AMERICAN EXPRESS CO
Form 4
July 05, 2005

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
POPOFF FRANK P
(Last) (First) (Middle)
AMERICAN EXPRESS TOWER, 3 WORLD FINANCIAL CENTER
(Street)
NEW YORK, NY 10285-5003
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
AMERICAN EXPRESS CO [AXP]

3. Date of Earliest Transaction (Month/Day/Year)
06/30/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Pric Deriva Securi

(Instr. 3)	Price of Derivative Security		(Month/Day/Year)	(Instr. 8)		Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)						(Instr.
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Share Equivalent Units	(1)	06/30/2005	06/30/2005	A		171		(2)	(2)	Common Shares	171	$ 54.

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
POPOFF FRANK P AMERICAN EXPRESS TOWER 3 WORLD FINANCIAL CENTER NEW YORK, NY 10285-5003	X			

Signatures

s/ Stephen P. Norman, Attorney-in-fact	07/05/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The share equivalent units convert into common stock on a one-for-one basis.

(2) The share equivalent units are convertible immediately and have no expiration date.

(3) The reported share equivalent units were acquired pursuant to the Directors' Deferred Compensation Plan and will be settled in ca sh following termination of service as a Director.

(4) Includes share equivalent units acquired pursuant to a dividend reinvestment feature of the Directors' Deferred Compensation Plan and/or the 2003 Share Equivalent Unit Plan for Directors.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. TD> **Year ended December 31,**

Six months ended
June 30,

2000 2001 2002 2003 2004 2004 2005 (in thousands)

Statements of operations data:

Sales	$316,931	$367,742	$397,577	$210,314	$225,497	$244,349	$482,180	$183,813	$396,519
Cost of sales[1]	271,714	325,640	358,267	187,646	212,589	225,216	468,309	181,294	358,976
Gross profit[2]	45,217	42,102	39,310	22,668	12,908	19,133	13,871	2,519	37,543
Selling, general and administrative expense[3]	8,215	11,397	18,580	13,370	12,778	14,318	14,601	6,993	13,740

Compensation expense under stock option agreements (selling, general and administrative expense)(4)

8,900 69

Provision for settlement of labor disputes(5)

9,159 370

Goodwill amortization expense

1,074 1,812 1,744

Operating income (loss)(6)

37,002 29,631 18,918 7,554 130 4,815 (18,789) (4,474) 23,364

Interest income

(663) (354) (1,391) (887) (162) (128) (282) (52) (342)

Related-party interest expense

2,535 5,165 5,723 6,517 6,764 7,029 3,397 3,253

Third-party interest expense

451 3,623 3,999 2,398 1,595 1,367 1,111 531 964

Interest expense and related accretion on rights to additional acquisition consideration

1,192 2,341 2,927 3,659 4,573 5,716 2,598 6,382

Write-off of deferred financing costs

348 439

Loss on disposal of railcar lease fleet

689 187

Amortization of deferred financing costs

410 702 702 702 629 459 270 184

Explanation of Responses:

Income (loss) before income taxes

37,214 21,536 7,915 (3,309) (12,181) (8,738) (32,822) (11,218) 12,484

Income tax provision (benefit)

14,398 9,236 6,089 167 (3,554) (1,318) (7,962) (3,197) 1,425

Net income (loss)

22,816 12,300 1,826 (3,476) (8,627) (7,420) (24,860) (8,021) 11,059

Redeemable preferred stock dividends accumulated, but undeclared

620 1,062 1,063 1,062 1,063 1,062 532 311

Explanation of Responses:

Net income (loss) attributable to common shareholders

$22,816 $11,680 $764 $(4,539) $(9,689) $(8,483) $(25,922) $(8,553) $10,748

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Explanation of Responses:

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Selected consolidated financial data

	Predecessor	FreightCar America, Inc.							
	Period from January 1, 1999 to June 3, 1999	Period from June 4, 1999 to December 31, 1999	Year ended December 31,					Six months ended June 30,	
			2000	2001	2002	2003	2004	2004	2005
	(in thousands, except share and per share data)								
Weighted average common shares outstanding basic[7]		6,875,000	6,875,000	6,875,000	6,875,000	6,875,000	6,888,750	6,875,000	9,715,020
Weighted average common shares outstanding diluted[7]		6,875,000	6,875,000	6,875,000	6,875,000	6,875,000	6,888,750	6,875,000	9,723,306
Per share data:									
Net income (loss) per share attributable to common shareholders (basic and diluted)[7]		$ 1.70	$ 0.11	$ (0.66)	$ (1.41)	$ (1.23)	$ (3.76)	$ (1.24)	$ 1.11
Balance sheet data (at period end):									
Cash and cash equivalents		$ 7,840	$ 30,487	$ 25,033	$ 19,725	$ 20,008	$ 11,213		$ 20,467
Restricted cash[8]		82	3,882	4,061	4,116	11,698	12,955		
Total assets		186,701	166,972	148,702	141,531	140,052	191,143		186,517
Total debt[9]		65,479	62,476	55,423	53,424	51,778	56,058		36
Rights to additional acquisition consideration, including accumulated accretion[10]		9,365	11,707	14,634	18,292	22,865	28,581		
Total redeemable preferred stock		6,870	7,932	8,995	10,057	11,120	12,182		
Total stockholders equity (deficit)		6,935	7,699	3,160	(9,542)	(19,710)	(37,089)		58,530

(1) Cost of sales for the year ended December 31, 2004 includes an estimated $12.7 million in increased cost of raw materials (excluding an estimated $1.8 million in increased cost of raw materials under the customer contract for box railcars described in note (2)), consisting primarily of aluminum and steel, which we were unable to pass on to our customers under our fixed-price customer contracts. As a result of the increased costs, we renegotiated our contracts with a majority of our customers to increase the purchase prices of our railcars to reflect the increased cost of raw materials, and as a result, we were able to pass on to our customers approximately 40% of the increased raw material costs with respect to the railcars that we produced and delivered in 2004. In addition, we have entered into contracts with a majority of our customers that allow for variable pricing to protect us against future increases in the cost of raw materials. We had four remaining fixed-price contracts reflecting a backlog of 528 railcars out of a total backlog of 11,397 railcars as of December 31, 2004. As of June 30, 2005, we had one remaining fixed-price contract reflecting a backlog of 66 railcars out of a total backlog of 15,867 railcars as of June 30, 2005. We expect to deliver all of the railcars under the remaining fixed-price contract by September 30, 2005. Other than the remaining fixed-price contract, we have entered into contracts with all of our customers that allow for variable pricing to protect us against future changes in the cost of raw materials. Cost of sales for the six months ended June 30, 2005 included an estimated $0.9 million in increased cost of raw materials (excluding an estimated $1.5 million in increased cost of raw materials under the customer contract for box railcars described in note (2)), consisting primarily of aluminum and steel, which we were unable to pass on to our customers under our fixed-price customer contracts.

(2) Our gross profit for the year ended December 31, 2004 and the six months ended June 30, 2004 and 2005, includes losses of $8.9 million, $6.5 million and $1.5 million, respectively, on a customer contract for box railcars, a type of railcar that we had not manufactured in the past, which reflect increased raw material, labor and other costs that exceeded the fixed purchase price under this contract. As of June 30, 2005, we had delivered all of the box railcars under this contract and we do not plan to produce any box railcars in the future.

(3) Our selling, general and administrative expense for the year ended December 31, 2003 includes a finder s fee of $1.8 million that we paid to a third party for securing a major railcar purchase order for us in early 2003. Our in-house sales personnel generally procure orders, and we do not ordinarily pay finder s fees to obtain purchase orders.

(4) On December 7, 2004, in accordance with our then-existing shareholders agreement, our board of directors approved the grant of certain options to purchase an aggregate of 1,014 Units to certain of our directors and officers at an exercise price of $0.01 per Unit. The grant became effective on December 23, 2004. Each Unit consisted of 550 shares of our common stock and one share of our

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Selected consolidated financial data

Series A voting preferred stock. We have recorded a non-cash expense of $8.9 million based on the estimated value per Unit as of December 23, 2004. All of these options were exercised prior to April 11, 2005 pursuant to which we issued 557,700 shares of our common stock and 1,014 shares of our Series A voting preferred stock. Following the completion of our initial public offering, we adopted the 2005 Long-Term Incentive Plan, or the Incentive Plan, and issued to certain executive officers options to purchase a total of 329,808 shares of our common stock. We recorded a non-cash charge of $69,000 in the six months ended June 30, 2005 in connection with the issuance of the stock options. See Management Executive compensation Option awards and option plan.

(5) On November 15, 2004, we entered into the Johnstown settlement and recorded a $9.2 million charge with respect to the year ended December 31, 2004. As part of the Johnstown settlement, we agreed to pay back wages equal to $1.4 million to the covered employees and recorded a $0.8 million cash charge for expenses related to the Johnstown settlement in the year ended December 31, 2004. We also recorded $7.0 million of non-cash expense in the year ended December 31, 2004 related to pension and postretirement termination benefits accrued with respect to retired unionized employees at our Johnstown facility. For the six months ended June 30, 2005, we recorded a charge of $370,000 (in selling, general and administrative expense) in connection with the Johnstown settlement. See Business Legal proceedings Labor dispute settlement.

(6) Our operating income for the years ended December 31, 2002 and 2001, includes curtailment gains of $1.2 million and $3.1 million, respectively, related to our postretirement benefit program resulting from our layoff of a significant number of unionized employees at our Johnstown facility.

(7) Share and per share data have been restated to give effect to the merger.

(8) Our restricted cash for the year ended December 31, 2000 and the fiscal years thereafter includes cash collateral of $3.8 million plus interest held in escrow for our participation in a residual support guarantee agreement with respect to railcars that we sold to a customer that are presently leased by the customer to a third party. Our restricted cash for the years ended December 31, 2004 and 2003 also includes $7.5 million held in a restricted cash account as additional collateral for our former revolving credit facility, which was released to us after we entered into our revolving credit facility, and $1.2 million in escrow, representing security for workers compensation insurance. As of June 30, 2005, we no longer had any remaining restricted cash. Restricted cash in the amount of $13.0 million was released during the six months ended June 30, 2005 as follows: the $7.5 million attributable to cash held as additional collateral under the former revolving credit facility was released upon signing the new credit facility agreement; $1.2 million held in escrow as security for worker s compensation insurance was replaced by a letter of credit; and $4.3 million held in escrow for a residual support guaranty relating to railcars we sold to a financial institution that are leased by a third-party customer was released by the financial institution.

(9) Our total debt includes current maturities of long-term debt and our variable rate demand industrial revenue bonds due 2010 which are classified as short-term debt. We repaid all of our debt that existed prior to the initial public offering with the net proceeds of the initial public offering and available cash.

(10) Our recorded liability under the rights to additional acquisition consideration is based on the fair value of the rights to additional acquisition consideration at the time that we acquired our business from TTII in 1999, using a discount rate of 25% and an expected redemption period of seven years. As a result of our initial public offering, we were required to pay the additional acquisition consideration, which was equal to $35.0 million, reflecting $20.0 million in cash plus an accreted value that compounded at a rate of 10% annually.

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Management s discussion and analysis of financial condition and results of operations

You should read the following discussion in conjunction with Selected consolidated financial data and our consolidated financial statements and related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that are based on management s current expectations, estimates and projections about our business and operations. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements and as a result of the factors we describe under Risk factors and elsewhere in this prospectus. See Special note regarding forward-looking statements and Risk factors.

OVERVIEW

We are the leading manufacturer of aluminum-bodied railcars in North America, based on the number of railcars delivered. We specialize in the production of coal-carrying railcars, which represented 78% of our deliveries of railcars in 2004 and 91% of our deliveries of railcars in the six months ended June 30, 2005, while the balance of our production consisted of a broad spectrum of railcar types, including aluminum-bodied and steel-bodied railcars. We also refurbish and rebuild railcars and sell forged, cast and fabricated parts for all of the railcars that we produce, as well as those manufactured by others. We have chosen not to offer significant railcar leasing services, as we have made a strategic decision not to compete with our customers that provide railcar leasing services, which represent a significant portion of our revenue.

We believe that we are the leading North American manufacturer of coal-carrying railcars. We estimate that we have manufactured 81% of the coal-carrying railcars delivered over the three years ended December 31, 2004 in the North American market. Our aluminum BethGon railcar has been the leading aluminum-bodied coal-carrying railcar sold in North America for nearly 20 years. We believe that over the last 25 years we have built and introduced more types of coal-carrying railcars than all other manufacturers in North America combined.

Our manufacturing facilities are located in Danville, Illinois, Johnstown, Pennsylvania and Roanoke, Virginia. Our Danville facility produced approximately 81% of our railcars manufactured during the year ended December 31, 2004 and 61% of our railcars manufactured during the six months ended June 30, 2005, and manufactured 100% and 68% of our aluminum-bodied coal-carrying railcars during the year ended December 31, 2004 and the six months ended June 30, 2005, respectively. We believe that the operational efficiency of our Danville facility has increased over the last six years resulting in a significant reduction in our manufacturing costs. Our Johnstown facility manufactures small covered hopper railcars, coiled steel railcars, aluminum vehicle carrier railcars and aluminum-bodied coal-carrying railcars. In April 2005, we commenced operations at a manufacturing facility that we have leased in Roanoke, Virginia. Our new Roanoke facility has the capability to manufacture a variety of types of railcars, including aluminum-bodied and steel-bodied railcars. See Recent developments.

Our primary customers are financial institutions, railroads and shippers. The percentages of our total sales attributable to each type of customer are summarized in the table below for the periods presented.

	Year ended December 31,	Six months ended June 30, 2005

	2002	2003	2004	
Financial institutions	18%	30%	38%	28%
Railroads	11%	13%	31%	20%
Shippers	71%	57%	31%	52%
	100%	100%	100%	100%

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Management s discussion and analysis of financial condition and results of operations

We have established long-term relationships with a customer base that includes some of the largest financial institutions, railroads and shippers in North America. Most of our individual customers do not make purchases every year, since they do not need to replace or replenish their railcar fleets on a yearly basis. Many of our customers place orders for products on an as-needed basis, sometimes only once every few years. As a result, our sales and income from operations vary substantially from quarter to quarter, and the percentages of total sales represented by a type of customer in any period, as shown above, may not reflect sales to that type of customer in future periods. See Risk factors Risks related to the railcar industry The variable purchase patterns of our customers and the timing of completion, delivery and acceptance of customer orders may cause our sales and income from operations to vary substantially each quarter, which will result in significant fluctuations in our quarterly results.

In 2004, we delivered 7,484 new railcars, including 5,840 aluminum-bodied coal-carrying railcars. In the six months ended June 30, 2005, we delivered 5,704 new railcars, including 5,103 aluminum-bodied coal-carrying railcars. Our total backlog of firm orders for new railcars increased from 11,397 railcars as of December 31, 2004 to 15,867 railcars as of June 30, 2005, representing estimated sales of $747.8 million and $1.1 billion, respectively, attributable to such backlog. Approximately 98% of our backlog as of June 30, 2005 consisted of coal-carrying railcars.

The prices for steel and aluminum, the primary raw material components of our railcars, increased sharply in 2004 as a result of strong demand, limited availability of production inputs for steel and aluminum, including scrap metal, industry consolidation and import trade barriers. The costs of raw steel and aluminum have increased by approximately 155% and 21%, respectively, during the period from October 2003 through June 30, 2005. As a result, during the year ended December 31, 2004 and the six months ended June 30, 2005, we were unable to pass on an estimated $12.7 million and $0.9 million, respectively, in increased raw material costs to our customers under existing fixed-price customer contracts. Over the course of 2004, we renegotiated our contracts with a majority of our customers to increase the purchase prices of our railcars to reflect the increased cost of raw materials. As a result, we were able to pass on to our customers approximately 40% of the increased raw material costs with respect to the railcars that we produced and delivered in 2004. In addition, we have entered into customer contracts that allow for variable pricing to protect us against future changes in the cost of raw materials so that, as of June 30, 2005, all but one of our customer contracts allowed for such variable pricing. The remaining fixed-price contract reflects a backlog of 66 railcars out of a total backlog of 15,867 railcars as of June 30, 2005. We expect to deliver all of the railcars under the remaining fixed-price contract by September 30, 2005.

With respect to the supply of components, the railcar industry continues to be adversely impacted by shortages of castings and wheels as a result of reorganization and consolidation of domestic suppliers, increased demand for new railcars and railroad maintenance requirements. Currently, we believe that these shortages will not significantly impact our ability to meet our delivery requirements as supply of these components will be sourced worldwide.

Over the past several years, we have reduced our fixed costs, and we expect to benefit from fixed cost leverage as our sales increase. In particular, we believe that the operational efficiency of our Danville facility has increased over the last six years resulting in a significant reduction in our manufacturing costs. We also believe that our Roanoke facility is producing railcars at a competitive cost and efficiency. We also benefit from our relatively stable selling, general and administrative expenses, which increase at a slower rate relative to growth in railcar production. Additionally, we expect that the Johnstown settlement will allow our Johnstown facility to become more cost-competitive. The settlement, among other things, limits our future liabilities for health care coverage and pension benefits for our retired unionized employees at our Johnstown facility. See Business Legal proceedings Labor dispute settlement.

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Management s discussion and analysis of financial condition and results of operations

A key component of our business strategy is to maintain our leading position in the coal-carrying railcar segment, while also developing additional opportunities for new product lines and growth. We expect to expand our aluminum-bodied railcar product line to include railcars that carry materials other than coal, such as our aluminum vehicle carrier railcars. We are also exploring opportunities to increase our marketing activities abroad. We will continue to explore international opportunities and, from time to time, may enter into licensing arrangements or joint ventures with established railcar manufacturers outside of the United States. We presently have no plans to invest in facilities outside the United States.

The North American railcar market is highly cyclical and the trends in the railcar industry are closely related to the overall level of economic activity. In an improving economy, railroads and utilities should continue to upgrade their fleets of aging steel-bodied coal-carrying railcars to lighter aluminum-bodied coal-carrying railcars. North American industry railcar orders were 47,249, 70,626 and 36,695 for 2003, 2004 and the six months ended June 30, 2005, respectively. North American industry backlog at December 31, 2004 was 58,677 railcars and at June 30, 2005 was 60,544 railcars. We believe that the near-term outlook for railcar demand is positive due to the current U.S. economic recovery which we believe is resulting in increased rail traffic, the replacement of aging railcar fleets, an improved outlook for U.S. steel manufacturers and an increasing demand for electricity.

We believe that the near-term outlook for our business is positive, based on the increased demand for railcars, our current backlog, our product portfolio and our operational efficiency in manufacturing railcars. We believe that the demand for our coal-carrying railcars will remain strong, as an improving economy typically leads to increased demand for electricity. Additionally, our cost structure has been strengthened by our change to variable customer contracts that protect us against future changes in the cost of raw materials and by the recent settlement agreement that limits our future liabilities for health care coverage and pension benefits for retired employees at our Johnstown facility. See Recent developments below. In response to the current demand for our railcars, we are considering the addition of another manufacturing facility and exploring other opportunities to increase our production capacity. See Recent developments below regarding our new production facility in Roanoke, Virginia. However, U.S. economic conditions may not continue to improve in the future or result in a sustained economic recovery, and our business is subject to significant other risks that may cause our current positive outlook to change. See Risk factors.

RECENT DEVELOPMENTS

In April 2005, we completed an initial public offering of shares of our common stock. In connection with the offering, we offered and sold 5,100,000 shares of our common stock and certain selling stockholders offered and sold 4,675,000 shares at a price of $19.00 per share. The net proceeds that we received from the initial public offering, after deducting underwriting discounts, commissions and estimated offering-related expenses payable by us, were approximately $85.3 million. We used all of our net proceeds and our available cash to repay our existing indebtedness, redeem all of our outstanding redeemable preferred stock, pay amounts due to shareholders, pay amounts due in connection with the termination of certain management services and other agreements with certain of our stockholders and pay related fees and expenses. See Liquidity and capital resources.

In December 2004, we entered into an agreement to lease a railcar manufacturing facility from Norfolk Southern Railway Company, or Norfolk Southern, in Roanoke, Virginia. The lease agreement provides for the lease of approximately 11.6 acres, including certain buildings, equipment, machinery and tracks on the property, and has a term of ten years, commencing on December 31, 2004. The lease agreement provides that we or Norfolk Southern may terminate this agreement for any reason following the fifth

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Management s discussion and analysis of financial condition and results of operations

anniversary of the lease agreement. We are initially producing aluminum-bodied railcars and plan to eventually produce both aluminum-bodied and steel-bodied railcars at the Roanoke facility. We delivered our first railcar manufactured at the Roanoke facility in the second quarter of 2005. We entered into a supply agreement with Norfolk Southern, pursuant to which Norfolk Southern may, but is not required to, purchase railcars from us. This supply agreement sets forth the terms and conditions under which Norfolk Southern may purchase railcars from us, and the term of this agreement is concurrent with the term of the lease agreement.

On November 15, 2004, JAC, our subsidiary, entered into a settlement agreement with the USWA, which represents our unionized employees in our Johnstown, Pennsylvania manufacturing facility. Our unionized employees at our Johnstown facility, who comprise approximately 38% of our total workforce as of June 30, 2005, were without a collective bargaining agreement since October 2001. The settlement agreement sets forth the terms of a new 42-month collective bargaining agreement with our unionized employees at our Johnstown facility. The settlement agreement also provides for the resolution of charges made by the USWA against us with the NLRB, the Deemer and Britt lawsuits and certain workplace grievance matters. Under the terms of the settlement agreement, the plaintiffs in the Deemer and Britt lawsuits agreed to withdraw their lawsuits with prejudice and the USWA agreed to request that the NLRB prosecutor withdraw the NLRB charges against us. In addition, the settlement agreement limits our future liabilities for health care coverage and pension benefits for retired unionized employees at our Johnstown facility. The settlement was conditioned on, among other things, obtaining certain third-party approvals. All of the conditions to the effectiveness of the settlement were met as of May 4, 2005. We refer to the settlement agreement and the related matters discussed above as the Johnstown settlement. See Business Legal proceedings Labor dispute settlement.

FINANCIAL STATEMENT PRESENTATION

Restatements

Subsequent to the issuance of our 2004 financial statements, our management determined that $5.2 million of our variable demand industrial revenue bonds due 2010 previously reported as long-term debt at December 31, 2003 and 2004 should have been reported within current liabilities. Accordingly, previously reported long-term debt at each of December 31, 2003 and 2004 was reduced by $5.2 million and current liabilities and total current liabilities at those dates were increased by $5.2 million from the amounts previously reported.

In addition, subsequent to the issuance of our 2004 financial statements, our management determined that changes in restricted cash deposits previously reported in the statements of cash flows as operating activities should have been reported in the statements of cash flows as investing activities. Accordingly, the statements of cash flows for 2002, 2003 and 2004, the three months ended March 31, 2004 and 2005, and the six months ended June 30, 2004 have been restated from the amounts previously reported. This restatement had no effect on our overall net cash and cash equivalent position previously reported for the years ended December 31, 2002, 2003 and 2004, the three months ended March 31, 2004 and 2005, and the six months ended June 30, 2004. The restatement of our cash flow information did not result in any change to any financial information included in our consolidated statements of operations, balance sheets or statements of stockholders equity (deficit) for such periods.

All financial information in this prospectus gives effect to these restatements. See Note 2 to our consolidated financial statements for more information.

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Management s discussion and analysis of financial condition and results of operations

Sales

Our sales are generated primarily from sales of the railcars that we manufacture. Our sales depend on industry demand for new railcars, which is driven by overall economic conditions and the demand for railcar transportation of various products, such as coal, motor vehicles, flat and coiled steel products, lumber, plywood and other building products, minerals, cement, grain, automotive parts and paper products. Our sales are also affected by competitive market pressures that impact the prices for our railcars and by the types of railcars sold.

We generally manufacture railcars under firm orders from our customers. We recognize sales, which we sometimes refer to as deliveries, on new and rebuilt railcars when we complete the individual railcars, the railcars are accepted by the customer following inspection, the risk for any damage or other loss with respect to the railcars passes to the customer and title to the railcars transfers to the customer. With respect to sales transactions involving the trading-in of used railcars, in accordance with accounting rules, we recognize sales for the entire transaction when the cash consideration received is in excess of 25% of the total transaction value and on a pro rata portion of the total transaction value when the cash consideration received is less than 25% of the total transaction value. Sales of used railcars that had been traded in were $5.9 million for the year ended December 31, 2003, and represented only 2.6% of our total sales of railcars for that year. Sales of used railcars for the year ended December 31, 2004 and the six months ended June 30, 2005 were not material. We value used railcars received at their estimated fair market value less a normal profit margin. The variable purchase patterns of our customers and the timing of completion, delivery and acceptance of customer orders may cause our sales and income from operations to vary substantially each quarter, which will result in significant fluctuations in our quarterly results.

Cost of sales

Our cost of sales includes the cost of raw materials such as aluminum and steel, as well as the cost of finished railcar components, such as castings, wheels, truck components and couplers, and other specialty components. Our cost of sales also includes labor, utilities, freight, manufacturing depreciation and other manufacturing costs. Factors that have affected our cost of sales include the recent increases in the cost of steel and aluminum, the limited supply of castings and our efforts to lower manufacturing costs in our Johnstown, Pennsylvania facility and to reduce the costs of new products that we have recently introduced.

We purchase, and we believe most of our competitors purchase, a substantial percentage of railcar castings and wheels from subsidiaries of Amsted Industries Inc. Due to manufacturing limitations at Amsted Industries, we have only been supplied with a limited number of castings, which has constrained our production of railcars. We believe that the supply to our competitors has similarly been limited. For the year ended December 31, 2004, due to a shortage of heavy castings, our deliveries were limited to 7,484 railcars, even though we had orders and production capacity to manufacture more railcars. The limited supply of castings did not impact our deliveries for the six months ended June 30, 2005. Customer orders may be subject to cancellation, customer requests for delays in railcar deliveries, inspection rights and other customary industry terms and conditions. See Risk factors Risks related to the railcar industry Limitations on the supply of heavy castings, wheels and other railcar components could adversely affect our business because they may limit the number of railcars we can manufacture.

The prices for steel and aluminum, the primary raw material components of our railcars, increased sharply in 2004 as a result of strong demand, limited availability of production inputs for steel and aluminum, including scrap metal, industry consolidation and import trade barriers. The costs for raw steel and aluminum have increased by approximately 155% and 21%, respectively, during the period from October 2003 through June 30, 2005. The availability of scrap metal has been limited by exports of

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scrap metal to China, and as a result, steel producers have charged scrap metal surcharges in excess of agreed-upon prices. In addition, the price and availability of other railcar components that are made of steel have been adversely affected by the increased cost and limited availability of steel. These changes negatively impacted our railcar margins for the year ended December 31, 2004. In the year ended December 31, 2004 and the six months ended June 30, 2005, we were unable to pass on an estimated $12.7 million and $0.9 million, respectively, in increased raw material costs to our customers under the existing fixed-price customer contracts.

In response to the increasing cost of raw materials, we are working with suppliers to minimize surcharges that they charge us and, where possible, we have sought to pass on higher material costs to customers. We have renegotiated our contracts with a majority of our customers to increase the purchase prices of our railcars to reflect the increased cost of raw materials, and as a result, we were able to pass on to our customers approximately 40% of the increased raw material costs with respect to the railcars that we produced and delivered in 2004. In addition, we have entered into customer contracts that allow for variable pricing to protect us against future changes in the cost of raw materials so that, as of June 30, 2005, all but one of our customer contracts allowed for such variable pricing. We expect that most of the contracts that we enter into in the future will provide for variable pricing on certain raw materials. However, we may not always be effective in passing on these cost increases to our customers. For example, in the year ended December 31, 2004, we recorded $2.2 million of excess costs that we were unable to pass on to our customers relating to a purchase order which was completed and delivered in the second quarter of 2004, an $8.9 million loss on a box railcar contract, a $2.8 million loss on an aluminum vehicle carrier railcar contract and a $0.3 million loss on a container railcar contract. Approximately $1.8 million of the $8.9 million loss on the box railcar contract occurred as a result of the increased raw material costs exceeding the fixed purchase price under this contract. In the six months ended June 30, 2005, we recorded an additional $1.5 million loss on the same box railcar contract as a result of the increased raw material costs exceeding the fixed purchase price under this contract. Increases in prices, surcharges or limited availability of raw materials may adversely impact our margins and production schedules in future periods. See Risk factors Risks related to the railcar industry The current high cost of the raw materials that we use to manufacture railcars, especially aluminum and steel, and delivery delays associated with these raw materials may adversely affect our financial condition and results of operations.

Operating income

Operating income represents total sales less cost of sales, selling, general and administrative expenses, goodwill and intangible asset amortization expense and the provision for the settlement of labor disputes in 2004.

BACKLOG

We define backlog as the number and value of railcars that our customers have committed in writing to purchase from us, which have not been recognized as sales. Our contracts generally include cancellation clauses under which customers are required, upon cancellation of the contract, to reimburse us for costs incurred in reliance on an order and to compensate us for lost profits.

Our backlog has increased from 1,067 railcars at the end of 2002 to 15,867 railcars as of June 30, 2005, which we believe is primarily due to the current economic recovery, which is resulting in the replacement of aging railcar fleets, and the increasing demand for electricity and the increasing demand for steel, thereby increasing the demand for coal-carrying railcars and industrial and steel-carrying railcars, respectively.

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The following table depicts our reported railcar backlog, in number of railcars and estimated future sales value attributable to such backlog, for the periods shown.

	Year ended December 31,			Six months ended June 30,	
	2002	2003	2004	2004	2005
Railcar backlog at start of period	2,178	1,067	6,444	6,444	11,397
New railcars delivered	(3,942)	(4,550)	(7,484)	(3,128)	(5,704)
New railcar orders	2,831	9,927	12,437	5,103	10,174
Railcar backlog at end of period	1,067	6,444	11,397	8,419	15,867
Estimated backlog at end of period (in thousands)(1)	$ 55,887	$ 365,876	$ 747,842	$ 540,127	$ 1,062,977

(1) Estimated backlog reflects the total sales attributable to the backlog reported at the end of the particular period as if such backlog were converted to actual sales. Estimated backlog does not reflect potential price increases and decreases under certain customer contracts that provide for variable pricing based on changes in the cost of raw materials.

We expect that substantially all of our reported backlog as of June 30, 2005 will be converted to sales by the first quarter of 2007. However, there can be no assurance that our reported backlog will convert to sales in any particular period, if at all, or that the actual sales from these contracts will equal our reported backlog estimates. Customer orders may be subject to cancellation, customer requests for delays in railcar deliveries, inspection rights and other customary industry terms and conditions. See Risk factors Risks related to our business The level of our reported backlog may not necessarily indicate what our future sales will be, and our actual sales may fall short of the estimated sales value attributed to our backlog.

In addition, due to the large size of railcar orders and variations in the mix of railcars, the size of our reported backlog at the end of any given period may fluctuate significantly. See Risk factors Risks related to the railcar industry The variable purchase patterns of our customers and the timing of completion, delivery and acceptance of customer orders may cause our sales and income from operations to vary substantially each quarter, which will result in significant fluctuations in our quarterly results. We rely upon third-party suppliers for heavy castings, wheels and other components for our railcars. In the event that our suppliers were to stop or reduce their supply of heavy castings, wheels or the other railcar components that we use, our business would be disrupted, and the actual sales from our customer contracts may fall significantly short of our reported backlog. See Risk factors Risks related to the railcar industry Limitations on the supply of heavy castings, wheels and other railcar components could adversely affect our business because they may limit the number of railcars we can manufacture. We currently do not have any backlog for rebuilt railcars.

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RESULTS OF OPERATIONS

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

	Year ended December 31,						Six months ended June 30,			
	2002		2003		2004		2004		2005	
Sales	$ 225,497	100%	$ 244,349	100%	$ 482,180	100%	$ 183,813	100%	$ 396,519	100%
Cost of sales	212,589	94%	225,216	92%	468,309	97%	181,294	99%	358,976	91%
Gross profit	12,908	6%	19,133	8%	13,871	3%	2,519	1%	37,543	9%
Selling, general and administrative expense	12,778	6%	14,318	6%	14,601	3%	6,993	4%	13,740	3%
Provision for settlement of labor disputes					9,159	2%			370	0%
Compensation expense under stock option agreements (selling, general and administrative expense)					8,900	2%			69	0%
Operating income (loss)	130	0%	4,815	2%	(18,789)	(4)%	(4,474)	(3)%	23,364	6%
Interest income	(162)	(0)%	(128)	(0)%	(282)	(0)%	(52)	(0)%	(342)	(0)%
Related-party interest expense	6,517	3%	6,764	3%	7,029	2%	3,397	2%	3,253	1%
Third-party interest expense	1,595	1%	1,367	1%	1,111	0%	531	0%	964	0%
Interest expense and related accretion on rights to additional acquisition consideration	3,659	1%	4,573	2%	5,716	1%	2,598	1%	6,382	2%
Write-off of deferred financing costs			348	0%					439	0%
Amortization of deferred financing costs	702	0%	629	0%	459	0%	270	0%	184	0%
Income (loss) before income taxes	(12,181)	(5)%	(8,738)	(4)%	(32,822)	(7)%	(11,218)	(6)%	12,484	3%
Income tax provision (benefit)	(3,554)	(2)%	(1,318)	(1)%	(7,962)	(2)%	(3,197)	(2)%	1,425	0%
Net income (loss)	$ (8,627)	(3)%	$ (7,420)	(3)%	$ (24,860)	(5)%	$ (8,021)	(4)%	$ 11,059	3%

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Comparison of the six months ended June 30, 2005 to the six months ended June 30, 2004

Our net income was $11.1 million for the six months ended June 30, 2005, reflecting an increase of $19.1 million from the net loss of $8.0 million for the six months ended June 30, 2004. The improvement in financial results was primarily attributable to increased sales from our delivery of an additional 2,576 railcars in the six months ended June 30, 2005 compared to the same period in 2004. Other factors include improved market pricing environment, operating leverage attributed to higher volume and the impact of the pass-through of increases in raw material costs to our customers with respect to a majority of our railcar deliveries in the six months ended June 30, 2005. Net income attributable to common stockholders increased to $10.7 million for the six months ended June 30, 2005 as compared to a net loss of $8.6 million attributable to common stockholders for the same period in 2004. For the six months ended June 30, 2005 our basic and diluted net income per share was $1.11 on basic and diluted shares outstanding of 9,715,020 and 9,723,306, respectively. For the same period of the prior year, our basic and diluted net loss per share was $1.24 on basic and diluted shares outstanding of 6,875,000.

Sales

Our sales for the six months ended June 30, 2005 were $396.5 million as compared to $183.8 million for the six months ended June 30, 2004, representing an increase of $212.7 million. This increase was primarily due to our delivery of an additional 2,576 railcars, an 82% increase, and an improved market pricing environment in the six months ended June 30, 2005 compared to the same period in 2004. The increased volume of railcar deliveries reflects increased demand for our coal-carrying railcars. Deliveries of our BethGon II and AutoFlood III coal-carrying railcars comprised 81% of our total railcar deliveries for the six months ended June 30, 2005.

Gross profit

Gross profit for the six months ended June 30, 2005 was $37.5 million as compared to $2.5 million for the six months ended June 30, 2004, representing an increase of $35.0 million. This increase was primarily due to our increased sales volume, an improved market pricing environment, operating leverage attributed to higher volume and the impact of the pass-through of increases in raw material costs to our customers with respect to a majority of our railcar deliveries. During the six months ended June 30, 2005 and 2004, our gross profit was adversely impacted by higher manufacturing costs of approximately $1.5 million and $6.5 million, respectively, associated with increased material, labor and other costs related to a contract to manufacture box railcars, a type of railcar that we had not previously manufactured. For the six months ended June 30, 2005, we were able to pass on increases in raw material costs to our customers with respect to 92% of our railcar deliveries.

Selling, general and administrative expenses

Selling, general and administrative expenses for the six months ended June 30, 2005 were $14.2 million as compared to $7.0 million for the six months ended June 30, 2004, representing an increase of $7.2 million. Selling, general and administrative expenses were 3.6% of our sales for the six months ended June 30, 2005 and 3.8% of our sales for the six months ended June 30, 2004. The increase in selling, general and administrative expenses is primarily attributable to increased expenses of $1.6 million relating to our employee incentive program, charges related to the termination of management services and other agreements of $0.9 million, an additional charge of $0.4 million relating to a change

in estimate of the charge resulting from the Johnstown labor settlement, and $0.4 million of expenses attributable to the implementation of controls and procedures applicable to public companies. In addition, selling, general and administrative expenses for the six months ended June 30, 2005 include $0.5 million of costs relating to operations at our Roanoke, Virginia facility.

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Interest expense

Our interest expense for the six months ended June 30, 2005 was $10.6 million as compared to $6.5 million for the six months ended June 30, 2004, representing an increase of $4.1 million. The increase in interest expense is primarily attributable to the accretion of additional interest on the rights to additional acquisition consideration prior to the payment of the additional acquisition consideration with the net proceeds of the initial public offering. Interest expense and related accretion on the rights to additional acquisition consideration, including the one-time final payment resulting from the initial public offering, totaled $6.4 million for the six months ended June 30, 2005, while the interest expense on the rights to additional acquisition consideration for the six months ended June 30, 2004 was $2.6 million. Related-party interest expense and third-party interest expense for the six months ended June 30, 2005 were $3.3 million and $1.0 million, respectively, compared with $3.4 million and $0.5 million for the same period in 2004.

Income taxes

The provision for income taxes was $1.4 million for the six months ended June 30, 2005, as compared to an income tax benefit of $3.2 million for the six months ended June 30, 2004. The effective tax rates for the six months ended June 30, 2005 and 2004 were 11.4% and 28.5%, respectively. The effective tax rate for the six months ended June 30, 2005 was lower than the statutory U.S. federal income tax rate of 35% due to the addition of a 2.0% blended state rate, less a 24.1% effect for previously non-deductible interest expense on the rights to additional acquisition consideration which became deductible for income tax purposes upon payment of the additional acquisition consideration and a 1.5% effect for other permanent differences. The effective tax rate for the six months ended June 30, 2004 was lower than the statutory U.S. federal income tax rate of 35% due to the addition of a 3.0% blended state rate, less an 8.1% effect for then-nondeductible interest expense on the rights to additional acquisition consideration and a 1.4% effect for other permanent differences.

Comparison of the year ended December 31, 2004 to the year ended December 31, 2003

Our net loss for the year ended December 31, 2004 was $24.9 million as compared to $7.4 million for the year ended December 31, 2003, representing an increase of $17.5 million. The increase in our net loss was attributable to a $9.2 million expense recorded for the Johnstown settlement, an $8.9 million loss on a box railcar contract reflecting increased raw material, labor and other costs, a $2.8 million loss on an aluminum vehicle carrier railcar contract, a $0.3 million loss on a container railcar contract and the recording of $8.9 million of compensation expense to account for the 2004 Options. These decreases were partially offset by increased sales from our delivery of an additional 2,929 railcars in the year ended December 31, 2004 compared to the same period in 2003. Net loss attributable to common shareholders for the year ended December 31, 2004 was $25.9 million as compared to $8.5 million for the same period in 2003. The difference of $1.0 million between net loss and net loss attributable to common shareholders for the year ended December 31, 2004 reflects accumulated dividends on our redeemable preferred stock.

Sales

Our sales for the year ended December 31, 2004 were $482.2 million as compared to $244.3 million for the year ended December 31, 2003, representing an increase of $237.9 million. This increase was primarily due to our delivery of an additional 2,929 railcars in the year ended

December 31, 2004 compared to the same period in 2003, which resulted in an increase in sales of $237.9 million. The additional deliveries of railcars in the year ended December 31, 2004 reflect an increased demand for

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coal-carrying railcars. Additionally, our sales in 2004 increased by $3.7 million from sales of rebuilt railcars, sales of parts and other sales when compared to the same period in 2003. These increases were offset by reduced sales of $5.7 million from rebuilding railcars in the year ended December 31, 2004 when compared to the same period in 2003.

Gross profit

Our gross profit in the year ended December 31, 2004 was $13.9 million as compared to $19.1 million in the year ended December 31, 2003, representing a decrease of $5.2 million, or 27.2%, in gross profit. This decrease was primarily due to an estimated $12.7 million increase in the cost of raw materials (consisting primarily of aluminum and steel) and $14.3 million of excess costs on customer contracts that we were unable to pass on to our customers. The $14.3 million loss included an $8.9 million loss related to a contract to manufacture box railcars, a product line that we had not previously manufactured. The $8.9 million loss on the box railcar contract reflects increased raw material, labor and other costs that exceeded the fixed purchase price under this contract. After completing deliveries of box railcars under this customer contract, we plan to cease manufacturing this product. The $14.3 million loss also included a $2.8 million loss on an aluminum vehicle carrier railcar contract reflecting increased raw material, labor and other costs that exceeded the fixed purchase price under this contract. The $14.3 million loss also included a $2.3 million loss on a purchase order for another type of railcar that was completed and delivered in the second quarter of 2004 and a $0.3 million loss on container railcars manufactured for foreign delivery reflecting increased raw material, labor and other costs that exceeded the fixed purchase price under this contract. These decreases were offset by $20.8 million of additional gross profit resulting from the sale of an additional 2,929 railcars and $1.0 million of gross profit from rebuilding railcars, managing leased railcars, sales of parts and the resale of used railcars in the year ended December 31, 2004. Our gross profit margin decreased to 2.8% in the year ended December 31, 2004 from 7.8% in the year ended December 31, 2003.

Selling, general and administrative expenses

Our selling, general and administrative expenses in the year ended December 31, 2004 were $14.6 million as compared to $14.3 million in the year ended December 31, 2003, representing an increase of $0.3 million, or 2.1%, in these expenses. Selling, general and administrative expenses were 3.0% of sales in the year ended December 31, 2004 as compared to 5.9% of sales in the year ended December 31, 2003. Selling, general and administrative expenses as a percentage of total sales declined in 2004 as compared to 2003, despite a 97.3% increase in sales for the period, because these costs do not increase in direct proportion to increases in sales.

Stock compensation expense

We recorded $8.9 million of stock compensation expense (selling, general and administrative expense) in December 2004 related to the grant of the 2004 Options to certain of our directors and officers. Our board of directors approved the grant of certain options to purchase an aggregate of 1,014 Units at an exercise price of $0.01 per Unit. Each Unit consisted of 550 shares of our common stock and one share of our Series A voting preferred stock. The compensation expense was determined based upon the estimated value per Unit as of the effective date of grant of the 2004 Options on December 23, 2004. See Management Executive compensation Option awards and option plan.

Provision for settlement of labor disputes

As part of the Johnstown settlement, we agreed to add certain retirees to our pension and postretirement benefit programs and pay fixed health care costs with respect to the unionized retired employees of JAC.

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We also agreed to pay back wages equal to $1.4 million to the covered employees and recorded a $0.8 million cash charge for expenses related to the settlement. We also recorded $7.0 million of non-cash expense related to termination benefits accrued by the participants of the pension and postretirement benefit programs through the date of the settlement agreement. The settlement was conditioned on, among other things, approval by the NLRB and the United States District Court for the Western District of Pennsylvania of the settlement and the withdrawal of certain NLRB charges and class-action lawsuits against us related to the Johnstown facility. All of the conditions to the effectiveness of the settlement were met as of May 4, 2005.

Interest expense

Our interest expense in the year ended December 31, 2004 was $13.9 million as compared to $12.7 million for the year ended December 31, 2003, representing an increase of $1.2 million, or 9.1%. The recorded amount of our obligation under the rights to additional acquisition consideration accretes at the rate of 25% per year. The interest on the rights to additional acquisition consideration increased our interest expense in the year ended December 31, 2004 by $1.1 million when compared to the year ended December 31, 2003. For more information on the rights to additional acquisition consideration, see Certain relationships and related party transactions Rights to additional acquisition consideration. This increase was partially offset by our repayment in September 2003 of the $6.4 million balance under a term loan we entered into in 1999 with an initial aggregate principal amount of $55.0 million, resulting in a $0.2 million reduction of interest expense.

Income taxes

Our income tax benefit for the year ended December 31, 2004 was $8.0 million, or 24.2% of our loss before income taxes, as compared to $1.3 million for the year ended December 31, 2003, or 15.1% of our loss before income taxes. Our income tax benefit for the year ended December 31, 2004 was higher than for the same period in 2003 because we incurred expenses in 2004 that were deductible for tax purposes which we did not incur in 2003.

Comparison of the year ended December 31, 2003 to the year ended December 31, 2002

Our net loss for the year ended December 31, 2003 was $7.4 million as compared to $8.6 million for the year ended December 31, 2002, representing a decrease of $1.2 million, or 14.0%, in net loss. This reduction in net loss was due primarily to increased gross profit from the delivery of 613 additional railcars, which was partially offset by an increase in selling, general and administrative expenses of $1.5 million, which included a finder s fee of $1.8 million that we paid to a third party for securing a major railcar purchase order for us in early 2003. Our in-house sales personnel generally procure railcar purchase orders, and we do not ordinarily pay finder s fees to obtain railcar purchase orders. Net loss attributable to common shareholders for the year ended December 31, 2003 was $8.5 million as compared to $9.7 million for the year ended December 31, 2002. The difference between net loss and net loss attributable to common shareholders for the year ended December 31, 2003 reflects $1.1 million of accumulated dividends on our redeemable preferred stock.

Sales

Our sales for the year ended December 31, 2003 were $244.3 million as compared to $225.5 million for the year ended December 31, 2002, representing an increase of $18.8 million, or 8.4%, in sales. This increase was due to our delivery of an additional 613 railcars in 2003, which increased sales by $38.6 million. The additional deliveries of railcars in 2003 reflect the increased demand for coal-carrying railcars. This increase was offset in part by a decrease in sales in 2003 from rebuilding of railcars, which reduced sales by $18.2 million, and a decrease in sales from managing leased railcars, sales of used railcars and the sales of parts, which decreased sales by an additional $1.5 million in 2003.

Gross profit

Our gross profit in the year ended December 31, 2003 was $19.1 million as compared to $12.9 million in the year ended December 31, 2002, representing an increase of $6.2 million, or 48.2%, in gross profit. The gross profit from our delivery of an additional 613 railcars in 2003 when compared to 2002 was offset by the non-recurrence in 2003 of gross profit in 2002 relating to our rebuilding of railcars, managing leased railcars, sales of used railcars and the sales of parts. As a result, our gross profit margin increased to 7.8% in 2003 from 5.7% in 2002. Additionally, the 2002 gross profit included a $1.2 million curtailment gain related to our postretirement benefit program as a result of the layoff of a significant number of unionized employees at our Johnstown facility.

Selling, general and administrative expenses

Our selling, general and administrative expenses in the year ended December 31, 2003 were $14.3 million as compared to $12.8 million in the year ended December 31, 2002, representing an increase of $1.5 million or 12.1%. The increase in our selling, general and administrative expenses in 2003 was due primarily to a finder s fee of $1.8 million that we paid to a third party for securing a major purchase order for us in early 2003. Selling, general and administrative expenses increased to 5.9% of sales in the year ended December 31, 2003 from 5.7% in the year ended December 31, 2002.

Interest expense

Our interest expense was $12.7 million and $11.8 million for the years ended December 31, 2003 and 2002, respectively. The interest on the rights to additional acquisition consideration increased our interest expense in 2003 by $0.9 million when compared to 2002.

Income taxes

Our income tax benefit in the year ended December 31, 2003 was $1.3 million, or 15.1% of loss before income taxes, as compared to $3.6 million in the year ended December 31, 2002, or 29.2% of loss before income taxes. The decrease in our income tax rate in 2003 was primarily the result of an increase in the valuation allowance for net operating loss carryforwards and net deferred tax assets under Pennsylvania state law and the impact of the nondeductible interest expense accruing on the rights to additional acquisition consideration.

LIQUIDITY AND CAPITAL RESOURCES

Our primary source of liquidity historically has been the cash generated from our operations. To a lesser extent, we have used funds generated from borrowings of long-term debt. Our primary sources of liquidity for the six months ended June 30, 2005 were proceeds from our initial

public offering and cash generated from operations. For the six months ended June 30, 2004, our primary source of liquidity was provided by our cash position held at the beginning of the period. From the six months ended June 30, 2004 to the six months ended June 30, 2005, we had an increase in net cash provided by operating activities of $20.9 million. See Cash flows.

We completed an initial public offering on April 11, 2005 and issued 5.1 million shares at an offering price of $19.00 per share. Net proceeds from the offering and available cash have been used to, among other things, repay all of our long-term debt with the exception of certain capital leases, redeem all of our outstanding redeemable preferred stock and pay the additional acquisition consideration related to the acquisition of our business in 1999. Our long-term debt in existence immediately prior to our initial public offering consisted of our 15% senior notes due June 30, 2008 in the original principal amount of

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$25.0 million (which we refer to as the senior notes and which term includes the additional senior notes issued in payment of interest payable on the senior notes), our term loan having an original principal amount of $9.0 million and our $5.2 million variable demand industrial revenue bonds. Immediately upon the completion of the offering, we paid all amounts due under the rights to additional acquisition consideration and the term loan. The amounts due under the senior notes were placed in escrow and, upon expiration of the notice period, were paid on April 26, 2005. In addition, the amount necessary to repay in full our industrial revenue bonds was placed in escrow and, upon expiration of the notice period, was paid on May 26, 2005.

The proceeds of the offering and available cash were used as follows: $48.4 million was used for the repayment of the senior notes; $35.0 million was used for payment under the rights to additional acquisition consideration; $13.0 million was used for the redemption of the redeemable preferred stock; $5.4 million was used for the repayment of the term loan; $5.2 million was used for the repayment of the industrial revenue bonds; and $0.9 million was used for payments related to the termination of management services and other agreements. In conjunction with these payments, early termination fees of $0.1 million and a write-off of deferred financing costs of $0.4 million, each related to the term loan repayment, were recorded in April 2005. In addition, in April 2005, we recorded charges of $0.8 million related to unamortized discount on the senior notes and $4.6 million related to the additional accretion under the rights to additional acquisition consideration. The effects of the offering and payments noted above resulted in an aggregate pre-tax charge to operations of $6.8 million in the second quarter of 2005. Additionally, the estimated deferred offering costs of $4.8 million were recorded as a reduction in additional paid in capital.

On April 11, 2005, concurrent with the completion of the initial public offering, we entered into an Amended and Restated Credit Agreement providing for the terms of our revolving credit facility with LaSalle Bank National Association, as administrative agent, and the lenders party thereto. The revolving credit facility replaced our former $20.0 million revolving credit facility with LaSalle Bank National Association. See Description of indebtedness for a summary of the terms of our revolving credit facility. The revolving credit facility provides for a $50.0 million revolving credit line, including a letter of credit sub-facility that may not exceed $30.0 million. The revolving credit facility has a term of three years. Our assets and the assets of our subsidiaries serve as collateral for borrowings under the revolving credit facility. The Borrowing Base, as defined in the revolving credit agreement, is the lesser of the $50.0 million revolving commitment or an amount equal to a percentage of eligible accounts receivable plus percentages of eligible finished inventory and eligible semi-finished inventory, respectively. Borrowings under the revolving credit facility bear interest at the LIBOR rate plus an applicable margin of between 1.75% and 3.00%, which is determined based on our leverage ratio. We pay a commitment fee of between 0.25% and 0.50% on the unused portion of the revolving credit facility. As of June 30, 2005, we had no outstanding borrowings under the revolving credit facility, we had $9.0 million in letters of credit under the letter of credit sub-facility and we had the ability to borrow $38.1 million under the revolving credit facility.

Our revolving credit facility has ongoing maintenance financial covenants based on EBITDA and restrictions on our capital expenditures. Financial covenants under the revolving credit agreement include maximum ratios of senior debt to EBITDA (senior leverage ratio) and total funded debt to EBITDA (total leverage ratio); minimum interest coverage ratio (interest coverage ratio), a minimum tangible net worth and limitations on capital expenditures and dividends. More specifically, for each period of four consecutive fiscal quarters ending on the last day of a fiscal quarter, the maximum senior leverage ratio is 3.25 to 1.00 on or before June 30, 2006 and 3.00 to 1.00 thereafter; the maximum total leverage ratio is 3.75 to 1.00 on or before June 30, 2006 and 3.50 to 1.00 thereafter; and the interest coverage ratio may not be less than 3.50 to 1.00. Further, for each fiscal quarter commencing June 30, 2005,

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tangible net worth may not be less than $(22.4) million, plus 65% of consolidated net income. The aggregate amount of capital expenditures may not exceed $10.0 million in any fiscal year, with this amount to be increased up to $15.0 million depending upon any carry-forwards of unused capital expenditures in the prior fiscal year. We are restricted in payment dividends in excess of $10.0 million in any fiscal year. For the purpose of calculating interest coverage and leverage ratios under the revolving credit agreement, through September 30, 2005, EBITDA is adjusted to include up to $9.2 million in connection with the settlement of labor disputes; non-cash expenses in 2004 relating to our stock option plan; and losses on a customer contract for boxcars in 2004. The EBITDA-based ratios under the revolving credit facility are material because our failure to comply with these covenants will result in an event of default under the credit agreement governing the revolving credit facility. An event of default may lead to the acceleration of any and all amounts due under the revolving credit facility, which may have a material adverse effect on our financial condition and liquidity, depending on the amounts then due under the revolving credit facility.

As of June 30, 2005, we no longer had any remaining restricted cash. Restricted cash in the amount of $13.0 million was released during the three months ended June 30, 2005 as follows: $7.5 million held as additional collateral under the former revolving credit facility was released when we entered into the new revolving credit agreement; $1.2 million held in escrow as security for worker s compensation insurance was replaced by a letter of credit; and $4.3 million held in escrow for a residual support guaranty relating to railcars we sold to a financial institution that are leased by a third-party customer was released by the financial institution. We have been notified that the third-party customer has exercised its option to purchase the railcars on September 1, 2005 pursuant to the lease agreement. Upon the closing of the sale of the railcars, we will have no further obligations under the residual support guaranty agreement. We expect to recognize deferred revenue of $5.3 million without any corresponding expense upon the closing of the sale of the railcars.

Based on our current level of operations and our anticipated growth, we believe that our proceeds from operating cash flows, together with amounts available under our revolving credit facility, will be sufficient to meet our anticipated liquidity needs for the remainder of 2005. Our long-term liquidity is contingent upon future operating performance and our ability to continue to meet financial covenants under our revolving credit facility and any other indebtedness. We may also require additional capital in the future to fund capital investments, acquisitions or development of railcars, and these capital requirements could be substantial. Our operating performance is materially impacted by gross margins on the sales of railcars. A majority of our existing contracts to manufacture railcars, and we anticipate that the majority of new contracts to manufacture railcars, will allow us to increase the purchase prices of our railcars to reflect the increase cost of raw materials. As of June 30, 2005, we had only one remaining fixed-price contract reflecting a backlog of 66 railcars, and we expect to deliver all of the railcars under this contract by September 30, 2005. Accordingly, management believes that potential losses on the remaining fixed-price contract will not materially impact our liquidity and future results of operations. See Risk factors Risks related to the railcar industry The current high cost of the raw materials that we use to manufacture railcars, especially aluminum and steel, and delivery delays associated with these raw materials may adversely affect our financial condition and results of operations.

Our long-term liquidity needs also depend to a significant extent on our obligations related to our pension and welfare benefit plans. We provide pension and retiree welfare benefits to certain salaried and hourly employees upon their retirement. The most significant assumptions used in determining our net periodic benefit costs are the discount rate used on our pension and postretirement welfare obligations, expected return on pension plan assets and the health care cost trend rate for our postretirement welfare obligations. As of December 31, 2004, our accumulated benefit obligation under our defined benefit

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pension plans exceeded the fair value of plan assets by $18.5 million. Our management expects that any future obligations under our pension plans that are not currently funded will be funded out of our future cash flow from operations. As a result of the Johnstown settlement, we will contribute a fixed amount for pension costs. We made contributions of $4.8 million in 2004 and expect to make contributions of approximately $4.0 million in 2005 relating to pension costs, of which $1.7 million in contributions were made during the six months ended June 30, 2005.

Based upon our operating performance, capital requirements and obligations under our pension and welfare benefit plans, we may, from time to time, be required to raise additional funds through additional offerings of our common stock and through long-term borrowings. There can be no assurance that long-term debt, if needed, will be available on terms attractive to us, or at all. Furthermore, any additional equity financing may be dilutive to stockholders and debt financing, if available, may involve restrictive covenants. Our failure to raise capital if and when needed could have a material adverse effect on our business, results of operations and financial condition.

Cash flows

The following table summarizes our net cash provided by or used in operating activities, investing activities and financing activities and our capital expenditures for the periods presented (in thousands):

	Year ended December 31,			Six months ended June 30,	
Cash flows	**2002**	**2003**	**2004**	**2004**	**2005**
Net cash provided by (used in):					
Operating activities	$ 3,817	$ 18,376	$ (560)	$ 301	$ 21,234
Investing activities	(608)	(7,951)	(3,472)	(753)	7,625
Financing activities	(8,517)	(10,142)	(4,763)	(1,750)	(19,605)
Capital expenditures	(553)	(369)	(2,215)	(728)	(5,330)

The table above and the following discussion of our cash flows give effect to the restatement discussed in Note 2 to our consolidated financial statements.

Operating Activities. Our net cash provided by or used in operating activities reflects net income or loss adjusted for non-cash charges and changes in net working capital (including non-current assets and liabilities). 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 contract receivables, processing of bi-weekly payroll and associated taxes, and payment to our suppliers. Our working capital accounts also fluctuate from quarter to quarter due to the timing of certain events, such as the payment or non-payment for our railcars. We do not usually experience business credit issues, although a payment may be delayed pending completion of closing documentation, and a typical order of railcars may not yield cash proceeds until after the end of a reporting period.

Our net cash provided by operating activities for the six months ended June 30, 2005 was $21.2 million as compared to net cash provided by operating activities of $0.3 million for the six months ended June 30, 2004. The increase of $20.9 million in net cash provided by operating activities was primarily due to a $19.1 million increase in net income. The change in the primary elements of net working capital, which consist of accounts receivable, inventory and accounts payable, resulted in a $9.9 million use of cash for the six months ended June 30, 2005, primarily due to cash used for accounts payable of $11.9 million. The cash used for the primary working capital accounts was offset by cash provided by the other operating assets and liabilities and non-cash expenses.

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Our net cash used in operating activities for the year ended December 31, 2004 was $0.6 million as compared to net cash provided by operating activities of $18.4 million for the year ended December 31, 2003. The increase of $19.0 million in cash used in operating activities was primarily due to the additional use of $9.3 million of cash for other working capital items, the increase of $6.0 million in our net loss adjusted for non-cash items, the additional use of $4.3 million in cash for accounts receivable and inventories, net of accounts payable, and the $3.5 million increase in cash used for payroll, pensions and postretirement obligations. Cash flow from our increased sales was offset by increases in the cost of raw materials, losses on customer contracts and increases in selling, general and administrative expenses. Our accounts receivable and inventories, net of accounts payable, increased as a result of the higher sales levels in 2004 as compared to 2003. These additional uses of cash were offset by a $4.1 million reduction in cash used for warranty costs.

Our net cash provided by operating activities was $18.4 million and $3.8 million for the years ended December 31, 2003 and 2002, respectively. The increase of $14.6 million in our net cash provided by operating activities in 2003 compared to 2002 was primarily due to cash used by accounts receivable and inventories, net of accounts payable, which totaled $0.8 million as well as a $4.7 million refund of our 1999 federal income taxes. Our accounts receivable and inventories, net of accounts payable, were a use of cash because sales in 2003 were higher than those in 2002. This increase was partially offset by reduced operating income and other changes in working capital accounts.

Investing Activities. Net cash provided by investing activities for the six months ended June 30, 2005 was $7.6 million as compared to $0.8 million of net cash used in investing activities for the six months ended June 30, 2004. Net cash used in investing activities for the six months ended June 30, 2004 consisted solely of capital expenditures, while net cash provided by investing activities for the six months ended June 30, 2005 consisted of the release of restricted cash and capital expenditures. The $7.6 million of net cash provided by investing activities for the six months ended June 30, 2005 includes the release of $13.0 million of restricted cash, offset by capital expenditures of $5.3 million. For the six months ended June 30, 2005, $4.7 million of the $5.3 million of total capital expenditures during the period was used for the expansion of production capacity at our manufacturing facility in Roanoke, Virginia.

Net cash used in investing activities for the year ended December 31, 2004 was $3.5 million as compared to $8.0 million in the year ended December 31, 2003. Net cash used in investing activities for the years ended December 31, 2004 and 2003 consisted of capital expenditures and restricted cash deposits. The capital expenditure levels for both periods were lower than our historical expenditure levels, reflecting unfavorable industry conditions.

Net cash used in investing activities was $8.0 million and $0.6 million for the years ended December 31, 2003 and 2002, respectively. The increase was mainly due to the requirement that we hold $7.5 million as cash collateral under our former revolving credit agreement that we entered into in 2003.

Financing Activities. Net cash used in financing activities for the six months ended June 30, 2005 was $19.6 million as compared to $1.8 million for the six months ended June 30, 2004. Cash used in financing activities for the six months ended June 30, 2004 consisted of long-term debt repayments applicable to our term loan. During the six months ended June 30, 2004, in addition to the regular monthly payments of approximately $0.2 million per month, we made a $0.8 million balloon payment on our term loan in accordance with the agreement governing the term loan concerning the payment of proceeds from the sale of rebuilt aggregate railcars. Net cash used in financing activities for the six months ended June 30, 2005 included net proceeds from the issuance of common stock of $87.3 million; payments on long-term debt of $59.0 million; redemption of redeemable preferred stock of $13.0

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million; and payments of additional acquisition consideration of $35.0 million. The payments on long-term debt included $48.4 million for the repurchase of the senior notes; $5.4 million for the repayment of the term loan; and $5.2 million for the repayment of the industrial revenue bonds.

Net cash used in financing activities was $4.8 million for the year ended December 31, 2004 as compared to $10.1 million for the year ended December 31, 2003. During the year ended December 31, 2004, we made a $2.7 million repayment on our term loan and incurred $2.0 million of costs in connection with our initial public offering. Additionally, we repaid the $6.4 million balance of our prior term loan and the $1.9 million balance of our $2.5 million term loan. Also during 2003, we made $0.5 million of scheduled repayments on our term loan. The remaining $1.4 million reflects deferred financing costs related to the term loan and our former revolving credit facility.

Net cash used in financing activities was $10.1 million and $8.5 million for the years ended December 31, 2003 and 2002, respectively. In 2003, we borrowed $9.0 million under the term loan and used the borrowings to repay in part the senior notes, which resulted in no net cash used in financing activities.

Capital expenditures

Our capital expenditures were $5.3 million in the six months ended June 30, 2005 as compared to $0.7 million in the six months ended June 30, 2004. For the six months ended June 30, 2005, $4.7 million of the $5.3 million total capital expenditures was used for the expansion of production capacity at our manufacturing facility in Roanoke, Virginia. The remaining $0.6 million of capital expenditures for the six months ended June 30, 2005 was comprised of expenditures for machinery and equipment at our Johnstown and Danville production facilities. Capital spending for the six months ended June 30, 2004 consisted of machinery and equipment expenditures. Total capital expenditures for the year ended December 31, 2005 are expected to be approximately $7.3 million.

Our capital expenditures were $2.2 million in the year ended December 31, 2004 as compared to $0.4 million in the year ended December 31, 2003. The capital expenditure levels for both periods are lower than our historical expenditure levels, reflecting our decision to reduce spending until economic conditions in our industry have fully recovered. Our capital expenditures for the year ended December 31, 2004 consisted mainly of the replacement of equipment.

Capital expenditures were $0.4 million and $0.6 million for the years ended December 31, 2003 and 2002, respectively. The decrease in capital expenditures in 2003 as compared to 2002 was primarily due to unfavorable industry conditions during 2003.

Excluding capital expenditures associated with the Roanoke facility, management expects that capital expenditures will return to more typical levels of $3.0 million per year beginning in 2006. These expenditures will be used to maintain our existing facilities in Danville and Johnstown and update manufacturing equipment as well as to increase tooling and equipment to meet the forecasted increase in demand for railcars over the next five years. Management continuously evaluates manufacturing facility requirements based upon market demand and may elect to make capital investments at higher levels in the future. In December 2004, we entered into an agreement to lease a railcar manufacturing facility in Roanoke, Virginia. See Recent developments. We expect our capital expenditures in connection with the new manufacturing facility to be approximately $5.7 million in 2005. In response to the current demand for our railcars, we are considering the addition of another manufacturing

facility and exploring other opportunities to increase our production capacity. We expect to fund our capital expenditures through cash provided by operating activities.

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Contractual obligations

The following table summarizes our contractual obligations as of June 30, 2005 and the effect that these obligations and commitments would be expected to have on our liquidity and cash flow in future periods:

	Payments Due by Period				
Contractual Obligations	Total	1 Year	2-3 Years	4-5 Years	After 5 Years
	(in thousands)				
Capital leases	$ 36	$ 8	$ 19	$ 9	$
Operating leases	10,212	1,232	2,175	2,028	4,777
Aluminum purchases	67,013	67,013			
Total	$ 77,261	$ 68,253	$ 2,194	$ 2,037	$ 4,777

In addition to the contractual obligations set forth above, we also will have interest payment obligations on any borrowings under the revolving credit facility. See Description of indebtedness.

We also pay consulting fees to a director who is also one of our stockholders. The amount paid for his consulting services was $50,000 for the year ended December 31, 2004 and $25,000 for the six months ended June 30, 2005. The agreement governing this arrangement will expire in 2008. See Certain relationships and related party transactions Management services agreements, deferred financing fee agreement and consulting agreement.

We are a party to employment agreements with our President and Chief Executive Officer, our Vice President, Finance, Chief Financial Officer, Treasurer and Secretary, our Vice President, Planning and Administration, and our Senior Vice President, Marketing and Sales. See Management Executive compensation Employment and non-competition agreements regarding the terms and conditions of these employment agreements.

We are also required to make minimum contributions to our pension and postretirement welfare plans. See Critical accounting policies Pensions and postretirement benefits regarding our expected contributions to our pension plans and our expected postretirement welfare benefit costs for 2005.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate risk on the borrowings under our revolving credit facility. As of June 30, 2005, there were no borrowings under the revolving credit facility and we had issued approximately $9.0 million in letters of credit under the sub-facility for letters of credit. We are exposed to interest rate risk on the borrowings under the revolving credit facility and do not plan to enter into swaps or other hedging arrangements to manage this risk, because we do not believe this interest rate risk to be significant. On an annual basis, a 1% change in the interest rate in our revolving credit facility will increase or decrease our interest expense by $10,000 for every $1.0 million of outstanding borrowings.

We are exposed to price risks associated with the purchase of raw materials, especially aluminum and steel. The cost of aluminum, steel and all other materials used in the production of our railcars represents a significant component of our direct manufacturing costs. Given the significant increases in the price of raw materials since November 2003, this exposure can affect our costs of production. We currently do not plan to enter into any hedging arrangements to manage the price risks associated with raw materials.

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Instead, we have either renegotiated existing contracts or entered into new contracts with a majority of our customers that allow for variable pricing to protect us against future changes in the cost of raw materials. As a result, all but one of our contracts for railcars in our backlog at June 30, 2005 permit us to pass through charges related to increases in the cost of raw materials to our customers. However, we may not always be able to pass on these increases in the future. In particular, when raw material prices increase rapidly or to levels significantly higher than normal, we may not be able to pass price increases through to our customers, which could adversely affect our operating margins and cash flows. In the event that we are able to increase the prices of our railcars, any such price increases may reduce demand for our railcars. The current high cost of the raw materials that we use to manufacture railcars, especially aluminum and steel, and delivery delays associated with these raw materials may adversely affect our financial condition and results of operations. See Risk factors Risks related to the railcar industry The current high cost of the raw materials that we use to manufacture railcars, especially aluminum and steel, and delivery delays associated with these raw materials may adversely affect our financial condition and results of operations.

To the extent that we are unsuccessful in passing on increases in the cost of aluminum and steel to our customers, a 1% increase in the cost of aluminum and steel would increase our average cost of sales by approximately $200 per railcar, which, for the six months ended June 30, 2005, would have reduced income before income taxes by approximately $1.1 million.

We are not exposed to any significant foreign currency exchange risks as our policy is to denominate foreign sales in U.S. dollars.

CRITICAL ACCOUNTING POLICIES

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting period. Significant estimates include long-lived assets, goodwill, pension and postretirement benefit assumptions, the valuation reserve on the net deferred tax asset, warranty accrual and contingencies and litigation. Actual results could differ from those estimates.

Our critical accounting policies include the following:

Long-lived assets

We evaluate long-lived assets, including property, plant and equipment, under the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. For assets to be held or used, we group a long-lived asset or assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. An impairment loss for an asset group reduces only the carrying amounts of a long-lived asset or assets of the group being evaluated. Our estimates of future cash flows used to test the recoverability of a long-lived asset group include only the future cash flows that are directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the asset group. Our future cash flow estimates exclude interest charges. There were no impairment losses on long-lived assets recorded during 2002, 2003, 2004 or 2005.

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Impairment of goodwill and intangible assets

We have recorded on our balance sheet both goodwill and intangible assets, which consist primarily of patents and an intangible asset related to our defined benefit plans. Historically, goodwill and intangible assets were reviewed for impairment when events or other changes in circumstances had indicated that the carrying amount of the assets may not be recoverable. In conjunction with the adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*, on January 1, 2002, we tested all goodwill and intangible assets for impairment. These tests were performed again on January 1, 2003, January 1, 2004 and January 1, 2005 in accordance with SFAS No. 142. We have not noted any such impairment.

We test goodwill for impairment at least annually based on management s assessment of the fair value of our assets as compared to their carrying value. Additional steps, including an allocation of the estimated fair value to our assets and liabilities, would be necessary to determine the amount, if any, of goodwill impairment if the fair value of our assets were less than their carrying value. The process of assessing fair value involves management making estimates with respect to future sales volume, pricing, economic and industry data, anticipated cost environment and overall market conditions, and because these estimates form the basis for the determination of whether or not an impairment charge should be recorded, these estimates are considered to be critical accounting estimates.

Our method to determine fair value to test goodwill for impairment considers three valuation approaches: the discounted cash flow method, the guideline company method and the transaction method. The results of each of these three methods are reviewed by management and a fair value is then assigned. For our January 1, 2005 valuation date, management estimated that the fair value of our company exceeded the carrying value of our company by approximately $194 million.

The discounted cash flow method involves significant judgment based on a market-derived rate of return to discount short-term and long-term projections of the future performance of our company. The major assumptions that influence future performance include:

Ø volume projections based on an industry-specific outlook for railcar demand and specifically coal railcar demand;

Ø estimated margins on railcar sales; and

Ø weighted-average cost of capital (or WACC) used to discount future performance of our company.

We use industry data to estimate volume projections in our discounted cash flow method. We believe that this independent industry data is the best indicator of expected future performance assuming that we maintain a consistent market share, which management believes is supportable based on historical performance. A negative 10% adjustment to the volume projections used in the discounted cash flow method would reduce the excess of the fair value of our company compared to its carrying value by approximately $36 million.

Our estimated margins used in the discounted cash flow method are based primarily on historical margins. At January 1, 2005, we did not have a significant number of contracts which provided for raw material cost escalation, which subjected our margins and future performance to variability primarily in the event of changes in the price of aluminum and steel. Aluminum and steel prices have historically accounted for approximately 30% to 35% of our total cost of sales. Changes in aluminum and steel prices typically only affect margins on signed contracts for railcars forming part of our backlog as management historically has used aluminum and steel prices at the time a contract is signed as the basis for its selling price. However, the price of raw materials has increased significantly since November

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2003. A 10% increase in aluminum and steel prices for backlog and projected volume in the discounted cash flow method would reduce the excess of the fair value of our company compared to its carrying value by approximately $117 million. Since January 1, 2005, when our goodwill was reviewed for impairment, we have renegotiated our contracts with a majority of our customers to increase the purchase price of our railcars to reflect the increased cost of raw materials and, as a result, we were to able pass on to our customers approximately 40% of the increased raw material costs with respect to railcars that we produced and delivered in 2004. In addition, we have entered into customer contracts that allow for variable pricing to protect us against future changes in the cost of raw materials so that, as of June 30, 2005, all but one of our customer contracts allowed for such variable pricing. In addition, we have entered into contracts with a majority of our customers that allow for variable pricing to protect against future changes in the cost of raw materials. However, there is no assurance that our customers will accept variable pricing in the future. See Risk factors Risks related to the railcar industry The current high cost of the raw materials that we use to manufacture railcars, especially aluminum and steel, and delivery delays associated with these raw materials may adversely affect our financial condition and results of operations.

The WACC used to discount our future performance in the discounted cash flow method is based on an estimated rate of return of companies in our industry and interest rates for corporate debt rated Baa or the equivalent by Moody s Investors Service. Management estimated a WACC of 16% for the January 1, 2005 goodwill impairment valuation analysis based on our mix of equity and debt. An increase in the WACC to 20% in the discounted cash flow method would reduce the excess of the fair value of our company compared to its carrying value by approximately $60 million.

The assumptions supporting our estimated future cash flows, including the discount rate used and estimated terminal value, reflect our best estimates.

The guideline company method and transaction method use market valuation multiples of similar publicly traded companies for the guideline company method and recent transactions for the transaction method and, as a result, involve less judgment in their application.

Impairment of definite-lived intangibles is determined to exist when undiscounted cash flows related to the assets are less than the carrying value of the assets. These cash flow estimates are based on reasonable and supportable assumptions and consider all available evidence. However, there is inherent uncertainty in estimating future cash flows.

Pensions and postretirement benefits

We provide pension and retiree welfare benefits to certain salaried and hourly employees upon their retirement. The most significant assumptions used in determining our net periodic benefit costs are the expected return on pension plan assets and the health care cost trend rate for our postretirement welfare obligations.

In 2004, we assumed that the expected long-term rate of return on pension plan assets would be 9.0%. As permitted under SFAS 87, the assumed long-term rate of return on assets is applied to a calculated value of plan assets, which recognizes changes in the fair value of plan assets in a systematic manner over five years. This produces the expected return on plan assets that is included in our net periodic benefit cost. The difference between this expected return and the actual return on plan assets is deferred. The net deferral of past asset gains (losses) affects the

calculated value of plan assets and, ultimately, future net

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periodic benefit cost. We review the expected return on plan assets annually and would revise it if conditions should warrant. A change of one percentage point in the expected long-term rate of return on plan assets would have the following effect:

	1% Increase	1% Decrease
	(in thousands)	
Effect on net periodic benefit cost	$ (133)	$ 133

For our postretirement welfare plans, we assumed a 10.0% annual rate of increase in health care costs for 2004, with the rate of increase declining gradually to an ultimate rate of 5.0% by the year 2009 and remaining at that level thereafter. We review the health care cost trend annually and would revise it if conditions should warrant. A change of one percentage point in the expected health care trend would have the following effect:

	1% Increase	1% Decrease
	(in thousands)	
Effect on total of service and interest cost	$ 197	$ (152)
Effect on postretirement benefit obligation	2,207	(1,824)

At the end of each year, we determine the discount rate to be used to calculate the present value of our pension and postretirement welfare plan liabilities. The discount rate is an estimate of the current interest rate at which our pension liabilities could be effectively settled at the end of the year. In estimating this rate, we look to rates of return on high-quality, fixed-income investments that receive one of the two highest ratings given by a recognized ratings agency. At December 31, 2004, we determined this rate to be 6.00%, a decrease of 0.25% from the 6.25% rate used at December 31, 2003.

For the years ended December 31, 2003 and 2004, and the six months ended June 30, 2005, we recognized consolidated pre-tax pension cost of $2.8 million, $4.4 million and $2.1 million, respectively. The increase in our 2004 consolidated pre-tax pension cost was primarily due to $1.7 million of costs incurred in connection with the Johnstown settlement. We currently expect that our consolidated pension cost for 2005 will be approximately $4.1 million. We currently expect to contribute approximately $4.0 million to our pension plans during 2005. However, we may elect to adjust the level of contributions based on a number of factors, including performance of pension investments, changes in interest rates and changes in workforce compensation.

For the years ended December 31, 2003 and 2004, and the six months ended June 30, 2005, we recognized a consolidated pre-tax postretirement welfare benefit cost of $1.4 million, $7.1 million and $3.0 million, respectively. The increase in our 2004 consolidated pre-tax postretirement cost was primarily due to $4.4 million of costs incurred in connection with the Johnstown settlement. We currently expect that the consolidated postretirement welfare benefit cost for 2005 will be approximately $6.0 million. We currently expect to pay approximately $2.8 million during 2005 (of which $1.4 million has been paid as of June 30, 2005) in postretirement welfare benefits.

Income taxes

Management judgment is required in developing our provision for income taxes, including the determination of deferred tax assets, liabilities and any valuation allowances recorded against the deferred tax assets. We evaluate quarterly the realizability of our net deferred tax assets and assess the valuation allowance, adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are our forecast of future taxable income and the availability of tax planning

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strategies that can be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income might affect the ultimate realization of the net deferred tax assets. Factors that may affect our ability to achieve sufficient forecasted taxable income include, but are not limited to, increased competition, a decline in sales or margins and loss of market share.

At June 30, 2005, we had total net deferred tax assets of $25.1 million. Although realization of our net deferred tax assets is not certain, management has concluded that we will more likely than not realize the full benefit of the deferred tax assets. At June 30, 2005, we had a valuation allowance of $3.8 million, based on our management s conclusion that it was more likely than not that certain of our net deferred tax assets in Pennsylvania would not be realized.

We provide for deferred income taxes based on differences between the book and tax bases of our assets and liabilities and for items that are reported for financial statement purposes in periods different from those for income tax reporting purposes. The deferred tax liability or asset amounts are based upon the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax liability or asset is expected to be settled or realized. The deferred tax liabilities and assets that we record relate to the enacted federal and Illinois tax rates, since net operating loss carryforwards and deferred tax assets arising under Pennsylvania state law have been fully reserved. A 1% change in the rate of federal income taxes would increase or decrease our deferred tax assets by $0.7 million. A 1% change in the rate of Illinois income taxes would increase or decrease our deferred tax assets by $0.3 million.

Product warranties

We establish a warranty reserve for new railcar sales and estimate the amount of the warranty accrual based on the history of warranty claims for the type of railcar, adjusted for significant known claims in excess of established reserves. Warranty terms are based on the negotiated railcar sales contracts and typically are for periods of five years or less. Historically, the majority of warranty claims occur in the first three years of the warranty period.

Revenue recognition

We generally manufacture railcars under firm orders from third parties. We recognize revenue on new and rebuilt railcars when we complete the individual railcars, the railcars are accepted by the customer following inspection, the risk for any damage or other loss with respect to the railcars passes to the customer and title to the railcars transfers to the customer. Revenue from leasing is recognized ratably during the lease term. Pursuant to Accounting Principles Board (APB) Opinion No. 29, *Accounting for Non-Monetary Transactions*, and Emerging Issues Task Force (EITF) Issue No. 01-2, *Interpretations of APB No-29*, on transactions involving used railcar trades, we recognize revenue for the entire transaction when the cash consideration is in excess of 25% of the total transaction value and on a pro rata portion of the total transaction value when the cash consideration is less than 25% of the total transaction value. We value used railcars received at their estimated fair market value at date of receipt less a normal profit margin.

Compensation expense under stock option agreements

Management judgment is required in estimating the compensation expense under stock option agreements. The compensation expense is recorded at the estimated fair value of the 2004 Options to purchase Units, consisting of 550 shares of our common stock and one share of our Series A voting preferred stock. On April 11, 2005, we adopted the 2005 Long-Term Incentive Plan, pursuant to which we granted options to purchase shares of our common stock to certain of our executive officers.

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Determining the compensation expense under stock option agreements requires complex and subjective judgments. Our approach to valuation is based on using market multiples of comparable companies, our cash flows and other data which give management indicators of the fair value of the 2004 Options. There is inherent uncertainty in making these estimates.

Contingencies and litigation

We are subject to the possibility of various loss contingencies related to certain legal proceedings arising in the ordinary course of business. We consider the likelihood of loss or the incurrence of a liability, as well as our ability to reasonably estimate the amounts of loss, in the determination of loss contingencies. We accrue an estimated loss contingency when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. We regularly evaluate current information available to us based on our ongoing monitoring activities to determine whether the accruals should be adjusted. If the amount of the actual loss is greater than the amount we have accrued, this would have an adverse impact on our operating results in that period.

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued Interpretation No. (FIN) 46, *Consolidation of Variable Interest Entities*, which was later amended on December 24, 2003 (FIN 46R). FIN 46R explains how to identify variable interest entities and how an enterprise assesses its interest in a variable interest entity to decide whether to consolidate that entity. FIN 46R requires unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse the risks and rewards of ownership among their owners and other parties involved. The provisions of FIN 46R are generally effective for periods ending after December 31, 2003. We have no variable interest entities and, as a result, the adoption of FIN 46, as amended by FIN 46R, had no impact on our financial statements.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*, including the deferral of certain effective dates as a result of the provisions of FASB Staff Position 150-3, Effective Date, Disclosures and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests Under FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. We adopted SFAS No. 150 effective January 1, 2004, as required. The adoption of SFAS No. 150 had no impact on our financial statements.

In December 2003, the FASB revised SFAS No. 132, *Employers Disclosures about Pensions and Other Postretirement Benefits*, to require additional disclosures about the assets, obligations, cash flows and net periodic benefit cost of defined benefit postretirement plans. We have adopted these additional disclosure requirements and included such disclosures in the notes to the financial statements.

In December 2003, FASB Staff Position (FSP) No. 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, or the Act*, was released. FSP No. 106-1 was subsequently superseded by FSP No. 106-2. FSP No. 106-2 requires a sponsor of a postretirement health care plan that provides a prescription drug benefit to implement accounting for the effects of the Act for the first interim period beginning after June 15, 2004. The Act expands Medicare, primarily by adding a prescription drug benefit for

Medicare-eligible retirees starting in 2006. Although detailed regulations necessary to implement the Act have not yet been finalized, we

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believe that drug benefits offered to the salaried retirees under our postretirement welfare plans will qualify for the subsidy under Medicare Part D. The effects of this subsidy were factored into the 2004 annual expense. The reduction in the benefit obligation attributable to past service cost was approximately $0.6 million and has been reflected as an actuarial gain. The reduction in expense for 2004 related to the Act was approximately $0.1 million.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs An Amendment of ARB No. 43*, *Chapter 4*, which requires the recognition of costs of idle facilities, excessive spoilage, double freight and rehandling costs as a component of current-period expenses. The provisions of SFAS No. 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Since we produce railcars based upon specific customer orders, management does not expect the provisions of SFAS No. 151 to have a material impact on our financial statements.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets An Amendment of APB Opinion No. 29.* APB Opinion No. 29*, Accounting for Nonmonetary Transactions*, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB Opinion No. 29 included certain exceptions to that principle. SFAS No. 153 amends APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS No. 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Management has not yet evaluated the impact of the adoption of SFAS No. 153 on our financial statements. We plan to adopt SFAS No. 153 effective January 1, 2006 as required.

In December 2004, the FASB issued SFAS No. 123(R), *Share-Based Payment*, which establishes the accounting for transactions in which an entity exchanges its equity instruments or certain liabilities based upon the entity s equity instruments for goods or services. The revision to SFAS No. 123 generally requires that publicly traded companies measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the grant date. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award, which is usually the vesting period. Management expects that the provisions of SFAS No. 123(R) will be effective for our company beginning January 1, 2006. Management has not yet evaluated the impact of SFAS No. 123(R) on our financial statements.

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OVERVIEW

The North American railcar market is the primary market in which we compete. The North American railcar manufacturing industry has been consolidating over the last 20 years with the number of manufacturers falling from 24 companies in 1980 to six companies today. Of these six companies, four manufacture railcars primarily for third-party customers, while the other two manufacture railcars primarily for their own railcar leasing operations. According to the Association of American Railroads, there were approximately 1.3 million railcars in circulation in 2003, and the number of railcars delivered in the North American market increased from 17,736 railcars in 2002 to 46,871 railcars in 2004. Economic Planning Associates expects estimated railcar deliveries of 66,700 railcars in 2005, 65,000 railcars in 2006, 59,500 railcars in 2007 and 56,350 railcars in 2008, with the reduced estimated deliveries in 2006 reflecting fewer intermodal railcars and platform assemblies and reduced deliveries of box railcars.

The primary purchasers of railcars in North America are financial institutions, railroads and shippers, with relationships between railcar manufacturers and customers tending to be cooperative and long-term. Decisions to purchase railcars are usually based on price, delivery time and quality. Existing relationships between railcar manufacturers and their customers and manufacturer reputation are also important factors. Due to the length of a railcar s useful life, which we believe is approximately 25 to 30 years, most customers buy railcars infrequently.

Rail transport is important to the North American economy. In 2001, railroads transported approximately 42% of the freight hauled in the United States, an increase from approximately 38% in 1990. A number of industries in North America rely heavily on rail for the transport of the various inputs and outputs associated with their operations, including coal, chemicals and related products, farm products, non-metallic minerals, food products, metals, building products, petroleum products, waste and scrap materials, forest and paper products, motor vehicles and related parts and metallic ores. The railcar industry has developed different types of railcars manufactured from steel and aluminum to transport these diverse goods, many with specific features designed to meet unique loading or unloading requirements or other aspects of the transported goods.

The main types of railcars are:

- *Hopper Railcars*. Open-top hopper railcars are used primarily to transport coal, and covered hopper railcars are used to carry cargo, such as grain, dry fertilizer, plastic pellets and cement.
- *Gondola Railcars*. Rotary gondola railcars are used primarily to transport coal and top-loading gondola railcars are used to transport a variety of commodities, such as coal, steel products and scrap metals.
- *Flat Railcars*. Flat railcars are used primarily to transport a wide array of bulky items, such as automobiles, machinery, forestry products and heavy equipment.
- *Tank Railcars*. Tank railcars are used primarily to transport liquid products, such as chemicals, liquid fertilizers and petroleum products.

- *Intermodal Railcars*. Intermodal railcars are used primarily to transport containers and trailers that may also be transported by truck or ship, allowing cargo to be transported through different modes without loading and unloading.

- *Specialty Railcars*. Any of the railcar types listed above may be further developed and customized with particular characteristics, depending on the nature of the materials being transported and customer specifications.

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Ø *Box Railcars.* Box railcars are enclosed railcars used primarily to transport food products, auto parts, wood products and paper products.

We primarily manufacture aluminum open-top hopper railcars and aluminum rotary gondola railcars used for the transport of coal. We believe that we are the leading manufacturer of aluminum-bodied coal-carrying railcars in North America. We also manufacture certain steel-bodied railcars and a variety of specialty railcars, including aluminum vehicle carriers, steel coil railcars and slab railcars.

CHARACTERISTICS AND TRENDS AFFECTING THE RAILCAR INDUSTRY

Cyclical nature of the railcar market

The North American railcar market is highly cyclical, and trends in the railcar industry are closely related to the overall level of economic activity. When the economy appears poised for sustained growth, users of railcars seek to benefit from the increased demand for rail freight services. As a result, the users generally tend to increase the size of their fleets and replace older railcars with newer railcars or railcars with greater capacity and durability. Conversely, when the economy slows down, these companies generally delay investment in new railcars and increase the utilization rates of railcars already in use, keeping them in service for longer periods. International trade activity can also affect North American demand for railcars, since railroads are also used to transport imported and exported goods to and from ports. In addition, supplies of materials, such as aluminum and steel, as well as finished railcar components, such as castings, are constrained from time to time, which limits the production capacity of companies in the railcar industry and results in further cyclical fluctuations.

The following chart shows the annual delivery of all types of railcars in North America since 1975 and projected annual delivery of railcars through 2010:

Historical and Projected North American Freight Railcar Deliveries

Source: Railway Supply Institute; Economic Planning Associates, Inc.

As illustrated by the chart above, railcar demand was at a high in the late 1970s due, in particular, to the preferential tax treatment attributed to railcars under then-existing tax laws. The Tax Reform Act of 1981, which eliminated the preferential tax treatment of railcars beginning in 1983, as well as the economic recession in the early 1980s, led to the lowest levels of railcar production since World War II through most of the 1980s. However, during most of the 1990s, increased general economic activity,

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increased demand for electricity, resulting in an increase in the use of coal, and higher import levels led to an increase in railcar deliveries. In addition, as railroads integrated their operations after a period of consolidation in the industry, railroads suffered from poor railcar utilization and aging fleets. We believe that railroads responded by ordering additional railcars, which led to a significant increase in railcar deliveries in 1998 and 1999. The railcar industry experienced another decline in production from 2001 to 2002, as the economic recession slowed industrial activity and demand for electricity, and more railroads integrated their operations, improved their railcar utilization and ordered fewer railcars. Railcar deliveries declined from a high of 75,704 railcars in 1998 to 17,736 in 2002, and grew to 46,871 in 2004.

We believe that the near-term outlook for railcar demand is positive due to the current economic recovery, which is resulting in the replacement of aging railcar fleets, an improved outlook for U.S. steel manufacturers and an increasing demand for electricity. Economic Planning Associates expects estimated railcar deliveries of 66,700 railcars in 2005, 65,000 railcars in 2006, 59,500 railcars in 2007 and 56,350 railcars in 2008, with the reduced estimated deliveries in 2006 reflecting fewer intermodal railcars and platform assemblies and reduced deliveries of box railcars. These projections are based on current backlog levels, which have historically been strong indicators of future deliveries. The following chart sets forth the historical backlog for the railcar industry:

Historical Railcar Backlog by Quarter

Source: Railway Supply Institute

Replacement demand for the aging North American railcar fleet

In 2003, there were approximately 1.3 million railcars in circulation, and the average age of the railcar fleet has increased significantly over the last decade from approximately 16.5 years in 1990 to approximately 19.5 years in 2003. Since 1990, an average of 3.6% of all railcars were replaced annually. However, in 2001, 2002, 2003 and 2004, 2.6%, 1.4%, 2.5% and 3.6%, respectively, of existing North American railcars have been replaced, which we believe was due primarily to the cyclical downturn in the industry. As economic conditions improve, we expect the replacement rate to return to historical levels. In North America, a railcar can be used for up to 50 years under existing regulations; however, we believe that the average life of a railcar is approximately 25 to 30 years. If a railcar has not completely exhausted its useful life, it may become outdated or less efficient relative to railcars manufactured with newer technology before the regulations require its replacement. We believe that replacement demand may increase as railcar freight companies compare their existing railcar fleets with railcars that have newer, more efficient technology.

Industry

Shift from steel-bodied to aluminum-bodied railcars

A majority of aluminum-bodied railcars are coal-carrying cars. In 2002, approximately 16% of all freight tonnage in the North American rail freight market was moved in aluminum-bodied coal-carrying railcars, compared to 9% in 1997. We believe that aluminum-bodied railcars are approximately 30% lighter than steel-bodied railcars and, due to its lighter weight, greater capacity and superior resistance to corrosion, aluminum is an attractive metal for some classes of railcars, in particular coal-carrying railcars. As a result of these benefits of using aluminum in railcars, we and our competitors have begun to introduce new aluminum designs for other types of railcars. Since aluminum-bodied railcars can reduce operating costs, increase asset utilization and lower maintenance costs, we believe purchasers of railcars have been increasingly considering aluminum-based railcars for certain railcar types.

Shift in customer base

Over the past 20 years, there has been a shift in the customer base for railcars, from railroads to financial institutions and shippers, which are purchasing significant numbers of new railcars. In the past, railroad companies had been the largest buyers. We believe that buyers of railcars have increasingly focused on factors such as total life-cycle costs and cost of capital when making their purchasing decisions. Additionally, customers are modernizing their fleets to take advantage of increased available load capacity provided by railcars with newer technology.

Consolidation

We believe that the sharp decline in railcar sales in the early to mid-1980s and the deregulation of the rail freight transportation industry have led the railcar manufacturing industry to consolidate. Additionally, railcar manufacturers are increasing their focus on their core railcar segments and areas of expertise. As a result, the number of companies that manufacture railcars primarily for third-party customers decreased from 24 companies in 1980 to four in 2004, with two additional companies primarily manufacturing railcars for their own leasing fleets.

TRENDS AFFECTING THE COAL-CARRYING RAILCAR BUSINESS

In January 2005, there were approximately 246,000 coal-carrying railcars in circulation, of which approximately 44% were aluminum-bodied railcars. Approximately 99% of coal-carrying railcars that have been delivered in the last five years were aluminum. We expect that the growth in coal usage will stimulate increased deliveries of coal-carrying railcars. According to Economic Planning Associates, coal-carrying railcar deliveries will increase from 7,480 units in 2004 to approximately 14,000 units in 2006 and 13,500 units in 2007, after which annual deliveries will average approximately 12,000 railcars per year until 2010.

The main factors affecting the use of coal are:

Increase in demand for electricity

We believe coal consumption should continue to expand as demand for electricity continues to increase. Coal currently supplies more than 50% of the electric power in the United States. According to the Energy Information Administration, electricity production of U.S. electric power producers increased by approximately 27% between 1990 and 2003. The increasing demand for power generation has been due primarily to the increasing level of economic activity. According to the Department of Energy, electricity

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demand in the United States is expected to increase from approximately 3,481 billion kilowatt hours in 2003 to approximately 5,220 billion kilowatt hours in 2025. Coal-fired power generation is expected to continue to increase, leading to steady growth in the demand for coal.

Increase in demand for coal as a fuel source

In the United States, coal continues to fuel more electricity generation than all other energy sources combined. In 2004, coal-fueled plants generated an estimated 54% of all electricity used in the United States followed by nuclear plants with 22%, natural gas plants with 13%, renewable sources with 9% and petroleum-fueled plants with 3%. While electricity generation remained at stable levels in 2004, the rapid increase in natural gas prices, along with the readily available supply of coal at stable prices, enabled coal to gain market share.

Coal is one of the most abundant fossil fuels, and the incremental cost to add additional electricity generation capacity from coal is low compared to other fuels. According to Resource Data International Inc., coal-fueled plants have lower production costs than plants powered by other fuel types. Hydroelectric power is also inexpensive but is limited by geography. Nuclear energy is the cheapest to generate in completed, existing nuclear plants, but the cost of building new facilities is high. Coal-fueled electricity generating plants are, on average, operating below maximum capacity. Therefore, these plants can increase their electricity generation without substantial incremental capital costs, thereby improving coal s overall cost competitiveness, assuming current environmental regulations are not changed or interpreted adversely.

Increase in demand for coal from the western United States

Largely as a result of sulfur dioxide emissions limitations mandated by the Clean Air Act, coal-burning utilities have used increasing quantities of lower-sulfur coal. Low-sulfur coal, which comes primarily from the Powder River Basin in Montana and Wyoming, is primarily transported by rail to utilities in the eastern United States. The increased travel distances, as compared to the distances involved in transporting high-sulfur coal from mines in the east to eastern power generation facilities, place greater stress on the current aging railcar fleets, which we believe will result in increasing replacement rates. According to the Energy Information Administration, the shift to selected low-sulfur Western and Appalachian supply areas was spurred by federal acid rain regulations. As deregulated railroads consolidated in the late 1980s and the 1990s, they moved to increase profits by facilitating longer-distance coal runs to Midwestern and Eastern utilities, using large unit trains with high-capacity cars (100 tons or greater), and by offering improved trackage, rates, and cycle times from Western coalfields. As a result, we believe that purchasers of coal-carrying railcars will expand their fleets and replace aging railcars with greater frequency in order to take advantage of increasing coal carloads.

Business

OVERVIEW

We are the leading manufacturer of aluminum-bodied railcars in North America, based on the number of railcars delivered. We specialize in the production of coal-carrying railcars, which represented 78% of our deliveries of railcars in 2004 and 91% of our deliveries of railcars in the six months ended June 30, 2005, while the balance of our production consisted of a broad spectrum of railcar types, including aluminum-bodied and steel-bodied railcars. We also refurbish and rebuild railcars and sell forged, cast and fabricated parts for all of the railcars that we produce, as well as those manufactured by others. We have chosen not to offer significant railcar leasing services, as we have made a strategic decision not to compete with our customers that provide railcar leasing services, which represent a significant portion of our revenue.

We believe that we are the leading North American manufacturer of coal-carrying railcars. We estimate that we have manufactured 81% of the coal-carrying railcars delivered over the three years ended December 31, 2004 in the North American market. Our aluminum BethGon railcar has been the leading aluminum-bodied coal-carrying railcar sold in North America for nearly 20 years. We believe that over the last 25 years we have built and introduced more types of coal-carrying railcars than all other manufacturers in North America combined.

Our manufacturing facilities are located in Danville, Illinois, Johnstown, Pennsylvania and Roanoke, Virginia. Our Danville facility produced approximately 81% of our railcars manufactured during the year ended December 31, 2004 and 61% of our railcars manufactured during the six months ended June 30, 2005, and manufactured 100% and 68% of our aluminum-bodied coal-carrying railcars during the year ended December 31, 2004 and the six months ended June 30, 2005, respectively. We believe that the operational efficiency of our Danville facility has increased over the last six years resulting in a significant reduction in our manufacturing costs. Our Johnstown facility manufactures small covered hopper railcars, coiled steel railcars, aluminum vehicle carrier railcars and aluminum-bodied coal-carrying railcars. In April 2005, we commenced operations at a manufacturing facility that we have leased in Roanoke, Virginia. Our new Roanoke facility has the capability to manufacture a variety of types of railcars, including aluminum-bodied and steel-bodied railcars. We delivered our first railcar manufactured at the Roanoke facility during the second quarter of 2005. See Management s discussion and analysis of financial condition and results of operations Recent developments.

Our primary customers are financial institutions, railroads and shippers, which represented 38%, 31% and 31%, respectively, of our total sales attributable to each type of customer for the year ended December 31, 2004, and 28%, 20% and 52%, respectively, of our total sales attributable to each type of customer for the six months ended June 30, 2005. In 2004, we delivered 7,484 new railcars, including 5,840 aluminum-bodied coal-carrying railcars, and in the six months ended June 30, 2005, we delivered 5,704 new railcars, including 5,103 aluminum-bodied coal-carrying railcars. Our total backlog of firm orders for new railcars increased from 11,397 railcars as of December 31, 2004 to 15,867 railcars as of June 30, 2005, representing estimated sales of $747.8 million and $1.1 billion, respectively, attributable to such backlog. Our sales for the six months ended June 30, 2005 were $396.5 million and our net income for the same period was $11.1 million. The following table shows the total number of railcars, including the number of coal-carrying and other railcars, that we delivered during the periods indicated:

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Deliveries

The following table shows our total reported railcar backlog, including the reported backlog of coal-carrying and other railcars, at the end of the periods indicated:

Backlog

See Backlog for more information regarding our calculation of backlog.

OUR HISTORY

We and our predecessors have been manufacturing railcars since 1901. From 1923 to 1991, our business was owned and operated by Bethlehem Steel Corporation. In 1991, TTII purchased our business from Bethlehem Steel. At the time of this acquisition, our business consisted of two facilities in Johnstown, Pennsylvania. In 1995, we purchased our facility located in Danville, Illinois, which had previously been an abandoned manufacturing plant. In June 1999, TTII sold our railcar business to an investor group led by our management. We have since developed and expanded our Danville facility so that, beginning in 2002, our Danville facility was capable of independently manufacturing railcars and responsible for approximately 81% of our railcars produced during the year ended December 31, 2004 and 61% of our railcars manufactured during the six months ended June 30, 2005, and manufactured 100% and 68% of our aluminum-bodied coal-carrying railcars during the year ended December 31, 2004 and the six months ended June 30, 2005, respectively. In December 2004, we changed our name from JAC Holdings International, Inc. to FreightCar America, Inc. to better reflect our business of manufacturing railcars. In April 2005, we completed our initial public offering. Also, in December 2004, we entered into an agreement to lease a railcar manufacturing facility in Roanoke, Virginia and commenced operations at this facility in the second quarter of 2005. For additional information regarding our new Roanoke facility, see Management s discussion and analysis of financial condition and results of operations Recent developments.

OUR BUSINESS STRENGTHS AND COMPETITIVE ADVANTAGES

We believe that the following key business strengths and competitive advantages will contribute to our growth:

Leader in coal-carrying railcar market

We believe we are the leading manufacturer of coal-carrying railcars in North America, producing an estimated 81% of the coal-carrying railcars delivered in the North American market over the three years ended December 31, 2004. Through our leading position in the coal-carrying railcar market, we expect to benefit from the increasing use of coal as an energy source. We expect that the increasing demand for coal and the related increase in rail traffic transporting coal will lead to continuing demand in the coal-carrying railcar market.

Leading manufacturer of aluminum-bodied railcars

Since pioneering the modern aluminum-bodied coal-carrying railcar design in 1986, we believe that we have introduced more aluminum-bodied railcar types and have manufactured more aluminum-bodied railcars than any other company. Our aluminum BethGon railcar has been the leading aluminum-bodied coal-carrying railcar sold in North America for nearly 20 years. We produce aluminum-bodied railcars in each of our facilities in Danville, Illinois, Johnstown, Pennsylvania and Roanoke, Virginia.

We plan to leverage our expertise in aluminum-bodied coal-carrying railcar production as railroads and utilities continue to upgrade their fleets from aging steel-bodied coal-carrying railcars to lighter aluminum-bodied railcars. In addition, we are now building on our expertise in designing and manufacturing aluminum-bodied railcars by introducing other types of aluminum-bodied railcars, such as our newly-launched aluminum vehicle carriers. We believe that, since September 2003, 11 major orders for vehicle carriers were placed with railcar manufacturers, and we estimate that we captured approximately 26% of the units ordered. Although existing aluminum-bodied railcars currently represent only 44% of all coal-carrying railcars demand for aluminum-bodied railcars has increased from 40% of annual coal-carrying railcar deliveries in 1990 to 100% in 2004.

Strong relationships with long-term customer base

We have established long-term relationships with a customer base that includes some of the largest financial institutions, railroads and shippers in North America. Our main railroad customers include virtually all of the Class I railroads. Our largest railroad customers, based on sales over the last five years, included Union Pacific Corporation and Burlington Northern Santa Fe Railway Company. Over the last five years, our largest financial institution customers, based on sales, included TTX Company, GE Capital Corporation and CIT Group Inc. Over the last five years, our largest shipper customers, based on sales, included Southern Company Services, Inc., American Energy Fuels & Services Company and American Electric Power Company, Inc. We believe that our ability to meet our customers preference for reliable, high-quality products, the relatively high cost for customers to switch manufacturers, our technological leadership in developing innovative products and the competitive

pricing of our railcars have helped us maintain our long-standing relationships with our customers.

Low-cost structure

Over the past several years, we have reduced our fixed costs and have increased our production efficiency through a series of operational changes and the introduction of proprietary production systems. These changes include our implementation of a statistical and data-driven approach to removing defects from

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manufacturing processes, enhancements to our information technology systems to support management and manufacturing decision-making, development of a real-time process control system, changes to increase labor efficiency and improvements to our materials and supply chain management. We continue to seek new ways to improve operational efficiencies and reduce our costs. We believe that the operational efficiency of our Danville railcar production facility, which produced approximately 81% of our railcar deliveries during the year ended December 31, 2004 and 61% of our railcars manufactured during the six months ended June 30, 2005, and manufactured and 100% and 68% of our aluminum-bodied coal-carrying railcars during the year ended December 31, 2004 and the six months ended June 30, 2005, respectively, has increased over the last six years resulting in a significant reduction in our manufacturing costs. We also have contractual arrangements with certain of our suppliers and customers that help limit our exposure to fluctuations in material prices. As a result of our low-cost structure, we were able to generate positive cash flow from operations during the most recent cyclical downturn in the railcar industry despite the decline in our sales.

Innovative product development

We base the introduction of new railcars on a combination of customer feedback, close observation of trends developing in market demand and our own innovations. In 2000, we introduced our aluminum-bodied, vehicle-carrying railcar that safely and economically carries a wide range of passenger vehicles. We believe our aluminum-bodied, vehicle-carrying railcar costs less to operate and maintain than vehicle- carrying steel-bodied railcars. In 2001, we introduced the AutoFlood III, which offers improved flow in the discharge of certain types of coal. We have added ten new or redesigned products to our portfolio in the last five years, and railcar designs introduced in the last four years represented 92% of the railcars that we produced in fiscal year 2004 and 91% of the railcars that we produced in the six months ended June 30, 2005. In addition, we continually work on refinements and improvements to our existing product lines and processes. We also hold several patents, including key patents for our one-piece center sill for railcars, our MegaFlo door system, our AutoFlood II lightweight hopper railcar and our top cord and side stake for coal-carrying railcars.

Stable labor relations

We have a collective bargaining agreement with the union representing the employees at our Danville facility, which expires on November 1, 2008. In November 2004, we entered into a settlement agreement with the union representing our existing and former unionized employees at our Johnstown facility setting forth the terms of a new collective bargaining agreement, which expires on May 15, 2008. We expect the settlement to allow our Johnstown facility to become more cost-competitive. The settlement, among other things, limits our future liabilities for health care coverage and pension benefits for retired unionized employees at our Johnstown facility. The settlement was conditioned on, among other things, approval by the NLRB and the United States District Court for the Western District of Pennsylvania of the settlement and the withdrawal of the NLRB charges, the Deemer and Britt lawsuits and certain workplace grievance matters. All of the conditions to the effectiveness of the settlement were met as of May 4, 2005. See Business Legal proceedings Labor dispute settlement. Our employees at our Roanoke facility are not represented by any union.

Strong and experienced management team

We have an experienced senior management team that has an average of over 28 years of experience in the railcar or other manufacturing industries. We believe that our management team has successfully managed our business during the most recent cyclical downturn in the railcar industry, and the continued contributions of our management team will be important for our future success. We intend to continue to capitalize

on our management team s experience and knowledge in our industry to grow our business.

OUR STRATEGY

The key elements of our business strategy are as follows:

Maintain leadership in the coal-carrying railcar segment

Since we introduced our aluminum-bodied coal-carrying railcar design in 1986, we have been the leading manufacturer of coal-carrying railcars in North America with an estimated 81% share of the coal-carrying railcars delivered over the three years ended December 31, 2004 in the North American market. We intend to continue to develop new and innovative railcar designs that respond to the needs of our customers, thereby capitalizing on the forecasted growth in coal usage in the United States.

Leverage aluminum expertise into new applications and railcar types

We are applying our expertise in aluminum-bodied coal-carrying railcar production to develop new types of railcars and related applications. For example, our aluminum vehicle carrier is a competitively priced alternative to a steel vehicle carrier for the efficient transport of new passenger vehicles. We believe that we have additional opportunities to develop applications and railcar types with our aluminum capabilities.

Continue to improve operating efficiencies

We intend to build on the success of our cost improvement initiatives at our Danville facility, and we will continue to identify opportunities to enhance operating efficiencies across our manufacturing facilities, including our Roanoke facility, thereby allowing us to reduce our costs and maintain competitive prices. These opportunities include reducing additional costs through our manufacturing processes, quality control initiatives, raw material procurement strategies and additional plant openings.

Continue to expand our product portfolio

We intend to continue to introduce new and improved railcar designs that respond to the needs of our customers. Although railcar designs historically have been slow to change, we have introduced ten new railcar designs or product-line extensions in the last five years. In addition to developing new aluminum-bodied railcar types, we may seek to expand our product portfolio to additional steel-bodied railcars. As the existing fleet of all railcars is aging, expansion of our product portfolio into new railcar types will allow us to grow by capturing a portion of the replacement demand for existing railcar types.

Continue to pursue incremental internal growth and additional external opportunities

We have significantly reduced our long-term debt. We expect our sources of funds for the next several years to consist primarily of cash provided by operations and borrowings under the revolving credit facility. As a result of significantly reducing our debt with the net proceeds received in our initial public offering, we have greater financial flexibility to supplement internal growth with select acquisitions. Additionally, in response to the current demand for our railcars, we are considering the addition of another manufacturing facility and exploring other opportunities to increase our production capacity. See Management s discussion and analysis of financial condition and results of operations Recent developments regarding our new production facility in Roanoke, Virginia that we have leased. We also intend to expand into underserved international markets through licensing arrangements or through joint ventures with established railcar manufacturers. Our international efforts are aimed at capitalizing on attractive growth markets which have not been exposed to railcar design improvements that have been introduced in North America.

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Business

OUR PRODUCTS AND SERVICES

We design and manufacture aluminum-bodied and steel-bodied railcars that are used in various industries. In particular, we have expertise in the manufacture of aluminum-bodied coal-carrying railcars. Many of our railcars can be customized, depending on the nature of the materials being transported and customer specifications.

The following table sets forth the main industry or application of each of our railcars, our railcar product associated with such industry or application and the percentage that each industry or application represents of the total number of railcars we delivered in the six months ended June 30, 2005. The types of railcars listed below include the major types of railcars that we are capable of manufacturing; however, some of the types of railcars listed below have not been ordered by any of our customers or manufactured by us in a number of years.

Industry/Application	Product Line	Percentage of Total Units Delivered During the Six Months Ended June 30, 2005
Coal-Carrying Railcars	Ø BethGon railcars	91%
	Ø AutoFlood railcars	
	Ø Aluminum Quad Hopper railcars	
	Ø Flat Bottom Coal railcars	
Vehicle-Carrying and Intermodal Railcars	Ø Aluminum Vehicle Carrier railcars	5%
	Ø Articulated Bulk Container railcars	
	Ø Intermodal Well railcars	
Forest Products-Carrying Railcars	Ø Hybrid Center Beam railcars	3%
	Ø Woodchip railcars	
	Ø Bulkhead Flat railcars	
Industrial and Steel-Carrying Railcars	Ø Small Covered Hopper railcars	1%
	Ø Mill Gondola railcars	
	Ø Slab railcars	

	Ø Coiled Steel railcars	
	Ø Flat railcars	
Mineral-Carrying Railcars	Ø Ore Hopper railcars	0%
	Ø Aggregate railcars	

Any of the railcar types listed above may be further developed and customized with particular characteristics, depending on the nature of the materials being transported and customer specifications. In addition, we refurbish and rebuild railcars and sell forged, cast and fabricated parts for all of the railcars that we manufacture, as well as those manufactured by others.

We also have established a licensing arrangement with a railcar manufacturer in Brazil pursuant to which our proprietary technology is used to produce covered hopper railcars for carrying grain. In addition, we manufacture coal-carrying railcars for export to Colombia and will manufacture intermodal railcars that we will be exporting to Saudi Arabia. We are also exploring opportunities in other international markets.

Set forth below is additional information on the features and uses of each of our railcar types.

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Coal-carrying railcars

We manufacture two primary types of coal-carrying railcars: gondolas and open-top hoppers. We build all of our coal-carrying railcars using a patented one-piece center sill, the main longitudinal structural component of the railcar. A one-piece center sill has a higher carrying capacity and is more durable than two-piece center sills and weighs significantly less than traditional multiple-piece seam-welded center sills. We are presently the only manufacturer of railcars with one-piece center sills. Coal-carrying railcars are purchased by financial institutions, railroads and shippers solely for the hauling of coal.

Ø *BethGon Series.* Our aluminum-bodied coal-carrying gondola railcar, the BethGon, is the leader in the aluminum-bodied coal-carrying gondola railcar segment. We believe that the BethGon railcar can carry more coal with greater stability than traditional coal-carrying gondola railcars. Since we introduced the steel BethGon railcar in the late 1970s and the aluminum BethGon railcar in 1986, the BethGon railcar has become the most widely used coal-carrying railcar in North America, which we believe is due to its reputation for reliability. In 2004, our production of the aluminum BethGon railcar represented 76% of the railcars delivered in the aluminum gondola coal-carrying railcar market and 48% of all deliveries in the coal-carrying railcar market. The BethGon railcar represented 35%, 48%, 44% and 46% of all the railcars we delivered in the six months ended June 30, 2005 and the years 2004, 2003 and 2002, respectively.

We have continuously improved the BethGon s design since we began making this railcar. These improvements have been aimed at increasing carrying capacity and reducing weight while maintaining structural integrity. In 1986, we introduced the use of aluminum construction. The use of aluminum lowered each railcar s weight from approximately 60,000 pounds to approximately 42,000 pounds. We believe that the new design increased hauling capacity by approximately nine tons per railcar over traditional flat-bottomed gondolas and lowered the railcar s center of gravity, providing a smoother ride with less wear on the railcar. In 1994, we introduced a higher payload aluminum gondola coal-carrying railcar, called the AeroFlo BethGon, which had redesigned sides for improved aerodynamics and greater fuel efficiency. In 2002, we introduced a new gondola coal-carrying railcar, known as the BethGon II, which has a lighter weight, higher capacity and increased durability suitable for long-haul coal-carrying railcar service. We have received and have pending several patents on the features of the BethGon II and continue to explore ways to increase the BethGon II s capacity and improve its reliability.

Ø *AutoFlood Series.* Our aluminum open hopper railcar, the AutoFlood, is a five-pocket hopper coal-carrying railcar equipped with a bottom discharge gate mechanism. We began manufacturing AutoFlood railcars in 1984, and, in 1996, we introduced the AutoFlood II. The AutoFlood II has smooth exterior sides that we believe maximize loading capacity and increase efficiency by reducing wind drag. The AutoFlood II s automatic rapid discharge system, the MegaFlo door system, incorporates a patented mechanism that uses an over-center locking design enabling the cargo door to close with tension rather than compression. The MegaFlo door system, which opens to its full width in only two seconds, provides a door opening which we believe is approximately 68% wider than any competing door system and does not require periodic door adjustments. In addition, the MegaFlo door system design reduces wear on the railcar. In 2002, we introduced the AutoFlood III model, which has a smooth interior side that maintains the features of the MegaFlo door system while improving the railcar s flow characteristics for coal types that are difficult to unload. AutoFlood railcars can be equipped with rotary couplers to also permit rotary unloading. In 2004, our production of the AutoFlood III represented 31% of the total deliveries in the coal-carrying railcar market and 39% of the coal-carrying railcars that we produced. The AutoFlood series represented 56%, 30%, 32% and 43% of all the railcars we delivered in the six months ended June 30, 2005 and the years 2004, 2003 and 2002, respectively.

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- Ø *Aluminum Quad Hopper*. The Quad Hopper is an outside stake open-top hopper coal-carrying railcar with a manual outlet door system. The Quad Hopper has a bottom discharge mechanism, and it can also be equipped with rotary couplers to maximize its unloading capabilities.

- Ø *Other Coal-Carrying Railcars.* We also manufacture a variety of other types of aluminum and steel-bodied coal-carrying railcars, including triple hopper and flat bottom gondola railcars.

Vehicle-carrying and intermodal railcars

- Ø *Aluminum Vehicle Carrier*. In 2000, we designed and introduced our aluminum vehicle-carrying railcar, combining our expertise with aluminum-bodied railcars and our experience in building flat railcars. Our first aluminum vehicle carrier railcar, known as the AVC, has a lightweight, integrated design and is used to transport automobiles, commercial and conversion vans, pickup trucks and sport utility vehicles from assembly plants and ports to rail distribution centers. An aluminum non-corrosive surface eliminates the need to paint the railcar during its expected lifetime. Our design helps to ensure that vehicles are delivered damage-free. AVCs are purchased by financial institutions, shippers and railroads. We had our first sale of the AVC in 2003.

- Ø *Articulated Bulk Container Railcar*. Our articulated bulk container railcar has high strength and capacity and is designed to carry dense bulk products up to 59,000 pounds in 20 and 40-foot containers. We sell our articulated bulk container railcars to financial institutions and shippers.

- Ø *Intermodal Well Railcar.* Our intermodal well railcars are used to transport containers that may also be transported by truck or ship, allowing cargo to be transported through different modes without loading and unloading.

Forest products-carrying railcars

- Ø *Hybrid Center Beam Flat Railcar*. Our FleXibeam center beam flat railcar is used to haul forest products, such as plywood, oriented strand board, dimensional lumber and steel products, such as structural steel and pipe. The FleXibeam hauls approximately 14,000 pounds of additional product than a conventional bulkhead flat railcar, and its short high-strength center beam partition allows easy loading of steel and other products with overhead cranes.

- Ø *Woodchip Gondola Railcar*. Our woodchip gondola railcar is used to haul woodchips and municipal waste or other high volume, low-density commodities. It has rotary couplers and incorporates our one-piece cold-rolled center sill and tub design.

- Ø *Bulkhead Flat Railcar*. Our bulkhead flat railcar has end bulkheads designed to retain the load, which can include forest products, steel and structural components.

We have added ten new or redesigned products to our portfolio in the last five years, including the BethGon II, AutoFlood III, AVC, FleXibeam, slab railcar and small covered hopper railcars and coiled steel railcars. Our new or redesigned products introduced in the last four years represented 92% of the railcars we produced in fiscal year 2004 and 91% of the railcars that we produced in the six months ended June 30, 2005. We expect these products to comprise an increasing percentage of future sales.

Industrial and steel-carrying railcars

- Ø *Small Covered Hopper Railcar*. Our small covered hopper railcar is used to transport high-density products such as roofing granules, fly ash, sand and cement. This railcar features our patented cold-rolled center sill, 30-inch diameter hatch covers and bottom-unloading outlets.

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- Ø *Mill Gondola Railcar*. Our mill gondola railcar is used to transport steel products and steel scrap and features our one-piece cold-rolled center sill, cast draft sills, pinned side-to-end connections and a choice of welded or riveted sides, depending on usage.

- Ø *Slab Railcar*. We believe that our slab railcar is the first railcar manufactured specifically to transport steel slabs. The slab railcar is a spine-type flat railcar that is approximately 20,000 pounds lighter than a standard mill gondola railcar that is also used to transport steel slabs, allowing customers to haul more steel slabs per railcar and more railcars in a train.

- Ø *Coiled Steel Railcar*. Our coiled steel railcar is a well-type flat railcar that is designed to carry coiled steel. Our design allows easy loading or unloading using overhead cranes or fork lifts. This feature allows railroads to compete with truck haulage for the transportation of coiled steel.

- Ø *Flat Railcar*. We produce a variety of standard and heavy-duty flat railcars that can carry a variety of products, including machinery and equipment, steel, forest products and other bulky industrial products. Our high capacity flat railcar is used to transport, among other things, electrical transformers and switch gear.

Mineral-carrying railcars

- Ø *Ore Hopper Railcar*. Our ore open-top hopper railcar is designed to carry iron ore, taconite and other ores and features our patented one-piece cold-rolled center sill.

- Ø *Aggregate Railcar*. Our aggregate open-top hopper railcars provide quick and clean discharge for our mining and aggregate customers.

Other products and services

- Ø *International Railcar Designs*. Although almost all of our railcar sales are in the North American market, we also manufacture railcars for customers in Colombia and have recently manufactured railcars for customers in Saudi Arabia. Railroads outside of North America have a variety of track gauges that are sized differently than in North America, which requires us, in some cases, to alter manufacturing specifications for foreign sales. In addition, we have entered into a licensing arrangement with a railcar manufacturer in Brazil that produces, among other railcars, covered hopper railcars for carrying grain.

- Ø *Spare Parts and Kits*. We sell replacement parts for our railcars and railcars built by others. We also produce railcar kits for assembly in the United States and certain international markets, such as Brazil. We plan to move our parts business to the Shell Plant when the lease for the parts facility in Richland Township, Pennsylvania expires.

MANUFACTURING

We operate railcar production facilities in Danville, Illinois, Johnstown, Pennsylvania, and Roanoke, Virginia. Our Danville facility was responsible for approximately 81% of our railcars produced during the year ended December 31, 2004 and 61% of our railcars manufactured

during the six months ended June 30, 2005, and manufactured 100% and 68% of our aluminum-bodied coal-carrying railcars during the year ended December 31, 2004 and the six months ended June 30, 2005, respectively. Our Danville facility has the capacity to build up to 26 railcars per day on a single-shift operation. Our Johnstown facility has the capacity to build up to 27 railcars per day on a single-shift operation, depending upon the type of railcar. Our new Roanoke facility manufactures a variety of types of railcars, including aluminum-bodied and steel-bodied railcars. We delivered our first railcar manufactured at the Roanoke

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facility during the second quarter of 2005. See Management s discussion and analysis of financial condition and results of operations Recent developments. Our Roanoke facility has the capacity to build up to 10 railcars per day on a single-shift operation.

Our Danville, Johnstown and Roanoke facilities have the capacity to incorporate additional workers to increase our rate of railcar production. Our Danville, Johnstown and Roanoke facilities are each certified or approved for certification by the Association of American Railroads, or the AAR, which sets railcar manufacturing industry standards for quality control.

We subcontract certain railcar production to Kasgro Rail Corp., which produced for us approximately 200 railcars during the year ended December 31, 2004 and 314 railcars during the six months ended June 30, 2005. Under our current agreements, we are able to subcontract Kasgro Rail Corp. to produce up to a total of 980 railcars for us through the end of 2005. Pursuant to the terms of the Johnstown settlement, we have agreed not to subcontract railcar production to Kasgro Rail Corp. after 2005.

Our manufacturing process involves four basic steps: fabrication, assembly, finishing and testing and inspection. In our fabrication processes, we employ standard metal working tools, many of which are computer controlled. Each assembly line typically involves 15 to 20 manufacturing positions, depending on the complexity of the particular railcar design. We use mechanical fastening in the fitting and assembly of our aluminum-bodied railcar parts, while we typically use welding for our steel-bodied railcars. For aluminum-bodied railcars, we begin the finishing process by cleaning the railcar s surface and then applying the paint and decals. In the case of steel-bodied railcars, we begin the finishing process by blasting the surface area of the railcar and then painting it. We use water-based paints to reduce the emission of volatile organic compounds, and we meet state and U.S. federal regulations for control of emissions and disposal of hazardous materials. Once we have completed the finishing process, our employees, along with representatives of the customer purchasing the particular railcar, inspect and test all railcars for final quality assurance. Each of our facilities has numerous separate checkpoints at which we inspect products to maintain quality control, a process that our operations management continuously monitors.

We have focused on making our manufacturing facilities more flexible and cost-efficient while at the same time reducing product change-over times and improving product quality. We developed many of these improvements with the participation of our manufacturing employees, management and customers. At our Danville facility in particular, we have implemented cellular manufacturing concepts, whereby various manufacturing steps are accomplished in one location within the facility to eliminate unnecessary movement of parts within the facility, improve production rates and reduce inventories. These improvements are intended to provide us with increased flexibility in scheduling the production of orders and to minimize down-time resulting from railcar type change-overs, thereby increasing the efficiency and lowering costs of our manufacturing operations.

CUSTOMERS

We have strong long-term relationships with many large purchasers of railcars. Long-term customers are particularly important in the railcar industry given the limited number of buyers and sellers of railcars.

Our customer base consists mostly of North American financial institutions, shippers and railroads. Over the last five years, our largest financial institution customers, based on sales, included TTX Company, GE Capital Corporation and CIT Group Inc. Over the last five years, our largest

shipper customers, based on sales, included Southern Company Services, Inc., American Energy Fuels & Services Company

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and American Electric Power Company, Inc. Our main railroad customers include virtually all of the Class I railroads. Our largest railroad customers, based on sales over the last five years, included Union Pacific Corporation and Burlington Northern Santa Fe Railway Company. We believe that our customers preference for reliable, high-quality products, the relatively high cost for customers to switch manufacturers, our technological leadership in developing and enhancing innovative products and competitive pricing of our railcars have helped us maintain our long standing relationships with our customers.

While we maintain strong relationships with our customers and we serve over 70 active customers, many customers do not purchase railcars from us every year since railcar fleets are not necessarily replenished or augmented every year. The size and frequency of railcar orders often results in a small number of customers representing a significant portion of our sales in a given year. Our top three customers in 2004 based on total sales were Burlington Northern Santa Fe Railway Company, Canadian Pacific Railway Company and TTX Company, which accounted for approximately 21%, 10% and 9%, respectively, of our sales in 2004. Our top three customers for the six months ended June 30, 2005 based on total sales were NRG Energy, Inc., Progress Energy, Inc. and Mitsui Rail Corporation, which accounted for approximately 19%, 16% and 10%, respectively, of our sales during the period.

SALES AND MARKETING

Our direct sales group is organized geographically with six sales managers and three product line managers, a manager of customer service and support staff. The direct sales group is responsible for managing customer relationships. Our product line managers are responsible for product planning and contract administration. Our manager of customer service is responsible for after-sale follow-up and in-field product performance review.

RESEARCH AND DEVELOPMENT

Our railcar research and development activities provide us with an important competitive advantage. We believe that we are a leader in introducing new and improved railcar designs that respond to the needs of our customers. Railcar designs have been historically slow to change in our industry. We have introduced ten new railcar designs or product-line extensions in the last five years. Our research and development team, working within our engineering group, is dedicated to the design of new products. In addition, the team continuously identifies design upgrades for our existing railcars, which we implement as part of our effort to reduce costs and improve quality. We introduce new railcar designs as a result of a combination of customer feedback and close observation of market demand trends. Our engineers use current modeling software, and we have recently installed three-dimensional modeling technology to assist with product design. New product designs are tested for compliance with AAR standards prior to introduction. Costs associated with research and development are expensed as incurred and totaled $0.8 million, $0.2 million, $0.3 million for the years ended December 31, 2002, 2003 and 2004, respectively, and $0.3 million for the six months ended June 30, 2005.

BACKLOG

We define backlog as the value of products or services to which our customers have committed in writing to purchase from us, which have not been recognized as sales. Our contracts include cancellation clauses under which customers are required, upon cancellation of the contract, to

reimburse us for costs incurred in reliance on an order and to compensate us for lost profits. However, customer orders may be subject to customer requests for delays in railcar deliveries, inspection rights and other customary industry terms and conditions, which could prevent or delay backlog from being converted into sales.

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The following table depicts our reported railcar backlog in number of railcars and estimated future sales value attributable to such backlog, for the periods shown.

	Year ended December 31,			Six months ended June 30,	
	2002	2003	2004	2004	2005
Railcar backlog at start of period	2,178	1,067	6,444	6,444	11,397
New railcars delivered	(3,942)	(4,550)	(7,484)	(3,128)	(5,704)
New railcar orders	2,831	9,927	12,437	5,103	10,174
Railcar backlog at end of period	1,067	6,444	11,397	8,419	15,867
Estimated backlog at end of period (in thousands)(1)	$ 55,887	$ 365,876	$ 747,842	$ 540,127	$ 1,062,977

(1) Estimated backlog reflects the total sales attributable to the backlog reported at the end of the particular period as if such backlog were converted to actual sales. Estimated backlog does not reflect potential price increases and decreases under certain customer contracts that provide for variable pricing based on changes in the cost of raw materials.

Our reported railcar backlog has increased from 1,067 railcars at the end of 2002 to 15,867 railcars as of June 30, 2005, which we believe is primarily due to the current economic recovery, which is resulting in the replacement of aging railcar fleets, and the increasing demand for electricity and the increasing demand for steel, thereby increasing the demand for coal-carrying railcars and industrial and steel-carrying railcars, respectively. We expect that substantially all of our reported backlog as of June 30, 2005 will be converted to sales by the first quarter of 2007. However, our reported backlog may not be converted to sales in any particular period, if at all, and the actual sales from these contracts may not equal our reported backlog estimates. See Risk factors Risks related to our business The level of our reported backlog may not necessarily indicate what our future sales will be and our actual sales may fall short of the estimated sales value attributed to our backlog.

In addition, due to the large size of railcar orders and variations in the mix of railcars, the size of our reported backlog at the end of any given period may fluctuate significantly. See Risk factors Risks related to the railcar industry The variable purchase patterns of our customers and the timing of completion, delivery and acceptance of customer orders may cause our sales and income from operations to vary substantially each quarter, which will result in significant fluctuations in our quarterly results. We currently do not have any backlog for rebuilt railcars.

SUPPLIERS AND MATERIALS

The cost of raw materials and components represents approximately 89% of the direct manufacturing costs of most of our railcar product lines. As a result, the management of purchasing is critical to our profitability. As our products are made to order, we do not purchase materials or components until we receive an order and we time deliveries to minimize our inventory. We enjoy strong relationships with our suppliers, which helps to ensure access to supplies when railcar demand is high.

Our primary component suppliers include Amsted Industries Inc., which supplies us with castings and couplers through its American Steel Foundries subsidiary, wheels through its Griffin Wheel Company subsidiary, draft components through its Keystone subsidiary and bearings through its Brenco subsidiary. Roll Form Group, a division of Samuel Manu-Tech, Inc., is the sole supplier of all of our cold-rolled center sills, which were used in approximately 92% of our railcars produced in 2004 and approximately 96% of our railcars produced in the six months ended June 30, 2005. Other suppliers provide brake

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systems, components, axles and bearings. The railcar industry is subject to supply constraints for some of the key railcar components. See Risk factors Risks related to the railcar industry Limitations on the supply of heavy castings, wheels and other railcar components could adversely affect our business because they may limit the number of railcars we can manufacture.

Our primary aluminum suppliers are Alcoa Inc. and Alcan Inc. We purchase steel primarily from U.S. sources, except for our cold-rolled center sills, which we purchase from a single Canadian supplier. A center sill is the primary longitudinal structural component of a railcar. Our center sill is formed into its final shape without heating by passing steel plate through a series of rollers. Aluminum prices generally are fixed at the time that a railcar order is accepted, mitigating the effect of future fluctuations in prices.

Except as described above, there are usually at least two suppliers for each of our raw materials and specialty components, and we actively purchase from over 200 suppliers. No single supplier accounted for more than 17% of our total purchases in 2004 and during the six months ended June 30, 2005, respectively. Our top ten suppliers accounted for 61% and 58% of our total purchases in 2004 and during the six months ended June 30, 2005, respectively.

COMPETITION

We operate in a highly competitive marketplace. Competition is based on price, type of product, product quality, product design, reputation for quality, reliability of delivery and customer service and support.

There has been significant consolidation in the industry in recent years due to reduced levels of demand. We compete with the three other principal manufacturers in the North American railcar market, which are Trinity Industries, Inc., National Steel Car Limited and The Greenbrier Companies, Inc. ACF Industries, Inc. and Union Tank Car Company are railcar manufacturers that build railcars primarily for their own leasing fleets. Trinity Industries is our only current competitor in the North American aluminum-bodied coal-carrying railcar market.

Competition in the North American market from railcar manufacturers located outside of North America is limited by, among other factors, high shipping costs and technical railcar manufacturing specifications unique to the North American market. In addition, some non-U.S. railcar manufacturers lack the technology required to manufacture railcars for North American customers that would be competitive with the railcars produced in North America.

INTELLECTUAL PROPERTY

We have several U.S. and non-U.S. patents and pending applications, registered trademarks, copyrights and trade names. Our key patents include patents for our one-piece center sill for railcars, our MegaFlo door system, the body design of our AutoFlood II lightweight hopper railcar and our top cord and side stake for coal-carrying railcars. The protection of our intellectual property is important to our business.

We also use a proprietary software system that integrates our accounting and production systems, including quality control, purchasing, inventory control and accounts receivable. We have an experienced team in place to operate the hardware, software and communications platforms.

In addition, we currently have a licensing arrangement with a railcar manufacturer in Brazil pursuant to which the railcar manufacturer uses our proprietary technology to produce covered hopper railcars for carrying grain.

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EMPLOYEES

As of June 30, 2005, we had 1,329 employees, of whom 190 were salaried and 1,139 were hourly wage earners. As of June 30, 2005, we employed approximately 437 hourly workers at our Danville facility, 500 hourly workers at our Johnstown facility and 202 hourly workers at our Roanoke facility. Approximately 937, or 71%, of our employees are members of unions. Our employees at our Roanoke facility are not represented by any union.

We have a collective bargaining agreement, which expires on November 1, 2008, with the UAW, representing approximately 90% of our employees at the Danville facility. On November 15, 2004, our subsidiary entered into a settlement agreement with the USWA that sets forth the terms of a new collective bargaining agreement, which expires on May 15, 2008. The USWA represents approximately 81% of our employees at the Johnstown facility and approximately 38% of our total workforce as of June 30, 2005. The Johnstown settlement was conditioned on, among other things, approval by the NLRB and the United States District Court for the Western District of Pennsylvania of the settlement and the withdrawal of certain NLRB charges, the Deemer and Britt lawsuits and certain workplace grievance matters. All of the conditions to the effectiveness of the settlement were met as of May 4, 2005. See Business Legal proceedings Labor dispute settlement.

While we now consider our relations with our employees to be good at our Danville, Johnstown and Roanoke facilities, they may not remain that way. See Risk factors Risks related to our business Labor disputes may disrupt our operations and divert the attention of our management and may have a material adverse effect on our operations and profitability.

REGULATION

The Federal Railroad Administration, or FRA, administers and enforces U.S. federal laws and regulations relating to railroad safety. These regulations govern equipment and safety compliance standards for freight railcars and other rail equipment used in interstate commerce. The AAR promulgates a wide variety of rules and regulations governing safety and design of equipment, relationships among railroads with respect to freight railcars in interchange and other matters. The AAR also certifies freight railcar manufacturers and component manufacturers that provide equipment for use on railroads in the United States. New products must generally undergo AAR testing and approval processes. As a result of these regulations, we must maintain certifications with the AAR as a freight railcar manufacturer, and products that we sell must meet AAR and FRA standards.

We are also subject to oversight in other jurisdictions by foreign regulatory agencies, such as Transport Canada and the Mexico Institute of Transportation, and to the extent that we expand our business internationally, we will increasingly be subject to the regulations of other non-U.S. jurisdictions.

ENVIRONMENTAL MATTERS

We are subject to comprehensive federal, state, local and international environmental laws and regulations relating to the release or discharge of materials into the environment, the management, use, processing, handling, storage, transport or disposal of hazardous materials, or otherwise relating to the protection of human health and the environment. These laws and regulations not only expose us to liability for our own negligent acts, but also may expose us to liability for the conduct of others or for our actions which were in compliance with all applicable laws at the time these actions were taken. In addition, these laws may require significant expenditures to achieve compliance, and are frequently

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modified or revised to impose new obligations. Civil and criminal fines and penalties may be imposed for non-compliance with these environmental laws and regulations. Our operations that involve hazardous materials also raise potential risks of liability under the common law.

Environmental operating permits are, or may be, required for our operations under these laws and regulations. These operating permits are subject to modification, renewal and revocation. We regularly monitor and review our operations, procedures and policies for compliance with these laws and regulations. Despite these compliance efforts, risk of environmental liability is inherent in the operation of our businesses, as it is with other companies engaged in similar businesses. We believe that our operations and facilities are in substantial compliance with applicable laws and regulations and that any noncompliance is not likely to have a material adverse effect on our operations or financial condition.

Future events, such as changes in or modified interpretations of existing laws and regulations or enforcement policies, or further investigation or evaluation of the potential health hazards of products or business activities, may give rise to additional compliance and other costs that could have a material adverse effect on our financial conditions and operations. In addition, we have in the past conducted investigation and remediation activities at properties that we own to address historic contamination. To date such costs have not been material. Although we believe we have satisfactorily addressed all known material contamination through our remediation activities, there can be no assurance that these activities have addressed all historic contamination. The discovery of historic contamination or the release of hazardous substances into the environment could require us in the future to incur investigative or remedial costs or other liabilities that could be material or that could interfere with the operation of our business.

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

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PROPERTY

We own railcar production facilities in Danville, Illinois and Johnstown, Pennsylvania and we lease a railcar production facility in Roanoke, Virginia. The following table presents information on our leased and owned operating properties as of June 30, 2005:

Use	Location	Size	Leased or Owned	Lease Expiration Date
Corporate headquarters	Chicago, Illinois	4,540 square feet	Leased	June 30, 2008
Railcar assembly and component manufacturing	Danville, Illinois	308,665 square feet on 36.5 acres of land	Owned	
Railcar assembly and component manufacturing	Roanoke, Virginia	11.6 acres of land	Leased	November 30, 2014*
Railcar assembly and component manufacturing	Johnstown, Pennsylvania	564,983 square feet on 31.9 acres of land	Owned	
Administrative	Johnstown, Pennsylvania	29,500 square feet on 1.02 acres of land	Owned	
Light storage	Johnstown, Pennsylvania	1,633 square feet on 14.26 acres of land	Owned	
Parts warehouse	Johnstown, Pennsylvania	86,000 square feet	Leased	May 9, 2007
Light storage (Shell Plant)	Johnstown, Pennsylvania	163,692 square feet on 34 acres of land	Owned	

* The lease agreement provides that we or Norfolk Southern, the lessor, can terminate this lease at any time after December 31, 2009.

In November 2002, we discontinued railcar production at the Shell Plant in Johnstown, Pennsylvania due to manufacturing capacity in excess of market demand. We do not anticipate any future production of railcars at the Shell Plant. We intend to continue to use the Shell Plant for storage and intend to move our parts warehouse to the Shell Plant when the lease for our existing parts warehouse expires in 2007. In connection with our discontinuation of production at our Shell Plant, on September 30, 2004, we recorded a charge of $0.3 million relating to the carrying value of certain equipment to be written off and determined that no other asset impairment charge is currently necessary.

INSURANCE

We purchase insurance to cover standard risks in our industry, including policies to cover general and products liability, workers compensation, automobile liability and other casualty and property risks. We also have insurance to cover the risk of flood damage to our facilities. We carry insurance having terms typical of our industry and product lines.

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LEGAL PROCEEDINGS

Labor dispute settlement

On November 15, 2004, our subsidiary JAC entered into a settlement agreement with the USWA which represents our unionized employees in our Johnstown, Pennsylvania manufacturing facility. Our unionized employees at our Johnstown facility, who comprise approximately 38% of our total workforce as of June 30, 2005, had been without a collective bargaining agreement since October 2001. The settlement agreement sets forth the terms of a new 42-month collective bargaining agreement with our unionized employees at our Johnstown facility. The settlement agreement also provides for the resolution of charges made by the USWA against us with the NLRB, the Deemer and Britt lawsuits, and certain workplace grievance matters. Under the terms of the settlement agreement, the plaintiffs in the Deemer and Britt lawsuits agreed to withdraw their lawsuits with prejudice, the USWA agreed to request that the NLRB prosecutor withdraw the NLRB charges against us and certain other workplace grievance matters are to be withdrawn.

Labor disputes

Collective Bargaining NLRB Charge. In January 2002, the USWA filed charges with the NLRB alleging that JAC engaged in unfair labor practices in violation of the National Labor Relations Act, or the NLRA, in connection with its negotiations with the USWA for a new collective bargaining agreement following the expiration of the previous collective bargaining agreement in October 2001. The NLRB case included charges made by the plaintiffs in the Britt lawsuit (as described below).

Deemer and Britt Lawsuits. When Bethlehem Steel Corporation, or Bethlehem Steel, sold its railcar operations to TTII in October 1991, Bethlehem Steel agreed to pay for the costs of postretirement benefits of former Bethlehem Steel employees who were over the age of 43 at the time of the sale, left Bethlehem Steel to work for TTII and subsequently retired, whom we collectively refer to as the Bethlehem retirees. Bethlehem Steel continued to pay the costs of postretirement benefits for the Bethlehem retirees after TTII sold its railcar business to an investor group led by our management in June 1999. However, Bethlehem Steel stopped making these payments in June 2001 and subsequently filed for bankruptcy relief under Chapter 11 of the Federal Bankruptcy Code in October 2001. We ceased providing these unpaid postretirement benefits to the Bethlehem retirees on May 1, 2002. In April 2002, JAC became a defendant, together with TTII and the entity that administered the medical plan that previously covered the Bethlehem retirees, in a federal class action lawsuit filed by the USWA and individual plaintiffs, led by Geraldine Deemer. We also refer to this class action as the Deemer lawsuit. The Deemer lawsuit primarily alleged that we violated the NLRA and the Employee Retirement Income Security Act of 1974, or ERISA, by eliminating certain medical and life insurance benefits for the Bethlehem retirees, the costs of which had previously been paid by Bethlehem Steel.

In September 2003, JAC became a defendant, together with TTII and the entity that administered pension and medical plans for JAC s unionized employees, in an additional federal class action lawsuit filed by the USWA and individual plaintiffs, led by Reggie Britt. We refer to this class action as the Britt lawsuit. The Britt lawsuit primarily alleged that we violated the NLRA and ERISA by eliminating certain monthly pension supplements and retiree medical insurance that JAC had previously provided under its early retirement pension plans.

Workplace Grievance NLRB Charge. In January 2002, current and former employees filed an NLRB charge relating to wages and certain workplace grievances.

Terms of the settlement

Under the settlement agreement, JAC contributes, commencing on January 1, 2005, amounts for health care benefits for JAC s active employees and their qualified dependents. JAC s contributions fund 100% of the health care coverage costs of active employees. With respect to current and future retirees (including the retirees involved in the Deemer lawsuit and the Britt lawsuit), effective on December 1, 2004, JAC pays amounts not exceeding $700 per month for each household where neither the retiree nor his or her spouse is eligible for Medicare benefits, which fixed amount is reduced to $450 per month when either the retiree or his or her spouse becomes eligible for Medicare benefits. We made payments of $0.8 million in 2004 and expect to make payments of $2.8 million in 2005 (of which $1.4 million has been paid as of June 30, 2005) and $3.1 million in 2006 for health care costs.

Commencing on February 1, 2005, JAC contributes amounts for increased pension benefits for JAC employees, not to exceed $40 or $50 per month per year of service, depending on whether the years of service occurred prior to or after the effective date of the settlement. In addition, each employee with at least 30 years of service with JAC (including service with its predecessor Bethlehem Steel) who retired or will retire between January 21, 2002 and May 15, 2008 will be eligible for supplemental payments of $400 per month until the retiree qualifies for Social Security benefits, to the extent the supplemental payments are not paid by the Pension Benefit Guaranty Corporation. Each retiree covered by the Britt lawsuit will also be eligible for supplemental payments of $400 per month until the retiree qualifies for Social Security benefits. JAC s obligation to pay the supplemental payments to both groups will survive the expiration of the new collective bargaining agreement. The settlement agreement also provides for the discontinuation of JAC s early retirement benefits under its Rule-of-65 pension program, which made employees eligible for retirement when their number of years of service plus their age equaled or exceeded 65 years. We made contributions of $4.8 million in 2004 and expect to make contributions of approximately $4.0 million in 2005 relating to pension costs, of which $1.7 million has been made as of June 30, 2005.

During the term of the collective bargaining agreement only, JAC will make quarterly contributions to a trust equal to $0.60 per each hour of work by JAC employees, plus 3% of our consolidated quarterly profits (as calculated under the settlement agreement). These funds will be used to provide supplemental unemployment benefits, additional health care benefits for active employees and/or additional severance benefits, in such amounts as determined from time to time by us, the USWA and a neutral third party acceptable to both the USWA and us.

The settlement agreement also provides for: (1) the termination by December 31, 2005 of our existing manufacturing subcontracting relationship with Kasgro Rail Corp.; (2) the conditions under which we may use third parties to perform work related to the manufacture of railcars; (3) rates of pay and wage increases for existing and future covered unionized employees; (4) our commitment to make reasonable and necessary capital expenditures required to maintain the competitive status of the Johnstown facilities; (5) our obligation to offer at least 40 hours of work to all covered unionized employees for various periods not exceeding the term of the settlement agreement; and (6) the development of a new employee orientation program. In addition, we may not, within one year following the expiration date of the settlement agreement, consummate any transaction resulting in a change of control (excluding any change of control arising from a public offering of registered securities, such as this offering) or sell or transfer any plant or significant part thereof covered by the settlement agreement to any third party unless the buyer has entered into one or more agreements recognizing the USWA as the bargaining representative for the unionized employees at our Johnstown facility and establishing the terms and conditions of employment through a new collective bargaining agreement or an assumption of the then-existing collective bargaining agreement.

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The settlement agreement also provides for one-time payments by us of (1) $1.4 million in the aggregate to the current and former employees of JAC for whom charges were filed (including the Britt lawsuit plaintiffs); (2) $0.3 million to the Deemer lawsuit and Britt lawsuit plaintiffs for losses arising from the termination of their retirement health care coverage prior to the settlement; and (3) $0.2 million in attorney s fees incurred by plaintiffs and us in connection with the settlement.

In addition to the one-time payments described above, we have agreed to pay $0.2 million to settle our outstanding workplace grievances, with certain limited exceptions. The USWA agreed to withdraw any NLRB charges associated with these grievances.

The settlement was conditioned on, among other things, (1) ratification of the settlement by the union members; (2) approval of the settlement by class members in the Deemer lawsuit and the Britt lawsuit; (3) approval by the NLRB of the settlement and the withdrawal of NLRB charges filed against us; and (4) approval by the United States District Court for the Western District of Pennsylvania of the settlement (except with respect to JAC s agreement to pay future health care and pension benefits following the effective date, which obligation was not contingent on court approval) and the withdrawal of the Britt lawsuit and the Deemer lawsuit. The settlement was ratified by the union members on November 15, 2004. In February 2005, the NLRB approved the settlement and withdrew the charges against us. On May 4, 2005, the United States District Court for the Western District of Pennsylvania approved the settlement. Accordingly, all of the conditions to the effectiveness of the settlement were met as of May 4, 2005.

See Management s discussion and analysis of financial condition and results of operations and our consolidated financial statements and the related notes regarding the impact of the settlement on our financial condition and results.

Other

We are also involved in certain other threatened and pending legal proceedings, including workers compensation and employee matters arising out of the conduct of our business. Additionally, we are involved in various warranty and repair claims and related threatened and pending legal proceedings with our customers in the normal course of business. While the ultimate outcome of such legal proceedings cannot be determined at this time, it is the opinion of management that the resolution of these actions will not have a material adverse effect on our financial condition or results of operations.

Management

EXECUTIVE OFFICERS AND DIRECTORS

Set forth below is information concerning our current directors and executive officers, including their ages as of August 30, 2005.

Name	Age	Position
John E. Carroll, Jr.	62	President, Chief Executive Officer and Director
Kevin P. Bagby	54	Vice President, Finance, Chief Financial Officer, Treasurer and Secretary
Glen T. Karan	54	Vice President, Planning and Administration
Edward J. Whalen	57	Senior Vice President, Marketing and Sales
Camillo M. Santomero, III	47	Chairman of the Board
Jay R. Bloom	49	Director
James D. Cirar	58	Director
Mark D. Dalton	43	Director
S. Carl Soderstrom, Jr.	52	Director
Robert N. Tidball	66	Director

John E. Carroll, Jr., President, Chief Executive Officer and Director

Mr. Carroll, our President since 1998, also has served as Chief Executive Officer since 1999. Mr. Carroll served as our Chairman of the Board from 1999 until December 2004. Previously, Mr. Carroll was President of Thrall Car Manufacturing Company from 1990 to 1997. From 1989 to 1990, Mr. Carroll served as the President of Transcisco Rail Services Company. Mr. Carroll also served as Director of Planning and International Business Director at FMC Corporation from 1985 to 1989 and as President of Gunderson, Inc. (now a unit of the Greenbrier Companies) from 1977 to 1985. Mr. Carroll served in the United States Army and holds a B.S. in Industrial Engineering and an M.S. in Industrial Administration from Purdue University.

Kevin P. Bagby, Vice President, Finance, Chief Financial Officer, Treasurer and Secretary

Mr. Bagby has served as our Vice President, Finance, Chief Financial Officer, Treasurer and Secretary since November 2004. Prior to joining us, Mr. Bagby served as Vice President and Chief Financial Officer of Stoneridge, Inc., a company that designs and manufactures highly engineered electrical and electronic components, modules and systems for certain agricultural and vehicle markets, from 1995 until September 2004. From 1990 to 1995, Mr. Bagby served in various senior positions at Kelsey-Hayes Company. Prior to his employment at Kelsey-Hayes Company, Mr. Bagby served in various positions at General Tire, Abex Corporation and Lozier Corporation. Mr. Bagby holds a B.B.A. in Finance from Kent State University and an M.B.A. with a concentration in Finance from George Mason University.

Glen T. Karan, Vice President, Planning and Administration

Mr. Karan has served as our Vice President, Planning and Administration since November 2004. He has also has served as our Vice President, Finance, Secretary and Treasurer from 2001 to November 2004 and Vice President, Finance, Secretary and Treasurer of our subsidiaries from 1999 to 2001. Previously, Mr. Karan served in various senior financial positions for our subsidiaries from 1994 to 1999. Prior to joining us, Mr. Karan worked for Miller Picking/York International Corporation from 1976 to 1994. At York, Mr. Karan held positions as Vice President of Finance and Contracts Officer from 1987 to 1994,

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Controller and Secretary from 1977 to 1987 and Assistant Controller from 1976 to 1977. Mr. Karan holds a B.S. in Business Administration from Pennsylvania Military College (currently Widener University) and an M.B.A. with a concentration in Finance from St. Francis (PA) College.

Edward J. Whalen, Senior Vice President, Marketing and Sales

Mr. Whalen has served as our Senior Vice President, Marketing and Sales since December 2004. He has also served as Senior Vice President, Marketing and Sales for our subsidiaries from 1991 to December 2004. Prior to joining us in 1991, Mr. Whalen was President of Pullman Leasing Company. Prior to serving as President of Pullman Leasing Company, Mr. Whalen served in various finance positions for Pullman Leasing Company, including Vice President of Finance and Treasurer. Mr. Whalen originally joined Pullman, Inc., the parent of Pullman Leasing Company, in 1972. Mr. Whalen holds a B.S. and an M.B.A. from DePaul University. Mr. Whalen is also an Illinois Certified Public Accountant.

Camillo M. Santomero, III, Chairman of the Board

Mr. Santomero has been a director since June 1999 and the non-executive Chairman of the Board since December 2004. Mr. Santomero has been a private investor and a Senior Consultant to JP Morgan Partners (formerly Chase Capital Partners and Chemical Venture Partners) since January 1992. Mr. Santomero is also a director of Fuel Systems Holdings, LLC, S.R. Smith LLC, Alliance Services LLC, Quality Components LLC and Red Head Brass LLC.

Jay R. Bloom, Director

Mr. Bloom has been a director since February 2001. Mr. Bloom is a founder, and for the last five years has been a Managing Partner, of Trimaran Fund Management, L.L.C. Mr. Bloom is also a vice chairman of CIBC World Markets Corp., one of the underwriters in this offering, which he joined in 1995, and is a co-head of the CIBC Argosy Merchant Banking Funds. Prior to joining CIBC, Mr. Bloom was a founder and Managing Director of The Argosy Group L.P. Before Argosy, Mr. Bloom was a Managing Director at Drexel Burnham Lambert Incorporated, and prior to that, he worked at Lehman Brothers Kuhn Loeb Incorporated and practiced law with Paul Weiss Rifkind Wharton & Garrison. Mr. Bloom is also a director of Educational Services of America, Inc., Accuride Corporation and Norcraft Companies, L.P. Mr. Bloom currently serves as a member of the Cornell University Council and is a member of Cornell University s private equity committee.

James D. Cirar, Director

Mr. Cirar has been a director since June 1999. Mr. Cirar is currently the Executive Vice President in charge of the Gunite division of Accuride Corporation. He held the same position at Transportation Technologies Industries, Inc. from January 2000 until the company was acquired by Accuride Corporation. Mr. Cirar was Chairman of Johnstown America Corporation and Freight Car Services, Inc. from September 1998 to June

1999 and Senior Vice President from July 1997 to June 1999. From September 1995 to August 1998, he was President and Chief Executive Officer of Johnstown America Corporation and from March 1998 to August 1998 he was President and Chief Executive Officer of Freight Car Services, Inc.

Mark D. Dalton, Director

Mr. Dalton has been a director since February 2001. Mr. Dalton is also a director of Accuride Corporation. Mr. Dalton has been a Managing Director of Trimaran Fund Management, L.L.C. since

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August 2001. Prior to that date, Mr. Dalton was a Managing Director of CIBC World Markets Corp., one of the underwriters in this offering, which he joined in August 1995. Prior to that date, Mr. Dalton worked with the principals of Trimaran Fund Management, L.L.C. at The Argosy Group since March 1994.

S. Carl Soderstrom, Jr., Director

Mr. Soderstrom has been a director since April 7, 2005 and is the chairman of our audit committee. Mr. Soderstrom was employed by ArvinMeritor, Inc. and its predecessor companies from 1986 to 2004 and served as Senior Vice President and Chief Financial Officer of ArvinMeritor, Inc. from July 2001 to December 2004. He also held several senior management positions in engineering, quality and procurement at ArvinMeritor, Inc. from February 1998 to July 2001. Prior to joining ArvinMeritor, Inc., Mr. Soderstrom was employed by General Electric Company and the ALCO Controls division of Emerson Electric. Mr. Soderstrom is a member of the board of directors of Lydall, Inc. and serves as a member of the Audit Committee and Chairman of the Corporate Governance Committee of Lydall, Inc.

Robert N. Tidball, Director

Mr. Tidball has been a director since April 7, 2005. From 1989 to January 2001, Mr. Tidball was the President, CEO and a director of PLM International, Inc., after which he retired. From 1986 to 1989, Mr. Tidball served in other senior executive positions at PLM International, Inc.

BOARD OF DIRECTORS

Our certificate of incorporation authorizes a board of directors consisting of at least five, but no more than 15, members. Currently, our board of directors consists of seven members.

Our board of directors is divided into three staggered classes, with as nearly equal a number of directors in each class as possible. Our directors serve three-year terms. The division of our board of directors into three classes with staggered three-year terms may delay or prevent a change of our management or a change in control.

Our board of directors is divided as follows:

Ø Class I consisting of Mr. Tidball, Mr. Soderstrom and Mr. Cirar, whose terms will expire at our annual meeting of stockholders to be held in 2006;

- Ø Class II consisting of Mr. Carroll and Mr. Santomero, whose terms will expire at our annual meeting of stockholders to be held in 2007; and

- Ø Class III consisting of Mr. Dalton and Mr. Bloom, whose terms will expire at our annual meeting of stockholders to be held in 2008.

We are party to nomination agreements, dated as of April 11, 2005, with each of Caravelle Investment Fund, L.L.C. (Caravelle), Camillo M. Santomero, III and Trimaran Investments II, L.L.C. (Trimaran) that provide that we use our reasonable efforts to have an individual selected by each of them included as one of the nominees to be considered at a meeting of our stockholders called for the election of directors when the terms of the Class II directors (with respect to Mr. Santomero) and Class III directors (with respect to Caravelle and Trimaran) expire. Mr. Santomero is currently a Class II director. Each of Mr. Bloom and Mr. Dalton is a Class III director designated by Caravelle and Trimaran, respectively. Each of the foregoing agreements provides for the automatic termination of the agreement when the number of

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shares held by the applicable stockholder is less than the minimum amount set forth in the agreement. These stockholders have not entered into agreements requiring them to vote for each other s nominees at the meetings of stockholders called for the election of directors. Following the completion of this offering, each of the nomination agreements will automatically terminate in accordance with its terms. Given the sales by the selling stockholders in this offering who are represented on our board of directors and the anticipated termination of the nomination agreements, the composition of our board of directors may change in the future.

COMMITTEES OF OUR BOARD OF DIRECTORS

The standing committees of our board of directors consist of the audit committee, the compensation committee and the nominating and corporate governance committee. In addition, we may establish special committees under the direction of the board of directors when necessary to address specific issues.

Audit committee

Our audit committee is responsible for, among other things, making recommendations concerning the engagement of our independent registered public accounting firm, reviewing with the independent public accounting firm the plans and results of the audit engagement, approving professional services provided by the independent public accountants, reviewing the independence of the independent registered public accountants, considering the range of audit and non-audit fees and oversight of management s review of the adequacy of our internal accounting controls. Our audit committee consists of Mr. Soderstrom, whom we designated as the audit committee financial expert and chairman, Mr. Tidball and Mr. Cirar. The composition of the audit committee complies with the SEC and Nasdaq National Market requirements. Within one year following the approval of our common stock for quotation on the Nasdaq National Market, we expect that Mr. Cirar will be replaced as a member of the audit committee with a new director who will qualify as an independent director under the applicable listing standards of the Nasdaq National Market and the SEC s rules and regulations. Our board of directors has adopted a written charter for our audit committee, which is posted on our website.

Nominating and corporate governance committee

Our nominating and corporate governance committee is responsible for recommending persons to be selected by the board as nominees for election as directors, recommending persons to be elected to fill any vacancies on the board, consider and recommending to the board qualifications for the office of director and policies concerning the term of office of directors and the composition of the board and considering and recommending to the board other actions relating to corporate governance. Our nominating and corporate governance committee consists of Messrs. Soderstrom, Tidball and Santomero. The composition of the nominating and corporate governance committee complies with the SEC and Nasdaq National Market requirements. Our board of directors has adopted a written charter for our nominating and corporate governance committee, which is posted on our website. See also Certain relationships and related party transactions Nomination agreements.

Compensation committee

Our compensation committee is charged with the responsibilities, subject to full board approval, of establishing, periodically re-evaluating and, where appropriate, adjusting and administering policies concerning compensation of management personnel, including the Chief Executive Officer and all of our other executive officers. Our compensation committee consists of Messrs. Soderstrom, Tidball and Cirar.

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The composition of the compensation committee complies with the SEC and Nasdaq National Market requirements. Our board of directors has adopted a written charter for our compensation committee, which is posted on our website.

Compensation committee interlocks and insider participation

In 2004, we did not have a compensation committee. None of the members of our compensation committee at any time has been one of our officers or employees. None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers who serve on our board or compensation committee.

We comply with all Nasdaq National Market corporate governance and listing requirements.

Code of ethics

We have adopted a written code of ethics that is designed to deter wrongdoing and to promote:

Ø Honest and ethical conduct;

Ø Full, fair, accurate, timely and understandable disclosure in reports and documents that we file with the SEC and in our other public communications;

Ø Compliance with applicable laws, rules and regulations, including insider trading compliance; and

Ø Accountability for adherence to the code and prompt internal report of violations of the code, including illegal or unethical behavior regarding accounting or auditing practices.

The audit committee of our board of directors reviews our code of ethics on a regular basis and will propose or adopt additions or amendments as it considers required or appropriate. Our code of ethics is posted on our website.

Director compensation

We reimburse directors for expenses incurred in connection with attendance at board or committee meetings. We compensate each of our independent directors as follows: an annual stipend of $25,000, $1,000 for regular board meeting attendance, $750 for committee meeting attendance, $15,000 annual compensation for the chairperson of the audit committee, $3,000 annual compensation for the chairperson of any other committee and an annual restricted stock award of $25,000. We also have adopted expense reimbursement and related policies for all directors customary for public companies such as ours.

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EXECUTIVE COMPENSATION

The following table sets forth the compensation of our chief executive officer and each of our other most highly compensated employee executive officers during the year ended December 31, 2004. We refer to these officers as the named executive officers.

	Annual Compensation			Long-Term Compensation Awards	
Name and Principal Position	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Securities Underlying Options (#)(1)	All Other Compensation ($)
John E. Carroll, Jr. President, Chief Executive Officer and Director(2)	$ 450,000	$ 90,308	$ 22,825(3)	336	$ 14,627(4)
Kevin P. Bagby Vice President of Finance, Chief Financial Officer, Treasurer and Secretary(5)				68	
Glen T. Karan Vice President, Planning and Administration(6)	158,933	180,000	7,550(7)	68	5,647(8)
Edward J. Whalen Senior Vice President, Marketing and Sales(9)	271,000				10,739(10)

(1) Reflects the number of Units consisting of 550 shares of our common stock and one share of our Series A voting preferred stock.

(2) Mr. Carroll has held the position of President since 1998 and the positions of Chief Executive Officer and director since 1999. He held the position of Chairman of the Board from 1999 until December 2004.

(3) Reflects perquisites and other personal benefits to Mr. Carroll, including our payment of $15,212 for temporary living and commuting expenses and $7,613 for reimbursement of country club dues.

(4) Reflects our contribution of $7,895 to Mr. Carroll s retirement account under the Savings Plan for Salaried Employees and our payment of $6,732 in premiums under Mr. Carroll s life insurance policy.

(5) Mr. Bagby has served as our Vice President of Finance, Chief Financial Officer, Treasurer and Secretary since November 2004, but he received no compensation from us other than stock options during the year ended December 31, 2004.

(6) Mr. Karan held the position of Vice President, Finance, Secretary and Treasurer until November 2004. Mr. Karan has held his current position since November 2004.

(7) Reflects our reimbursement of Mr. Karan s country club dues.

(8) Reflects our contribution of $5,044 to Mr. Karan s retirement account under our Savings Plan for Salaried Employees and our payment of $603 in premiums under Mr. Karan s life insurance policy.

(9) Mr. Whalen has served as our Senior Vice President, Marketing and Sales since December 2004.

(10) Reflects our contribution of $8,200 to Mr. Whalen s retirement account under the Savings Plan for Salaried Employees and our payment of $2,539 in premiums under Mr. Whalen s life insurance policy.

No options were exercised by any executive officer during the year ended December 31, 2004.

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The following table sets forth information regarding the 2004 Options granted to the named executive officers during the year ended December 31, 2004 and the value of their respective options as of the year ended December 31, 2004.

	Individual Grants*				
Name	Number of Securities Underlying Options Granted (Units)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price	Expiration Date	Value of Unexercised Options Fiscal Year-End ($)
John E. Carroll, Jr.	336	71.2%	$ 0.01	December 22, 2011	$ 2,949,112
Kevin P. Bagby	68	14.4%	0.01	December 22, 2011	596,844
Glen T. Karan	68	14.4%	0.01	December 22, 2011	596,844

* All of these options were exercised prior to the completion of our initial public offering. See Option awards and option plan 2004 option awards.

Employment and non-competition agreements

We are a party to employment agreements with John E. Carroll, Jr., Kevin P. Bagby, Glen T. Karan and Edward J. Whalen.

John E. Carroll, Jr.

Mr. Carroll s employment agreement, as amended, provides for his continued employment as our President and Chief Executive Officer for an initial term that expires on December 31, 2006 and which automatically extends for one-year periods until terminated prior to the end of the term by either party upon 90 days notice.

We agreed to pay Mr. Carroll an initial annual base salary of $550,000. We also agreed to pay Mr. Carroll an annual bonus equal to 1% of our EBITDA (as defined in the agreement), measured on a calendar year basis. We also agreed to pay Mr. Carroll a cash bonus of $250,000 if he remains continuously employed by us until May 1, 2005 and we are quoted on the Nasdaq National Market on that date. We will pay Mr. Carroll an additional cash bonus of $250,000 if the conditions for the first $250,000 bonus as described above have been met and he remains continuously employed by us until the earlier of November 1, 2005 or the completion of a follow-on offering of our common stock. We agreed to pay this second $250,000 bonus to Mr. Carroll upon a change in control (as defined in his employment agreement) if it occurs prior to November 1, 2005 or the completion of a follow-on offering of our common stock. Mr. Carroll is also entitled to participate in all management incentive plans, and to receive all benefits under any employee benefit plan, arrangement or perquisite, made available to our executives.

In the event that Mr. Carroll s employment agreement is terminated by us in breach of the agreement or terminated by Mr. Carroll for Good Reason (as defined in the agreement), we agreed to: (a) pay Mr. Carroll s full base salary through the date of termination and all other unpaid amounts as of such date; (b) pay a lump sum equal to three times the sum of (1) his annual base salary then in effect and (2) his annual bonus (as calculated pursuant to the agreement); and (c) continue his participation in our employee welfare benefit plans and programs for three years. We also agreed to continue to make available, at our cost, coverage under our medical insurance plan to each of Mr. Carroll and his spouse until he or she is eligible for Medicare.

The agreement requires Mr. Carroll to abide by restrictive covenants relating to non-disclosure, as well as non-competition for two years following termination of employment.

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Kevin P. Bagby

Mr. Bagby s employment agreement provides for his employment as our Vice President, Finance, Chief Financial Officer, Treasurer and Secretary, without any employment term, as an at will employee. We agreed to pay Mr. Bagby an initial annual base salary of $250,000 and grant him 2004 Options to purchase 68 Units. See Option awards and option plan for a description of a Unit. Mr. Bagby is entitled to participate and receive all benefits under our employee benefit plans.

If we terminate Mr. Bagby s employment agreement without cause (as defined in his employment agreement) before November 22, 2005, he will be entitled to receive 12 months of his base salary and continuation of his employee benefits. If we terminate Mr. Bagby s employment agreement without cause at any time after that date, he will be entitled to receive 24 months of his base salary and continuation of his employee benefits.

The agreement also requires Mr. Bagby to abide by restrictive covenants relating to non-disclosure, as well as non-competition and non-solicitation for one year following termination of employment.

Glen T. Karan

Mr. Karan s employment agreement provides for his continued employment as our Vice President, Planning and Administration for an initial term of three years, which automatically extends for one-year periods until terminated prior to the then end of the term by either party upon 90 days notice. Upon a change in control (as defined in his employment agreement), the agreement will automatically extend to until the later of the second anniversary of such change in control or, if such change in control was caused by the shareholder approval of a merger or consolidation, the second anniversary of such merger or consolidation. Under Mr. Karan s agreement, following one year of the effective date of the agreement, Mr. Karan is entitled to voluntarily terminate his employment upon 90 days notice, upon which we will continue paying his base salary and all other unpaid amounts through the date of termination and until the second anniversary of the date of termination, plus two times his annual bonus (as calculated pursuant to the agreement).

We agreed to pay Mr. Karan an initial annual base salary of $200,000, effective as of August 1, 2004. We also agreed to pay Mr. Karan a special bonus of $150,000 and reimburse him for the lesser of $115,000 or the full amount of taxes payable by Mr. Karan solely as a result of the exercise of his 2004 Options to purchase 68 Units. See Option awards and option plan for a description of a Unit. Mr. Karan is also entitled to participate in all management incentive plans, and to receive all benefits under any employee benefit plan, arrangement or perquisite, made available to our executives.

In the event that Mr. Karan s employment agreement is terminated by us in breach of the agreement or terminated by Mr. Karan for good reason (as defined in his employment agreement), we agreed to: (a) pay Mr. Karan s full base salary through the date of termination and all other unpaid amounts as of such date; (b) pay a lump sum equal to three times the sum of (1) his annual base salary then in effect and (2) his annual bonus (as calculated pursuant to the agreement); (c) pay a lump sum, in cash, reflecting his incentive compensation (as calculated pursuant to the agreement); (d) continue his participation in our employee welfare benefit plans and programs for three years; and (e) pay a cash amount equal to the present value of the additional pension benefit that Mr. Karan would have accrued under our qualified defined pension plan had he

remained our employee for an additional three years.

The agreement requires Mr. Karan to abide by restrictive covenants relating to non-disclosure, as well as non-competition and non-solicitation for one or two years following termination of employment, depending on the basis for the termination.

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Edward J. Whalen

Mr. Whalen s employment agreement provides for his employment as our Senior Vice President, Marketing and Sales for an initial term of three years, which automatically extends for one-year periods until terminated prior to the end of the term by either party upon 90 days notice. Upon a change in control (as defined in his employment agreement), the agreement will automatically extend to until the later of the second anniversary of such change in control or, if such change in control was caused by the shareholder approval of a merger or consolidation, the second anniversary of such merger or consolidation.

We agreed to pay Mr. Whalen an initial annual base salary of $271,000. Mr. Whalen is also entitled to participate in all management incentive plans, and to receive all benefits under any employee benefit plan, arrangement or perquisite, made available to our executives. Mr. Whalen s employment agreement also provides for a tax gross-up for any amount that we pay or distribute to him, whether under the employment agreement or otherwise, that is determined to be an excess parachute payment under the Internal Revenue Code.

In the event that Mr. Whalen s employment agreement is terminated by us in breach of the agreement or terminated by Mr. Whalen for good reason (as defined in his employment agreement), we agreed to: (a) pay Mr. Whalen s full base salary through the date of termination and all other unpaid amounts as of such date; (b) pay a lump sum equal to three times the sum of (1) his annual base salary then in effect and (2) his annual bonus (as calculated pursuant to the agreement); (c) pay a lump sum, in cash, reflecting his incentive compensation (as calculated pursuant to the agreement); and (d) continue his participation in our employee welfare benefit plans and programs for three years. In addition, unless we terminate Mr. Whalen s employment for cause (as defined in his employment agreement), we will continue to make available to Mr. Whalen coverage under our medical insurance plan until he is eligible for Medicare, so long as he pays the full cost of the coverage at the then applicable COBRA rate.

The agreement requires Mr. Whalen to abide by restrictive covenants relating to non-disclosure, as well as non-competition and non-solicitation for one or two years following termination of employment, depending on the basis for the termination.

Option awards and option plan

2004 option awards

On December 7, 2004, in accordance with our former shareholders agreement, our board of directors approved the grant of certain options, referred to as the 2004 Options, to purchase an aggregate of 1,014 Units. Each Unit consisted of 550 shares of our common stock and one share of our Series A voting preferred stock. The grant of the 2004 Options became effective on December 23, 2004 to the following directors (including one former director) and officers in the following respective amounts:

Name	Number of Units

John E. Carroll, Jr.	336
Camillo M. Santomero, III	236
Mark D. Dalton	172
S. Mark Ray*	83
James D. Cirar	51
Glen T. Karan	68
Kevin P. Bagby	68
Total	1,014

* Mr. Ray resigned as a director of our company upon the completion of our initial public offering.

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The exercise price of each 2004 Option is $0.01 per Unit and the 2004 Options are exercisable from the day immediately following the date of the option agreement until the earliest of the seventh anniversary of the option agreement or upon the termination for Cause (as defined in the option agreement) of the applicable optionee. Mr. Ray assigned his options for 83 Units to John Hancock Life Insurance Company and Hancock Mezzanine Partners L.P. Mr. Dalton assigned his options for 172 Units to Trimaran Advisors, L.L.C. and Trimaran Fund Management, L.L.C. Prior to the completion of our initial public offering, all of the 2004 Options were exercised, and 557,700 shares of our common stock and 1,014 shares of our Series A voting preferred stock were issued to the respective option holders. All of the 1,014 shares of our Series A voting preferred stock were redeemed immediately following the completion of the initial public offering.

2005 Long-Term Incentive Plan

Following the completion of our initial public offering, we adopted the 2005 Long-Term Incentive Plan, or the Incentive Plan, and issued options to purchase shares of our common stock to the following executive officers in the following amounts:

Executive Officer	Option Amounts
John E. Carroll, Jr.	164,904
Edward J. Whalen	98,942
Kevin P. Bagby	65,962
Total	329,808

General. The Incentive Plan is intended to provide incentives to attract, retain and motivate our and our subsidiaries and affiliates employees, consultants and directors, to provide for competitive compensation opportunities, to encourage long-term service, to recognize individual contributions and reward achievement of performance goals, and to promote the creation of long-term value for stockholders by aligning the interests of such persons with those of stockholders.

Eligibility and Administration. Our and our subsidiaries and affiliates employees, consultants and non-employee directors will be eligible to be granted awards under the Incentive Plan. The Incentive Plan will be administered by our compensation committee or such other board committee (or the entire board of directors) as may be designated by the board, which we refer to as the Committee. Unless otherwise determined by the board, the Committee will consist of two or more members of the board of directors who are nonemployee directors within the meaning of Rule 16b-3 of the Exchange Act and outside directors within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code. The Committee will determine, among other things, which eligible employees, consultants and directors receive awards, the types of awards to be received and the terms and conditions thereof. The Committee also will have authority to waive conditions relating to an award or accelerate the exercisability or vesting of awards under the Incentive Plan.

Awards. The Incentive Plan provides for the grant to eligible persons of stock options, share appreciation rights, or SARs, restricted shares, restricted share units, or RSUs, performance shares, performance units, dividend equivalents and other share-based awards, which we refer to collectively as the awards. An aggregate of 5% of our outstanding shares on a fully diluted basis have been reserved for issuance under the Incentive Plan. In addition, during any one calendar year (1) the maximum number of shares with respect to which stock options and SARs may be granted to a participant under the Incentive Plan will be 2.5% of our outstanding shares on a fully diluted basis and (2) the maximum number of shares which may be granted to a participant under the Incentive Plan with respect to restricted shares,

restricted share units, performance shares and performance units intended to qualify as performance-based compensation under Section 162(m) of the Code will be 2.5% of our outstanding shares on a fully diluted basis. The maximum number of shares that may be issued or transferred to participants as incentive stock options is 5% of our outstanding shares on a fully diluted basis, and the maximum number of shares that may be transferred to participants as restricted shares, restricted share units and other share-based awards is 2.5% of our outstanding shares on a fully diluted basis. These share amounts are subject to anti-dilution adjustments in the event of certain changes in our capital structure, as described below. Shares issued pursuant to the Incentive Plan will be either authorized but unissued shares or treasury shares.

Stock Options. Incentive stock options, or ISOs, which are intended to qualify for special tax treatment in accordance with the Code, and nonqualified stock options, which are not intended to qualify for special tax treatment under the Code, may be granted under the incentive plan. The Committee is authorized to set the terms relating to an option, including exercise price and the time and method of exercise.

Share Appreciation Rights. An SAR will entitle the holder thereof to receive with respect to each share subject thereto, an amount equal to the excess of (1) the fair market value of one share on the date of exercise (or, if the Committee so determines, at any time during a specified period before or after the date of exercise) over (2) the exercise price of the SAR set by the Committee as of the date of grant. The Committee is authorized to determine the terms relating to the SARs, including the time and method of exercise and the form of consideration payable in settlement of an SAR.

Restricted Shares. Awards of restricted shares will be subject to such restrictions on transferability and other restrictions, if any, as the Committee may impose on the date of grant or thereafter. Such restrictions will lapse under circumstances as the Committee may determine, including, without limitation, upon a specified period of continued employment or upon the achievement of performance criteria referred to below. Except as otherwise determined by the Committee, eligible participants, consultants and directors granted restricted shares will have all of the rights of a stockholder, including the right to vote restricted shares and receive dividends thereon. Unvested restricted shares will be forfeited upon termination of employment during the applicable restriction period.

A restricted share unit will entitle the holder thereof to receive shares of common stock or cash at the end of a specified deferral period. Restricted share units will also be subject to such restrictions as the Committee may impose. Such restrictions will lapse under circumstances as the Committee may determine, including based upon a specified period of continued employment or upon the achievement of a specified period of continued employment or upon the achievement of performance criteria referred to below. Except as otherwise determined by the Committee, RSUs subject to restriction will be forfeited upon termination of employment during any applicable restriction period.

Performance shares and performance units. Performance shares and performance units will provide for future issuance of shares or payment of cash, respectively, to the recipient upon the attainment of performance goals established by the Committee over specified performance periods. Except as otherwise determined by the Committee, performance shares and performance units will be forfeited upon termination of employment during any applicable performance period. Performance objectives may vary from person to person and will be based upon such performance criteria as the Committee may deem appropriate. Subject to special rules with respect to awards intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code, the Committee may revise performance objectives if significant events occur during the performance period which the Committee expects to have a substantial effect on such objectives.

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Dividend Equivalents and Other Awards. The Committee may also grant dividend equivalent rights under the Incentive Plan and it is authorized, subject to limitations under applicable law, to grant such other awards that may be denominated in, valued in, or otherwise based on, shares, including without limitation unrestricted shares awarded purely as a bonus and not subject to any restrictions or conditions, as deemed by the Committee to be consistent with the purposes of the Incentive Plan.

Performance Criteria. If the Committee determines that an award of restricted shares, restricted share units, performance shares, performance units or other share-based awards should qualify as performance-based compensation under Section 162(m) of the Code, the grant, vesting, exercise and/or settlement of such awards will be contingent upon achievement of pre-established performance goals based on one or more of the following of our business criteria, on a consolidated basis, and/or the business criteria for our specified subsidiaries or affiliates or other business units or lines: (1) earnings per share (basic or fully diluted), (2) revenues, (3) earnings, before or after taxes, from operations (generally or specified operations), or before or after interest expense, depreciation, amortization, incentives, or extraordinary or special items, (4) cash flow, free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, or cash flow in excess of cost of capital, (5) return on net assets, return on assets, return on investment, return on capital, return on equity, (6) economic value added, (7) operating margin or operating expense, (8) net income, (9) share price or total stockholder return and (10) strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, geographic business expansion goals, cost targets, customer satisfaction, supervision of litigation and information technology, and goals relating to acquisitions or divestitures of subsidiaries, affiliates or joint ventures. The targeted level or levels of performance with respect to such business criteria may be established at such levels and in such terms as the Committee may determine, in its discretion, including in absolute terms, as a goal relative to performance in prior periods, or as a goal compared to the performance of one or more comparable companies or an index covering multiple companies.

Nontransferability. Unless otherwise set forth by the Committee in an award agreement, awards (except for vested shares) will generally not be transferable by the participant other than by will or the laws of descent and distribution and will be exercisable during the lifetime of the participant only by such participant or his or her guardian or legal representative.

Change in Control. Unless otherwise provided by the Committee at the time an award is granted, in the event of a change in control (as defined in the Incentive Plan), all outstanding awards granted under the Incentive Plan shall become immediately exercisable, all restrictions or limitations shall lapse, and any performance criteria and other conditions to payment shall be deemed satisfied.

Capital Structure Changes. If the Committee determines that any dividend in shares, recapitalization, share split, reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, or other similar corporate transaction or event affects the shares such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of eligible participants under the Incentive Plan, then the Committee may make such equitable changes or adjustments as it deems appropriate, including adjustments to (1) the number and kind of shares which may thereafter be issued under the Incentive Plan, (2) the number and kind of shares, other securities or other consideration issued or issuable in respect of outstanding awards and (3) the exercise price, grant price or purchase price relating to any award. In addition, subject to certain limitations, the committee is authorized to make adjustments in the terms and conditions of and the criteria and performance objectives, if any, included in awards in recognition of unusual or non-recurring events affecting our company or in response to changes in applicable law, regulations or accounting principles.

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Amendment and Termination. The Incentive Plan may be amended, altered, suspended, discontinued or terminated by the board of directors. However, any amendment or alteration for which stockholder approval is required under the rules of any stock exchange or automated quotation system on which the common stock may then be listed or quoted will not be effective until such stockholder approval has been obtained. In addition, no amendment, alteration, suspension, or termination of the Incentive Plan may materially and adversely affect the rights of a participant under any award theretofore granted to him or her without the consent of the affected participant. The Committee may waive any conditions or rights under, amend any terms of, or amend, alter, suspend, discontinue or terminate, any award granted, provided that, without participant consent, such amendment, alteration, suspension, discontinuance or termination may not materially and adversely affect the rights of such participant under any award previously granted to him or her.

Restrictive Covenants. The Incentive Plan provides that the Committee may include in any award agreement that, if the participant breaches the non-competition, non-solicitation, non-disclosure or other provisions of the award agreement, whether during or after employment, the participant will forfeit any and all awards granted to him or her under the Incentive Plan, including awards that have become vested and exercisable.

Effective Date and Term. The Incentive Plan was effective April 11, 2005. The Incentive Plan will terminate as to future awards on April 11, 2015.

Management incentive plan

When we acquired our freight car business from TTII in 1999, we assumed the Johnstown America Corporation Management Incentive Plan, which provides additional compensation to participants based on our achievement of certain financial objectives. Our Management Incentive Plan is intended to assist us in attracting and retaining highly qualified personnel, encourage and stimulate superior performance by such personnel on our behalf and recognize the level of an individual s position to influence company results. Bonus awards are based, in part, on our return on average net assets, and the financial targets determined by the Chief Executive Officer and the board of directors. The Management Incentive Plan is open to all salaried personnel selected by the Chief Executive Officer. Participants in the Management Incentive Plan must be actively employed by us on the payment date to receive a bonus award. Participants are entitled to receive a partial bonus award in certain circumstances.

Retirement plans

Defined benefit pension plans

We have qualified, defined benefit pension plans covering substantially all of the employees of our subsidiaries, Johnstown America Corporation (JAC), JAC Operations, Inc. and JAIX Leasing Company. Employees of JAC represented by a collective bargaining agreement may participate in the Bargaining Unit Pension Plan, as amended, or the USWA Office & Technical Salaried Pension Plan. Salaried employees of JAC may participate in the Salaried Pension Plan, as amended. Contributions to the plans are made based upon the minimum amounts required under the Employee Retirement Income Security Act. The plans assets are held by independent trustees and consist primarily of equity and fixed income securities.

Pension benefits which accrued as a result of employee service before June 4, 1999 remained the responsibility of TTII, the former owner of JAC, Freight Car Services, Inc., JAIX Leasing Company and JAC Patent Company (for employee service during the period October 28, 1991 through June 3, 1999),

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or Bethlehem Steel (for employee service prior to October 28, 1991), the owner of JAC prior to TTII. We initiated new pension plans for such employees for service subsequent to June 3, 1999, which essentially provide benefits similar to the former plans.

Under the settlement agreement with the USWA, commencing on February 1, 2005, JAC will contribute amounts for increased pension benefits for JAC employees, equal to $40 or $50 per month per year of service, depending on whether the years of service occurred prior to or after the effective date of the settlement. In addition, each employee with at least 30 years of service with JAC (including service with its predecessor Bethlehem Steel) who retired or will retire between January 21, 2002 and May 15, 2008 will be eligible for supplemental payments of $400 per month until the retiree qualifies for Social Security benefits, to the extent the supplemental payments are not paid by the Pension Benefit Guaranty Corporation. Each retiree covered by the Britt lawsuit will also be eligible for supplemental payments of $400 per month until the retiree qualifies for Social Security benefits. The settlement agreement also provides for the discontinuation of JAC s early retirement benefits under its so-called Rule-of-65 pension program. We made contributions of $4.8 million in 2004 and expect to make contributions of approximately $4.0 million in 2005 relating to pension costs. See Business Legal proceedings Labor dispute settlement.

401(k) plans

Employees of Freight Car Services, Inc. may participate in the Freight Car Services, Inc. 401(k) Plan, under which we provide a matching contribution equal to 50% of the employee s contribution, up to 6% of the employee s compensation. Certain employees of JAC represented by a collective bargaining agreement may participate in the Johnstown America Corporation 401(k) Retirement Savings Plan for Certain Represented Employees. Participating employees are permitted to defer a portion of their income under these plans. The salaried employees of JAC may participate in the Savings Plan for Salaried Employees, as amended, under which we provide a matching contribution equal to the employee s basic contribution.

Postretirement health care benefits

We also provide certain postretirement health care benefits for certain of our salaried and hourly retired employees. Employees may become eligible for health care benefits if they retire after attaining specified age and service requirements. These benefits are subject to deductibles, co-payment provisions and other limitations.

Under the settlement agreement with the USWA, commencing on January 1, 2005, JAC will contribute amounts for health care benefits for JAC s active employees, retirees and their qualified dependents. JAC s contributions will fund 100% of the health care coverage costs of active employees. With respect to current and future retirees (including the retirees involved in the Deemer and Britt lawsuits), effective on December 1, 2004, JAC will pay amounts not exceeding $700 per month for each household where neither the retiree nor his or her spouse is eligible for Medicare benefits, which amount is reduced to $450 per month when either the retiree or his or her spouse becomes eligible for Medicare benefits. As a result of the Johnstown settlement, we expect to make payments of approximately $2.8 million in 2005 (of which $1.4 million has been paid as of June 30, 2005) for postretirement health care costs. As of December 31, 2004, our accumulated postretirement benefit obligation was $54.0 million. See Business Legal proceedings Labor dispute settlement Terms of the settlement.

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Certain relationships and related party transactions

The summaries of the agreements described below are not complete and you should read the agreements in their entirety. These agreements have been filed as exhibits to the registration statement of which this prospectus is a part.

Other than the transactions described below, for the last three full fiscal years there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we are or will be a party:

- in which the amount involved exceeded or will exceed $60,000; and
- in which any director, executive officer, holder of more than 5% of our common stock on an as-converted basis or any member of their immediate family has or will have a direct or indirect material interest.

We believe that each of the transactions described below is on terms no less favorable than could have been obtained from unaffiliated third parties. Although we do not have a separate conflicts policy, we comply with Delaware law with respect to transactions involving potential conflicts. Delaware law requires that all transactions between us and any director or executive officer are subject to full disclosure and approval of the majority of the disinterested members of our board of directors, approval of the majority of our stockholders or the determination that the contract or transaction is intrinsically fair to us.

REDEMPTION OF PREFERRED STOCK

We used approximately $13 million of the net proceeds from our initial public offering to redeem all of our previously outstanding Series A voting preferred stock and Series B non-voting preferred stock. The per share purchase price for each share of Series A voting preferred stock and each share of Series B non-voting preferred stock redeemed by us was equal to the liquidation preference value of each such series of preferred stock of $500 per share plus all accumulated and unpaid dividends through the date of the redemption.

The following table sets forth the number of shares of Series A voting preferred stock and Series B non-voting preferred stock that we redeemed in connection with our initial public offering, including the shares of our Series A voting preferred stock issued upon the exercise of the 2004 Options, and the aggregate redemption price as of the closing date, including accumulated and unpaid dividends, held by our directors, executive officers and security holders who beneficially own more than 5% of any class of our voting securities:

Name	Number of Shares of Series A Voting Preferred Stock(1)	Number of Shares of Series B Non-Voting Preferred	Aggregate Redemption Price

		Stock	(in thousands)
Caravelle Investment Fund, L.L.C.	2,500.000	321.500	$ 2,825
Trimaran Investments II, L.L.C.(2)		1,928.500	1,990
Camillo M. Santomero, III	2,001.000	444.859(3)	2,332
Hancock Mezzanine Partners L.P.	1,291.500		1,275
John Hancock Life Insurance Company	1,291.500		1,275
John E. Carroll, Jr.	1,336.000(4)		1,178
James D. Cirar	651.000(5)		628
Edward J. Whalen		250.000	246
Kevin P. Bagby	68.000		35
Glen T. Karan	68.000		35

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(1) Includes the shares of our Series A voting preferred stock issued upon the exercise of the 2004 Options. See Management Executive compensation Option awards and option plan for more information.

(2) Reflects 677.349 shares of Series B non-voting preferred stock held by Trimaran Fund II, L.L.C., 43.734 shares of Series B non-voting preferred stock held by Trimaran Capital, L.L.C., 285.183 shares of Series B non-voting preferred stock held by Trimaran Parallel Fund II, L.P., 441.056 shares of Series B non-voting preferred stock held by CIBC Employee Private Equity Fund (Trimaran) Partners and 481.178 shares of Series B non-voting preferred stock held by CIBC Capital Corporation.

(3) Includes 179.304 shares of Series B non-voting preferred stock held by Santomero Family Limited Partnership over which Mr. Santomero shares voting and investment power together with his wife, Denise C.R. Santomero, and 208.330 shares of Series B non-voting preferred stock held by Camillo M. Santomero III Individual Retirement Account First Union National Bank Custodian U/A dated 11/30/94.

(4) Consists of shares held by USBancorp Trust Co. FBO John E Carroll, Jr. IRA, dated 6-11-99.

(5) Consists of shares held by Delaware Charter & Guarantee Company, Trustee FBO James D. Cirar, IRA Rollover.

SENIOR NOTES

In June 1999, Caravelle Investment Fund, L.L.C. (Caravelle), Hancock Mezzanine Partners L.P. (Hancock) and John Hancock Life Insurance Company, formerly known as John Hancock Mutual Life Insurance Company (JHLICO), purchased $25.0 million in aggregate principal amount of our senior notes, together with shares of capital stock of our former parent company that, following the exchange of such capital stock in the merger, now consists of 5,000 shares of our Series A voting preferred stock and 2,750,000 shares of our common stock, in exchange for $25.0 million in cash. In September 2003, the purchase agreement for the senior notes and the form of senior notes were amended to, among other things, extend the maturity date of the senior notes to June 30, 2008 and increase the annual interest rate to 17% commencing on July 1, 2006 until the maturity date. Caravelle is a holder of more than 5% of our voting capital stock and an affiliate of our director Jay R. Bloom. Hancock and JHLICO are each a holder of more than 5% of our voting capital stock and an affiliate of our former director S. Mark Ray. In November 2003, Caravelle transferred all of its interest in the senior notes to affiliates of GoldenTree Asset Management, L.P. We used the proceeds from our initial public offering to repay the senior notes in full. See Management services agreements, deferred financing fee agreement and consulting agreement below for information relating to the management services agreement with each of Hancock and JHLICO and the deferred financing agreement with Caravelle.

RIGHTS TO ADDITIONAL ACQUISITION CONSIDERATION

Pursuant to the terms of the share purchase agreement relating to the acquisition of our business in 1999 from TTII, we were required to pay additional sale consideration to TTII upon the occurrence of certain events, including, among others, an initial public offering of our common stock. We refer to this obligation as the rights to additional acquisition consideration. In February 2001, TTII transferred all of its interest in the rights to Caravelle (an affiliate of our director Jay R. Bloom and a holder of 20.9% of our voting common stock immediately prior to our initial public offering), Camillo M. Santomero, III (the chairman of our board of directors and a holder of 16.6% of our voting common stock immediately

Certain relationships and related party transactions

prior to our initial public offering) and Transportation Investment Partners, L.L.C. (the interests of which are now held by Trimaran Investments II, L.L.C., an affiliate of our directors Jay R. Bloom and Mark D. Dalton). The interest held by Trimaran Investments II, L.L.C. in the rights to additional consideration represents its management of the investments of certain of our stockholders that together held 14.3% of our common stock immediately prior to our initial public offering. See footnote 5 to the table in Principal and selling stockholders for more information. In November 2003, Caravelle transferred all of its interest in the rights to affiliates of GoldenTree Asset Management, L.P.

The amount payable upon a triggering event as additional acquisition consideration was $20.0 million in cash plus an accreted value that compounded at a rate of 10% annually. Our initial public offering triggered our obligation to pay the additional acquisition consideration, which we paid in the aggregate amount of $35.0 million. We used the proceeds from our initial public offering and available cash to make the payment. Trimaran, affiliates of GoldenTree Asset Management, LP and Mr. Santomero received 77.1%, 12.9% and 10.0%, respectively, of the additional acquisition consideration.

SHAREHOLDERS AGREEMENT

Prior to our initial public offering, we were party to a shareholders agreement, dated June 3, 1999, as amended on February 15, 2001, with Hancock, JHLICO, Caravelle, Transportation Investment Partners, L.L.C. (the interests of which are now held by stockholders whose shares of our common stock are managed by Trimaran Investments II, L.L.C.), Mr. Santomero and other stockholders of our company that contained, among other things, provisions relating to director designation rights, restrictions on the transfer of shares of capital stock held by the shareholders and registration rights with respect to the shares of our capital stock that the shareholders owned. We requested that all of the shareholders party to the shareholders agreement waive their piggyback registration rights arising in connection with the initial public offering. Upon the completion of our initial public offering, all of our outstanding shares of preferred stock were redeemed and we terminated the shareholders agreement.

NOMINATION AGREEMENTS

We are party to nomination agreements, dated as of April 11, 2005, with each of Caravelle, Mr. Santomero and Trimaran that provide that we use our reasonable efforts to have an individual selected by each of them included as one of the nominees to be considered at a meeting of our stockholders called for the election of directors when the terms of the Class II directors (with respect to Mr. Santomero) and Class III directors (with respect to Caravelle and Trimaran) expire. Mr. Santomero is currently a Class II director. Each of Mr. Bloom and Mr. Dalton is a Class III director designated by Caravelle and Trimaran, respectively. Each of the foregoing agreements provides for the automatic termination of the agreement when the number of shares held by the applicable stockholder is less than the minimum amount set forth in the agreement. Following the completion of this offering, each of the nomination agreements will automatically terminate in accordance with its terms. These stockholders have not entered into agreements requiring them to vote for each other s nominees at the meetings of stockholders called for the election of directors.

REGISTRATION RIGHTS AGREEMENT

We are party to a registration rights agreement, dated as of April 11, 2005, with substantially all of our stockholders as of immediately prior to the completion of our initial public offering. The stockholders that are party to the registration rights agreement have the right to require us, subject to certain terms and conditions, to register their shares of our common stock under the Securities Act of 1933, as

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amended, at any time. The stockholders collectively have an aggregate of three demand registration rights following an exercisability event. In addition, if we propose to register any of our capital stock under the Securities Act, our stockholders will be entitled to customary piggyback registration rights. The registration rights granted under the registration rights agreement are subject to customary exceptions and qualifications and compliance with certain registration procedures. The selling stockholders in this offering have exercised their demand registration rights to require us, subject to certain terms and conditions, to register their shares of our common stock under the Securities Act of 1933, as amended. The registration rights agreement provided that, without our consent, we would not be required to have a registration statement declared effective within 180 days after the effective date of any registration statement filed by us under the Securities Act for any offering of our common stock. We have provided such consent with respect to the registration statement for this offering.

MANAGEMENT SERVICES AGREEMENTS, DEFERRED FINANCING FEE AGREEMENT, MANAGEMENT AGREEMENT AND CONSULTING AGREEMENT

Management services agreements with Hancock and JHLICO

In June 1999, we entered into a management services agreement with each of Hancock and JHLICO. Each management services agreement provides that each of Hancock and JHLICO will provide us with advisory and management services as requested by our board of directors and agreed to by each of Hancock and JHLICO. Each of Hancock and JHLICO has the right, but not the obligation, to act as our advisor with respect to significant business transactions. Each management services agreement provides for an annual management fee of $25,000 and reimbursement of all reasonable out-of-pocket expenses. Each management services agreement was amended to provide for automatic termination of the agreement upon our payment of $50,000 to each of Hancock and JHLICO upon the completion of our initial public offering. We used the proceeds from our initial public offering and available cash to make these payments, and this agreement has been terminated.

Deferred financing agreement with Caravelle

In June 1999, we entered into a deferred financing fee agreement with Caravelle. In consideration of Caravelle s purchase of shares of capital stock of our former parent company that, following the exchange of such capital stock in the merger, now consists of 687,500 shares of our common stock and 1,250 shares of our Series A voting preferred stock, we agreed to pay Caravelle a fee of $50,000 per year. The deferred financing fee agreement was amended to provide for automatic termination of this agreement upon our payment of $100,000 to Caravelle upon completion of our initial public offering. We used the proceeds from our initial public offering and available cash to make this payment, and this agreement has been terminated.

Management agreement with Camillo M. Santomero, III

In June 1999, we and all of our direct and indirect subsidiaries entered into a management agreement with Mr. Santomero, which provides that he will provide general oversight and supervision of our business and that of our subsidiaries and, upon request, evaluate the long-range corporate and strategic plans, general financial operation and performance of our subsidiaries and strategies for their capitalization. In consideration of these management services, we and two of our subsidiaries, JAC Intermedco, Inc. and JAC Operations, Inc., agreed to pay Mr. Santomero an aggregate base fee of $350,000 per year, payable monthly. The management agreement was amended to provide for automatic

termination of the agreement upon our payment of $700,000 to Mr. Santomero at the completion of our initial public offering. We used the proceeds from our initial public offering and available cash to make this payment, and this agreement has been terminated.

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Management services agreement with subsidiaries

In connection with our management agreement with Mr. Santomero, in June 1999 we entered into a management services agreement with certain of our subsidiaries, which provides that we will provide general oversight and supervision of each of the subsidiaries and their respective businesses and provide such additional services as established, from time to time, by mutual agreement between us and the subsidiaries. We also agreed to evaluate upon request the long-range corporate and strategic plans, general financial operation and performance of the subsidiaries and strategies for their capitalization. In consideration for these management services, the subsidiaries party to the management services agreement agreed to pay us an aggregate management fee of $350,000 per year, payable in four equal consecutive quarterly installments, except that, to the extent any of the subsidiaries has paid to Mr. Santomero or his designee all or any portion of the annual base fee under his management agreement with us, the subsidiaries would receive a credit in an amount equal to the amount paid to Mr. Santomero. This agreement was amended to provide for automatic termination of the agreement upon the termination of our management agreement with Mr. Santomero at the completion of our initial public offering, and this agreement has been terminated.

Consulting agreement with James D. Cirar

In June 1999, we and certain of our subsidiaries entered into a consulting agreement with James D. Cirar, one of our directors, which provides that Mr. Cirar will provide us with consulting services on all matters relating to our business and that of our subsidiaries and will serve as a member of our board of directors. The agreement provides for a consulting fee of $50,000 per year. We amended the consulting agreement to provide for termination of the agreement following our payment to Mr. Cirar of $50,000 per year in the three years following the completion of our initial public offering. The amendment to the consulting agreement also provides that, upon any sale of the company to a third party following the completion of our initial public offering, the agreement will terminate and we will be obligated to pay Mr. Cirar $150,000, net of any amounts paid to him as consulting fees between the completion of the initial public offering and the termination date.

FUTURE TRANSACTIONS

All future transactions, if any, between us and our officers, directors and principal shareholders and their affiliates, as well as any transactions between us and any entity with which our officers, directors or principal shareholders are affiliated, will be approved in accordance with the then-current SEC rules and regulations, Nasdaq rules and applicable law governing the approval of the transactions.

Principal and selling stockholders

The following table sets forth information known to us regarding the beneficial ownership of our common stock calculated as of June 30, 2005, and as adjusted to reflect the sale of the common stock offered hereby, by:

- each stockholder who is known by us to beneficially own more than 5% of our common stock;
- our Chairman and Chief Executive Officer and our four other most highly compensated executive officers;
- each of our directors;
- all of our executive officers and directors as a group; and
- each selling stockholder.

The number of shares beneficially owned by each stockholder, director or officer is determined according to the rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options held by that person that are currently exercisable or will become exercisable within 60 days after the date of this prospectus are considered outstanding, while these shares are not considered outstanding for purposes of computing percentage ownership of any other person. There were no options held by any stockholder, director or officer that are currently exercisable or will become exercisable within 60 days after the date of this prospectus.

The percentage ownership of each stockholder prior to this offering is calculated based on 12,532,700 shares of our common stock outstanding as of August 30, 2005. See Certain relationships and related party transactions Registration rights agreement for information regarding the rights of certain of our stockholders to have us register their shares of our common stock.

The percentage ownership of each stockholder after this offering is calculated based on 12,532,700 shares of our common stock outstanding, which reflects the 2,328,115 shares of our common stock to be sold, on a pro rata basis, by the selling stockholders, both without giving effect to the underwriters exercise of the over-allotment option and assuming full exercise of the underwriters over-allotment option. To the extent that the over-allotment is exercised, the selling stockholders will sell, on a pro rata basis, up to an aggregate of 349,217 additional shares of our common stock.

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Principal and selling stockholders

Name of Beneficial Owner/ Selling Stockholder	Shares of Common Stock Beneficially Owned Prior to This Offering		Shares of Common Stock to be Sold in This Offering(1)	Shares of Common Stock Beneficially Owned After This Offering(1)		Additional Shares of Common Stock to be Sold in This Offering Assuming Full Exercise of the Over-Allotment Option	Shares of Common Stock Beneficially Owned After This Offering Assuming Full Exercise of the Over-Allotment Option	
	Number	Percent		Number	Percent		Number	Percent
Directors, Executive Officers and 5% Stockholders								
Gilder, Gagnon, Howe & Co. LLC	802,070	6.4%		802,070	6.4%		802,070	6.4%
Caravelle Investment Fund, L.L.C.(2)	575,763	4.6%	500,663	75,100	*	75,100		
John Hancock Life Insurance Company(3)	527,094	4.2%	458,342	68,752	*	68,752		
Camillo M. Santomero, III(4)	396,595	3.2%	309,921	86,674	*	46,490	40,184	*
Trimaran Investments II, L.L.C.(5)(6)	393,536	3.1%	342,205	51,331	*	51,331		
John E. Carroll, Jr.(7)	272,628	2.2%	202,125	70,503	*	30,319	40,184	*
James D. Cirar	132,844	1.1%	115,517	17,327	*	17,327		
Mark D. Dalton(6)								
Jay R. Bloom(6)								
Edward J. Whalen(8)	51,015	*	44,361	6,654	*	6,654		
Glen T. Karan	13,876	*	12,066	1,810	*	1,810		
Kevin P. Bagby(9)	13,876	*	12,066	1,810	*	1,810		
S. Carl Soderstrom, Jr.								
Robert N. Tidball								
Other Selling Stockholders								
The Santomero Family Foundation, Inc.	60,000	*	52,175	7,825	*	7,825		
Denise C.R. Santomero(10)	77,402	*	67,307	10,095	*	10,095		
Edward L. Thomas	51,015	*	44,361	6,654	*	6,654		
Santomero Family Limited Partnership(11)	36,589	*	31,817	4,772	*	4,772		
Hoffman Investment Company	31,290	*	27,209	4,081	*	4,081		
The Camillo M. Santomero IV 2001 Trust(12)	21,256	*	18,483	2,773	*	2,773		
The Charlotte Young Santomero 2001 Trust(13)	21,256	*	18,483	2,773	*	2,773		
Trimaran Advisors, L.L.C.(6)	20,815	*	18,100	2,715	*	2,715		
Gregory S. Young	20,406	*	17,744	2,662	*	2,662		
Mark L. Saylor	20,406	*	17,744	2,662	*	2,662		
AmeriServ Trust and Financial Services Company FBO Frank Bernatt IRA	15,305	*	13,309	1,996	*	1,996		
Trimaran Fund Management, L.L.C.(6)	14,285	*	12,422	1,863	*	1,863		
Bruce E. Rueppel, Jr.	12,470	*	10,844	1,626	*	1,626		
Kelly L. Bodway	10,203	*	8,872	1,331	*	1,331		
W. John Plunkard	10,203	*	8,872	1,331	*	1,331		
Mark J. Duray	9,438	*	8,207	1,231	*	1,231		
The Mason Norton Santomero 2003 Trust(14)	9,070	*	7,887	1,183	*	1,183		
Jon Schneider	5,101	*	4,436	665	*	665		
Maximo J. Blandon	4,081	*	3,549	532	*	532		
Kenneth Bridges	3,061	*	2,662	399	*	399		

All executive officers and directors as a group (ten persons)	880,834	7.0%	696,056	184,778	1.5%	104,410	80,368	*

* Represents beneficial ownership of less than 1%.

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Principal and selling stockholders

(1) Does not include any shares that would be sold by the selling stockholders if the underwriters exercise their over-allotment option.

(2) Caravelle Investment Fund, L.L.C. is an investment fund managed by Jay R. Bloom, one of our directors, and associates. As a managing member of Trimaran Advisors, L.L.C., the investment advisor to Caravelle Investment Fund, L.L.C., Mr. Bloom may be deemed to beneficially own all of the shares of common stock held directly or indirectly by Caravelle Investment Fund, L.L.C. Mr. Bloom has investment and voting power with respect to the shares owned by Caravelle Investment Fund, L.L.C. but disclaims beneficial ownership of such shares. The managing member and investment advisor of Caravelle Investment Fund, L.L.C. is an affiliate of Trimaran Investments II, L.L.C. CIBC World Markets Corp., an underwriter in this offering, has ownership interests in Caravelle Investment Fund, L.L.C. See Underwriting Affiliations. The address of Caravelle Investment Fund, L.L.C. is 622 Third Avenue, 35th Floor, New York, NY 10017.

(3) John Hancock Life Insurance Company is a wholly owned subsidiary of Manulife Financial Corporation. It is also the investment manager for Hancock Mezzanine Partners L.P. and has investment authority over shares held by Hancock Mezzanine Partners L.P. but disclaims beneficial ownership as to those shares in which it does not have a pecuniary interest. The address of each of Hancock Mezzanine Partners L.P. and John Hancock Life Insurance Company is c/o John Hancock Financial Services, Inc., 200 Clarendon Street, Floor T-57, Boston, MA 02117.

(4) Includes 36,589 shares of our common stock held by Santomero Family Limited Partnership over which Mr. Santomero shares voting and investment power together with Mr. Santomero s wife, Denise C.R. Santomero. Does not include 51,582 shares of common stock held in trusts for the benefit of the children of Mr. and Mrs. Santomero or 40,813 shares of common stock held by his wife, Denise C.R. Santomero, as to which Mr. Santomero disclaims beneficial ownership.

(5) Prior to this offering, reflects 138,213 shares (or 1.1%) of our common stock held by Trimaran Fund II, L.L.C., 8,925 shares (or 0.1%) of our common stock held by Trimaran Capital, L.L.C., 58,204 shares (or 0.5%) of our common stock held by Trimaran Parallel Fund II, L.P., 90,003 shares (or 0.7%) of our common stock held by CIBC Employee Private Equity Fund (Trimaran) Partners and 98,191 shares (or 0.8%) of our common stock held by CIBC Capital Corporation. Trimaran Investments II, L.L.C. has sole power to vote and dispose of the shares held by the foregoing entities. Assuming that the underwriters over-allotment option is not exercised, Trimaran Fund II, L.L.C., Trimaran Capital, L.L.C., Trimaran Parallel Fund II, L.P., CIBC Employee Private Equity Fund (Trimaran) Partners and CIBC Capital Corporation will sell 119,772 shares, 6,844 shares, 51,331 shares, 78,707 shares and 85,551 shares of our common stock in this offering, respectively, and will beneficially own 17,966 shares, 1,026 shares, 7,699 shares, 11,806 shares and 12,834 shares of our common stock after this offering, respectively. The beneficial ownership of each of these shareholders will be less than 1%. Assuming the exercise of the over-allotment option in full, Trimaran Fund II L.L.C., Trimaran Capital, L.L.C., Trimaran Parallel Fund II, L.P., CIBC Employee Private Equity Fund (Trimaran) Partners and CIBC Capital Corporation will sell the remaining shares of our common stock that they own. CIBC Capital Corporation is an affiliate of CIBC World Markets Corp., an underwriter in this offering.

(6) Messrs. Bloom and Dalton are both associated with Trimaran Investments II, L.L.C. Mr. Bloom is also associated with Trimaran Fund Management, L.L.C. and Trimaran Advisors, L.L.C. Mr. Dalton disclaims any beneficial ownership of the common stock held by Trimaran Investments II, L.L.C. Mr. Bloom is a managing member of Trimaran Investments II, L.L.C., the managing member of Trimaran Fund II, L.L.C., Trimaran Parallel Fund II, L.P., and Trimaran Capital, L.L.C. As a result, Mr. Bloom may be deemed to beneficially own all of the shares of common stock held directly or indirectly by Trimaran Investments II, L.L.C. Mr. Bloom has investment and voting power with respect to shares owned by Trimaran Investments II, L.L.C. but disclaims beneficial ownership of such shares except with respect to 8,925 of the shares owned by Trimaran Capital, L.L.C. CIBC World Markets Corp., an underwriter in this offering, has ownership interests in Trimaran Investments II, L.L.C. See Underwriting Affiliations. The address of Trimaran Investments II, L.L.C. is c/o Trimaran Capital Partners, 622 Third Avenue, 35th Floor, New York, NY 10017.

(7) Does not include options to acquire 164,904 shares of our common stock issued under our 2005 Long-Term Incentive Plan, because the options are not exercisable within 60 days of the date of this prospectus.

(8) Does not include options to acquire 98,942 shares of our common stock issued under our 2005 Long-Term Incentive Plan, because the options are not exercisable within 60 days of the date of this prospectus.

(9) Does not include options to acquire 65,962 shares of our common stock issued under our 2005 Long-Term Incentive Plan, because the options are not exercisable within 60 days of the date of this prospectus.

(10) Includes 36,589 shares of our common stock held by Santomero Family Limited Partnership over which Mrs. Santomero shares voting and investment power together with her husband, Camillo M. Santomero, III. Does not include 51,582 shares of common stock held in trusts for the benefit of the children of Mr. and Mrs. Santomero or 360,006 shares of common stock held by Mr. Santomero, as to which Mrs. Santomero disclaims beneficial ownership.

Principal and selling stockholders

(11) Santomero Family Limited Partnership is a family limited partnership established by Mr. Santomero and his wife. Each of Mr. Santomero and his wife is a general partner and a limited partner of the limited partnership. The Charlotte Young Santomero 2001 Trust, The Camillo M. Santomero IV 2001 Trust and The Mason Norton Santomero 2003 Trust are also limited partners of the limited partnership.

(12) The Camillo M. Santomero IV 2001 Trust is a trust established by Mr. Santomero and his wife for the benefit of their son, Camillo M. Santomero, IV. Bruce E. Rueppel, Jr. is the sole trustee of the trust.

(13) The Charlotte Young Santomero 2001 Trust is a trust established by Mr. Santomero and his wife for the benefit of their daughter, Charlotte Young Santomero. Bruce E. Rueppel, Jr. is the sole trustee of the trust.

(14) The Mason Norton Santomero 2003 Trust is a trust established by Mr. Santomero and his wife for the benefit of their daughter, Mason Norton Santomero. Bruce E. Rueppel, Jr. is the sole trustee of the trust.

For a discussion of material relationships between us and some of the selling stockholders, see Management and Certain relationships and related party transactions.

Description of indebtedness

The summary of the agreement described below is not complete and you should read the agreement in its entirety. This agreement has been filed as an exhibit to the registration statement of which this prospectus is a part.

On April 11, 2005, we entered into an Amended and Restated Credit Agreement with LaSalle Bank National Association providing for the terms of our revolving credit facility. This summary highlights the principal terms of our revolving credit facility.

The revolving credit facility has a $50.0 million revolving credit line and includes a letter of credit sub-facility that is not permitted to exceed $30.0 million.

Term. The revolving credit facility has a term of three years.

Interest Rate and Fees. Borrowings under the revolving credit facility bear interest at a rate of approximately LIBOR plus an applicable margin of between 1.75% and 3.00% which is determined based on our leverage ratio. We have approximately $9.0 million of letters of credit issued under the revolving credit facility. We pay a commitment fee of between 0.25% and 0.50% on the unused portion of the revolving credit facility.

Collateral. Our assets and the assets of our subsidiaries serve as collateral for borrowings under the revolving credit facility.

Financial Covenants. The revolving credit facility contains the following financial covenants:

- a maximum senior debt to EBITDA ratio of 3.25 to 1.00 until June 30, 2006 and 3.00 to 1.00 thereafter;
- a maximum total funded debt to EBITDA ratio of 3.75 to 1.00 until June 30, 2006 and 3.50 to 1.00 thereafter;
- a minimum interest coverage ratio of 3.50 to 1.00;
- maximum capital expenditures of $10.0 million per year, which may be increased to up to $15.0 million per year depending on any carryforwards of unused capital expenditures in the prior year; and

- Ø a requirement that our tangible net worth remain at least $(22.4) million plus 65% of our net income for each quarter thereafter.

For the periods ending June 30, 2005 and September 30, 2005, the ratios above are calculated using an adjusted EBITDA that includes $9.2 million in connection with the Johnstown settlement, $8.9 million in connection with losses on a customer contract for box railcars and non-cash expenses of $8.9 million in 2004 relating to our stock option plan.

Negative Covenants. The revolving credit facility includes limitations on, among other things:

- Ø our ability to enter new lines of business;
- Ø our ability to incur additional debt;
- Ø our ability to enter into liens, guarantees and new investments;
- Ø our ability to declare and pay dividends;
- Ø our ability to make certain payments;
- Ø our ability to merge or consolidate with another entity or to sell a substantial portion of our assets;
- Ø the ability of our subsidiaries to pay dividends; and
- Ø certain transactions with affiliates.

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Description of capital stock

The following description of the material terms of our capital stock is only a summary. You should refer to our certificate of incorporation and by-laws, which are included as exhibits to the registration statement of which this prospectus is a part.

Common stock

As of the date of this prospectus, there were 12,532,700 shares of our common stock outstanding held by 37 holders of record, which does not include persons whose shares of common stock are held by a bank, brokerage house or clearing agency. The holders of our common stock vote together with any holders of voting preferred stock as a class on all matters submitted to a vote of stockholders, with each share having one vote, except for those matters exclusively affecting the preferred stock. Holders of our common stock have voting rights in the election of directors. Our common stock has no preemptive rights or other rights to subscribe for additional common stock, and no rights of redemption, conversion or exchange. In the event of liquidation, dissolution or winding-up, the holders of our common stock are entitled to share equally in our assets, if any remain after the payment of all our debts and liabilities and the liquidation preference of any outstanding preferred shares. Holders of our common stock are entitled to receive dividends as may be lawfully declared from time to time by our board of directors. See Dividend policy.

Our common stock is quoted on the Nasdaq National Market under the symbol RAIL.

Preferred stock

Our board of directors, subject to limitations prescribed by law, is permitted to establish one or more series or preferred stock and to determine, with respect to any series of preferred stock, the terms and rights of that series, including:

- the designation of the series;
- the number of shares of the series, which our board may, except where otherwise provided in the preferred stock designation, increase and decrease, but not below the number of shares then outstanding;
- whether dividends, if any, will be cumulative or non-cumulative and the dividend rate of the series;
- the dates at which dividends, if any, will be payable;
- the redemption rights and price or prices, if any, for shares of the series;

- Ø the terms and amounts of any sinking fund provided for the purchase or redemption of shares of the series;
- Ø the amounts payable on shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the affairs of our company;
- Ø whether the shares of the series will be convertible into shares of any other class or series, or any other security, of our company or any other corporation, and, if so, the specification of the other class or series or other security, the conversion price or prices or rate or rates, any rate adjustments, the date or dates as of which the shares will be convertible and all other terms and conditions upon which the conversion may be made;