higher stock prices during the three months ended September 30, 2010 as compared to the same period of 2009.

Interest Expense and Income

Net interest expense for the three months ended September 30, 2010 was $4.3 million, representing $5.3 million of interest expense and $1.0 million of interest income, compared to $3.4 million of net interest expense for the three months ended September 30, 2009, representing $5.3 million of interest expense and $1.9 million of interest income. Interest expense remained consistent in the third quarter of 2010 as compared to the same period of 2009.

During the third quarter of 2009, we held corporate bonds that generated a high yield of interest income. The corporate bonds were sold during August, September and December of 2009 and the proceeds were reinvested into funds with a lower rate of return. The decrease in interest income was partially offset by a full quarter of interest income from a loan to Axis LLC (Axis) that originated during the third quarter of 2009. As such, interest income decreased to $1.0 million in the third quarter of 2010 as compared to $1.9 million for the same period of 2009.

Other Income

Other income of less than $0.1 million recognized in the third quarter of 2010 related to the unused line fee on the revolving loan to Axis. Other income of $3.1 million recognized in the third quarter of 2009 related to realized gains on the sale of a portion of our investment in corporate bonds.

Loss from Joint Ventures

Our joint venture losses decreased to $1.9 million for the three months ended September 30, 2010 compared to a loss of $2.2 million for the three months ended September 30, 2009. This was primarily attributable to our share of Axis s losses decreasing $0.4 million for the three months ended September 30, 2010 as compared to the three months ended September 30, 2009 due to an increase in shipments. We also experienced a decrease in our share of Ohio Castings Company, LLC s (Ohio Castings) losses of $0.1 million for the three months ended September 30, 2010 as compared to the three months ended September 30, 2009, which included one-time expenses related to the plant idling. Partially offsetting these decreases were losses of $0.2 million related to our share of Amtek Railcar Industries Private Limited s (Amtek Railcar) and US Railcar Company LLC s (USRC) losses for the three months ended September 30, 2010.

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Income Taxes Benefit (Expense)

Our income tax benefit for the three months ended September 30, 2010 was $3.9 million or 38.4% of our losses before income taxes, as compared to income tax benefit of $1.2 million for the three months ended September 30, 2009, due to a one-time $1.0 million adjustment to accrued taxes due to certain tax benefits becoming recognizable during the third quarter of 2009.

Nine Months ended September 30, 2010 compared to Nine Months ended September 30, 2009

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.

	For the Nine Months Ended, September 30,	
	2010	**2009**
Revenues:		
Manufacturing Operations	71.4%	87.3%
Railcar services	28.6%	12.7%
Total revenues	100.0%	100.0%
Cost of revenue:		
Cost of manufacturing operations	(73.8%)	(78.7%)
Cost of railcar services	(22.9%)	(10.3%)
Total cost of revenues	(96.7%)	(89.0%)
Gross profit	3.3%	11.0%
Selling, administrative and other	(10.1%)	(5.5%)
(Loss) earnings from operations	(6.8%)	5.5%
Interest income	1.5%	1.4%
Interest expense	(9.0%)	(4.5%)
Other income	0.2%	0.9%
Loss from joint venture	(3.3%)	(1.5%)
(Loss) earnings before income tax expense	(17.4%)	1.8%
Income tax benefit (expense)	6.7%	(0.4%)
Net (loss) earnings	(10.7%)	1.4%

Revenues

Our revenues for the nine months ended September 30, 2010 decreased 48.3% to $178.3 million from $345.0 million in the nine months ended September 30, 2009. This decrease was primarily due to decreased revenues from our manufacturing operations, partially offset by increased revenues from our railcar services segment.

Our manufacturing operations revenues for the nine months ended September 30, 2010 decreased 57.8% to $127.3 million from $301.3 million for the nine months ended September 30, 2009. The primary reasons for the decrease in revenues were a decrease in railcar shipments, an overall decrease in average selling prices due to competitive pricing pressures and a change in product mix. During the nine months ended September 30, 2010, we shipped approximately 1,130 railcars compared to approximately 3,080 railcars in the same period of 2009. None of our railcar shipments in 2010 related to our railcar manufacturing agreement with ACF Industries, LLC (ACF), as compared to approximately 220 railcar shipments in 2009. Our agreement with ACF terminated effective in March 2009, as described in Note 19 to our condensed consolidated financial statements.

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For the nine months ended September 30, 2010, our manufacturing operations included $65.4 million, or 36.7%, of our total consolidated revenues, from transactions with affiliates, compared to $93.8 million, or 27.2% of our total consolidated revenues in the nine months ended September 30, 2009. These revenues were attributable to sales to companies controlled by Mr. Carl Icahn.

Our railcar services revenues in the nine months ended September 30, 2010 increased to $51.0 million compared to $43.6 million for the nine months ended September 30, 2009. The increase was primarily attributable to higher volumes, due to the completion of expansion projects at repair facilities and the utilization of our railcar manufacturing facilities for railcar repair projects. For the nine months ended September 30, 2010, our railcar services revenues included $10.3 million, or 5.8% of our total consolidated revenues, from transactions with affiliates, compared to $11.5 million, or 3.3% of our total consolidated revenues, from transactions with affiliates, for the same period of 2009. These revenues were attributable to sales to companies controlled by Mr. Carl Icahn.

Gross Profit

Our gross profit decreased to $5.8 million in the nine months ended September 30, 2010 from $38.0 million in the nine months ended September 30, 2009. Our gross profit margin decreased to 3.3% in the nine months ended September 30, 2010 from 11.0% for the same period in 2009, driven primarily by a decrease in our gross profit margins from our manufacturing operations.

Gross profit from our manufacturing operations decreased to a $4.4 million gross loss for the nine months ended September 30, 2010 compared to gross profit of $29.8 million for the nine months ended September 30, 2009. Gross profit margin, for our manufacturing operations, decreased to a loss of 3.4% for the nine months ended September 30, 2010 compared to a profit of 9.9% for the nine months ended September 30, 2009. These decreases are primarily attributable to lower shipments, lower selling prices and the impact of fixed costs in a low production environment.

Gross profit for our railcar services operations increased to $10.2 million for the nine months ended September 30, 2010 compared to $8.2 million for the nine months ended September 30, 2009 primarily due to an increase in revenue driven by increased volume and efficiencies. Gross profit margin for our railcar services operations increased to 20.0% in the nine months ended September 30, 2010 from 18.8% in the nine months ended September 30, 2009. The increase is primarily attributable to efficiencies created by increased volume due to completed expansion projects and repair projects performed at our railcar manufacturing facilities.

Selling, Administrative and Other Expenses

Our total selling, administrative and other expenses decreased to $17.9 million for the nine months ended September 30, 2010, compared to $19.2 million for the nine months ended September 30, 2009. The decrease of $1.3 million was primarily attributable to a decrease in incentive compensation and outside services of $2.4 million along with a non-recurring legal settlement recorded in the first quarter of 2009 all partially offset by a stock-based compensation expense increase of $1.1 million, as described below.

During the nine months ended September 30, 2010, we recognized expense related to stock-based compensation of $1.8 million, attributable to SARs, as compared to $0.7 million for the nine months ended September 30, 2009. Stock-based compensation increased due to higher stock prices during the nine months ended September 30, 2010 as compared to the same period of 2009.

Interest Expense and Income

Net interest expense for the nine months ended September 30, 2010 was $13.4 million, representing $16.0 million of interest expense and $2.6 million of interest income, compared to $10.7 million of net interest expense for the nine months ended September 30, 2009, representing $15.6 million of interest expense and $4.9 million of interest income. Interest expense increased due to less interest being capitalized in the nine months ended September 30, 2010 as compared to the same period of 2009.

During the nine months ended September 30, 2009, we held corporate bonds that generated a high yield of interest income. The corporate bonds were sold during August, September and December of 2009 and the proceeds were reinvested into funds with a lower rate of return. The decrease was partially offset by a full quarter of interest income from a loan to Axis originated during the third quarter of 2009. As such, interest income decreased to $2.6 million for the nine months ended September 30, 2010 as compared to $4.9 million for the same period of 2009.

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Other Income

Other income of $0.4 million was recognized in the nine months ended September 30, 2010 related to realized gains on the sale of a portion of our investment in GBX common stock. Other income of $3.0 million was recognized in the nine months ended September 30, 2009 related to the realized gains on the sale of a portion of our investment in corporate bonds partially offset by realized losses on a foreign currency option.

Loss from Joint Ventures

Our joint venture losses increased to $6.0 million for the nine months ended September 30, 2010 compared to $5.0 million for the nine months ended September 30, 2009. This was primarily attributable to our share of Axis s losses increasing $1.4 million for the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009 primarily due to production not starting until July 2009. We also recorded a loss of $0.4 million related to our share of Amtek Railcar s and USRC s losses for the nine months ended September 30, 2010. These increases were partially offset by our share of joint venture losses from Ohio Castings Company, LLC decreasing $0.8 million for the nine months ended September 30, 2010 as compared to losses for the nine months ended September 30, 2009, which included one-time expenses related to the plant idling.

Income Taxes Benefit (Expense)

Our income tax benefit for the nine months ended September 30, 2010 was $12.0 million or 38.5% of our losses before income taxes, as compared to income tax expense of $1.2 million for the nine months ended September 30, 2009, or 20.1% of our earnings before income taxes, due to a one-time $1.0 million adjustment to accrued taxes due to certain tax benefits becoming recognizable during the third quarter of 2009.

BACKLOG

We define backlog as the number and sales value of railcars that our customers have committed in writing to purchase from us that have not been recognized as revenues. As of September 30, 2010, our total backlog was approximately 1,420 railcars valued at $105.2 million. As of December 31, 2009, our total backlog was approximately 550 railcars valued at $49.5 million. We estimate that 58.0% of our September 30, 2010, backlog will be converted to revenues by the end of 2010. As of September 30, 2010, $14.9 million of the railcars in our backlog are to be sold to our affiliate, American Railcar Leasing LLC (ARL). 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 backlog from being converted into revenues. Historically, we have experienced little variation between the number of railcars ordered and the number of railcars actually delivered, however, our backlog is not necessarily indicative of our future results of operations. As delivery dates could be extended on certain orders, we cannot guarantee that our reported railcar backlog will convert to revenue in any particular period, if at all, nor can we guarantee that the actual revenue from these orders will equal our reported backlog estimates or that our future revenue efforts will be successful.

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 certain customer contracts.

LIQUIDITY AND CAPITAL RESOURCES

Our primary source of liquidity for the nine months ended September 30, 2010 and for the foreseeable future is cash on hand from the unsecured senior notes we sold in February 2007, partially offset by cash used for operations, capital expenditures and investments in and loans to our joint ventures. As of September 30, 2010, we had working capital of $351.4 million, including $310.6 million of cash and cash equivalents.

In February 2007, we issued $275.0 million of unsecured senior notes that are due in 2014 (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, make certain restricted payments and enter into certain significant transactions with stockholders and affiliates. As of September 30, 2010, based on our fixed charge coverage ratio, as defined and as measured on a rolling four-quarter basis, certain of these covenants, including our ability to incur additional debt, have become further restricted. We were in compliance with all of our covenants under the Notes as of September 30, 2010.

During the nine months ended September 30, 2010, we contributed $0.6 million to Ohio Castings, $0.5 million to Axis, $9.8 million to Amtek Railcar Industries Private Limited and $0.3 million to US Railcar Company LLC. We also advanced $0.4 million to Axis through their revolving line of credit during the nine months ended September 30, 2010. We anticipate additional capital contributions to certain of these joint ventures in the fourth quarter of 2010.

We anticipate that any future expansion of our business will be financed through existing cash resources. We believe that these sources of funds 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 pricing pressures, the number of railcar orders, railcar shipments and production rates along with the state of the credit markets and the overall economy.

Our long-term liquidity is contingent upon future operating performance. We may require additional capital in the future for significant capital investments, acquisitions or other significant transactions. These capital requirements could be substantial. Certain risks, trends and uncertainties may adversely affect our long-term liquidity.

Cash Flows

The following table summarizes our net cash provided by or used in operating activities, investing activities and financing activities for the nine months ended September 30:

		2010 (in thousands)
Net cash used in:		
Operating activities	$	(21,837)
Investing activities		(14,866)
Financing activities		
Effect of exchange rate changes on cash and cash equivalents		1
Decrease in cash and cash equivalents	$	(36,702)

Net Cash Used In Operating Activities

Our net cash used in operating activities for the nine months ended September 30, 2010 was $21.8 million. Our net loss of $19.2 million was impacted by non-cash items including but not limited to: depreciation expense of $17.8 million, joint venture losses of $6.0 million, stock based compensation expense of $2.4 million, deferred income taxes of $12.3 million and other smaller adjustments. Cash used in operating activities attributable to changes in our current assets and liabilities included an increase in total accounts receivable, including from affiliates of $12.3 million, an increase in inventory of $18.0 million and a decrease in accrued expenses and taxes of $4.4 million. Cash provided by operating activities attributable to changes in our current assets and current liabilities included an overall increase in total accounts payable, including to affiliates of $15.3 million.

The increase in total accounts receivable, including from affiliates was primarily due to the timing of railcar shipments during the nine months ended September 30, 2010. The increase in inventory was primarily attributable to increased raw material purchases in response to increased order activity. The increase in total accounts payable, including to affiliates related to increased inventory purchases. Accrued expenses and taxes decreased primarily due to cost control measures.

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Net Cash Used In Investing Activities

Net cash used in investing activities was $14.9 million for the nine months ended September 30, 2010, including $4.9 million of capital expenditures for the purchase of property, plant and equipment and $14.3 million related to capital contributions and loans to our joint ventures. Net cash provided by investing activities included the sale of short-term investments for $4.2 million.

Capital Expenditures

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

Capital expenditures for the nine months ended September 30, 2010 were $4.9 million and our current capital expenditure plans for 2010 include projects that maintain equipment, improve efficiencies and reduce costs. These projects may also include expenditures to further integrate our supply chain. We cannot assure that we will be able to complete any of our projects on a timely basis or within budget, if at all.

Dividends

During each quarter from 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. The last dividend was declared in May 2009 and paid in July 2009. In the third quarter of 2009, we indefinitely suspended the quarterly dividend.

Contingencies and Contractual Obligations

Refer to the updated status of contingencies in Note 14 to the condensed consolidated financial statements. Except for normal operating changes, our contingencies and contractual obligations did not materially change from the information disclosed in our Annual Report, except as noted below:

We were named the defendant in a wrongful death lawsuit, *Nicole Lerma v. American Railcar Industries, Inc.,* filed on August 17, 2007 in the Circuit Court of Greene County, Arkansas Civil Division. The court reached a verdict in our favor on May 24, 2010. The plaintiff did not appeal the decision.

On October 29, 2010, we entered into a lease agreement with a term of eleven years and total base rent of $6.4 million, over the term of the agreement, with an entity owned by the vice chairman of our board of directors. The lease is for our headquarters location in St. Charles, Missouri, that is currently leased through ARL under our services agreement with ARL, which expires December 31, 2010. The term under the new lease agreement commences at the time the Company s current lease under the services agreement with ARL expires.

CRITICAL ACCOUNTING POLICIES

The critical accounting policies and estimates used in the preparation of our financial statements that we believe affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements presented in this report are described in Management s Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Effective January 1, 2010, we adopted authoritative guidance that requires an on-going assessment to determine the primary beneficiary of a variable interest entity and disclosure requirements. As of September 30, 2010, we evaluated our joint ventures; Ohio Castings, Axis, Amtek Railcar and USRC. We specifically evaluated our financial interest in each joint venture, our ability to individually direct the activities of each joint venture and the factors that most significantly impact each joint venture s economic performance. We concluded that we do not have a controlling financial interest, the ability to individually direct the activities or have a significant impact on economic performance for any of our joint ventures. We will update this analysis on a quarterly basis.

We perform an annual goodwill impairment test as of March 1 of each year utilizing the market and income approaches and significant assumptions discussed in Note 8 to our condensed consolidated interim financial statements. We performed this annual impairment test as of March 1, 2010, noting no adjustment was required. See Note 8 to our condensed consolidated interim financial statements.

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. During the nine months ended September 30, 2010, no triggering events have occurred.

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. While the economy and the railcar market remained weak throughout 2010, we believe that this downturn is temporary, reflecting the cyclical nature of the industry, and that railcar orders will recover in the future. Independent third party industry analysts are also forecasting the railcar market to recover as the economy improves. As a result, at this time, we do not believe that the decline in our shipments and revenues, which we view as temporary, warrants an impairment analysis of our long-lived assets. However, we intend to continue to monitor our long-lived assets for impairment in response to events or changes in circumstances.

Other than as discussed above, there have been no material changes to the critical accounting policies or estimates during the nine months ended September 30, 2010.

ITEM 3. 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 approximately 80.0% to 85.0% of our direct manufacturing costs. Given the significant volatility in the price of raw materials, this exposure can affect our costs of production and gross profit margin. We believe that we currently have excellent supplier relationships and do not currently anticipate that material constraints 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.

We have sold all available-for-sale investments that were held at December 31, 2009.

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ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report on Form 10-Q (the Evaluation Date). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms.

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 1A. RISK FACTORS

For a discussion of our potential risks and uncertainties, see the information in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, and the information in Part II, Item 1A. Risk Factors in our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2010, both filed with the SEC, and which are accessible on the Securities and Exchange Commission s website at www.sec.gov. There have been no material changes to the risk factors disclosed in the Annual Report on Form 10-K, as supplemented by the risk factors set forth in the Quarterly Report on Form 10-Q.

ITEM 5. OTHER INFORMATION

On October 29, 2010, American Railcar Industries, Inc. (ARI or the Company) entered into a lease agreement with a term of eleven years and total base rent of $6.4 million, over the term of the agreement, with an entity owned by the vice chairman of our board of directors. The lease is for ARI s headquarters location in St. Charles, Missouri, that is currently leased through ARL, under our services agreement with ARL, which expires December 31, 2010. The term under the new lease agreement commences at the time the Company s current lease under the services agreement with ARL expires. This description of the lease agreement is a summary only and is qualified in its entirety by the lease agreement, a copy of which is attached hereto as Exhibit 10.63 and incorporated herein by reference.

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ITEM 6. EXHIBITS

Exhibit No.	Description of Exhibit
10.63	Lease Agreement, dated as of October 29, 2010. *
31.1	Rule 13a-14(a), 15d-14(a) Certification of the Chief Executive Officer
31.2	Rule 13a-14(a), 15d-14(a) Certification of the Chief Financial Officer
32	Certification pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Confidential treatment has been requested for the redacted portions of this agreement. A complete copy of this agreement, including the redacted portions has been filed separately with the Securities and Exchange Commission

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SIGNATURES

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

	AMERICAN RAILCAR INDUSTRIES, INC.
Date: November 2, 2010	By: /s/ James Cowan James Cowan, President and Chief Executive Officer
	By: /s/ Dale C. Davies Dale C. Davies, Senior Vice President, Chief Financial Officer and Treasurer

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