American Railcar Industries, Inc.
Form 10-Q
July 29, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
Or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the transition period from to
Commission File No. 000-51728

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ¨ Accelerated filer x

Non-accelerated filer ¨ Smaller Reporting Company ¨

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

The number of shares of the registrant's common stock, $0.01 par value, outstanding on July 27, 2016 was 19,399,253 shares.

Table of Contents

AMERICAN RAILCAR INDUSTRIES, INC.
INDEX TO FORM 10-Q

Table of Contents

PART I — FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
AMERICAN RAILCAR INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	June 30, 2016 (unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$199,451	$298,064
Restricted cash	16,655	16,917
Accounts receivable, net	40,899	29,018
Accounts receivable, due from related parties	6,114	9,401
Income taxes receivable	2,132	3,058
Inventories, net	76,881	96,965
Prepaid expenses and other current assets	6,704	4,058
Total current assets	348,836	457,481
Property, plant and equipment, net	176,649	176,311
Railcars on leases, net	866,808	848,717
Goodwill	7,169	7,169
Investments in and loans to joint ventures	27,347	27,397
Other assets	5,791	7,999
Total assets	$1,432,600	$1,525,074
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$24,712	$36,080
Accounts payable, due to related parties	1,908	4,477
Accrued expenses and taxes	15,074	6,344
Accrued compensation	11,255	11,459
Short-term debt, including current portion of long-term debt	25,617	125,784
Total current liabilities	78,566	184,144
Long-term debt, net of unamortized debt issuance costs of $4,972 and $5,081 as of June 30, 2016 and December 31, 2015, respectively	558,199	570,756
Deferred tax liability	237,655	222,338
Pension and post-retirement liabilities	8,456	8,484
Other liabilities	2,347	3,055
Total liabilities	885,223	988,777
Stockholders' equity:		
Common stock, $0.01 par value, 50,000,000 shares authorized, 19,399,755 and 19,844,531 shares outstanding as of June 30, 2016 and December 31, 2015, respectively	213	213
Additional paid-in capital	239,609	239,609
Treasury Stock	(74,340)	(57,423)
Retained earnings	388,228	361,153
Accumulated other comprehensive loss	(6,333)	(7,255)
Total stockholders' equity	547,377	536,297
Total liabilities and stockholders' equity	$1,432,600	$1,525,074

See Notes to the Condensed Consolidated Financial Statements.

3

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Manufacturing (including revenues from affiliates of $223 and $776 for the three and six months ended June 30, 2016, respectively, and $61,743 and $182,939 for the same periods in 2015)	$97,548	$144,481	$221,340	$366,292
Railcar leasing	33,209	28,216	65,977	52,801
Railcar services (including revenues from affiliates of $7,249 and $15,243 for the three and six months ended June 30, 2016, respectively, and $6,406 and $12,786 for the same periods in 2015)	19,727	19,301	39,347	36,681
Total revenues	150,484	191,998	326,664	455,774
Cost of revenues:				
Manufacturing	(81,437)	(107,714)	(183,718)	(282,248)
Railcar leasing	(10,356)	(8,993)	(20,531)	(16,694)
Railcar services	(15,420)	(14,737)	(30,657)	(28,582)
Total cost of revenues	(107,213)	(131,444)	(234,906)	(327,524)
Gross profit	43,271	60,554	91,758	128,250
Selling, general and administrative	(7,297)	(5,315)	(15,254)	(12,996)
Net gains on disposition of leased railcars	—	25	167	25
Earnings from operations	35,974	55,264	76,671	115,279
Interest income (including income from related parties of $427 and $884 for the three and six months ended June 30, 2016, respectively, and $538 and $1,095 for the same periods in 2015)	453	550	931	1,113
Interest expense	(5,678)	(5,694)	(11,584)	(10,432)
Loss on debt extinguishment	—	—	—	(2,126)
Other Income	1	5	1	11
Earnings from joint ventures	1,458	2,141	2,944	3,938
Earnings before income taxes	32,208	52,266	68,963	107,783
Income tax expense	(12,312)	(19,297)	(26,275)	(39,838)
Net earnings	$19,896	$32,969	$42,688	$67,945
Net earnings per common share—basic and diluted	$1.02	$1.54	$2.18	$3.18
Weighted average common shares outstanding—basic and diluted	19,511	21,352	19,588	21,352
Cash dividends declared per common share	$0.40	$0.40	$0.80	$0.80

See Notes to the Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net earnings	$ 19,896	$ 32,969	$ 42,688	$ 67,945
Currency translation	(38)	171	683	(814)
Postretirement plans (1)	119	118	239	232
Comprehensive income	$ 19,977	$ 33,258	$ 43,610	$ 67,363

(1) Net of tax effect of $0.1 million and less than $0.1 million for the three months ended June 30, 2016 and 2015, respectively, and $0.2 million and $0.1 million for the six months ended June 30, 2016 and 2015.

See Notes to the Condensed Consolidated Financial Statements.

Table of Contents

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

	Six Months Ended June 30, 2016	2015
Operating activities:		
Net earnings	$42,688	$67,945
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	25,616	20,971
Amortization of deferred costs	252	228
Loss on disposal of property, plant, equipment and leased railcars	18	2
Earnings from joint ventures	(2,944)	(3,938)
Provision for deferred income taxes	15,163	10,129
Provision for allowance for doubtful accounts receivable	(1,121)	(20)
Items related to financing activities:		
Loss on debt extinguishment	—	2,126
Changes in operating assets and liabilities:		
Accounts receivable, net	(10,300)	2,164
Accounts receivable, due from related parties	3,322	15,426
Income taxes receivable	926	21,867
Inventories, net	20,167	(431)
Prepaid expenses and other current assets	(2,643)	(881)
Accounts payable	(11,377)	(9,107)
Accounts payable, due to related parties	(2,569)	973
Accrued expenses and taxes	8,514	(3,297)
Other	1,772	(3,848)
Net cash provided by operating activities	87,484	120,309
Investing activities:		
Purchases of property, plant and equipment	(11,187)	(15,354)
Grant Proceeds	75	—
Capital expenditures - leased railcars	(33,444)	(132,578)
Proceeds from the sale of property, plant, equipment and leased railcars	640	113
Proceeds from repayments of loans by joint ventures	2,953	2,500
Net cash used in investing activities	(40,963)	(145,319)
Financing activities:		
Repayments of long-term debt	(112,834)	(419,698)
Proceeds from long-term debt	—	625,306
Change in interest reserve related to long-term debt	263	(9,876)
Stock repurchases	(16,917)	—
Payment of common stock dividends	(15,613)	(17,082)
Debt issuance costs	(14)	(5,271)
Net cash (used in) provided by financing activities	(145,115)	173,379
Effect of exchange rate changes on cash and cash equivalents	(19)	(202)
(Decrease) Increase in cash and cash equivalents	(98,613)	148,167
Cash and cash equivalents at beginning of period	298,064	88,109
Cash and cash equivalents at end of period	$199,451	$236,276

See Notes to the Condensed Consolidated Financial Statements.

6

Table of Contents

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

Note 1 — Description of the Business

The condensed consolidated financial statements included herein have been prepared by American Railcar Industries, Inc. (a North Dakota corporation) and subsidiaries (collectively the Company or ARI), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. The consolidated balance sheet as of December 31, 2015 has been derived from the audited consolidated balance sheet as of that date. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s latest Annual Report on Form 10-K for the year ended December 31, 2015. In the opinion of management, the information contained herein reflects all adjustments necessary to present fairly our financial position, results of operations and cash flows for the interim periods reported. The results of operations of any interim period are not necessarily indicative of the results that may be expected for a fiscal year. Certain prior-period amounts in the notes to the consolidated financial statements have been reclassified to conform to current-period presentation. These reclassifications had no effect on the reported results of operations.

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

Note 2 — Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends Accounting Standards Codification (ASC) Topic 718, Compensation - Stock Compensation. This ASU simplifies several aspects of the accounting for share-based payment award transactions, including (i) income tax consequences, (ii) classification of awards as either equity or liabilities, (iii) whether or not to estimate forfeitures or account for them when they occur and (iv) classification on the statement of cash flows. The standard is effective for interim and annual periods beginning after December 31, 2016. Early adoption will be permitted with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company is evaluating the impact of this standard on its consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases, which amends ASC Topic 840, Leases, and is intended to increase the transparency and comparability of accounting for lease transactions. This ASU requires most leases to be recognized on the balance sheet. Lessees will need to recognize a right-of-use asset and a lease liability for virtually all leases. The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Lessor accounting remains similar to the current model. Targeted improvements were made to lessor accounting to align, where necessary, with certain changes to the lessee model and the new revenue recognition standard. The ASU will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. The Company is evaluating the impact of this standard on its consolidated financial statements and disclosures.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which amends FASB ASU Subtopic 835-30, Interest - Imputation of Interest. The new standard requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. The standard is effective for interim and annual periods beginning after December 31, 2015 and is required to be applied on a retrospective basis. The retrospective adoption of this guidance during the first quarter of 2016 resulted in a reclassification of debt issuance costs related to the Company's long-term debt on the Company's June 30, 2016 and December 31, 2015 balance sheets and did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 supersedes the revenue recognition requirements in Revenue Recognition (Topic 605), and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the

Table of Contents

consideration to which the entity expects to be entitled to in exchange for those goods or services. The new revenue recognition standard also requires disclosures that sufficiently describe the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. This ASU was amended by ASU No. 2015-14, issued in August 2015, which deferred the original effective date by one year; the effective date of this ASU is for fiscal years, and interim reporting periods within those years, beginning after December 15, 2017, using one of two retrospective application methods. Early adoption is permitted only as of the annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the new standard, but does not, at this time, anticipate a material impact to the financial statements once implemented.

Note 3 — Accounts Receivable, net

Accounts receivable, net, consists of the following:

	June 30, 2016	December 31, 2015
	(in thousands)	
Accounts receivable, gross	$41,182	$ 30,422
Less allowance for doubtful accounts	(283)	(1,404)
Total accounts receivable, net	$40,899	$ 29,018

Note 4 — Inventories

Inventories consist of the following:

	June 30, 2016	December 31, 2015
	(in thousands)	
Raw materials	$43,981	$ 65,575
Work-in-process	25,736	31,184
Finished products	10,766	3,393
Total inventories	80,483	100,152
Less reserves	(3,602)	(3,187)
Total inventories, net	$76,881	$ 96,965

Note 5 — Property, Plant, Equipment and Railcars on Leases, net

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

	June 30, 2016	December 31, 2015
	(in thousands)	
Operations / Corporate:		
Buildings	$178,622	$ 167,537
Machinery and equipment	225,931	219,488
Land	3,809	3,687
Construction in process	6,393	16,784
	414,755	407,496
Less accumulated depreciation	(238,106)	(231,185)
Property, plant and equipment, net	$176,649	$ 176,311
Railcar Leasing:		
Railcars on leases	$939,732	$ 906,786
Less accumulated depreciation	(72,924)	(58,069)
Railcars on leases, net	$866,808	$ 848,717

Table of Contents

Railcars on lease agreements

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

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

As of June 30, 2016, future contractual minimum rental revenues required under non-cancellable operating leases for railcars with terms longer than one year are as follows (in thousands):

Remaining 6 months of 2016	$64,605
2017	115,566
2018	102,210
2019	83,772
2020	48,846
2021 and thereafter	66,514
Total	$481,513

Depreciation expense

The following table summarizes depreciation expense:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(in thousands)			
Total depreciation expense	$12,961	$10,910	$25,616	$20,971
Depreciation expense on leased railcars	$7,504	$6,353	$14,879	$11,844

Note 6 — Investments in and Loans to Joint Ventures

As of June 30, 2016, the Company was party to two joint ventures: Ohio Castings Company LLC (Ohio Castings) and Axis LLC (Axis). Through its wholly-owned subsidiary, Castings, the Company has a 33.3% ownership interest in Ohio Castings, a limited liability company formed to produce various steel railcar parts for use or sale by the ownership group. Through its wholly-owned subsidiary, ARI Component, the Company has a 41.9% ownership interest in Axis, a limited liability company formed to produce railcar axles for use or sale by the ownership group.

The Company accounts for these joint ventures using the equity method. Under this method, the Company recognizes its share of the earnings and losses of the joint ventures as they accrue. Advances and distributions are charged and credited directly to the investment accounts. From time to time, the Company also makes loans to its joint ventures that are included in the investment account. The investment balance for these joint ventures is recorded within the Company's manufacturing segment. The carrying amount of investments in and loans to joint ventures, which also represents ARI's maximum exposure to loss with respect to the joint ventures, are as follows:

	June 30, 2016	December 31, 2015
	(in thousands)	
Carrying amount of investments in and loans to joint ventures		
Ohio Castings	$7,611	$ 7,776
Axis	19,736	19,621
Total investments in and loans to joint ventures	$27,347	$ 27,397

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

Ohio Castings

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

Table of Contents

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Results of operations				
Revenues	$13,683	$20,507	$27,337	$43,895
Gross profit	$1,004	$2,314	$1,214	$4,362
Net earnings (loss)	$218	$1,397	$(380)	$2,529

Axis

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

Under the terms of the joint venture agreement, ARI and the other significant partner are required, and the minority partner is entitled, to contribute additional capital to the joint venture, on a pro rata basis, of any amounts approved by the joint venture’s executive committee, as and when called by the executive committee.

Under the amended Axis credit agreement (Axis Credit Agreement), whereby ARI and the other significant partner are equal lenders, principal payments are due each fiscal quarter, with the last payment due on December 31, 2019. During the first six months of 2016 and the full year of 2015, the applicable interest rate for the loans under the Axis Credit Agreement was 7.75%. Interest payments are due and payable monthly.

The balance outstanding on these loans, due to ARI Component, was $20.7 million and $23.6 million as of June 30, 2016 and December 31, 2015, respectively.

The Company has determined that, although the joint venture is a VIE, accounting for its activity under the equity method is appropriate given that the Company is not the primary beneficiary, does not have a controlling financial interest and does not have the ability to individually direct the activities of Axis that most significantly impact its economic performance. The significant factors in this determination were that neither ARI Component nor the Company has rights to the majority of returns, losses or votes, the executive committee and board of directors of the joint venture are comprised of one representative from each significant partner with equal voting rights and the risk of loss to the Company and ARI Component is limited to its investment in Axis and the loans due to the Company under the Axis Credit Agreement.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Results of operations				
Revenues	$16,086	$19,077	$32,497	$39,417
Gross profit	$4,818	$5,214	$9,860	$10,277
Earnings before interest	$4,567	$4,975	$9,335	$9,764

Net earnings	$3,710	$3,886	$7,564	$7,550

As of June 30, 2016, the investment in Axis was comprised entirely of ARI’s term loan. The Company has evaluated this loan to be fully recoverable. The Company will continue to monitor its investment in Axis for impairment.

Table of Contents

Note 7 — Warranties

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Liability, beginning of period	$1,713	$1,340	$1,415	$953
Provision for warranties issued during the period, net of adjustments	29	286	444	894
Adjustments to warranties issued during previous periods	(16)	(4)	(11)	(8)
Warranty claims	(142)	(244)	(264)	(461)
Liability, end of period	$1,584	$1,378	$1,584	$1,378

Note 8 — Debt

LLI, LLII and LLIII Lease Fleet Financings

From time to time, the Company, through its wholly-owned subsidiaries LLI, LLII and LLIII, has entered into lease fleet financings in order to, among other things, support and grow its railcar leasing business. The lease fleet financings are obligations of the respective wholly-owned subsidiary, are generally non-recourse to ARI, and are secured by a first lien on the subject assets of the respective subsidiary, consisting of railcars, railcar leases, receivables and related assets, subject to limited exceptions. ARI has, however, entered into agreements containing certain representations, undertakings, and indemnities customary for asset sellers and parent companies in transactions of this type, and ARI has been and is obligated to make any selections of transfers of railcars, railcar leases, receivables and related assets to be transferred to LLI, LLII and LLIII without any adverse selection, to cause American Railcar Leasing LLC (ARL), as the manager, to maintain, lease, and re-lease LLI's, LLII's and LLIII's equipment no less favorably than similar portfolios serviced by ARL, and to repurchase or replace certain railcars under certain conditions set forth in the respective loan documents. See Note 15, Related Party Transactions, for further discussion regarding these agreements with ARL.

As of June 30, 2016 and December 31, 2015, the net book value of the railcars that were pledged as part of the Lease Fleet Financings was $554.0 million and $563.7 million, respectively.

January 2015 private placement notes

In January 2015, LLIII issued $625.5 million in aggregate principal amount of notes pursuant to an indenture (the Indenture). The notes are fixed rate secured railcar equipment notes bearing interest at a rate of 2.98% per annum for the Class A-1 Notes and 4.06% per annum for the Class A-2 Notes (collectively, the Notes), each payable monthly. Of the aggregate principal amount, $408.5 million was used to refinance the LLI and LLII lease fleet financing facilities, resulting in net proceeds of $211.6 million. In conjunction with the refinancing, the Company incurred a $2.1 million loss, which is shown as 'Loss on debt extinguishment' on the condensed consolidated statements of operations. This non-cash charge is related to the accelerated write-off of deferred debt issuance costs incurred in connection with the LLI and LLII lease fleet financings. As of June 30, 2016, there were $213.5 million and $375.5 million of Class A-1 and Class A-2 notes outstanding, respectively. The Notes have a legal final maturity date of January 17, 2045 and an expected principal repayment date of January 15, 2025.

While the legal final maturity date of the Notes is January 17, 2045, cash flows from LLIII's assets will be applied, pursuant to the flow of funds provisions of the Indenture, so as to achieve monthly targeted principal balances. Also, under the flow of funds provisions of the Indenture, early amortization of the Notes may be required in certain circumstances. Pursuant to the terms of the Indenture, the Company is required to maintain deposits in a liquidity reserve bank account equal to nine months of interest payments. As of June 30, 2016 and December 31, 2015, the liquidity reserve amount was $16.7 million and $16.9 million, respectively, and included within 'Restricted cash' on the condensed consolidated balance sheets.

LLIII can prepay or redeem the Class A-1 Notes, in whole or in part, on any payment date and the Class A-2 Notes, in whole or in part, on any payment date occurring on or after January 16, 2018. The Company was in compliance with all of its covenants under the Indenture as of June 30, 2016.

Table of Contents

The fair value of the Notes was $595.4 million and $608.4 million as of June 30, 2016 and December 31, 2015, respectively, and is calculated by taking the net present value of future principal and interest payments using a discount rate that is based on the Company's most recent fixed debt transaction. The inputs used in the calculation are classified within Level 2 of the fair value hierarchy.

The future contractual minimum rental revenues related to the railcars pledged as of June 30, 2016 are as follows (in thousands):

Remaining 6 months of 2016	$40,959
2017	68,315
2018	55,097
2019	39,699
2020	21,073
2021 and thereafter	22,526
Total	$247,669

The remaining principal payments under the Notes as of June 30, 2016 are as follows (in thousands):

Remaining 6 months of 2016	$12,949
2017	25,588
2018	25,590
2019	25,507
2020	26,354
2021 and thereafter	472,974
Total	$588,962

ARI Lease Fleet Financings

December 2015 revolving credit facility

In December 2015, the Company completed a financing of its railcar lease fleet with availability of up to $200.0 million under a credit agreement (2015 Credit Agreement). See 'Liquidity and Capital Resources' section for further discussion regarding the incremental borrowing provision under the 2015 Credit Agreement. The initial amount obtained at closing was approximately $99.5 million, net of fees and expenses (the amounts extended under the 2015 Credit Agreement, inclusive of any amounts extended under the incremental facility, the Revolving Loan). In February 2016, the Company repaid amounts outstanding under the Revolving Loan in full and as of June 30, 2016, the Company had borrowing availability of $200.0 million under this facility.

The Revolving Loan accrues interest at a rate per annum equal to Adjusted LIBOR (as defined in the 2015 Credit Agreement) for the applicable interest period, plus 1.45%, for a rate of 1.9% as of December 31, 2015. Interest is payable on the last day of each 1, 2, or 3-month interest period, the day of any mandatory prepayment, and the maturity date.

The Revolving Loan and the other obligations under the 2015 Credit Agreement are fully recourse to the Company and are secured by a first lien and security interest on certain specified railcars (together with specified replacement railcars), related leases, related receivables and related assets, subject to limited exceptions, a controlled bank account, and following an election by the Company (the Election), the applicable railcar management agreement with ARL. See Note 15, Related Party Transactions, for further discussion regarding this agreement with ARL.

Subject to the provisions of the 2015 Credit Agreement, the Revolving Loan may be borrowed and reborrowed until the maturity date. The Revolving Loan may be prepaid at the Company’s option at any time without premium or penalty (other than customary LIBOR breakage fees and customary reimbursement of increased costs). The final scheduled maturity of the Revolving Loan is December 10, 2018, or such earlier date as provided in the 2015 Credit Agreement. The Company was in compliance with all of its covenants under the 2015 Credit Agreement as of June 30, 2016.

Note 9 — Income Taxes

The Company’s federal income tax returns for tax years 2012 and beyond remain subject to examination, with the latest statute of limitations expiring in September 2019. Certain of the Company's 2008 through 2011 state income tax returns and all of the Company's state income tax returns for 2012 and beyond remain open and subject to examination, with the latest statute of

12

Table of Contents

limitations expiring in December 2020. The Company's foreign income tax returns for 2012 and beyond remain open to examination by foreign tax authorities.

The Company implemented the recent regulations concerning amounts paid to acquire, produce, or improve tangible property and recovery of basis upon disposition with the filing of its 2014 tax return. The Company is further evaluating whether any additional future deductions may be deemed appropriate under the regulations. Presently, the Company does not anticipate a material impact to its financial condition or results of operations.

Note 10 — Pension Plans

The Company is the sponsor of three defined benefit plans that are frozen and no additional benefits are accruing thereunder. Two of the Company's defined benefit pension plans cover certain employees at designated repair facilities. The assets of these defined benefit pension plans are held by independent trustees and consist primarily of equity and fixed income securities. The Company also sponsors an unfunded, non-qualified supplemental executive retirement plan that covers several of the Company's current and former employees.

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

	Pension Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Service cost	$52	$44	$104	$88
Interest cost	246	237	492	474
Expected return on plan assets	(283)	(321)	(567)	(641)
Amortization of net actuarial loss/prior service cost	206	201	412	403
Net periodic cost recognized	$221	$161	$441	$324

Note 11 — Commitments and Contingencies

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

Certain real property ARI acquired from ACF Industries LLC (ACF) in 1994 had been involved in investigation and remediation activities to address contamination both before and after their transfer to ARI. ACF is an affiliate of Mr. Carl Icahn, the Company's principal beneficial stockholder through Icahn Enterprises L.P. (IELP). Substantially all of the issues identified with respect to these properties relate to the use of these properties prior to their transfer to ARI by ACF and for which ACF has retained liability for environmental contamination that may have existed at the time of transfer to ARI. ACF has also agreed to indemnify ARI for any cost that might be incurred with those existing issues. As of the date of this report, ARI does not believe it will incur material costs in connection with activities relating to these properties, but it cannot assure that this will be the case. If ACF fails to honor its obligations to ARI, ARI could be responsible for the cost of any additional investigation or remediation that may be required. The Company believes that its operations and facilities are in substantial compliance with applicable laws and regulations and that any noncompliance is not likely to have a material adverse effect on its financial condition or results of operations.

ARI is a party to collective bargaining agreements with labor unions at two repair facilities that will expire in September 2016 and January 2021. ARI is also party to a collective bargaining agreement with a labor union at a parts manufacturing facility that will expire in April 2017.

Table of Contents

The Company has various agreements with and commitments to related parties. See Note 15, Related Party Transactions, for further detail.
Certain claims, suits and complaints arising in the ordinary course of business, as well as the Gyansys, Inc. (Gyansys) litigation discussed below, have been filed or are pending against ARI. In the opinion of management, all such claims, suits, and complaints are without merit or would not have a significant effect on the future liquidity, results of operations or financial position of ARI if disposed of unfavorably.
On October 24, 2014, the Company filed a complaint in United States District Court for the Southern District of New York against Gyansys. The complaint asserts a claim against Gyansys for breaching its contract with ARI to implement an enterprise resource planning system. The Company seeks to recover monetary damages in an amount still to be determined, but which ARI alleged exceeds $25 million. Gyansys filed a response to the suit denying its responsibility. It also counterclaimed against ARI for a breach of contract and wrongful termination, seeking damages in excess of $10 million and equitable relief. At this time, the Company does not have sufficient information to reasonably form an estimate of the potential outcome (gain or loss) of this litigation. On September 9, 2015, the court denied ARI's motion to dismiss the wrongful termination counterclaim. A trial date has been tentatively scheduled for January 17, 2017. The Company continues to believe that Gyansys' counterclaims lack merit and will continue to vigorously defend against these counterclaims.

Note 12 — Share-based Compensation

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Share-based compensation expense (income)				
Cost of revenues: Manufacturing	$(56)	$6	$(173)	$54
Cost of revenues: Railcar services	(2)	3	(17)	3
Selling, general and administrative	82	175	(97)	234
Total share-based compensation expense (income)	$24	$184	$(287)	$291

As of June 30, 2016, unrecognized compensation costs related to the unvested portion of SARs were estimated to be $1.2 million and were expected to be recognized over a weighted average period of 30 months.

Note 13 — Accumulated Other Comprehensive Income (Loss)

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

	Accumulated Currency Translation	Accumulated Postretirement Transactions	Accumulated Other Comprehensive Income (Loss)
	(in thousands)		
Balance December 31, 2015	$(2,230)	$ (5,025)	$ (7,255)
Currency translation	683	—	683
Reclassifications related to pension and postretirement plans, net of tax effect of $150 (1)	—	239	239
Balance June 30, 2016	$(1,547)	$ (4,786)	$ (6,333)

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

postretirement plans. See Note 10 for further details and pre-tax amounts.

Note 14 — Stock Repurchase Program

On July 28, 2015, the Company's board of directors authorized a stock repurchase program (the Stock Repurchase Program) pursuant to which the Company may, from time to time, repurchase up to $250.0 million of its common stock. The Stock Repurchase Program will end upon the earlier of the date on which it is terminated by the board of directors or when all

Table of Contents

authorized repurchases are completed. Under the Stock Repurchase program, 161,456 and 444,776 shares were repurchased, during the three and six months ended June 30, 2016, respectively, at a cost of $6.0 million and $16.9 million, respectively.

See Note 17, Subsequent Events, for discussion of the Company's stock repurchase activity subsequent to June 30, 2016.

Note 15 — Related Party Transactions

Agreements with ACF

The Company has the following agreements with ACF, a company controlled by Mr. Carl Icahn, the Company’s principal beneficial stockholder through IELP. Each agreement described below has been unanimously approved by the independent directors of the Company's audit committee.

Component purchases

The Company has from time to time purchased components from ACF under a long-term agreement, as well as on a purchase order basis. Under the manufacturing services agreement entered into in 1994 and amended in 2005, ACF agreed to manufacture and distribute, at the Company’s instruction, various railcar components. In consideration for these services, the Company agreed to pay ACF based on agreed upon rates. The agreement automatically renews unless written notice is provided by the Company.

Also in April 2015, ARI entered into a parts purchasing and sale agreement with ACF. Under this agreement, ARI and ACF may, from time to time, purchase and sell to each other certain parts for railcars (Parts). ARI also provides a non-exclusive and non-assignable license of certain intellectual property to ACF related to the manufacture and sale of Parts to ARI. The buyer under the agreement must pay the market price of the parts as determined in the agreement or as stated on a public website for all ARI buyers. ARI may provide designs, engineering and purchasing support, including all materials and components to ACF. Subject to certain early termination events, the agreement terminates on December 31, 2020.

ARI purchased $0.9 million and $2.9 million of components from ACF during the three and six months ended June 30, 2016, respectively, and $6.8 million and $9.3 million during the comparable periods in 2015.

Purchasing and engineering services agreement

In January 2013, ARI entered into a purchasing and engineering services agreement and license with ACF. Under this agreement, ARI provides purchasing support and engineering services to ACF in connection with ACF’s manufacture and sale of tank railcars at its facility in Milton, Pennsylvania. Additionally, ARI has granted ACF a non-exclusive, non-assignable license to certain of ARI’s intellectual property, including certain designs, specifications, processes and manufacturing know-how required to manufacture and sell tank railcars during the term of the agreement. In November 2015, ARI and ACF amended this agreement to, among other provisions, extend the termination date to December 31, 2016 from December 31, 2015, subject to certain early termination events.

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

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

Revenues of $0.2 million and $0.7 million for the three and six months ended June 30, 2016, respectively, compared to $3.6 million and $5.8 million for the same periods in 2015 were recorded under this agreement for sales of railcar components to ACF and for royalties and profits on railcars sold by ACF and are included under manufacturing revenues from affiliates on the condensed consolidated statements of operations.

Table of Contents

Repair services and support agreement
In April 2015, ARI entered into a repair services and support agreement with ACF. Under this agreement, ARI provides certain sales and administrative and technical services, materials and purchasing support and engineering services to ACF to provide repair and retrofit services (Repair Services). Additionally, ARI provides a non-exclusive and non-assignable license of certain intellectual property related to the Repair Services for railcars. ARI receives 30% of the net profits (as defined in the agreement) for Repair Services related to all railcars not owned by ARL or its subsidiaries and 20% of the net profits for Repair Services related to all railcars owned by ARL or its subsidiaries, if any, but does not absorb any losses incurred by ACF.
Under the agreement, ARI has the exclusive right to sales opportunities related to Repair Services, except for any sales opportunity related to Repair Services presented to ACF by ARL with respect to ARL-owned railcars. ARI also has the right to assign any sales opportunities related to Repair Services to ACF, and ACF has the right, but not the obligation, to accept such sales opportunity. Subject to certain early termination events, the agreement terminates on December 31, 2020.
For the three and six months ended June 30, 2016 revenues of less than $0.1 million were recorded under this agreement.
Agreements with IELP Entities
The Company has or had the following agreements with companies controlled by Mr. Carl Icahn, the Company’s principal beneficial stockholder through IELP, including, but not limited to, ARL and/or ARL's wholly-owned subsidiary, AEP Leasing LLC (collectively, the IELP Entities). Each agreement described below has been unanimously approved by the independent directors of the Company's audit committee.
Railcar services agreement
In April 2011, the Company entered into a railcar services agreement with ARL (the Railcar Services Agreement). Under the Railcar Services Agreement, ARI provides ARL railcar repair, engineering, administrative and other services, on an as needed basis, for ARL’s lease fleet at mutually agreed upon prices. The Railcar Services Agreement had an initial term of three years and automatically renews for additional one year periods unless either party provides at least sixty days prior written notice of termination.
Revenues of $7.3 million and $15.3 million for the three and six months ended June 30, 2016, respectively, compared to $6.4 million and $12.8 million for the same periods in 2015, respectively, were recorded under the Railcar Services Agreement. These revenues are included under railcar services revenues from affiliates on the condensed consolidated statements of operations.
Railcar management agreements
From time to time, the Company and its wholly-owned subsidiaries have entered into railcar management agreements with ARL, pursuant to which the Company and its respective wholly-owned subsidiaries engaged ARL to manage, sell, operate, market, store, lease, re-lease, sublease and service ARI's railcars, subject to the terms and conditions of the agreement. These agreements provide that ARL will manage the leased railcars (as identified in the respective agreement) including arranging for services, such as repairs or maintenance, as deemed necessary. Subject to the terms and conditions of each agreement, ARL receives, in respect of leased railcars, a management fee based on the lease revenues.
On February 29, 2012, the Company entered into a railcar management agreement with ARL (the ARI railcar management agreement). The agreement was effective as of January 1, 2011, will continue through December 31, 2018 and thereafter it automatically renews for additional one-year periods unless written notice is received from either party at least six months prior to the expected renewal. In December 2012, LLI entered into a similar agreement with ARL (as amended in January 2014, the LLI railcar management agreement). On October 16, 2014, LLII entered into a railcar management agreement with ARL (the LLII railcar management agreement). Under the ARI and LLI railcar management agreements, in addition to the management fee, ARL receives a fee consisting of a lease origination fee, and, in respect of railcars sold by ARL, sales commissions.
In January 2015, in connection with the Company's refinancing of its lease fleet financings, the LLI and LLII railcar management agreements were terminated and LLIII entered into a similar railcar management agreement with ARL. This agreement extends through the Notes' final maturity date of January 17, 2045, unless terminated earlier pursuant

to its terms (together with the railcar management agreements discussed above, collectively the Railcar Management Agreements).

Total lease origination and management fees incurred under the Railcar Management Agreements were $1.6 million and $3.3 million for the three and six months ended June 30, 2016, respectively, compared to $1.9 million and $3.4 million for the same periods in 2015. These fees are included in cost of revenues for railcar leasing on the condensed consolidated statements of operations. Sales commissions of $0.3 million and $0.6 million were incurred for each of the three and six months ended

Table of Contents

June 30, 2016, respectively, compared to $0.1 million and $0.4 million for the same periods in 2015. These costs are included in selling, general and administrative costs on the condensed consolidated statements of operations.

Railcar orders

The Company has from time to time manufactured and sold railcars to the IELP Entities under long-term agreements as well as on a purchase order basis. During the three and six months ended June 30, 2016 there were no revenues from railcars sold to the IELP Entities compared to $58.1 million and $177.1 million for the same periods in 2015. These revenues are included in manufacturing revenues from affiliates on the condensed consolidated statements of operations. Any related party sales of railcars under an agreement or purchase order have been and will be subject to the approval or review by the independent directors of the Company's audit committee.

Agreements with other related parties

The Company's Axis joint venture entered into a credit agreement in 2007. During 2009, the Company and the other significant partner acquired the loans from the lenders party thereto, with each party acquiring a 50.0% interest in the loans. The balance outstanding on these loans, due to ARI Component, was $20.7 million and $23.6 million as of June 30, 2016 and December 31, 2015, respectively. See Note 6, Investments in and Loans to Joint Ventures, for further information regarding this transaction and the terms of the underlying loans.

ARI is party to a scrap agreement with M. W. Recycling (MWR), a company controlled by Mr. Carl Icahn, the Company's principal beneficial stockholder through IELP. Under the agreement, ARI sells and MWR purchases scrap metal from several ARI plant locations. This agreement had an initial term through November 2015 then continues until terminated by either party, in accordance with the provisions of the agreement. MWR collected scrap material totaling $0.4 million and $0.8 million for the three and six months ended June 30, 2016, respectively, compared to $1.2 million and $2.7 million for the same periods in 2015. This agreement was unanimously approved by the independent directors of the Company's audit committee.

Insight Portfolio Group LLC (Insight Portfolio Group) is an entity formed and controlled by Mr. Carl Icahn in order to maximize the potential buying power of a group of entities with which Mr. Carl Icahn has a relationship in negotiating with a wide range of suppliers of goods, services and tangible and intangible property at negotiated rates. ARI, and a number of other entities with which Mr. Carl Icahn has a relationship, have minority ownership interests in, and pay fees as part of being a member of Insight Portfolio Group. Fees incurred as a member of the Insight Portfolio Group were less than $0.1 million during the three months ended June 30, 2016 and 2015 and were $0.1 million for the six months ended June 30, 2016 and 2015. These charges are included in selling, general and administrative costs on the condensed consolidated statements of operations.

Financial information for transactions with related parties

Cost of revenues for manufacturing included $16.0 million and $34.8 million for the three and six months ended June 30, 2016, respectively, compared to $37.9 million and $79.4 million for the same periods in 2015 for railcar components purchased from joint ventures.

Inventory as of June 30, 2016 and December 31, 2015, included $7.0 million and $7.9 million, respectively, of railcar components purchased from joint ventures and all profit for this inventory still on hand was eliminated.

Note 16 — Operating Segments and Sales and Credit Concentrations

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

Manufacturing

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

17

Table of Contents

Railcar leasing

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

Railcar services

Railcar services consists of railcar repair services provided through the Company's various repair facilities, including mini repair shops and mobile repair units, offering a range of services from full to light repair. Earnings from operations for railcar services include an allocation of selling, general and administrative costs.

Segment financial results

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

Table of Contents

	Three Months Ended June 30, 2016 Revenues			
	External	Intersegment	Total	Earnings (Loss) from Operations
	(in thousands)			
Manufacturing	$97,548	$ 9,266	$106,814	$15,538
Railcar leasing	33,209	—	33,209	20,237
Railcar services	19,727	609	20,336	3,059
Corporate	—	—	—	(4,441)
Eliminations	—	(9,875)	(9,875)	1,581
Total Consolidated	$150,484	$ —	$150,484	$35,974

	Three Months Ended June 30, 2015 Revenues			
	External	Intersegment	Total	Earnings (Loss) from Operations
	(in thousands)			
Manufacturing	$144,481	$ 123,693	$268,174	$69,941
Railcar leasing	28,216	—	28,216	16,976
Railcar services	19,301	94	19,395	3,880
Corporate	—	—	—	(2,463)
Eliminations	—	(123,787)	(123,787)	(33,070)
Total Consolidated	$191,998	$ —	$191,998	$55,264

	Six Months Ended June 30, 2016 Revenues			
	External	Intersegment	Total	Earnings (Loss) from Operations
	(in thousands)			
Manufacturing	$221,340	$ 32,897	$254,237	$38,224
Railcar leasing	65,977	—	65,977	39,912
Railcar services	39,347	1,568	40,915	6,567
Corporate	—	—	—	(8,949)
Eliminations	—	(34,465)	(34,465)	917
Total Consolidated	$326,664	$ —	$326,664	$76,671

	Six Months Ended June 30, 2015 Revenues			
	External	Intersegment	Total	Earnings (Loss) from Operations
	(in thousands)			

Manufacturing	$366,292	$ 207,424	$573,716	$ 140,379
Railcar leasing	52,801	—	52,801	31,740
Railcar services	36,681	196	36,877	6,747
Corporate	—	—	—	(6,813)
Eliminations	—	(207,620)	(207,620)	(56,774)
Total Consolidated	$455,774	$ —	$455,774	$ 115,279

Table of Contents

Total Assets	June 30, 2016	December 31, 2015
	(in thousands)	
Manufacturing	$260,088	$ 272,721
Railcar leasing	1,199,291	1,190,180
Railcar services	59,290	56,880
Corporate/Eliminations	(86,069)	5,293
Total Consolidated	$1,432,600	$ 1,525,074

Sales to Related Parties

As discussed in Note 15, Related Party Transactions, ARI has numerous arrangements with related parties. As a result, from time to time, ARI offers its products and services to affiliates at terms and pricing no less favorable to ARI than the terms and pricing provided to unaffiliated third parties. Below is a summary of revenue from affiliates for each operating segment reflected as a percentage of total consolidated revenues.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Manufacturing	0.1%	32.2%	0.2%	40.1%
Railcar leasing	— %	— %	— %	— %
Railcar services	4.8%	3.3 %	4.7%	2.8 %

Sales and Credit Concentration

Manufacturing revenues from customers that accounted for more than 10% of total consolidated revenues are outlined in the table below. The railcar leasing and railcar services segments had no customers that accounted for more than 10% of the total consolidated revenues for the three and six months ended June 30, 2016 and 2015.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Manufacturing revenues from significant customers	46.1%	56.8%	33.9%	50.3%

Manufacturing accounts receivable from customers that accounted for more than 10% of consolidated receivables (including accounts receivable, net and accounts receivable, due from related parties) are outlined in the table below. The railcar leasing and railcar services segments had no customers that accounted for more than 10% of the consolidated receivables balance as of June 30, 2016 and December 31, 2015.

	June 30, 2016	December 31, 2015
Manufacturing receivables from significant customers	43.7 %	20.9 %

Note 17 — Subsequent Events

On July 27, 2016, the board of directors of the Company declared a cash dividend of $0.40 per share of common stock of the Company to shareholders of record as of September 9, 2016 that will be paid on September 23, 2016.

The Company repurchased 502 shares under the Stock Repurchase Program subsequent to June 30, 2016, at a cost of less than $0.1 million, resulting in 19,399,253 shares outstanding as of July 27, 2016.

Table of Contents

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- our prospects in light of the cyclical nature of our business;
- the health of and prospects for the overall railcar industry;
- the risk of being unable to market or remarket railcars for sale or lease at favorable prices or on favorable terms or at all;
- fluctuations in commodity prices, including oil and gas;
- risks relating to our compliance with, and the overall railcar industry's implementation of, United States and Canadian regulations related to the transportation of flammable liquids by rail released on May 1, 2015;
- the highly competitive nature of the manufacturing, railcar leasing and railcar services industries;
- the variable purchase patterns of our railcar customers and the timing of completion, customer acceptance and shipment of orders, as well as the mix of railcars for lease versus direct sale;
- our ability to manage overhead and variations in production rates;
- our ability to recruit, retain and train adequate numbers of qualified personnel;
- the impact of an economic downturn, adverse market conditions and restricted credit markets;
- our reliance upon a small number of customers that represent a large percentage of our revenues and backlog;
- fluctuations in the costs of raw materials, including steel and railcar components, and delays in the delivery of such raw materials and components;
- fluctuations in the supply of components and raw materials we use in railcar manufacturing;
- the ongoing benefits and risks related to our relationship with Mr. Carl Icahn, our principal beneficial stockholder through Icahn Enterprises L.P. (IELP), and certain of his affiliates;
- the sufficiency of our liquidity and capital resources, including long-term capital needs to further support the growth of our lease fleet;
- the impact of repurchases pursuant to our Stock Repurchase Program on our current liquidity and the ownership percentage of our principal beneficial stockholder through IELP, Mr. Carl Icahn;
- the impact, costs and expenses of any litigation we may be subject to now or in the future;
- the risks associated with our current joint ventures and anticipated capital needs of, and production at our joint ventures;
- the conversion of our railcar backlog into revenues equal to our reported estimated backlog value;
- the risks associated with ongoing compliance with environmental, health, safety, and regulatory laws and regulations, which may be subject to change;
-

the risks, impact and anticipated benefits associated with potential joint ventures, acquisitions or new business endeavors;

- the implementation, integration with other systems and ongoing management of our new enterprise resource planning system; and
- the risks related to our and our subsidiaries' indebtedness and compliance with covenants contained in our and our subsidiaries' financing arrangements.

21

Table of Contents

In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “could,” “would,” “expe “plans,” “anticipates,” “believes,” “estimates,” “projects,” “predicts,” “potential” and similar expressions intended to identify forward-looking statements. Our actual results could be different from the results described in or anticipated by our forward-looking statements due to the inherent uncertainty of estimates, forecasts and projections and may be materially better or worse than anticipated. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Forward-looking statements represent our estimates and assumptions only as of the date of this report. We expressly disclaim any duty to provide updates to forward-looking statements, and the estimates and assumptions associated with them, after the date of this report, in order to reflect changes in circumstances or expectations or the occurrence of unanticipated events except to the extent required by applicable securities laws. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed above and under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015 (Annual Report), as well as the risks and uncertainties discussed elsewhere in this report and the Annual Report. We qualify all of our forward-looking statements by these cautionary statements. We caution you that these risks are not exhaustive. We operate in a continually changing business environment and new risks emerge from time to time.

EXECUTIVE SUMMARY

We are one of the leading North American designers and manufacturers of hopper and tank railcars, which are currently the two largest markets within the railcar industry. We provide our railcar customers with integrated solutions through a comprehensive set of high quality products and related services offered by our three reportable segments: manufacturing, railcar leasing and railcar services. Manufacturing consists of railcar manufacturing and railcar and industrial component manufacturing. We use certain of these components in our own railcar manufacturing and/or sell certain of these products to third parties. Railcar leasing consists of railcars manufactured by us and leased to third parties under operating leases. Railcar services consist of railcar repair, engineering and field services.

Although results are down compared to 2015, given the current market conditions for new railcar demand, our consolidated operating margins remain strong at 23.9% for the three months ended June 30, 2016 as we continue to benefit from the growth of our railcar leasing segment with a fully utilized lease fleet of 10,641 railcars at June 30, 2016. Railcars built for our lease fleet represented 8.4% of our total railcar shipments during the second quarter of 2016 compared to 42.5% for the same period in 2015. Because revenues and earnings related to leased railcars are recognized over the life of the lease, our quarterly results may vary depending on the mix of lease versus direct sale railcars that we ship during a given period. As of June 30, 2016, we had a backlog of 5,601 railcars, including 1,556 railcars for lease customers.

After record high demand for railcars the last couple of years, the rail industry is experiencing headwinds resulting from lower railcar loadings, lower fleet utilization and increased rail speeds. Given the tank railcar market's record high deliveries in 2014 and 2015, coupled with volatility in oil prices, the tank railcar market is softening at a faster pace than other markets. These macro-economic factors have resulted in increasingly competitive tank and hopper railcar markets in relation to both prices and demand, which we believe will continue for the next several quarters. In response to softening customer demand coupled with the shift to more specialized hopper and tank railcars with higher material and labor content, we continue to evaluate our production rates to align with current industry trends. Even at lower production levels, we continue to efficiently produce high quality hopper and tank railcars. During the second quarter of 2016, we shipped 1,017 railcars, which is 57.6% lower than that of the same period in 2015. We cannot assure you that hopper or tank railcar demand will maintain its current pace or return to historical average levels, that demand for any railcar types or railcar services will improve, or that our railcar backlog, orders or shipments will track industry-wide trends.

Our railcar services segment continues to produce strong results. With the completion of several capital projects in late 2015, our existing repair network stands ready to respond to additional demand opportunities that we expect to arise. Additional capacity at our tank railcar manufacturing facility is currently being used to meet the increased demand for traditional repair work. We also plan to use this facility to perform retrofit services in a production line set-up, which we believe will be one of the industry's most efficient, cost effective, and timely ways to retrofit tank railcars.

Our earnings contributed to cash flow from operations in the first six months of 2016 of $87.5 million. Our current liquidity of $399.5 million, including $200.0 million available under revolving credit facility provides us with the ability to further grow our lease fleet, as demand may dictate, as well as to continue to reinvest in our business model, which is designed to support the industry with complete railcar solutions over the railcar life cycle.

Table of Contents

RESULTS OF OPERATIONS

Three and six months ended June 30, 2016 compared to three and six months ended June 30, 2015

Consolidated Results

	Three Months Ended June 30,		$	%	Six Months Ended June 30,		$	%
	2016	2015	Change	Change	2016	2015	Change	Change
	(in thousands)				(in thousands)			
Revenues:								
Manufacturing	$97,548	$144,481	$(46,933)	(32.5)	$221,340	$366,292	$(144,952)	(39.6)
Railcar leasing	33,209	28,216	4,993	17.7	65,977	52,801	13,176	25.0
Railcar services	19,727	19,301	426	2.2	39,347	36,681	2,666	7.3
Total revenues	$150,484	$191,998	$(41,514)	(21.6)	$326,664	$455,774	$(129,110)	(28.3)
Cost of revenues:								
Manufacturing	$(81,437)	$(107,714)	$26,277	24.4	$(183,718)	$(282,248)	$98,530	34.9
Railcar leasing	(10,356)	(8,993)	(1,363)	(15.2)	(20,531)	(16,694)	(3,837)	(23.0)
Railcar services	(15,420)	(14,737)	(683)	(4.6)	(30,657)	(28,582)	(2,075)	(7.3)
Total cost of revenues	$(107,213)	$(131,444)	$24,231	18.4	$(234,906)	$(327,524)	$92,618	28.3
Selling, general and administrative	(7,297)	(5,315)	(1,982)	(37.3)	(15,254)	(12,996)	(2,258)	(17.4)
Net gains on disposition of leased railcars	—	25	(25)	*	167	25	142	*
Earnings from operations	$35,974	$55,264	$(19,290)	(34.9)	$76,671	$115,279	$(38,608)	(33.5)

* - Not Meaningful

Revenues

Our total consolidated revenues for the three and six months ended June 30, 2016 decreased by 21.6% and 28.3%, respectively, compared to the same periods in 2015. These decreases were due to decreased revenues in our manufacturing segment, partially offset by increased revenues in our railcar leasing and railcar services segments.

During the three months ended June 30, 2016, we shipped 932 direct sale railcars, which excludes 85 railcars (8.4% of total shipments) built for our lease fleet, compared to 1,378 direct sale railcars for the same period of 2015, which excludes 1,019 railcars (42.5% of total shipments) built for our lease fleet.

During the six months ended June 30, 2016, we shipped 2,062 direct sale railcars, which excludes 285 railcars (12.1% of total shipments) built for our lease fleet, compared to 3,395 direct sale railcars for the same period of 2015, which excludes 1,670 railcars (33.0% of total shipments) built for our lease fleet.

Manufacturing revenues decreased by 32.5% during the three month period ended June 30, 2016 compared to the same period in 2015. This change was due to a decrease of 29.7% driven by 446 fewer railcar shipments for direct sale, a higher mix of hopper railcars sold, which generally have lower average selling prices than tank railcars due to less material and labor content, and more competitive pricing on both hopper and tank railcars. Given the decrease in tank railcar demand and a shift in production to a larger mix of specialty railcars, both hopper and tank railcar shipments have decreased. The remaining decrease of 2.8% was due to lower revenues from material cost changes that we generally pass through to customers, as discussed below.

Manufacturing revenues decreased by 39.6% during the six month period ended June 30, 2016 compared to the same period of 2015. This change was due to a decrease of 37.2% driven by a decrease in both hopper and tank railcar shipments for direct sale, a higher mix of hopper railcars sold, and more competitive pricing on both hopper and tank railcars. In total, we shipped 1,333 fewer direct sale railcars during the six month period ended June 30, 2016 compared to the same period in 2015. The remaining decrease of 2.4% was due to lower revenues from material cost changes that we generally pass through to customers, as discussed below.

Table of Contents

Railcar leasing revenues increased by 17.7% and 25.0% during the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015 due to an increase in the number of railcars in our lease fleet while lease rates remained relatively flat. The lease fleet grew to 10,641 railcars at June 30, 2016 from 9,399 railcars at June 30, 2015.

Railcar services revenues increased by 2.2% and 7.3% during the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015 due to an increase in demand and the additional capacity resulting from our expansion projects that continue to ramp up in 2016.

Cost of revenues

Our total consolidated cost of revenues decreased by 18.4% and 28.3% for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015 due to decreased cost of revenues in our manufacturing segment, partially offset by an increase in our railcar leasing and railcar services segments.

Cost of revenues decreased for our manufacturing segment by 24.4% and 34.9% for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015 due to a decrease of 20.6% and 31.8%, respectively, driven by lower direct sale railcar shipments, as discussed above, and a decrease of 3.8% and 3.1%, respectively, driven by lower material costs for key components and steel, which is also reflected as a decrease in selling prices as our practice is to generally pass increases or decreases in these costs through to the customer.

Cost of revenues for our railcar leasing segment increased by 15.2% and 23.0% for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015 primarily as a result of an increase in the number of railcars in our lease fleet, as discussed above.

Cost of revenues for our railcar services segment increased by 4.6% and 7.3% for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015, primarily due to an increase in volume of work and costs associated with the ramp up of operations at our recently completed expansion projects, as discussed above, as well as higher depreciation expenses.

Selling, general and administrative expenses

Our total consolidated selling, general and administrative expenses were $7.3 million and $15.3 million for the three and six months ended June 30, 2016, respectively, compared to $5.3 million and $13.0 million for the same periods in 2015. These increases were primarily due to lower consulting expenses in the second quarter of 2015 as well as higher depreciation related to our new enterprise resource planning system in 2016.

Interest expense

Our total consolidated interest expense remained flat when comparing the second quarter of 2016 to the same period in 2015. Our total consolidated interest expense increased by $1.2 million for the six months ended June 30, 2016 compared to the same period in 2015. This increase was primarily driven by a higher average debt balance during the first six months of 2016 compared to the same period in 2015.

Loss on debt extinguishment

In January 2015, we refinanced our lease fleet financing facilities, resulting in net proceeds of $211.6 million under a private placement of secured railcar equipment notes. This refinancing resulted in a $2.1 million non-cash charge related to the accelerated write-off of the remainder of deferred debt issuance costs incurred in connection with the 2014 lease fleet financing facilities.

Table of Contents

Earnings (Loss) from Joint Ventures

The breakdown of our earnings (loss) from joint ventures during the three and six months ended June 30, 2016 and 2015 was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
	(in thousands)			(in thousands)		
Ohio Castings	$34	$417	$(383)	$(165)	$879	$(1,044)
Axis	1,424	1,724	(300)	3,109	3,059	50
Total Earnings from Joint Ventures	$1,458	$2,141	$(683)	$2,944	$3,938	$(994)

Our joint venture earnings were $1.5 million and $2.9 million for the three and six months ended June 30, 2016, respectively, compared to earnings of $2.1 million and $3.9 million for the same periods in 2015. These decreases were a result of decreased sales at our Ohio Castings joint venture due to a ramp down of production from the high levels experienced in 2015 to more historical levels that align with the joint venture's expected production level and is in line with expected industry demand. The results from our Axis joint venture for the three months ended June 30, 2016 also reflect a ramp down of production in line with expected industry demand, although earnings remain strong for Axis. The loss from Ohio Castings for the six months ended June 30, 2016 was partially offset by strong earnings from our Axis joint venture reflective of improved efficiencies and better profitability in the six months ended June 30, 2016 than compared to the same period in 2015.

Income Tax Expense

Our income tax expense was $12.3 million, or 38.2% of our earnings before income taxes, and $26.3 million, or 38.1% of our earnings before income taxes for the three and six months ended June 30, 2016, respectively, compared to $19.3 million, or 36.9% of our earnings before income taxes, and $39.8 million, or 37.0% for the same periods in 2015. The increase in the effective tax rate is primarily due to the decrease in the domestic production activities deduction.

Segment Results

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

Table of Contents

	Three Months Ended June 30, 2016 (in thousands)			2015			
	External	Intersegment	Total	External	Intersegment	Total	Change
Revenues							
Manufacturing	$97,548	$ 9,266	$106,814	$144,481	$ 123,693	$268,174	$(161,360)
Railcar Leasing	33,209	—	33,209	28,216	—	28,216	4,993
Railcar Services	19,727	609	20,336	19,301	94	19,395	941
Eliminations	—	(9,875)	(9,875)	—	(123,787)	(123,787)	113,912
Total Consolidated	$150,484	$ —	$150,484	$191,998	$ —	$191,998	$(41,514)

	Six Months Ended June 30, 2016 (in thousands)			2015			
	External	Intersegment	Total	External	Intersegment	Total	Change
Revenues							
Manufacturing	$221,340	$ 32,897	$254,237	$366,292	$ 207,424	$573,716	$(319,479)
Railcar leasing	65,977	—	65,977	52,801	—	52,801	13,176
Railcar services	39,347	1,568	40,915	36,681	196	36,877	4,038
Eliminations	—	(34,465)	(34,465)	—	(207,620)	(207,620)	173,155
Total Consolidated	$326,664	$ —	$326,664	$455,774	$ —	$455,774	$(129,110)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
	(in thousands)			(in thousands)		
Earnings (Loss) from Operations						
Manufacturing	$15,538	$ 69,941	$(54,403)	$38,224	$ 140,379	$(102,155)
Railcar leasing	20,237	16,976	3,261	39,912	31,740	8,172
Railcar services	3,059	3,880	(821)	6,567	6,747	(180)
Corporate	(4,441)	(2,463)	(1,978)	(8,949)	(6,813)	(2,136)
Eliminations	1,581	(33,070)	34,651	917	(56,774)	57,691
Total Consolidated	$35,974	$ 55,264	$(19,290)	$76,671	$ 115,279	$(38,608)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Segment Operating Margins				
Manufacturing	14.5%	26.1%	15.0%	24.5%
Railcar leasing	60.9%	60.2%	60.5%	60.1%
Railcar services	15.0%	20.0%	16.1%	18.3%

Manufacturing

Our manufacturing segment revenues, including an estimate of revenues for railcars built for our lease fleet, decreased by $161.4 million and $319.5 million for the three and six months ended June 30, 2016 compared to the same periods in 2015. These decreases resulted from a lower volume of shipments, as discussed below, an overall decrease in average selling prices with a higher mix of hopper railcars, which generally sell at lower prices than tank railcars due to less material and labor

content, more competitive pricing on both hopper and tank railcars, and a decrease in revenue from material cost changes that we generally pass through to customers, as discussed in 'Consolidated Results' above.

During the second quarter of 2016, we shipped 1,017 railcars, including 85 railcars built for our lease fleet, compared to 2,397 railcars for the same period of 2015, including 1,019 railcars built for our lease fleet. During the first six months of 2016, we shipped 2,347 railcars, including 285 railcars built for our lease fleet, compared to 5,065 railcars for the same period of 2015, including 1,670 railcars built for our lease fleet.

Manufacturing segment revenues for the three and six months ended June 30, 2016 included estimated revenues of $9.3 million and $32.9 million relating to railcars built for our lease fleet compared to $123.7 million and $207.4 million for the same periods in 2015. These decreases in estimated revenues related to railcars built for our lease fleet were due to lower quantities of both tank and hopper railcars shipped for lease. Such revenues are based on an estimated fair market value of the leased railcars as if they had been sold to a third party, and are eliminated in consolidation. Revenues from railcars manufactured for our railcar leasing segment are not recognized in consolidated revenues as railcar sales, but rather lease revenues are recognized over the term of the lease in accordance with the monthly lease revenues. Railcars built for the lease fleet represented 8.4% and 12.1% of our railcar shipments during the three and six months ended June 30, 2016, respectively, compared to 42.5% and 33.0% of our railcar shipments during the same periods in 2015.

From time to time, we manufacture and sell railcars to companies controlled by Mr. Carl Icahn, our principal beneficial stockholder through IELP, including, but not limited to, American Railcar Leasing LLC (ARL) and ARL's wholly-owned subsidiary, AEP Leasing LLC (AEP) (collectively, the IELP Entities). Our manufacturing segment had no direct sales of railcars to the IELP Entities during the six months ended June 30, 2016, primarily due to increased demand for direct sale hopper railcars and our focus on growing our own lease fleet. During the three and six months ended June 30, 2015, we had $58.1 million and $177.1 million of direct sales of railcars to the IELP Entities. In addition, we recorded $0.2 million and $0.7 million of revenue from ACF Industries LLC (ACF) for royalties and profits on railcars sold by ACF and for sales of railcar components to ACF during the three and six months ended June 30, 2016, respectively, compared to $3.6 million and $5.8 million for the same periods in 2015. ACF is also affiliated with Mr. Carl Icahn. Total manufacturing segment revenues from our affiliates represent 0.1% and 0.2% of our total consolidated revenues for the three and six months ended June 30, 2016, respectively, compared to 32.2% and 40.1% for the same periods in 2015.

Earnings from operations for our manufacturing segment, which include an allocation of selling, general and administrative costs, as well as estimated profit for railcars manufactured for our railcar leasing segment, decreased by $54.4 million and $102.2 million for the three and six months ended June 30, 2016 compared to the same periods in 2015. Estimated profit on railcars built for our lease fleet, which is eliminated in consolidation, was $1.1 million and $4.5 million for the three and six months ended June 30, 2016, respectively, compared to $35.2 million and $60.9 million for the same periods in 2015. The estimated profit on railcars built for our lease fleet is based on an estimated fair market value of revenues as if the railcars had been sold to a third party, less the cost to manufacture.

Operating margin from our manufacturing segment decreased to 14.5% and 15.0% for the three and six months ended June 30, 2016 compared to 26.1% and 24.5% for the same periods in 2015. These decreases for both earnings from operations and operating margin were due to a higher mix of hopper railcar shipments, which generally sell at lower prices than tank railcars due to less material and labor content, in addition to more competitive pricing on both hopper and tank railcars and higher costs associated with the lower production rates at our tank railcar manufacturing facility.

Railcar Leasing

Our railcar leasing segment revenues for the three and six months ended June 30, 2016 increased by $5.0 million and $13.2 million, respectively, compared to the same periods in 2015. The increase in revenues was driven by an increase in railcars on lease with third parties.

Earnings from operations for our railcar leasing segment, which include an allocation of selling, general and administrative costs, increased by $3.3 million and $8.2 million for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015. This increase is primarily due to the growth in the number of railcars in our lease fleet. Operating margin from our railcar leasing segment remained relatively flat at 60.9% and 60.5% for the three and six months ended June 30, 2016 compared to 60.2% and 60.1% for the same periods in 2015.

Railcar Services

Our railcar services segment revenues increased by $0.9 million and $4.0 million for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015. The increase was primarily due to an increase in demand and the additional capacity resulting from our expansion projects that continue to ramp up in 2016, as discussed above.

Table of Contents

For the three and six months ended June 30, 2016, our railcar services segment revenues included transactions with ARL totaling $7.2 million, or 4.8% of our total consolidated revenues, and $15.2 million, or 4.7% of our total consolidated revenues, respectively, compared to $6.4 million, or 3.3% and $12.8 million, or 2.8% of our total consolidated revenues for the same periods in 2015.

Earnings from operations for our railcar services segment, which include an allocation of selling, general and administrative costs, decreased by $0.8 million and $0.2 million for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015. Operating margins for this segment decreased to 15.0% and 16.1% for the three and six months ended June 30, 2016, respectively, compared to 20.0% and 18.3% for the same periods in 2015. These decreases are due to costs associated with the ramp up of operations at our recently completed expansion projects as well as higher depreciation expenses, as discussed above, and additional administrative support expenses to foster anticipated growth of this segment.

BACKLOG

We define backlog as the number and estimated market value of railcars that our customers have committed in writing to purchase or lease from us that have not been shipped. As of June 30, 2016, our total backlog was 5,601 railcars, of which 4,045 railcars with an estimated market value of $392.7 million were orders for direct sale and 1,556 railcars with an estimated market value of $143.9 million were orders for railcars that will be subject to lease. As of December 31, 2015, our total backlog was 7,081 railcars, of which 5,629 railcars with an estimated market value of $550.1 million were orders for direct sale and 1,452 railcars with an estimated market value of $144.7 million were orders for railcars that will be subject to lease. Our entire backlog as of December 31, 2015 related to railcars for non-affiliated customers.

Railcars for Sale. As of June 30, 2016, approximately 72.2% of the total number of railcars in our backlog were railcars for direct sale. Estimated backlog value of railcars for direct sale reflects the total revenues expected as if such backlog were converted to actual revenues at the end of the particular period.

Railcars for Lease. As of June 30, 2016, approximately 27.8% of the total number of railcars in our backlog were for lease orders. Estimated backlog value of railcars for lease reflects the estimated market value of each railcar. Actual revenues for railcars subject to lease are recognized per the terms of the lease and are not based on the estimated backlog value. Railcars for lease to our affiliates, the IELP Entities, accounted for 2.1% of the total number of railcars in our backlog as of June 30, 2016.

Customer orders may be subject to requests for delays in deliveries, inspection rights and other customary industry terms and conditions, which could prevent or delay railcars in our backlog from being shipped and converted into revenue. In addition, certain orders may be subject to changes from lease to direct sale, or vice versa, which could impact the timing of conversion of orders into revenue because lease revenues are recognized over the term of the lease. Historically, we have experienced little variation between the number of railcars ordered and the number of railcars actually delivered. For all of the reasons discussed above, we cannot guarantee that our reported railcar backlog will convert to revenue in any particular period, if at all, nor can we guarantee that the actual revenue from these orders will equal our reported estimated market value or that our future revenue efforts will be successful.

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

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2016, we had net working capital of $270.3 million, including $199.5 million of cash and cash equivalents. As of June 30, 2016, we had $589.0 million of debt outstanding under an indenture entered into by our wholly-owned subsidiary, Longtrain Leasing III, LLC (LLIII), and we also had up to $200.0 million available to us under a revolving loan, as discussed further below.

Outstanding and Available Debt

Lease fleet financings

In January 2015, we refinanced the Longtrain Leasing I, LLC (LLI) and Longtrain Leasing II, LLC (LLII) lease fleet financing facilities to, among other things, increase our borrowings. LLIII issued $625.5 million in aggregate principal amount of notes, pursuant to an indenture (the Indenture). The notes are fixed rate secured railcar equipment notes bearing interest at a rate of 2.98% per annum for the Class A-1 Notes and 4.06% per annum for the Class A-2 Notes (collectively with the Class A-1 Notes,

Table of Contents

the Notes). As of June 30, 2016, there were $213.5 million and $375.5 million of Class A-1 and Class A-2 notes outstanding, respectively. The Notes have a legal final maturity date of January 17, 2045 and an expected principal repayment date of January 15, 2025.

Pursuant to the terms of the Indenture, LLIII is required to maintain deposits in a liquidity reserve bank account equal to nine months of interest payments. As of June 30, 2016 and December 31, 2015, the liquidity reserve amount was $16.7 million and $16.9 million, respectively, and included within 'Restricted cash' on the condensed consolidated balance sheets.

While the legal final maturity date of the Notes is January 17, 2045, cash flows from LLIII's assets will be applied, pursuant to the flow of funds provisions of the Indenture, so as to achieve monthly targeted principal balances. Also, under the flow of funds provisions of the Indenture, early amortization of the Notes may be required in certain circumstances. If the Notes are not repaid by the expected principal repayment date on January 15, 2025, additional interest will accrue at a rate of 5.0% per annum and be payable monthly according to the flow of funds. LLIII can prepay or redeem the Class A-1 Notes, in whole or in part, on any payment date and the Class A-2 Notes, in whole or in part, on any payment date occurring on or after January 16, 2018.

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

The Notes are obligations of LLIII, are generally non-recourse to ARI, and are secured by a first lien on the subject assets of LLIII consisting of railcars, railcar leases, receivables and related assets, subject to limited exceptions. ARI has, however, entered into agreements containing certain representations, undertakings, and indemnities customary for asset sellers and parent companies in transactions of this type, and ARI is obligated to make any selections of transfers of railcars, railcar leases, receivables and related assets to be transferred to LLIII without any adverse selection, to cause ARL, as the manager, to maintain, lease, and re-lease LLIII's equipment no less favorably than similar portfolios serviced by ARL, and to repurchase or replace certain railcars under certain conditions set forth in the respective financing documents.

December 2015 revolving credit facility

In December 2015, we completed a financing of our railcar lease fleet with availability of up to $200.0 million under a credit agreement (2015 Credit Agreement). The 2015 Credit Agreement contains an incremental borrowing provision under which ARI, as debtor and subject to the conditions set forth in the 2015 Credit Agreement, has the right but not the obligation to increase the amount of the facility in an aggregate amount of up to $100.0 million (the amounts extended under the 2015 Credit Agreement, inclusive of any amounts extended under the incremental facility, the Revolving Loans), to a maximum principal amount of $300.0 million. We may use the proceeds of the Revolving Loans to finance the manufacturing of railcars on an ongoing basis, to pay related transaction costs, fees and expenses in connection with the 2015 Credit Agreement, to finance ongoing working capital requirements and for other general corporate purposes. The initial Revolving Loan obtained at closing amounted to approximately $99.5 million, net of fees and expenses. In February 2016, we repaid amounts outstanding under the Revolving Loan in full and as of the date of this report we have borrowing availability of $200.0 million under this facility.

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

The Revolving Loans and the other obligations under the 2015 Credit Agreement are fully recourse to the Company and are secured by a first lien and security interest on certain specified railcars (together with specified replacement railcars), related leases, related receivables and related assets, subject to limited exceptions, a controlled bank account, and following an election by the Company (the Election), the applicable railcar management agreement with ARL. See Note 15, Related Party Transactions, for further discussion regarding this agreement with ARL.

Subject to the provisions of the 2015 Credit Agreement, the Revolving Loans may be borrowed and reborrowed until the maturity date. The Revolving Loans may be prepaid at the Company’s option at any time without premium or penalty (other than customary LIBOR breakage fees and customary reimbursement of increased costs).

The Revolving Loans are also subject to acceleration upon and following specified events of default. The 2015 Credit Agreement contains certain representations, warranties, and affirmative and negative covenants applicable to us and, following the Election, ARL, which are customarily applicable to senior secured facilities. Key defaults and events of default include

Table of Contents

failure to repay principal, interest, fees and other amounts owing under the 2015 Credit Agreement; making misrepresentations; cross-defaults to certain other indebtedness of the Company; the rendering of certain judgments against the Company; impermissible transfers of equipment; occurrence of a Material Adverse Change (as defined in the 2015 Credit Agreement); and the Company's bankruptcy or insolvency. Many defaults are subject to cure periods prior to such default giving rise to the right of the lenders and administrative agent to accelerate the Revolving Loans and to exercise remedies.

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

Cash Flows

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

	Six Months Ended June 30,		
	2016	2015	Change
	(in thousands)		
Net cash provided by (used in):			
Operating activities	$87,484	$120,309	$(32,825)
Investing activities	(40,963)	(145,319)	104,356
Financing activities	(145,115)	173,379	(318,494)
Effect of exchange rate changes on cash and cash equivalents	(19)	(202)	183
(Decrease) Increase in cash and cash equivalents	$(98,613)	$148,167	$(246,780)

Net Cash Provided By Operating Activities

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

Our net cash provided by operating activities for the six months ended June 30, 2016 was $87.5 million compared to net cash provided by operating activities of $120.3 million for the same period in 2015. This decrease was primarily due to decreased earnings, as described above, and changes in various operating assets and liabilities, including income taxes receivable as well as accounts receivable, inventories, and accounts payable, due to the timing of shipments and customer payments.

Net Cash Used In Investing Activities

Our net cash used in investing activities for the six months ended June 30, 2016 was $41.0 million compared to $145.3 million in the same period in 2015. The decrease was a result of reduced spending on leased railcars and capital expenditures during the first six months of 2016 compared to the same period in 2015.

Net Cash (Used In) Provided By Financing Activities

Our net cash used in financing activities for the six months ended June 30, 2016 was $145.1 million compared to net cash provided by financing activities of $173.4 million for the same period in 2015. The cash used in financing activities during the first six months of 2016 was a result of the $100.0 million repayment of our Revolving Loan and repurchases of $16.9 million of shares of our common stock under a stock repurchase program (the Stock Repurchase Program), as described further below. The cash provided by financing activities during the first six months of 2015 was a result of the $211.6 million in net proceeds that we received from the January 2015 lease fleet refinancing, as discussed above, partially offset by the related debt issuance costs of $5.3 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 by acquiring other businesses or pursuing other strategic growth opportunities including, without limitation, joint ventures.

Capital expenditures for the six months ended June 30, 2016 were $33.4 million for manufacturing railcars for lease to others and $11.2 million for capitalized projects that we expect will continue to expand our business, maintain equipment, improve efficiencies and reduce costs. Our current capital expenditure plans for the remainder of 2016 include projects that we expect will maintain equipment, improve efficiencies, reduce costs, expand our business, and add to our railcar lease fleet. We cannot assure you that we will be able to complete any of our projects on a timely basis or within budget, if at all, or that our capital expenditures will align with industry demand for our products and services.

Future Liquidity

Our current liquidity consists of our existing cash balance, anticipated cash flows from operations, and borrowing availability of $200.0 million under the 2015 Credit Agreement. We expect to require additional financing over and above our current liquidity position to continue to grow our leasing business, as demand may dictate.

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

Our long-term liquidity is contingent upon future operating performance, our wholly-owned leasing subsidiary's ability to continue to meet its financial covenants under the Indenture, our ability to satisfy covenants under any other future indebtedness we may enter into, and the ability to repay or refinance any such indebtedness as it becomes due. We may also require additional capital in the future to fund capital expenditures, acquisitions or other investments, including additions to our lease fleet, and to comply with the new tank railcar regulations. These capital requirements could be substantial.

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

Stock Repurchase Program

On July 28, 2015, our Board of Directors authorized the repurchase of up to $250.0 million of our outstanding common stock. The Stock Repurchase Program will end upon the earlier of the date on which it is terminated by the Board or when all authorized repurchases are completed. The timing and amount of stock repurchases, if any, will be determined based upon our evaluation of market conditions and other factors. The Stock Repurchase Program may be suspended, modified or discontinued at any time and we have no obligation to repurchase any amount of our common stock under the Stock Repurchase Program. Under the Stock Repurchase program, 161,456 and 444,776 shares were repurchased, during the three and six months ended June 30, 2016, respectively, at a cost of $6.0 million and $16.9 million, respectively. We have repurchased 502 shares under our Stock Repurchase Program subsequent to June 30, 2016, at a cost of less than $0.1 million, resulting in 19,399,253 shares outstanding as of July 27, 2016.

Contractual Obligations and Contingencies

As of June 30, 2016, our gross outstanding debt decreased to $589.0 million from $701.8 million as of December 31, 2015, primarily in connection with the repayment of the Revolving Loan, as discussed above. Refer to the status of other contingencies and contractual obligations in Notes 8 - 11 to the condensed consolidated financial statements. Other than the decrease in our borrowings, our contractual obligations and contingencies did not materially change from the information disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

Off-Balance Sheet Arrangements

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

CRITICAL ACCOUNTING POLICIES

The critical accounting policies and estimates used in the preparation of our financial statements that we believe affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements presented in this report are described in Management's Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K, for the year ended December 31, 2015.

There have been no material changes to the critical accounting policies or estimates that were included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Recent accounting pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risks as previously disclosed in Item 7A of our Annual Report on Form 10-K, for the year ended December 31, 2015.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure controls and procedures

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

Changes in internal control over financial reporting

During the second quarter of 2016, our railcar services segment implemented a new enterprise resource planning (ERP) system, similar to the system we implemented for our manufacturing and railcar leasing segments last year, which is expected to improve the efficiency of certain financial and related transaction processes. This implementation has resulted in business and operational changes. As a result, we have put controls in place that we believe serve to monitor and maintain appropriate internal controls over financial reporting.

There were no other changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II — OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS
See Note 11, Commitments and Contingencies, to the condensed consolidated financial statements located in Part I, Item I of this report, which is incorporated by reference into this Part II, Item 1, for a description of the litigation, legal and administrative proceedings.
ITEM 1A. RISK FACTORS
There have been no material changes from the risk factors previously disclosed in Item 1A of our Annual Report on Form 10-K, for the year ended December 31, 2015.
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
This table provides information with respect to purchases by the Company of shares of its Common Stock on the open market as part of the Stock Repurchase Program during the quarter ended June 30, 2016:

Period	Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan
April 1, 2016 through April 30, 2016	—	$ —	—	$ 181,709,638
May 1, 2016 through May 31, 2016	90,256	$ 37.72	90,256	$ 178,304,813
June 1, 2016 through June 30, 2016	71,200	$ 37.07	71,200	$ 175,665,721
Total	161,456		161,456	

(1) On July 28, 2015, the Company's board of directors authorized the Stock Repurchase Program pursuant to which the Company may, from time to time, repurchase up to $250.0 million of its common stock. The Stock Repurchase Program will end upon the earlier of the date on which it is terminated by the Board or when all authorized repurchases are completed.
(2) We repurchased 502 shares under our Stock Repurchase Program subsequent to June 30, 2016, at a cost of less than $0.1 million, resulting in 19,399,253 shares outstanding as of July 27, 2016.

ITEM 6. EXHIBITS

Exhibit No.	Description of Exhibit
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 Interim Chief Financial Officer*
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*

101.PRE	XBRL Taxonomy Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Definition Linkbase Document*

32

Table of Contents

* Filed herewith
** Furnished herewith

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:	July 29, 2016	By:	/s/ Jeffrey S. Hollister Jeffrey S. Hollister, President and Chief Executive Officer
		By:	/s/ Luke M. Williams Luke M. Williams, Interim Senior Vice President, Interim Chief Financial Officer and Interim Treasurer

EXHIBIT INDEX

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