SECURITIES AND EXCHANGE COMMISSION

# FORM 10-K

Annual report pursuant to section 13 and 15(d)

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## FILER

**JOHNSTOWN AMERICA INDUSTRIES INC**

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998
COMMISSION FILE NO. 0-21830

JOHNSTOWN AMERICA INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

| Delaware | 25-1672791 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

980 North Michigan Avenue
Suite 1000
Chicago, Illinois 60611
(Address of principal executive offices)

(312) 280-8844
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12 (b) of the Act: None

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

Common Stock, $.01 par value          NASDAQ National Market System

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes__X___          No________

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

State the aggregate market value of the voting stock held by nonaffiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within 60 days prior to the date of filing. (See definition of affiliate in Rule 405.)

$150,550,064          as of March 17, 1999.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| CLASS | OUTSTANDING AT MARCH 17, 1999 |
|---|---|
| Common Stock, $.01 par value | 10,025,754 |

Portions of the following documents are incorporated by reference in Parts II and III of this Report: (1) Registrant's Annual Report to Shareholders for the fiscal year ended December 31, 1998 (Part II); and (2) Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on May 6, 1999 (Part III).



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PART I

## ITEM 1. BUSINESS

### THE COMPANY

Johnstown America Industries, Inc. (the "Company") has two operating segments within the transportation industry: truck components, a leading manufacturer of wheel-end components, seating, steerable drive axles, gearboxes and other castings for the heavy-duty truck industry; and freight cars, a leading manufacturer and lessor of new and rebuilt freight cars used for hauling coal, intermodal containers, highway trailers, automobiles, agricultural and mining products. For a definition of certain terms used in this Form 10-K, see "Glossary of Certain Terms" at the end of this Item.

### TRUCK COMPONENTS SEGMENT

Gunite Corporation ("Gunite") is a leading North American supplier of wheel-end systems and components, such as brake drums, disc wheel hubs, spoke wheels, rotors and automatic slack adjusters to original equipment manufacturers ("OEMs") in the heavy-duty truck industry. Certain wheel-end components are used for anti-lock braking systems ("ABS"), which have been mandated for all new trucks since March 1997 and all new trailers since March 1998. In addition to serving OEMs, Gunite has significant sales to the less cyclical aftermarket.

Brillion Iron Works, Inc. ("Brillion") operates one of the nation's largest and most versatile iron foundries and is focused on providing high quality complex castings to customers in a wide range of industries, including the heavy-duty truck, industrial machinery, automotive and construction equipment markets. A leader in ductile iron technology, Brillion specializes in the production of lightweight, intricate thin wall castings. In addition to providing an important source of high quality castings for Gunite, Brillion has long-standing relationships with many of its over 225 customers. Generally, once a foundry begins production of a product, it will continue to manufacture the item for the product's life cycle. Brillion also manufactures and sells a line of farm equipment products.

Fabco Automotive Corporation ("Fabco") is a leading supplier of steerable drive axles, gear boxes and related parts for heavy on/off highway trucks and utility vehicles.

Bostrom Seating, Inc. ("Bostrom") is a leading manufacturer of air suspension and static seating systems for the medium and heavy-duty truck and school bus industries.

### FREIGHT CAR SEGMENT

Johnstown America Corporation ("JAC") and Freight Car Services, Inc. ("FCS") are leading manufacturers of railroad freight cars used principally for hauling coal, intermodal containers (which are used on trucks and ships as well as on freight cars), highway trailers, automobiles, agricultural and mining products. They are recognized for their expertise in the development and manufacture of aluminum freight cars that increase load capacity and consequently reduce carrier costs. As part of its full-service business strategy, the Company through JAIX Leasing Company ("JAIX Leasing"), offers its customers freight car rebuilding services and freight car leasing alternatives.

### CORPORATE HISTORY OF THE COMPANY

An investor group led by Thomas M. Begel, the Chairman, President and Chief Executive Officer of the Company and the former Chairman, President and Chief Executive Officer of The Pullman Company, formed the Company in 1991 as the holding company for JAC to acquire substantially all of the assets of the freight car manufacturing business of Bethlehem Steel Corporation ("Bethlehem"), a business started in 1901 in Johnstown, Pennsylvania and acquired by Bethlehem in 1923.



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In July 1993, the Company completed an initial public offering of its common stock and in February 1994 the Company completed a secondary offering of its common stock.

In January 1995, the Company purchased Bostrom, a leading manufacturer of heavy-duty truck seating systems located in Piedmont, Alabama, for approximately $32.4 million. Bostrom was founded in 1935 in Milwaukee, Wisconsin.

In January 1995, the Company through FCS acquired a freight car rebuilding and repair facility in Danville, Illinois for $2.5 million and spent $2.6 million for refurbishment. FCS started operations in October 1995.

In August 1995, the Company acquired Truck Components Inc. ("TCI"), a holding company for Gunite, Brillion and Fabco, for approximately $266.1 million in cash, including the repayment of TCI's existing indebtedness. TCI was formed in 1987 in order to acquire Gunite and Fabco from Fruehauf Corporation now known as K-H Corporation ("K-H"). In 1988, TCI acquired Brillion from a group of investors led by the Robins Group. Gunite was founded in Rockford, Illinois in 1854 as a custom manufacturer of cast iron products. Fabco was founded in 1918 in Oakland, California as a manufacturer of truck components and specialty vehicles. Brillion was founded in 1890 as a farm equipment manufacturer and constructed its first iron foundry in 1933.

RECENT EVENT

The Company announced on March 23, 1999 that it has signed a definitive agreement to acquire Imperial Group, Inc. ("Imperial"), headquartered in Portland, Tennessee, a leading Tier I and Tier II supplier of body and chassis components for heavy-duty Class 8 truck manufacturers and transit bus manufacturers. Imperial fabricates a broad line of nearly 5,500 high-quality metal products, ranging from bumpers to fenders to fuel tanks. Imperial also provides a variety of value-added services such as chrome plating, polishing and assembly of parts and chassis. Revenues in 1998 were over $80 million and are expected to exceed $100 million in 1999. Production facilities are located in Tennessee, Texas and Washington, in close proximity to customers' manufacturing operations. Terms of the agreement were not disclosed. The transaction is expected to close in late April 1999.

TRUCK COMPONENTS SEGMENT

GUNITE

Gunite is a leading North American supplier of wheel-end components, such as brake drums, disc wheel hubs, spoke wheels and rotors to OEMs in the heavy-duty truck industry with QS9000 certification. Gunite also supplies such products to the aftermarket as well as the medium-duty truck and trailer markets.

OEMs have increasingly stressed product quality, engineering capability and customer service, as well as price, in awarding business to suppliers. Gunite has distinguished itself among wheel-end component manufacturers by providing its customers with dependable design and testing support and reliable customer service. Gunite works closely with its customers' product design, marketing and purchasing departments, including vendor quality certification personnel. Gunite has received top quality awards from all of its major customers. Obtaining quality awards is a competitive advantage because a manufacturer must first go through the OEM's quality certification process before it can become a qualified supplier.

MARKETS

The truck components industry in which Gunite competes is composed of two primary markets: (i) the OEM market; and (ii) the vehicle maintenance and repair sector, also called the replacement market or aftermarket. The OEM market served by Gunite includes truck manufacturers such as Navistar, Freightliner, PACCAR, Volvo and Mack trucks. For the twelve months ended December 31, 1998, approximately 73% of Gunite's total net sales were to OEMs and the remainder was

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to the aftermarket.



OEMs use independent suppliers for the production of most parts and components. The use of independent suppliers, also known as outsourcing, is largely a result of the ability of independent suppliers to design, engineer and manufacture production parts and components at a more competitive cost than the OEMs. Outsourcing also enables the OEMs to be more responsive to changes in the marketplace and in technology and to reduce their capital investment. In general, OEMs increasingly have turned to suppliers to design products, engineer prototypes and manufacture parts and components for the life of their vehicles. The OEMs also have sought to minimize the size of their supplier base in order to improve quality, efficiency and their ability to manage their supplier network. The success of suppliers in obtaining and maintaining supply relationships has been a function of four factors: (i) consistent product quality; (ii) competitive pricing; (iii) technical expertise; and (iv) responsiveness to changes in the marketplace. The net effect of these changes has been to increase the opportunities for, as well as the competitive pressures faced by, independent suppliers to the OEM market.

Sales of Gunite's products to OEMs are affected, to a large extent, by heavy-duty truck production volume which, in turn, is dependent on general economic conditions. Historically, heavy-duty truck sales have been cyclical. In general, Gunite's sales tend to follow the North American Class 8 truck build.

Gunite seeks to increase sales to the OEM market through the "standardization" process. In this process, Gunite sales representatives call on OEM purchasers and Gunite's engineers work with OEM engineering departments to attempt to have Gunite products selected for the OEMs product lines as standard equipment. Once a product is chosen as standard on a line of trucks, any order of a truck in that line will come with the standard part unless the end-use customer specifies a different type of product. If a different product is specified by an end-user, the end-user is generally required to pay an additional fee to the OEM. Selection of a Gunite product as standard on a line of trucks will generally create a steady demand for that product. Because such demand is a derivative of the sales of the particular truck line, being standard on certain lines may be more advantageous than being standard on others. Gunite wheel-end components are currently standard on certain Navistar, Freightliner, PACCAR, and Mack truck lines.

Aftermarket customers include the service organizations of the OEMs, parts manufacturers and distributors. Aftermarket sales principally consist of the sale of brake drums. Sales of Gunite's products to the aftermarket historically have been less adversely affected by general business conditions since vehicle owners are more likely to repair vehicles than purchase new ones during recessionary periods. Aftermarket sales, which are tied to the age of vehicles in service and the need for replacement parts, have been increasing in recent years due to Gunite's focus on the aftermarket and the fact that Gunite's products are offered as standard on more trucks than any of its competitors' products. Gunite's sales to the aftermarket decreased slightly in 1998 due to very high OEM demand. Gunite's strategy is to increase sales to the aftermarket, where margins are higher when compared to the OEM market, by capitalizing on its reputation as a quality leader in the industry and continuing to focus on customer service.

PRODUCTS

Gunite supplies the medium- and heavy-duty truck and trailer markets with a full line of wheel-end components. These products are made by Gunite and delivered to the customer either as component parts or in assemblies. Gunite products are utilized in four basic systems: (i) Disc Wheel Hub-and-Brake Drum; (ii) Spoke Wheel-and-Brake Drum; (iii) Spoke Wheel-and-Brake Rotor; and (iv) Disc Wheel Hub-and-Brake Rotor. Generally, brake drums and rotors are the braking devices that work with the vehicle's braking system to stop the vehicle. Wheel hubs and spoke wheels are the connecting pieces between the brake system and the axle and upon which the rim and tire are mounted.

Gunite offers a full line of brake drums and rotors for Class 6, 7 and 8 trucks and trailers. The aftermarket opportunities in this product line are

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substantial as all brake drums wear with use and eventually need to be replaced. The timing of such replacement depends on the severity of service.

Gunite manufactures a full line of spoke wheels and disc wheel hubs for Class 6, 7 and 8 trucks and trailers. Truck builders have recently purchased a greater percentage of disc wheel hubs in place of spoke wheels due to their perceived better performance characteristics and ease of maintenance. However, spoke wheels are still popular for severe duty due to their higher strength.



Gunite's product line also includes finely-machined hubs and wheels for ABS, which enhance vehicle safety and have been mandated for all new trucks with air brakes since March 1997, and all new trailers with air brakes since March 1998. The production of ABS parts constitutes a value-added process, and additional components and machining are required.

In response to growing concerns by truck fleet operators over brake adjustment, Gunite introduced its initial automatic slack adjuster product in 1984. The use of automatic slack adjusters reduces maintenance costs, improves braking performance and minimizes side-to-pull and stopping distance. Slack adjusters were mandated for all new trucks in October 1994. Gunite believes it is presently the third largest supplier of automatic slack adjusters to the heavy-duty trucking industry.

CUSTOMERS

Gunite markets its wheel-end component and assembly products to more than 400 customers, including most of the major North American medium- and heavy-duty truck and trailer manufacturers, relying on account managers to service OEMs and regional sales managers and a nationwide network of approximately 300 independent distributors to sell to the aftermarket.

Gunite has established close relationships with many of its larger customers, many of whom have purchased wheel-end systems and components from Gunite for more than 25 years. Gunite's top five OEM customers in 1998 represented approximately 63% of Gunite's total net sales in 1998, with sales to Navistar accounting for approximately 30% of Gunite's total net sales in 1998.

Many truck manufacturers require quality certification of their suppliers, and Gunite undergoes periodic quality surveys by all of its major customers. Gunite is QS9000 certified and has received numerous quality awards from its customers, including Ford Motor Company's "Q1," Freightliner's "Master of Quality" and ISO 9000 equivalent, PACCAR's "Supplier Quality Certification" and Volvo's ISO 9000 equivalent. The primary criteria on which such quality certifications and awards are based include quality of product, delivery performance, inventory control, operator knowledge, condition of facility, receiving inspection of incoming materials, record maintenance and retention and equipment gauge controls. Quality certification requirements tend to limit the number of suppliers which can compete in the safety intensive product lines manufactured by Gunite and benefits high-quality suppliers such as Gunite.

MANUFACTURING

Gunite has a fully integrated manufacturing operation that combines high-quality castings from its Rockford, Illinois foundry and from Brillion and machining capabilities at its Elkhart, Indiana facilities. Most of the components produced by Gunite are high-volume products that are critical to the safe operation of the vehicle. As a result, Gunite must combine efficient production with comprehensive product testing. Implementation of statistical process controls ("SPC") insures strict control of the manufacturing process and consistent quality.

The manufacturing process involves melting purchased scrap iron and steel, adding various alloys and pouring the molten metal into molds made of sand. After the molten metal is poured into the molds, the castings cool, solidify and are removed. Once the rough castings have been cleaned, they are transferred to the Elkhart, Indiana plant for machining through a variety of automated plant techniques. Both the casting and machining operations are

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subject to statistical sampling and charting techniques. Other manufacturing processes include painting, welding and assembly.



BRILLION

Brillion operates one of the nation's largest job casting iron foundries, producing a wide variety of high-quality, complex iron castings for transportation-related and a wide variety of other markets. Sales to the medium- and heavy-duty truck and trailer industries accounted for approximately 34% of Brillion's sales (including sales to Gunite) in 1998.

Brillion also designs, manufactures and markets a range of farm equipment products for the "behind-the-tractor" market. These pulverizers, seeders, mulchers, deep tillers and cultivators are marketed nationally under the Brillion trade name through a nationwide network of 1,050 farm implement dealers and distributors. Sales of these products were approximately 12% of Brillion's sales in 1998.

MARKETS

Brillion markets its products on a job-by-job basis to the truck, automotive and equipment industries. Brillion is one of the leaders in ductile iron technology, such as complex, thin wall and near net shape castings, in the markets it serves. In addition to being easily machinable and wear-resistant, ductile iron has greater strength (an important factor for customers who desire a lighter finished product) and elasticity than gray iron. As a result of these superior properties, management expects the demand for ductile iron castings to increase. This shift towards ductile iron products may replace other products (such as lighter-weight aluminum products) that gray iron products could not replace, and is not expected to adversely impact Brillion's business. Gray iron, the oldest and most widely used cast iron, is readily formed into intricate shapes which are easily machinable and wear-resistant. For the year 1998, ductile iron castings represented approximately 64% of Brillion's foundry's total tons sold, while gray iron represented the balance.

PRODUCTS

As illustrated in the table below, Brillion produces a broad range of gray and ductile iron castings used in the manufacture of components for the trucking, automotive and a variety of light and heavy equipment industries. Currently, Brillion utilizes over 3,700 patterns to produce castings that range in weight from one pound to nearly 350 pounds, with the majority below 100 pounds. Castings are made to the specific requirements of each customer. The customer consults with Brillion to specify such important considerations as physical properties, surface finish, dimensional accuracy and methods of inspection for each casting.

FOUNDRY PRODUCTS

* Automotive and Truck Brackets
* Bearing Caps
* Brake Calipers and Adapters
* Clutch Housings
* Farm Machinery Castings
* Flywheel Housings
* Flywheels
* Hydraulic-Valve Bodies
* Manifolds
* Pressure Plates
* Small Engine Camshafts and Crankshafts
* Steering Housings
* Transmission Cases
* Wheel Hubs

Brillion markets its castings, directly and indirectly, to OEMs in various industrial markets. The table below provides a list of representative end products in which Brillion's castings are used.

END PRODUCTS IN WHICH BRILLION CASTINGS ARE USED

* Air-Cooled Engines
* Automobiles and Light Trucks
* Construction Equipment
* Industrial Lift Trucks
* Lawn and Garden Equipment
* Locomotive Engines

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* Diesel Engines
* Marine Engines



* Farm Equipment
* Fluid Power Pumps and Motors
* Hardware
* High-speed Drives and Gears
* Home Shop Tools
* Medium- and Heavy-Duty Trucks
* Oil and Gas Field Machinery and Equipment
* Pumps and Pumping Equipment
* Small Tools

CUSTOMERS

Over 99% of Brillion's net foundry sales in 1998 were to existing customers. Once production begins on a product, the same foundry will generally manufacture that product for the product's life cycle.

Brillion has over 225 foundry customers, a majority of which are located in the Midwest, East and Southeast. Brillion's top five unaffiliated customers accounted for approximately 33% of Brillion's 1998 total net sales. Brillion also serves as an important source of castings for Gunite, with sales to Gunite representing approximately 15% of Brillion's total net sales in 1998. Brillion works closely with customers in order to insure that castings meet all required specifications, including machinability, dimensional accuracy and overall quality. Brillion's engineers work with customers from concept to market with respect to new products. Brillion's strategy is to focus on the market for higher margin castings, as well as for products requiring new, innovative castings designs. Unlike Gunite, Brillion's products are primarily designed by its customers, and thus the product designs are proprietary to the customers.

Brillion has enjoyed long-term, stable relationships with the majority of its customers and is certified as a preferred supplier by most of its customers. Brillion's quality system is certified to ISO 9002 and QS 9000 quality standards and Brillion has received Caterpillar's "Certified Supplier Status" and was approved by Ford's "Technical Service Capability Survey." The primary criteria on which such quality certifications and awards are based include quality of product, delivery performance, inventory control, operator knowledge, condition of facility, receiving inspection of incoming materials, record maintenance and retention and equipment gauge controls. A quality certification is required by most sophisticated purchasers, thereby enhancing the competitive advantage of suppliers like Brillion that have achieved a quality certification.

MANUFACTURING

In general, Brillion's customers specify the properties of their castings, such as hardness, strength and dimensions, and Brillion determines how best to meet those specifications. Brillion engineers work with its customers to develop an efficient manufacturing process. Brillion constantly tests and monitors the manufacturing process in order to maintain the quality and consistency of its castings. The manufacturing process involves melting iron (which has been internally recycled), steel scrap and pig iron, adding various alloys and pouring the molten metal into molds made primarily of sand. Most of the castings manufactured by Brillion must meet strict dimensional control requirements specified by its customers. As a result, Brillion uses SPC in every phase of the production process, and all employees are given extensive SPC training. The Company believes that Brillion has the most advanced core capabilities in the industry, allowing for efficient and environmentally superior core processes that are necessary for the production of quality, complex thin-wall and lighter weight products. Production lines are designed to accommodate a wide variety of products and volumes. In addition, Brillion's multiple production lines provide flexibility to move production from line to line to meet customer scheduling changes and requirements.

BOSTROM

Bostrom designs, manufactures and markets a full line of air suspension and static seating systems primarily for the heavy-duty truck market. Bostrom is ISO 9001 and QS9000 certified.

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MARKETS

Bostrom is a leading manufacturer of seating systems for the heavy-duty truck industry. Bostrom's products are sold primarily to the OEM heavy-duty truck market as well as to the aftermarket. Bostrom also supplies its line of seating systems to the medium-duty truck and school bus markets, as well as to a number of specialty markets. Bostrom's seats are offered as standard or as an option by all major North American heavy-duty truck manufacturers.



CUSTOMERS

Bostrom's customers include all of the major North American heavy-duty truck manufacturers. Bostrom's top five customers accounted for approximately 83% of Bostrom's 1998 net sales, with Freightliner accounting for approximately 39% of such sales.

MANUFACTURING

Bostrom's manufacturing facility is located in Piedmont, Alabama. For a number of its OEM customers, Bostrom ships its seats to line-setting facilities which it has established near certain OEM plants to provide just-in-time inventory of seats to the assembly line in the order that the seats will be used.

FABCO

Fabco designs, manufactures and markets steerable drive axles, gear boxes and related parts for the North American on/off-road medium- and heavy-duty truck markets. Fabco is QS9000 certified.

MARKETS

Fabco's products are sold primarily to the OEM market for use in the construction, military, mining and municipal service markets. Fabco's axles and gear boxes are offered as standard or as an option by all major North American heavy-duty truck manufacturers, and Fabco is a leading supplier of these items in the North American heavy-duty truck market.

PRODUCTS

Fabco supplies a full line of steerable drive axles for the North American on/off-road medium- and heavy-duty truck and specialty vehicle markets. Fabco's drive axles are rated at capacities ranging from 12,000 to 23,000 pounds to serve Class 6, 7 and 8 trucks. End-users of Fabco's axles require ease of steering and high speed driving for on-highway use while demanding maneuverability and functionality for off-highway use. Fabco's axles are designed to increase durability and maintenance accessibility. Fabco believes that the ease of operating and servicing Fabco's products are competitive advantages that lead to ongoing demand for steerable drive axles.

Fabco also manufactures a wide range of medium- and heavy-duty gear boxes. Gear boxes are used by vehicles that operate auxiliary equipment in the construction, oil and gas field services and utility industries, among others.

Fabco also sells its products in the aftermarket. It supplies replacement parts for all of its products to OEMs and, in some cases, directly to end users. Service parts are shipped directly from Fabco's plant in Oakland, California to any domestic or international location directed by the customer. Fabco's quick turnaround of parts orders minimizes the need for its customers to maintain their own parts inventory.

CUSTOMERS

Fabco's customers include most of the major North American on/off road medium- and heavy-duty truck and specialty vehicle manufacturers. The majority of Fabco's sales are made to OEM customers with which it enjoys relationships of over 25 years. Sales during 1998 to Fabco's five largest customers accounted for

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approximately 74% of Fabco's total net sales, with Navistar accounting for approximately 50% of such sales.



MANUFACTURING

Fabco has gained a strong reputation for its engineering capabilities in designing and manufacturing its products for the on/off road medium- and heavy-duty truck and specialty vehicle markets. The Company believes that Fabco is the only manufacturer which has products that are standard or available as an option on all major OEMs Class 6, 7 and 8 all-wheel drive truck models produced for the commercial truck market, and that, as a result, Fabco's broad range of adaptable products are considered the industry standard due to the variety of their configurations and tolerances. Fabco believes that the technical backgrounds of its sales and marketing employees contribute to the successful marketing of Fabco's products to the heavy-duty vehicle manufacturers.

FREIGHT CAR SEGMENT

The Company is a leading manufacturer of railroad freight cars used principally for hauling coal, intermodal containers (which are used on trucks and ships as well as on freight cars), highway trailers, automobiles, agricultural and mining products. As part of its full-service business strategy, the Company offers its customers freight car rebuilding services and freight car leasing alternatives.

PRODUCTS AND SERVICES

The Company participates in the following freight car market segments: new car manufacturing; rebuild services; sales of freight car kits and parts; and freight car leasing.

NEW CAR MANUFACTURING. The Company's freight car operations offer a range of car types in an effort to take advantage of industry trends and market opportunities, particularly in the development of aluminum freight cars used in the shipment of bulk commodities. The Company's freight car operations manufacture the following types of freight cars:

GONDOLAS. The BethGon Coalporter(R) is a patented twin tub car designed for the coal and utility industries. The BethGon was designed to carry more coal with greater stability and remains the dominant type of car for hauling coal, particularly for hauling low-sulfur coal from the western United States. Although the BethGon can be made in either steel or aluminum, most of the BethGons delivered in the last few years have been made of aluminum. In 1994, a new smooth-sided Aeroflo Aluminum BethGon was introduced which offers carriers both fuel savings and added cubic carrying capacity. Since 1996, several design variations have been developed to offer customers options for their specific needs. In 1998, 54% of the new cars manufactured were BethGons vs. 61% in 1997.

OPEN HOPPERS. To expand its product line to service the entire coal market, the Company's freight car operations began manufacturing aluminum open top hoppers in 1994. The Company's freight car operations have the capability to produce both aluminum and steel open top hoppers and in 1996 developed and introduced an aluminum rapid discharge coal model (the AutoFlood II(TM)) that provides 18 tons more capacity per load than conventional steel automatic discharge cars. The aluminum AutoFlood II(TM) coal car, with its patented automatic discharge system providing a more efficient method for the rapid discharge of coal, has been well received in the marketplace. The Company's freight car operations have been manufacturing an increasing quantity of open top hopper cars and believes that demand for such cars will result in cars representing a larger share of its product mix in the future. In 1998, 24% of the new cars manufactured were open top hopper cars vs. 35% in 1997.

COVERED HOPPERS. Covered hopper cars are constructed of steel or aluminum and are used to haul agricultural, chemical and mineral products. In 1994, the Company's freight car operations introduced the Grainporter 2000(TM), the first aluminum covered hopper car in its size range available in high volume

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production, that is designed primarily for high volume transportation of grain. The Company's freight car operations' first commercial production of the Grainporter 2000(TM) began in 1995.



FLAT CARS. Flat cars, equipped with racks, are used to transport automobiles and other light vehicles. A significant number of flat cars were delivered by JAC in 1998 (19% of new cars manufactured in 1998) and JAC expects to deliver a significant number of flat cars in 1999.

INTERMODAL CARS. Intermodal cars are primarily used for moving intermodal containers and trailers. As a result of a substantial build-up of intermodal cars in the early 1990s, the market for intermodal cars began declining in 1995 and continued to decline through mid-1997. As a result, there were a very limited number of intermodal cars delivered in 1996 and 1997. Orders for intermodal cars began to increase in 1998 but not for the car types produced by JAC.

SPECIALTY CARS. The Company's freight car operations manufacture other cars for the special needs of a particular industry or customer, including a mill gondola car, which is used to haul scrap, an open hopper or gondola wood chip car, which is used to haul wood chips, a waste hauling car, which is used to haul contaminated industrial sludge, and an ore car, which is used by railroads to transport taconite pellets and iron ore.

REBUILD SERVICES. Freight cars are typically rebuilt once after 15 to 20 years in use in order to extend their life. To pursue what the Company believes to be growing opportunities to service the aging North American freight car fleet, the Company offers rebuild services.

CAR KITS AND PARTS. JAC sells kits containing the parts necessary to build (or rebuild) a particular car to rebuilders and others, such as railroads with car building but not design, engineering and fabrication capability. In 1998, a significant number of covered hopper car kits were delivered to Brazil for final assembly and delivery to a large Brazilian railroad. JAC also markets a variety of fabricated parts to freight car rebuilders who do not have fabrication capabilities.

LEASING. To meet the needs of its customers, the Company entered the freight car leasing business in 1994. Through JAIX Leasing, the Company provides operating lease alternatives to customers on new and rebuilt cars. As of December 31, 1998, the Company owned 1,041 railcars in its operating lease fleet, representing a total investment of approximately $19.5 million, $9.2 million of which was provided through limited-recourse borrowings.

MANUFACTURING

JAC's manufacturing operations are conducted primarily through two facilities located in Johnstown, Pennsylvania and FCS' manufacturing operations are conducted at its Danville, Illinois facility.

CUSTOMERS

The Company has maintained long-term relationships with major purchasers of freight cars. Long-term customers are particularly important in the freight car industry given the limited number of buyers and sellers of freight cars. Such customers include railroads, utilities, grain shippers, leasing companies and major construction and industrial companies.

The large average size of orders often results in a small number of customers representing a significant portion of the Company's freight car operation's revenues in a given year. In 1998, the top five customers accounted for approximately 48% of the Company's revenues from its freight car operations, with TTX Company representing approximately 18% of the freight car segments 1998 revenues.

GENERAL

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COMPETITION

The Company operates in highly competitive markets. No single manufacturer competes with respect to all products manufactured and sold by the Company in the heavy-duty truck market, and the degree of competition varies with different products. In this market the Company competes on the basis of price, its manufacturing and distribution capabilities and product quality. Gunite's primary competitors in the wheel end component market for Class 6, 7 and 8 trucks and trailers are Dayton Walther Corporation and Webb Wheel Products. Brillion's major competitors include 10 to 12 foundries operating in the Midwest and Southern regions, including Waupaca Foundry, Inc., Grede Foundries, Inc., Western Foundry, Neenah Foundry Company, Intermet Corporation and Citation Corporation. Bostrom's principal competitors include National Seating as well as a number of smaller seating manufacturers. Fabco's primary competitor in the steerable drive axle market for the on/off-road medium- and heavy-duty truck and specialty vehicles is Meritor Corporation (formerly Rockwell Corporation.)



Competition in the freight car manufacturing business is based on type of product, reputation for quality, price, reliability of delivery and customer service and support. The Company's freight car operation's principal competitors in this segment are Trinity Industries, Inc. ("Trinity"), Thrall Car Manufacturing Co. and Gunderson Inc. Although there are presently seven freight car manufacturers in North America, two of the seven manufacture only tank cars and plastic pellet cars, market segments in which the Company does not currently participate. Only Trinity competes in all of the Company's freight car market segments. Although Trinity is prohibited from marketing, manufacturing, using, selling or leasing its infringing Aluminator II coal gondola freight car, Trinity has competed, and JAC expects that it will continue to compete, with JAC in the sale of coal gondolas.

BACKLOG

As of December 31, 1998, freight car operations had a backlog of firm orders for 9,462 new and rebuilt freight cars with an aggregate sales price of approximately $530.4 million, as compared to a backlog of firm orders for 4,201 new and rebuilt freight cars with an aggregate sales price of approximately $220 million as of December 31, 1997. Due to the large size of freight car orders and variations in the mix of freight cars, the size of the Company's freight car operation's backlog at the end of any given period may fluctuate significantly. Due to short production turnaround times from order to delivery resulting from the just-in-time inventory systems utilized by many of its customers, the Company's truck components and other castings operations do not normally carry a material amount of backlog orders. A number of the Company's sales contracts in this segment are made pursuant to purchase orders and releases which are subject to change or cancellation by the customer.

SUPPLIERS AND RAW MATERIALS

Between 70% and 80% of a freight car's costs relate to purchased specialty components such as wheels, axles and brakes and raw materials such as aluminum and steel. Costs for specialty components and raw materials generally are fixed at the time a freight car order is accepted.

The major raw material for the Company's foundry operations is steel scrap, which is purchased from various sources. The Company has no long-term contractual commitments with any scrap suppliers, and does not anticipate any difficulty in obtaining scrap because of the large number of potential suppliers and its position as a major purchaser. Increases in steel scrap prices are passed through to customers by means of a fluctuating surcharge, which is calculated and adjusted on a monthly or quarterly basis. Other major raw materials, such as silicon sand, binders, sand additives and coated sand, are purchased from multiple sources. Electricity, coke and natural gas, the primary energy sources for melting operations, are in adequate supply and reasonably priced.

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LABOR RELATIONS AND EMPLOYEES

At December 31, 1998, the Company had approximately 3,890 employees. Of these, approximately 690 are salaried employees and the balance are paid on an hourly basis. Approximately 2,815 or about 72% of all employees are members of unions. The Company has collective bargaining agreements with several unions including the United Steelworkers of America, the United Autoworkers, the Brotherhood of Teamsters, the United Paperworkers International Union, the Patternmakers League of North America and the International Association of Machinists and Aerospace Workers. Each of the Company's unionized facilities has a separate contract with the union that represents the workers employed at such facility including the following contracts entered into in 1998 and early 1999: (1) JAC's four-year contract with the United Steelworkers of America entered into in January 1998 (retroactive to October 1997); (2) Gunite's three-year contract with the United Autoworkers entered into in May 1998; and (3) FCS's five-year contract with the United Autoworkers entered into in February 1999. Such contracts expire at various times over the next few years, with the following contracts expiring in 1999: (1) Brillion's contract with the United Paperworkers International Union on July 1, 1999; (2) Fabco's contract with the International Association of Machinists and Aerospace Workers on September 1, 1999; (3) Gunite's contract with the International Brotherhood of Teamsters, Chaffeurs, Warehousemen and Helpers of America covering employees at Gunite's Elkhart Plant #1 on June 27, 1999; and (4) Gunite's contract with the International Brotherhood of Teamsters, Chaffeurs, Warehousemen and Helpers of America covering employees at Gunite's Elkhart Plant #2 on September 26, 1999. While the Company considers its relations with its employees to be good at each of the Company's subsidiaries, there can be no assurance that the Company will reach new agreements upon expiration of such union contracts or that the failure to reach new agreements will not have a material adverse effect on the financial condition or results of operations of the Company.



REGULATION

The Federal Railroad Administration ("FRA") administers and enforces federal laws and regulations relating to railroad safety. These regulations govern equipment and safety appliance standards for freight cars and other rail equipment used in interstate commerce. The Association of American Railroads ("AAR") also promulgates a wide variety of rules and regulations governing safety and design of equipment, relationships among railroads with respect to freight cars in interchange and other matters. The AAR also certifies freight car buildings and component manufacturers that provide equipment for use on railroads in the United States. New products generally must undergo AAR testing and approval processes. As a result of these regulations, the Company must maintain certain certifications with the AAR as a freight car manufacturer, and products sold by the Company must meet AAR and FRA standards.

PATENTS AND TRADEMARKS

The Company has numerous United States and foreign patents and pending applications, registered trademarks and trade names. While the existence of a patent is prima facie evidence of its validity, the Company cannot assure that any of its patents will not be challenged nor can it predict the outcome of any such challenge.

ENVIRONMENTAL MATTERS

COMPLIANCE MATTERS

The Company's subsidiaries are subject to comprehensive and frequently changing federal, state and local environmental laws and regulations, including those governing emissions of air pollutants, discharges of wastewater and storm waters, and the disposal of non-hazardous and hazardous waste. Many of these laws authorize the imposition of civil and criminal sanctions upon corporations that fail to comply with the statutory or regulatory requirements. In 1998, 1997 and 1996, TCI's capital expenditures for compliance with environmental requirements were approximately $2.1 million, $0.7 million and $0.4 million, respectively. These figures do not include routine operational compliance costs,

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such as the costs for the disposal of hazardous and non-hazardous solid waste, which were approximately $5.7 million, $5.3 million and $4.1 million in 1998, 1997 and 1996, respectively. TCI's subsidiaries have budgeted $2.0 million for environmentally related capital expenditures in 1999. The Company's capital expenditures for compliance with environmental requirements and for routine operational compliance costs, such as the costs for the disposal of hazardous and non-hazardous solid waste, for the facilities located in Johnstown, Pennsylvania, Piedmont, Alabama and Danville, Illinois are not material. Other than for certain immaterial expenditures, the Company's subsidiaries (other than TCI) have not budgeted funds for capital expenditures in 1999 to comply with environmental laws.



Pursuant to a National Pollutant Discharge Elimination System ("NPDES") permit, Gunite previously discharged noncontact cooling water from its Rockford facility to a pond (the "Rockford Pond"), formerly owned by Gunite and by a prior owner of Gunite that is adjacent to the Gunite plant. Gunite also periodically had accidental, unpermitted discharges of process wastewater to the Rockford Pond, which Gunite has reported to the Illinois Environmental Protection Agency ("IEPA"). In addition, Gunite had not received express authorization from the current or immediately preceding owner of the Rockford Pond for any of the discharges. In order for Gunite to eliminate all discharges, the City of Rockford obtained an easement to allow Gunite to construct a conveyance that directs discharges of noncontact cooling water and storm water from the Gunite facility to the Rock River, and the IEPA has issued a modified NPDES permit to Gunite, substituting the Rock River as the outfall for Gunite's discharge. The conveyance was completed in February 1995. The modified NPDES permit contains a stringent limit for the discharge of total residual chlorine. Gunite estimates that the capital cost for installing a treatment system allowing its discharges to comply with this limit could be approximately $0.2 million, although Gunite is exploring a less expensive treatment system. Gunite has appealed to the Illinois Pollution Control Board to remove or modify the chlorine limit from the permit (Gunite Corp. v. Illinois Environmental Protection Agency, PCB 94-382, filed December 12, 1994). The cost to Gunite of constructing the conveyance to the river (not including any environmental remediation costs that might be incurred in connection with historical discharges to the Rockford Pond) was approximately $0.3 million.

The Wisconsin Department of Natural Resources ("WDNR") has notified Brillion that it is deemed to be in compliance with the Wisconsin air toxics program, pending a review of a compliance plan submitted by Brillion in September 1993, although Brillion is currently exceeding Wisconsin air emissions limits for benzene and other air toxic compounds. Brillion's submittal included a plan for compliance with the emission limitations for arsenic, barium, cadmium and formaldehyde, and a request for a variance with respect to its emissions of benzene. The Company believes that compliance with Wisconsin's air toxics regulations apparently is an industry-wide problem, and WDNR is developing compliance standards for the industry as a whole. Although the most recent state inspection (November 1994) found Brillion to be in compliance with all Wisconsin air regulations, it is likely that as Brillion continues its review of its operations, it may find that certain of its emission sources will require further air pollution controls. In addition, further controls may be required under the Federal Clean Air Act regulations that are currently scheduled to be promulgated in the year 2000.

The Company's subsidiaries' manufacturing plants are large and complex facilities. The environmental regulations to which these facilities are subject are numerous, complicated, often ambiguous and constantly changing. It is possible, therefore, that in addition to the instances of noncompliance discussed above, there are other areas in which the facilities are not currently in compliance with environmental laws and regulations. The Company does not currently believe that any such noncompliance is likely to have a material adverse effect on the Company's business or financial results. However, there can be no guarantee that the Company will not be required to make substantial additional expenditures to remain in or achieve compliance in the future.

REMEDIATION MATTERS

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In addition to environmental laws that regulate the Company's subsidiaries' ongoing operations, the subsidiaries also are subject to environmental remediation liability. Under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") and analogous state laws, certain persons may be liable as a result of the release or threatened release of hazardous substances into the environment. Such persons include the current owner or operator of property where such release or threatened releases have occurred, any persons who owned or operated such property during the time hazardous substances were disposed of at such property, and persons who arranged for the disposal of hazardous substances at such property. Liability under CERCLA is strict and, in most cases, joint and several, meaning that any responsible party could be held liable for all of the costs incurred or to be incurred in investigating and remediating a release or threatened release of hazardous substances, although liability at most CERCLA (and similar) sites is shared among all of the solvent potentially responsible parties ("PRPs"). The liability of PRPs is typically determined by the cost of the investigation and remediation, the amount and toxicity of hazardous substances contributed by each PRP and the number of solvent PRPs.



Under CERCLA, sites may be listed for priority cleanup by being placed on the National Priorities List ("NPL"). NPL sites are sites at which the federal government may spend monies from the "Superfund" for long-term remediation and then seek reimbursement from liable parties. A much more extensive list compiled pursuant to CERCLA, known as the Comprehensive Environmental Response, Compensation, and Liability Act Information System ("CERCLIS"), includes sites that have been, or are to be, evaluated and "scored" by the EPA for possible future inclusion on the NPL.

GUNITE. With respect to claims involving Gunite, TCI and Gunite in September 1997 entered into a private-party settlement (the "Settlement") of certain pending litigation with a prior owner of Gunite, pursuant to which each of TCI and Gunite and the prior owner withdrew their claims against each other. As a result of the Settlement, TCI and Gunite will not be responsible for liabilities and costs related to certain alleged contamination at Gunite's facilities and at certain off-site properties to the extent arising out of operations of Gunite prior to the acquisition of Gunite by TCI in September 1987.

Gunite is a PRP at three NPL sites, the Interstate Pollution Control ("IPC") site (which is adjacent to Gunite's Rockford facility), the M.I.G./Dewane Landfill located in Boone County, Illinois and the Southeast Rockford Groundwater site located in Rockford, Illinois. Gunite's connection to the IPC, the M.I.G./Dewane and Southeast Rockford sites stem from activities that took place prior to the acquisition of Gunite by TCI in 1987. Pursuant to the Settlement, TCI and Gunite will not be responsible for liabilities and costs related to these sites to the extent arising from Gunite's waste disposals prior to the acquisition of Gunite by TCI in 1987.

As to the IPC site, the Company believes that the waste disposed of at the IPC site was disposed of prior to the acquisition of Gunite by TCI in 1987 and, as a result of the Settlement, TCI and Gunite will not be responsible for such liabilities and costs.

As to the M.I.G./Dewane Landfill site, the Company believes that the waste disposed of at the M.I.G./Dewane Landfill site was disposed of prior to the acquisition of Gunite by TCI in 1987 and, as a result of the Settlement, TCI and Gunite will not be responsible for such liabilities and costs.

The EPA and the City of Rockford have reportedly incurred approximately $11 million in response costs to date in connection with the Southeast Rockford Groundwater NPL Site, which is alleged to be down-gradient of the IPC site, but which Gunite believes, based on data collected during the investigation of the IPC site, is cross- or up-gradient. In 1996, the City of Rockford demanded that Gunite pay $1 million in response costs which the City allegedly has incurred at the site area 7, commonly known as the Ekberg Park area, within the Southeast Rockford Groundwater NPL Site, based on alleged trans-shipment of Gunite's waste to the Ekberg Park area. In September 1998, Gunite and the City of Rockford

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reached a settlement of the City's claims against Gunite concerning the Southeast Rockford site, including Area 7 thereof, Ekberg Park. In exchange for Gunite's settlement payment (funded principally by the former owner of Gunite pursuant to the Settlement), the City released all of its claims against Gunite at the site. Further, the City and the United States allowed Gunite to be named as an added beneficiary of the United States' covenant not to sue the City in connection with the Southeast Rockford site. The United States' covenant not to sue was provided in the consent decree entered on January 25, 1999 by the federal court in the case of UNITED STATES V. CITY OF ROCKFORD, Case No. 98-C-50026. With the recent entry of this consent decree, all pending claims against Gunite at the Southeast Rockford site have been resolved.

Gunite also may be subject to liabilities at other NPL sites or other locations as a result of its past disposal of hazardous substances.

As a result of historical operations at the Gunite plant in Rockford, there are areas on-site that have been affected by the disposal or spillage of raw materials or wastes. Gunite does not know at this time whether any cleanup or remediation of such areas will be required by any state, local or federal agency, although it is possible that such areas may be included in the IPC site remediation. The Company believes that, to the extent on-site remediation or cleanup is required, most of the alleged contamination would be attributable to operations of Gunite prior to the acquisition of Gunite by TCI in 1987 and, as a result of the Settlement, TCI and Gunite will not be responsible for most of such liabilities and costs.



BRILLION. Brillion is likely to incur investigation and/or remediation costs in connection with two landfills that it used to dispose of foundry wastes. These landfills are the Brillion Iron Works Landfill, where Brillion was the operator and sole generator of waste from 1980 through 1989, and the adjacent City of Brillion Landfill, where Brillion may be a significant generator of waste. Brillion disposed of plant trash at the City landfill from 1970 to 1975 and also disposed of foundry wastes in this landfill from 1976 to 1980. Both of these landfills are on the CERCLIS and the Wisconsin Remedial Response Site list, and both have been scored by the WDNR and both have been listed on the State's Hazard Ranking List as being above the threshold for potential State remedial action. Although it is not possible to predict the exact timing or amount of the expenditures that will be made in future years to remediate these sites, TCI expects that investigation and/or remediation will be required and that such expenditures could be substantial.

Further, Brillion has already incurred cleanup costs at the Lemberger landfill, an NPL site in Whitelaw, Wisconsin, pursuant to a consent decree entered in 1997 in UNITED STATES V. ACE, ET AL., Case No. 96-CV-0739. Additional remediation of areas adjacent to the Lemberger Landfill may be required by the United States and the State of Wisconsin.

Brillion has also disposed of foundry wastes at many other sites in the Brillion area, a few of which are on the CERCLIS and the Wisconsin Remedial Response Site list. It is possible that Brillion will incur remedial response costs at some or all of these sites, although at this date, Brillion is not aware of any action by federal or state regulators or private parties to investigate or remediate any of these other sites.

In 1992, Brillion excavated two underground diesel fuel storage tanks which were discovered to have leaked diesel fuel into surrounding soil as a result of a 1978 spill. Brillion has removed approximately 300 cubic yards of contaminated fill in connection with this incident. Although the WDNR initially indicated that a deed restriction would be sufficient for managing this issue, Brillion has not at this date been able to reach a satisfactory arrangement with the owners of the Brillion property. Accordingly, Brillion expects to undertake additional soil and groundwater analysis in connection with this matter.

As the Brillion facility has been in operation for many years, it is possible that there are areas at this facility, other than the underground storage tanks, that have been adversely affected by the handling of foundry

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process materials and wastes. Brillion does not know at this time whether any remediation of any such areas will be required by any state, local or federal agency.

Brillion was the Robins Group (consisting of the Robins Family Trust, Karl F. Gabler and First City Securities) entity that acquired a Beatrice subsidiary (also named Brillion) from Beatrice in 1984. In 1993, the Company notified Beatrice of its claims for indemnification against Beatrice with respect to most of its disposal sites to the extent that liabilities arise from incidents occurring prior to December 31, 1984. Beatrice disputed this interpretation and later notified Brillion that it will not honor any claims for indemnification (including the one claim for breach of representation concerning the Lemberger Landfill made within two years after the sale). In December 1997, TCI and Brillion filed suit against Beatrice, and its parent, ConAgra, Inc., for recovery of costs expended at the Lemberger Landfill, and for declaratory relief with respect to the cleanup of the Lemberger Landfill and adjacent areas. In this suit (BRILLION, ET AL. V. CONAGRA, ET AL., Case No. 97-L-15968), the court currently has under advisement Brillion's motion for judgment on the pleadings and defendants' motion to dismiss, with a ruling expected during the first quarter of 1999. Brillion was also notified by the Robins Group (which sold Brillion to TCI) that it will not honor any claims for indemnification. On May 25, 1994, TCI and Brillion filed suit against Beatrice and the Robins Group for recovery of costs expended at sites other than the Lemberger Landfill and for declaratory and injunctive relief with respect to various environmental matters pursuant to the indemnification provisions of the respective stock purchase agreements and other causes of action, including CERCLA (TRUCK COMPONENTS INC., ET AL. V. BEATRICE COMPANY ET AL., Northern District of Illinois). On June 10, 1994, TCI and Brillion filed a first amended complaint in this lawsuit to add Hunt-Wesson, Inc., a corporate successor of Beatrice that may be a successor to Beatrice's liabilities in these matters. In 1996, the district court entered judgment against Brillion, holding that Beatrice and the Robins Group did not owe any indemnity for Brillion's expenses at the sites (excepting the Lemberger Landfill from this holding), and that Brillion owed Karl F. Gabler $0.2 million pursuant to a 1987 indemnity contract. On May 7, 1998, the United States Court of Appeals for the Seventh Circuit affirmed the 1996 judgment of the district court and, in June 1998, denied Brillion's petition for rehearing and issued its final mandate of affirmance. TCI and Brillion have satisfied the counterclaim judgment of $0.2 million.



POTENTIAL COSTS. As of December 31, 1998, based on all the information currently available, the Company had an environmental reserve in the amount of $10.7 million for estimated future costs related to potential environmental investigation and remediation liabilities with respect to certain currently known matters. The environmental reserve is principally related to potential remediation liability at various off-site locations and, to a lesser degree, to potential remediation liability at Gunite's, Rockford, Illinois, and Brillion's, Brillion, Wisconsin manufacturing facilities. This reserve is based on current cost estimates and does not reduce estimated expenditures to net present value. Further, the estimated reserve takes into consideration the number of other PRPs at each site, the alleged volume of waste contributed by other PRPs at each site, and the identity and financial position of such parties in light of the joint and several nature of the liability, but it does not take into account possible insurance coverage or other similar indemnification or reimbursement. Based upon all currently available information, no reserve has been established with respect to potential environmental obligations of JAC or Bostrom and an immaterial reserve has been established at FCS. Because many of the matters described above, however, are at the early stages in their respective investigations, there can be no assurance that the amounts ultimately expended to address all of these matters or to address other matters not yet known to be in existence will not exceed the amounts allocated in the environmental reserve. Accordingly, it may be necessary to establish additional reserves for environmental liabilities in the future.

Any cash expenditures required by the Company to comply with applicable environmental laws and/or to pay for any remediation efforts will not be reduced or otherwise affected by the existence of the environmental reserve. Management

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believes, based on its evaluation of the various matters described above, including its experience with such matters to date, the time period over which it believes costs for such matters are likely to be incurred by the Company, and the existence of the various indemnifications described above, that any costs the Company ultimately will incur for such matters are not reasonably likely to have a material adverse effect on the Company's business or financial results. However, given the early stage of many of the matters, there can be no assurance that one or more of these matters (or matters which have not yet been identified) will not have such an effect. The Company currently anticipates spending approximately $0.8 million per year in 1999 through 2003 for monitoring the various environmental sites associated with the environmental reserve, including attorney and consultant costs for and negotiations with regulators and other PRPs, and payment of remedial investigation costs. The Company expects to fund such expenditures with the cash flow generated from its operations and amounts available under its revolving credit facility. These sites are generally in the early investigatory stages of the remediation process and thus it is anticipated that significant cash payments for remediation will not be incurred for at least several years. After the evaluation and investigation period, the investigation and remediation costs will likely increase because the actual remediation of the various environmental sites associated with the environmental reserve will likely be under way. In addition, it is possible that the timing of any necessary expenditures could be accelerated.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is certain information concerning the executive officers of the Company:

| NAME | AGE | POSITION |
|---|---|---|
| Thomas M. Begel | 56 | Chairman of the Board, President and Chief Executive Officer of the Company |
| Andrew M. Weller | 52 | Executive Vice President and Chief Financial Officer and Director of the Company |



| | | |
|---|---|---|
| John E. Carroll, Jr. | 57 | President and Chief Executive Officer of Johnstown America Corporation and Freight Car Services, Inc. |
| James D. Cirar | 52 | Senior Vice President of the Company and Chairman of Johnstown America Corporation and Freight Car Services, Inc. |
| Thomas W. Cook | 61 | Senior Vice President of the Company and President and Chief Executive Officer of Truck Components Inc. and President - Gunite Corporation |
| Timothy A. Masek | 34 | Vice President - Corporate Development of the Company and President of Bostrom Seating, Inc. |
| John D. McClain | 54 | President - Brillion Iron Works, Inc. |
| Donald C. Mueller | 35 | Vice President and Treasurer of the Company |
| Mark A. Niemela | 63 | President - Fabco Automotive Corporation |
| Kenneth M. Tallering | 37 | Vice President, General Counsel and Secretary of the Company |
| Edward J. Whalen | 50 | Vice President of the Company and President of JAIX Leasing Company |
| Brent Williams | 44 | Controller of the Company |

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THOMAS M. BEGEL, Chairman of the Board, President and Chief Executive Officer of the Company, has served as President since October 1991 and as Chairman of the Board and Chief Executive Officer since May 1993. He is also Chairman of, and a partner in, TMB Industries ("TMB"), an investment firm which is a partnership between himself and Mr. Weller, and is a director or officer of certain TMB companies. Mr. Begel has served as a director of Silgan Holdings Inc., a packaging company, since March 1997.

JOHN E. CARROLL, JR., has served as President and Chief Executive Officer of Johnstown America Corporation and Freight Car Services, Inc. since August 1998. Prior to August 1998, he was President of Glencoe Capital, Inc., an investment company, from April 1997 to August 1998 and President of Thrall Car Manufacturing Company from August 1990 through April 1997.

JAMES D. CIRAR, has served as Chairman of Johnstown America Corporation and Freight Car Services, Inc. since September 1998 and as Senior Vice President of the Company since July 1997. 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. Prior to September 1995, Mr. Cirar was the Plant Manager of the Truck and Bus Assembly Group of General Motors Corporation in Flint, Michigan.

THOMAS W. COOK, has been the President and Chief Executive Officer of TCI since May 1994 and President of Gunite Corporation since 1991. Mr. Cook has been Senior Vice President of the Company since July 1997. He was President and Chief Executive Officer of Redlaw Industries, Inc., a holding company with interests in foundries, stamping plants and textile industries, from 1986 to 1991. From 1967 to 1986, Mr. Cook was with ITT Grinnell Corporation, a manufacturer and distributor of valves and related piping products, where he became President in 1983.

TIMOTHY A. MASEK, has served as Vice President - Corporate Development of the Company since December 1995 and President of Bostrom Seating, Inc. since June 1996. From September 1992 to December 1995, Mr. Masek performed marketing and corporate development functions for the Company. Prior to September 1992, Mr. Masek was a Market Analyst for the Transportation Equipment Group of Bombardier Corporation, a railcar and aviation manufacturer.



JOHN D. MCCLAIN, joined Brillion as Manager of Manufacturing in 1988 and was appointed Vice President of Manufacturing in 1989. Mr. McClain was promoted to his present position of President in 1994. Prior to joining Brillion, Mr. McClain held metallurgical and foundry manager positions at Owens-Illinois, a manufacturer of glass containers and television picture tubes, Emerson Electric, a diverse manufacturing company producing power transmission and electric motor components, pumps, valves and hand tools, and Clow Valve Company, a manufacturer of waste and water system valves, fire hydrants and fire protection system valves.

DONALD C. MUELLER, has served as Vice President and Treasurer since July 1998. For the five years prior to July 1998, he held various financial positions with Fisher Scientific International.

MARK A. NIEMELA, joined Fabco Automotive Corporation in 1966 as Production Control Manager. He held the positions of Material Manager and Plant Manager before his appointment to the position of General Manger in 1975 and was appointed President in 1986.

KENNETH M. TALLERING, has served as Vice President, General Counsel and Secretary of the Company since November 1995. From September 1987 to October 1995, Mr. Tallering was an attorney with the law firm of Skadden, Arps, Slate, Meagher & Flom.

ANDREW M. WELLER, has served as Executive Vice President, Chief Financial Officer and a Director of the Company since September 1994 and as

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Secretary from March 1995 to November 1995. From April 1988 to September 1994, he was Vice President and Treasurer of Bethlehem Steel Corporation and prior thereto held various other positions with Bethlehem. He has also been Executive Vice President of, and a partner in TMB since September 1994, and is a director or officer of certain TMB companies.

EDWARD J. WHALEN, has served as Vice President of the Company since January 1997. He has also served as President of JAIX Leasing since its inception in December 1994. Mr. Whalen served as Secretary of the Company from October 1991 until March 1995, as Treasurer of the Company from May 1993 until March 1995, as Vice President of the Company from October 1991 until October 1995 and as President of Freight Car Services, Inc. from March 1995 until March 1998. From 1989 to 1991, he was a financial and rail car industry consultant.

BRENT WILLIAMS, has served as Controller of the Company and has served in various financial capacities at TCI and Gunite for the past four years. Prior to that, he was Corporate Controller of Caron International.



# GLOSSARY OF CERTAIN TERMS

The following industry terms have the meanings set forth below for purposes of the Form 10-K:

ABS: Anti-lock brake system.

Auto-Flood(TM): The Company's product name for an aluminum, rapid discharge open hopper car that offers more capacity than conventional steel automatic discharge cars.

Automatic Slack Adjuster: A mechanism that reacts to, and adjusts for, variations in brake shoe-to-drum clearance, maintains the proper amount of space between the shoe and drum and thereby eliminates the need for manual adjustment.

Brake Drum: A metal cylinder to which pressure is applied by a braking mechanism in order to arrest rotation of the wheel to which the cylinder is attached.

Brake Rotor: Device which works with a vehicle's braking system to stop the vehicle.

Covered Hopper Car: A totally contained bottom discharge freight car used to haul agricultural, chemical and mineral products.

Gondola Car: Open-top freight car principally used for hauling coal which discharges through a rotary dump mechanism. Non-rotary gondolas are also used to haul products such as ore, scrap metal and other commodities.

Intermodal Car: Freight car used primarily for moving containers and trailers that can be placed on trucks and ships as well as freight cars.

OEM: Original equipment manufacturer.

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Open Hopper Car: Freight car which discharges its load from the bottom of the car.

Quad Hopper Car: A type of open hopper car which discharges through four doors on the bottom of the freight car.

Spoke Wheels: Along with the wheel hub, it is the connecting piece between the brake system and the axle upon which the rim and tire are mounted.

Wheel Hubs: Along with the spoke wheel, it is the connecting piece between the brake system and the axle upon which the rim and tire are mounted.



ITEM 2. FACILITIES

The Company's headquarters are located in leased offices in Chicago, Illinois. The following table provides a summary description of the Company's other principal facilities.

<TABLE>

| FACILITIES | BUSINESS FUNCTION | OWNED/ LEASED | COVERED SPACE SQ. FT. |
|---|---|---|---|
| <CAPTION> | | | |
| FREIGHT CAR SEGMENT | | | |
| <S> | <C> | <C> | <C> |
| JAC (1) | | | |
| Shell Plant | Freight car erection | Owned | 153,000 |
| Franklin Plant | Freight car erection and fabrication | Owned | 619,000 |
| Offices | Administrative Offices | Owned | 87,000 |
| (1) All JAC facilities are located in Johnstown, Pennsylvania | | | |
| FCS | | | |
| Danville, Illinois | Freight car erection and rebuild | Owned | 297,000 |
| TRUCK COMPONENTS SEGMENT | | | |
| GUNITE | | | |
| Rockford, Illinois | Administrative Offices: Specialty Foundry, Aftermarket Distribution Warehouse | Owned | 619,000 |
| Elkhart, Indiana (Plant 1) | Machining-Wheel End Components | Owned | 258,000 |
| Elkhart, Indiana (Plant 2) | Machining and Assembling-Automatic Slack Adjusters | Owned | 115,000 |
| BRILLION (2) | | | |
| Plant I | Melting; Molding; Administrative | Leased | 180,000 |
| Plant II | Offices | Leased | 165,000 |
| Plant III | Melting; Molding | Owned | 150,000 |
| Plant IV | Farm Machinery Finishing; Shipping | Leased | 85,000 |
| (2) All Brillion facilities are located in Brillion, Wisconsin | | | |
| FABCO | | | |
| Oakland, California | Manufacturing; Warehouse; | Owned | 65,000 |

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| | Administrative Offices | | |
|---|---|---|---|
| BOSTROM<br>Piedmont, Alabama | Manufacturing; Administrative Offices | Leased | 196,000 |

</TABLE>

The Company believes that its facilities and equipment are in good condition and, together with scheduled capital improvements, are adequate for its present and immediately projected needs.



ITEM 3. LEGAL PROCEEDINGS

The Company is involved in certain threatened and pending legal proceedings, including worker's compensation claims, arising out of the conduct of its businesses. In the opinion of management, the ultimate outcome of such legal proceedings will not have a material adverse effect on the financial position or results of operations of the Company.

The Company may be subject to liability as a result of the disposal of hazardous substances on and off the properties owned or operated by its subsidiaries, including Brillion, Gunite and Fabco. TCI and Brillion filed suit on May 25, 1994 against Beatrice and the Robins Group for certain causes of action, including indemnification under purchase agreements. TCI added Hunt-Wesson, Inc., a corporate successor to Beatrice that may be a successor to Beatrice's liability in these matters, as a defendant on June 10, 1994. In 1996, the district court entered judgment against Brillion, holding that Beatrice and the Robins Group did not owe any indemnity for Brillion's expenses at the sites, and that Brillion owed Karl F. Gabler $0.2 million pursuant to a 1987 indemnity contract. On May 7, 1998, the United States Court of Appeals for the Seventh Circuit affirmed the 1996 judgment of the district court, and, in June 1998, denied Brillion's petition for rehearing and issued its final mandate of affirmance. TCI and Brillion have satisfied the counterclaim judgment of $0.2 million. In December 1997, TCI and Brillion filed suit against Beatrice, and its parent, ConAgra, Inc., for recovery of costs expended at the Lemberger Landfill, and for declaratory relief with respect to the cleanup of the Lemberger Landfill and adjacent areas. In this suit (BRILLION, ET AL. V. CONAGRA, ET AL., Case No. 97-L-15968), the court currently has under advisement Brillion's motion for judgment on the pleadings and defendants' motion to dismiss, with a ruling expected during the first quarter of 1999. In September 1997, TCI and Gunite entered into the Settlement which settled its pending litigation against a prior owner of Gunite and pursuant to which TCI and Gunite and the prior owner withdrew their claims against the other. As a result of the Settlement, TCI and Gunite will not be responsible (through a contractual undertaking by the former owner) for certain environmental liabilities and costs resulting from Gunite's waste disposals prior to the acquisition of Gunite by TCI in September 1987, including at the IPC, M.I.G./Dewane and Southeast Rockford sites. See "Environmental Matters" in Item 1.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.



PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Price range of Common Stock

The Company's common stock is listed and traded on the NASDAQ National Market System under the symbol "JAII." The following table sets forth the high and low sales prices of the common stock as reported by the NASDAQ National

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Market System.

| 1997 | Sales Prices HIGH | LOW |
|---|---|---|
| First Quarter | $4.75 | $3.25 |
| Second Quarter | 6.63 | 3.00 |
| Third Quarter | 9.25 | 5.75 |
| Fourth Quarter | 15.50 | 8.50 |
| 1998 | | |
| First Quarter | $17.75 | $9.13 |
| Second Quarter | 19.15 | 12.75 |
| Third Quarter | 19.94 | 10.25 |
| Fourth Quarter | 16.75 | 10.00 |

The number of record holders of the Company's common stock on March 17, 1999 was 128.

DIVIDEND POLICY

The Company has never paid any dividends on its common stock and expects for the foreseeable future to retain all of its earnings from operations for use in expanding and developing its business. Any future decision as to the payment of dividends will be at the discretion of the Company's Board of Directors and will depend upon the company's earnings, financial position, capital requirements and such other factors as the Board of Directors deems relevant. In addition, the Credit Facility (as defined herein) contains covenants limiting dividends that may be paid to holders of shares of common stock.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data with respect to the Company for the periods and at the dates indicated. All selected financial data is derived from the audited consolidated financial statements of the Company and should be read in conjunction with those statements which are incorporated by reference in this report.



SELECTED FINANCIAL DATA

<TABLE>

YEAR ENDED DECEMBER 31,
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<CAPTION>

| | 1994 | 1995 (1) | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|
| INCOME STATEMENT DATA: | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Total revenues | $468,525 | $668,601 | $559,972 | $650,347 | $966,058 |
| Cost of goods | 442,153 | 608,982 | 474,158 | 556,365 | 825,900 |
| Gross profit | 26,372 | 59,619 | 85,814 | 93,982 | 140,158 |
| Selling, general & administrative | 13,144 | 28,117 | 46,605 | 46,187 | 53,005 |
| Amortization expense | 3,573 | 6,478 | 10,174 | 8,554 | 8,557 |
| Gain on sale of leased freight cars | --- | --- | (1,354) | (824) | (1,223) |
| Pension termination gain | --- | --- | --- | --- | (1,688) |

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| | | | | | |
|---|---|---|---|---|---|
| Patent lawsuit settlement | --- | --- | --- | --- | (16,750) |
| Reduction of environmental reserves | --- | --- | --- | (14,300) | --- |
| Operating income | 9,655 | 25,024 | 30,389 | 54,365 | 98,257 |
| Interest expense net | 266 | 14,702 | 35,836 | 35,380 | 30,323 |
| Provision (benefit)for income taxes | 3,692 | 4,737 | (76) | 9,511 | 28,933 |
| Income(loss) before extraordinary items | 5,697 | 5,585 | (5,371) | 9,474 | 39,001 |
| Exraordinary items, net of taxes | --- | --- | --- | (2,008) | (1,146) |
| Net income (loss) | $5,697 | $5,585 | $(5,371) | $7,466 | $37,855 |
| Diluted Earnings Per Share: | | | | | |
| Income (loss) before extraordinary itmes | $ 0.58 | $ 0.57 | $ (0.55) | $ 0.96 | $ 3.85 |
| Extraordinary itmes | --- | --- | --- | (0.20) | (0.11) |
| Net income (loss) | $ 0.58 | $ 0.57 | $ (0.55) | $ 0.76 | $ 3.74 |

| BALANCE SHEET DATA: | AS OF DECEMBER 31, (in thousands) | | | | |
|---|---|---|---|---|---|
| | 1994 | 1995 | 1996 | 1997 | 1998 |
| Total assets | $143,354 | $578,825 | $555,283 | $578,838 | $584,354 |
| Long-term debt, including current maturities | 7,600 | 329,786 | 304,175 | 312,273 | 255,046 |
| Total shareholders' equity | 63,234 | 68,874 | 63,537 | 71,020 | 110,717 |

(1) Acquired Bostrom in January, 1995 and TCI in August, 1995. See Note 3 to the Consolidated Financial Statements of the Company and the notes thereto for the year ended December 31, 1998.

</TABLE>

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this Item is incorporated by reference to pages 8 through 11 of the Company's Annual Report to Shareholders for the fiscal year ended December 31, 1998.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

The consolidated balance sheets as of December 31, 1997 and 1998 and the consolidated statements of income and cash flows for each of the three years in the period ended December 31, 1998 and the notes thereto, together with the report of independent public accountants contained on pages 12 through 36 of the Company's Annual Report to Shareholders for the fiscal year ended December 31, 1998 are incorporated herein by reference.



ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated by reference to

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pages 2-3 of the Company's Proxy Statement for the Annual Meeting of Shareholders of the Company to be held on May 6, 1999, except for the information regarding the Company's executive officers which is set forth in "Business" in Item 1 under the heading "Executive Officers of the Registrant."

SECTION 16 (A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The information required by this Item is incorporated by reference to page 16 of the Company's Proxy Statement for the Annual Meeting of Shareholders of the Company to be held on May 6, 1999.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to pages 4-10 of the Company's Proxy Statement for the Annual Meeting of Shareholders of the Company to be held on May 6, 1999.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to pages 15-16 of the Company's Proxy Statement for the Annual Meeting of Shareholders of the Company to be held on May 6, 1999.

ITEM 13. CERTAIN TRANSACTIONS AND RELATED TRANSACTIONS

None



PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

(a)(1)and (a)(2) LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES.

The following documents are included in the Company's Annual Report to Shareholders for the fiscal year ended December 31, 1998, pages 12 through 36, and are incorporated herein by reference:

Consolidated Balance Sheets as of December 31, 1998 and 1997.
Consolidated Statements of Income for the Years Ended December 31, 1998, 1997 and 1996. Consolidated Statements of Cash Flows for the Years Ended December 31, 1998, 1997 and 1996.
Notes to Consolidated Financial Statements.
Report of Independent Public Accountants.

(a)(3) LIST OF EXHIBITS:

3.1 Form of Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.3 to Form S-1, Registration Statement 33-63132 (the "Initial S-1")).
3.2 Form of Restated By-laws of the Company (incorporated by reference to Exhibit 3.4 to the Initial S-1).
4.1 Form of certificate for the Company's common stock, par value $.01 per share (incorporated by reference to Exhibit 4.1 to the Initial S-1).
4.2 Form of certificate for the Company's Class B common stock, par value $.01 per share (incorporated by reference to Exhibit 4.2 to the Initial S-1).
4.3 Indenture relating to the 11.75% Senior Subordinated Notes of the Company due 2005, dated as of August 23, 1995, including form of note (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated August 30, 1995).
4.4 Rights Agreement, dated as of October 4, 1995, between the Company and BancBoston State Street Investor Services, L.P. (incorporated by reference to Exhibit 1 to the Company's Registration Statement on Form 8-A dated October 5, 1995).

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4.5 Indenture relating to the 11.75% Series C Subordinated Notes of the Company due 2005, dated as of August 11, 1997, including form of note (incorporated by reference to Exhibit 4.2 to Form S-4, Registration Statement 333-35277 (the "Form S-4")).

10.1 Agreement of Purchase and Sale, dated as of May 3, 1991, as amended, between Bethlehem Steel Corporation and Johnstown America Industries, Inc. (incorporated by reference to Exhibit 2.1 to the Initial S-1).

10.2 Agreement and Plan of Merger, dated as of June 13, 1995, among Johnstown America Industries, Inc., JTN Acquisition Corp. and Truck Components Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated June 13, 1995).

10.3 Stockholders Agreement, dated as of June 13, 1995, among Johnstown America Industries, Inc., JTN Acquisition Corp. and the stockholders party thereto (incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K dated June 13, 1995), and Amendment No.1 to Stockholders Agreement, dated as of June 23, 1995, among Johnstown America Industries, Inc., JTN Acquisition Corp., and the stockholders party thereto (incorporated by reference to Exhibit 2.3 to Amendment No.1 to the Company's Current Report on Form 8-K dated June 13, 1995).

10.4 Stock Purchase Agreement, dated as of December 21, 1994, and the First Amendment thereto, dated as of January 13, 1995, each among the sellers, Bostrom Seating, Inc. and Johnstown America Industries, Inc. (incorporated by reference to Exhibit 2 to the Company's Current Report on Form 8-K dated January 24, 1995).

10.5 Credit Agreement, dated as of August 23, 1995, among Johnstown America Industries, Inc., the financial institutions named therein, Chemical Bank, as Administrative Agent, Collateral Agent and Swingline Lender, Chemical Bank Delaware, as Issuing Bank, and The First National Bank of Boston and The First National Bank of Chicago, as Co-Agents (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated August 30, 1995).



10.6 Amendment to Credit Agreement, dated as of December 31, 1995, among Johnstown America Industries, Inc., the financial institutions named therein, Chemical Bank, as Administrative Agent, Collateral Agent and Swingline Lender, Chemical Bank Delaware, as Issuing Bank, and The First National Bank of Boston and The First National Bank of Chicago, as Co-Agents (incorporated by reference to Exhibit 10.6 to the Company's Form 10-K for the fiscal year ended December 31, 1995 (the "1995 Form 10-K")).

10.7 Second Amendment to Credit Agreement, dated as of December 31, 1996 among Johnstown America Industries, Inc., the financial institutions named therein, Chemical Bank, as Administrative Agent, Collateral Agent and Swingline Lender, Chemical Bank Delaware, as Issuing Bank, and The First National Bank of Boston and The First National Bank of Chicago, as Co-Agents. (incorporated by reference to Exhibit 10.7 to the Company's Form 10-K for the fiscal year ended December 31, 1996 (the "1996 Form 10-K")).

10.8 Amendment No. 3, Consent and Waiver dated as of August 4, 1997 to Credit Agreement, among the Company, The Chase Manhattan Bank, as Administrative, Collateral Agent and Swingline Lender, the First National Bank of Boston and the First National Bank of Chicago, as Co-Agents, and the Chase Manhatten Bank of Delaware, as Issuing Bank (incorporated by reference to Exhibit 10.22 to the Form S-4).

10.9 Term Loan Agreement, dated as of June 14, 1996, between JAIX Leasing Company and NationsBanc Leasing Corporation of North Carolina (incorporated by reference to Exhibit 10.1 to the

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Company's Form 10-Q for the Quarter ended June 30, 1996).

10.10 Loan Agreement, dated as of December 1, 1995, between Freight Car Services, Inc. and the City of Danville, Vermillion County, Illinois relating to $5.3 million of City of Danville, Illinois Variable Rate Demand Industrial Revenue Bonds (Freight Car Services, Inc. Project), Series 1995 (incorporated by reference to Exhibit 10.7 to the 1995 Form 10-K).

10.11 1993 Stock Option Plan (incorporated by reference to Exhibit 10.8 to the Initial S-1).

10.12 Johnstown America Corporation Salaried Pension Plan (incorporated by reference to Exhibit 10.11 to the nitial S-1).

10.13 Amended and Restated Stockholder and Warrantholder Agreement (incorporated by reference to Exhibit 10.14 to the Initial S-1).

10.14 Employment Agreement of Thomas M. Begel (incorporated by reference to Exhibit 10.11 to the 1995 Form 10-K).

10.15 Employment Agreement of Andrew M. Weller (incorporated by reference to Exhibit 10.12 to the 1995 Form 10-K).

10.16 Employment Agreement of Thomas W. Cook (incorporated by reference to Exhibit 10.13 to the 1995 Form 10-K).

10.17 Form of Employment Agreement (incorporated by reference to Exhibit 10.17 to the 1996 Form 10-K). 10.18 Form of Severance Agreement (incorporated by reference to Exhibit 10.15 to the 1995 Form 10-K). 10.19 Form of Stay Bonus Agreement (incorporated by reference to Exhibit 10.16 to the 1995 Form 10-K). 10.20 Form of Stock Option Agreement (incorporated by reference to Exhibit 10.17 to the 1995 Form 10-K). 10.21 Form of Supplemental Life Insurance Agreement (incorporated by reference to Exhibit 10.21 to the 1996 Form 10-K.)

10.22 Gunite Corporation Salaried Employees Retirement Plan (incorporated by reference to Exhibit 10.18 to the 1995 Form 10-K).

10.23 Form of Deferred Compensation Agreement (incorporated by reference to Exhibit 10.24 to the Company's Form 10-K for the fiscal year ended December 31, 1997).

10.24 Gunite Corporation Profit Sharing Plan (incorporated by reference to Exhibit 10.19 to the 1995 Form 10-K).

10.25 Form of Restricted Stock Agreement.



13.1 Selected portions of the Registrant's Annual Report to Shareholders for the fiscal year ended December 31, 1998 which are incorporated by reference herein.

21.1 Subsidiaries of the Company

23.1 Consent of Arthur Andersen LLP

27.1 Financial Data Schedule

(b) Financial Statement Schedules:

All schedules have been omitted since the required information is either not significant, included in the consolidated financial statements of the Company or the notes thereto or not applicable.

(c) Reports on Form 8-K

The Company filed the following current report on Form 8-K:

None

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SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JOHNSTOWN AMERICA INDUSTRIES, INC.

By:/S/THOMAS M. BEGEL
Chairman of the Board, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| SIGNATURE | TITLE | DATE |
|---|---|---|
| /S/THOMAS M. BEGEL<br>Thomas M. Begel | Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer) | March 25, 1999 |
| /S/ANDREW M. WELLER<br>Andrew M. Weller | Executive Vice President, Chief Financial Officer and Director (Principal Financial Officer and Principal Accounting Officer) | March 25, 1999 |
| /S/CAMILLO SANTOMERO<br>Camillo Santomero | Director | March 25, 1999 |
| /S/R. PHILIP SILVER<br>R. Philip Silver | Director | March 25, 1999 |
| /S/FRANCIS S. STROBLE<br>Francis S. Stroble | Director | March 25, 1999 |



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RESTRICTED STOCK AGREEMENT

This Restricted Stock Agreement (the "Agreement") is entered into as of February 1, 1999 (the "Grant Date") by and between Johnstown America Industries, Inc., a Delaware corporation (the "Company") and [ ] (the "Grantee").

WHEREAS, to provide long-term incentive to the Grantee as an executive of the Company, the Company desires to grant to the Grantee restricted shares ("Restricted Stock") of Common Stock, par value $.01 per share ("Common Stock"), of the Company, upon the terms and subject to the conditions hereinafter contained.

1. NUMBER OF SHARES. The Grantee is hereby granted [ ] shares of Restricted Stock and, subject to the restrictions set forth herein, shall possess all incidents of ownership of such Restricted Stock, including the right to receive dividends on such stock and the right to vote such stock.

2. RESTRICTIONS. Restricted Stock and any interest therein may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of, except by will or the laws of descent, prior to the lapse of such restriction, which shall occur on the earlier of (x) five years from the date hereof if the Grantee has been continuously employed with the Company for such five year period, (y) a Change in Control (as defined herein) and (z) the Grantee's death or Disability (as defined herein). In the event that the restriction set forth above has not lapsed and the Grantee's employment with the Company is terminated for any reason other than termination by the Company without Cause, the Restricted Stock shall be forfeited by the Grantee. Notwithstanding the foregoing, any of the foregoing restrictions may be waived by the Company at any time as provided in Section 8 hereof.

3. CERTAIN DEFINITIONS. For purposes of this Agreement:

(A) "Cause" shall have the meaning set forth in Grantee's Employment Agreement with the Company, dated as of January 1, 1996, as amended;

(B) "Change in Control" shall have the meaning set forth in Grantee's Employment Agreement with the Company, dated as of January 1, 1996, as amended.

(C) "Disability" shall mean the Grantee's disability as provided in Grantee's Employment Agreement with the Company, dated as of January 1, 1996, as amended.

4. CERTIFICATE; RESTRICTIVE LEGEND. The Grantee agrees that any certificate issued for Restricted Stock prior to the lapse of the restrictions

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set forth herein shall be inscribed with the following legend in addition to any legend required by securities laws:

> This certificate and the shares of stock represented hereby are subject to the terms and conditions, including restrictions against transfer (the "Restrictions"), contained in the agreement entered into between the registered owner and the Company (the "Agreement"). Any attempt to dispose of these shares in contravention of the Restrictions, including by way of sale, assignment, transfer, pledge, hypothecation or otherwise, shall be null and void and without effect.

Upon the lapse of restrictions relating to the Restricted Stock, the Company shall issue to the Grantee or the Grantee's personal representative a stock certificate representing the Restricted Stock, free of the restrictive legend described in this Section 4 hereof, in exchange for the existing certificate for the Restricted Stock.

Restricted Stock forfeited pursuant to this Agreement shall be transferred to, and reacquired by, the Company without payment of any consideration by the Company, and neither the Grantee nor any of the Grantee's successors, heirs, assigns or personal representatives shall thereafter have any further rights or interests in such shares or certificates. If certificates containing restrictive legends shall have theretofore been delivered to the Grantee or the Grantee's personal representative, such certificates shall be returned to the Company, complete with any necessary signatures or instruments of transfer.

5. TAXES. The Grantee shall be responsible for all taxes required to be paid under applicable tax laws with respect to the Restricted Stock.

6. ENTIRE AGREEMENT. This Agreement contains all the understandings between the parties hereto pertaining to the matters referred to herein, and supersedes all undertakings and agreements, whether oral or in writing, previously entered into by them with respect thereto. The Grantee represents that, in executing this Agreement, he does not rely and has not relied upon any representation or statement not set forth herein made by the Company with regard to the subject matter, bases or effect of this Agreement or otherwise.

7. AMENDMENT OR MODIFICATION, WAIVER. No provision of this Agreement may be amended or waived unless such amendment or waiver is agreed to in writing, and is signed by both the Grantee and a duly authorized officer of the Company. No waiver by any party hereto of any breach by another party hereto of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time.

8. NOTICES. Any notice to be given hereunder shall be in writing and shall be deemed given hereunder shall be in writing and shall be deemed given when delivered personally, sent by courier or telecopy or registered or certified mail, postage prepaid, return receipt requested, addressed to the

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party concerned at the address indicated below or to such other address as such party may subsequently give notice of hereunder in writing:

To Grantee at:

[ ]
c/o Johnstown America Industries, Inc.
980 North Michigan Avenue
Suite 1000
Chicago, IL 60611

To the Company at:

Johnstown America Industries, Inc.
980 North Michigan Ave., Ste. 1000
Chicago, IL 60611
Attention: Secretary

Any notice delivered personally or by courier under this Section 8 shall be deemed given on the date delivered and any notice sent by telecopy or registered or certified mail, postage prepaid, return receipt requested, shall be deemed given on the date telecopied or mailed.

9. SEVERABILITY. If any provision of this Agreement or the application of any such provision to any party or circumstances shall be determined by any court of competent jurisdiction to be invalid and unenforceable to any extent, the remainder of this Agreement or the application of such provision to such person or circumstances other than those to which it is so determined to be invalid and unenforceable, shall not be affected thereby, and each provision hereof shall be validated and shall be enforced to the fullest extent permitted by law.

10. GOVERNING LAW. This Agreement will be governed by and construed in accordance with the laws of the State of Delaware, without regard to its conflicts of laws principles.

11. COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year set forth above.

JOHNSTOWN AMERICA INDUSTRIES, INC.

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By:________________________________
Name:
Title:

________________________________
[                              ]

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# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## GENERAL

The Company conducts its business through two operating segments within the transportation industry: the truck components segment, a leading manufacturer of wheel-end components, seating, steerable drive axles, gearboxes and other castings for the heavy-duty truck industry; and the freight car segment, a leading manufacturer and lessor of new and rebuilt freight cars used for hauling coal, intermodal containers, highway trailers, automobiles, agricultural and mining products.

The Company's sales are affected to a significant degree by the freight car and Class 8 truck markets. Both the freight car and the Class 8 truck markets are subject to significant fluctuations due to economic conditions, changes in the alternative methods of transportation and other factors. There can be no assurance that fluctuations in such markets will not have a material adverse effect on the results of operations or financial condition of the Company.

Freight car segment sales are driven principally by the number and type of freight cars delivered in any given period. Due to the large size of customer orders, the specific time frame for delivery of freight cars ordered and variations in the mix of cars ordered, the number and type of cars produced in any given period may fluctuate greatly. As a result, the Company's revenues and results of operations and cash flows from operations may fluctuate as well.

## RESULTS OF OPERATIONS YEARS ENDED DECEMBER 31, 1998 AND 1997

### TOTAL REVENUE

Total revenue in 1998 increased 48.6% to $966.1 million from $650.3 million in 1997. The revenue increase was primarily due to an increase in the freight car segment of 126.9% from $234.7 million in 1997 to $532.5 million in 1998. Shipments of new and rebuilt freight cars in 1998 were 9,155, compared to 4,507 freight cars in 1997. As of December 31, 1998, the Company's backlog of new and rebuilt freight cars was 9,462, more than double the year earlier backlog of 4,201 freight cars. The truck component segment revenues increased 4.3% from $415.6 million in 1997 to $433.6 million in 1998.

At December 31, 1998, the Company's freight car segment had 1,041 cars in its leasing fleet, and its leasing business generated $8.3 million in revenue in 1998 and $2.5 million in operating income before a $1.2 million gain on the sale of leased freight cars. In 1997, the leasing business generated $7.6 million in revenue and $3.5 million in operating income before a $0.8 million gain on the sale of leased freight cars.

### COST OF SALES-MANUFACTURING AND GROSS PROFIT

Cost of sales-manufacturing for 1998 as a percent of manufacturing sales was 85.7% in 1998 compared to 85.9% in 1997. Related gross profits were 14.3% and 14.1%, respectively. The increase in gross profit margins resulted primarily from higher gross profit margins in the freight car segment due to increased volume, better pricing and operational improvements throughout 1998.

### SELLING, GENERAL, ADMINISTRATIVE AND AMORTIZATION EXPENSES

Selling, general and administrative expenses as a percentage of total revenue were 5.5% and 7.1% in 1998 and 1997, respectively. On a percentage of total revenue basis, selling, general and administrative expenses in the truck components segment were relatively unchanged, but were reduced significantly in the freight car segment due to significantly higher revenues. Amortization expense was $8.6 million in both 1998 and 1997.

### OPERATING INCOME

Operating income was $98.3 million in 1998, compared to $54.4 million in 1997, an increase of $43.9 million primarily due to increased gross profits of $46.2 million offset by $6.8 million of increased selling, general and administrative expenses. Operating income was also affected in 1998 by a gain on the sale of leased freight cars of $1.2 million, a freight car patent lawsuit settlement gain of $16.8 million and a truck component pension termination gain of $1.7 million. Operating income in 1997 was affected by a reduction of environmental reserves of $14.3 million in the truck component segment and a gain on the sale of leased freight cars of $0.8 million.



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OTHER

Interest expense was $31.2 million in 1998 compared to $33.6 million in 1997. Interest expense in 1998 was lower than 1997 due primarily to the prepayment of $35.0 million of Tranche B term debt. Interest expense-leasing was $1.2 million in 1998 compared to $2.4 million in 1997. The reduction in leasing interest expense was due primarily to the prepayment of $19.5 million in leasing business debt funded from the sale of 380 of its owned freight cars in February 1998. Interest income in 1998 was $2.1 million in 1998 compared to $0.6 million in 1997. The increase in interest income is due to increased levels of cash.

In conjunction with the $35 million of senior debt prepayments, the Company recorded an extraordinary charge of $1.1 million net of tax, related to the write-off of unamortized deferred financing costs.

Net income and diluted earnings per share for 1998 were $37.9 million and $3.74, respectively, compared to net income and diluted earnings per share of $7.5 million and $0.76, respectively, for 1997.

RESULTS OF OPERATIONS YEARS ENDED DECEMBER 31, 1997 AND 1996

TOTAL REVENUE

Total revenue in 1997 increased 16.1% to $650.3 million from $560.0 million in 1996. The revenue increase of $90.3 million was due to an increase at the Company's truck components segment of $53.9 million and an increase in the freight car segment of $36.4 million. In 1997, shipments of freight cars were 4,507 (including 290 cars sold to the Company's lease fleet), compared to 3,470 freight cars (including 98 cars sold to the Company's lease fleet) in 1996. As of December 31, 1997, the Company's backlog of new and rebuilt cars was 4,201 compared with 774 new and rebuilt cars at December 31, 1996.

At December 31, 1997, the Company's freight car segment had 1,673 freight cars on lease, and its leasing business generated $7.6 million in revenue and $3.5 million in operating income before a $0.8 million gain on the sale of leased freight cars in 1997. The leasing business generated $4.5 million in revenue and $2.4 million in operating income before a $1.4 million gain on the sale of leased freight cars in the prior year.

COST OF SALES - MANUFACTURING AND GROSS PROFIT

Cost of sales-manufacturing for 1997 as a percent of manufacturing sales was 85.9%, compared to 85.0% in 1996. Related gross profits were 14.1% and 15.0%, respectively. The decrease in gross profits resulted primarily from lower gross profit margins in the freight car segment due to reduced volume in the first half of the year and pricing pressure throughout the year offset partially by increased profit margins in the Company's truck component segment.

SELLING, GENERAL, ADMINISTRATIVE AND AMORTIZATION EXPENSES

Selling, general and administrative expenses as a percentage of total revenue were 7.1% and 8.3% in 1997 and 1996, respectively. Actual selling, general and administrative expenses declined $0.4 million from 1996 levels as a result of cost reduction measures undertaken at the Company's freight car segment, partially offset by the truck component segment volume related increases. Amortization expenses as a percentage of total revenue was 1.3% and 1.8% in 1997 and 1996 respectively. Amortization expense decreased by $1.6 million from 1996 levels due primarily to a decrease in amortization expense in the freight car segment of $1.5 million due to certain intangible items being fully amortized in late 1996.

OPERATING INCOME

Operating income was $54.4 million in 1997, compared with $30.4 million in 1996, an increase of $24.0 million. The Company increased its operating income by improving gross profits by $8.2 million over 1996 levels. Selling, general and administrative expenses declined by $0.4 million, and amortization expense declined by $1.6 million. Additionally, a reduction of environmental reserves for the truck components segment of $14.3 million offset by a decline in gain on sale of leased freight cars of $0.5 million accounted for the remaining change in operating income.

OTHER

Interest expense, net, was $35.4 million in 1997 compared to $35.8 in 1996. Interest expense in 1997 and 1996 resulted from borrowings under the Senior Bank Facilities and the Senior Subordinated Notes, as well as from the JAIX Leasing loans which were used to finance the addition of freight cars for the lease fleet.

In conjunction with the 1997 issuance of $80.0 million of Senior Notes to refinance $80.0 million of Tranche A term debt, the Company recorded an extraordinary charge of $2.0 million after tax, primarily related to the write-off of $3.4 million of unamortized deferred financing costs.

Net income and diluted earnings per share for 1997 were $7.5 million and $0.76, respectively, compared to a net loss and diluted loss per share of $5.4 million and $0.55, respectively, for 1996.

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LIQUIDITY AND CAPITAL RESOURCES

The Company's freight car sales are characterized by large order sizes, specific customer delivery schedules and related vendor receipts and payment schedules, all of which can combine to create significant fluctuations in working capital when comparing end of period balances. Such fluctuations tend to be of short duration, and the Company considers this to be a normal part of its operating cycle which does not significantly impact its financial flexibility and liquidity.

For the year ended December 31, 1998, the Company provided cash from operations of $56.7 million (including $16.8 million from the settlement of patent lawsuits) compared with $26.7 million for 1997. The Company provided $8.0 million of net cash from investing activities during 1998, including $24.3 million provided from the sale of 380 leased freight cars , offset by $11.5 million of capital expenditures and $4.9 million of leasing asset additions. Cash used for financing activities was $56.5 million for 1998, which included $36.7 million in payments of Tranche B term debt and payments of JAIX Leasing debt of $20.0 million, partially offset by proceeds from the exercise of stock options.

On August 23, 1995, in conjunction with the acquisition of TCI and the refinancing of the existing debt of the Company, the Company and the Guarantor Subsidiaries entered into the $300 million Senior Bank Facilities and issued $100 million of Notes. See Notes 5 and 6 of the Consolidated Financial Statements for a description of the Senior Bank Facilities and the Notes. On August 12, 1997 the Company issued $80 million of additional Notes, with substantially the same terms as the original Notes. As of December 31, 1998, there was $56.6 million of Tranche B term loan outstanding under the Senior Bank Facilities, $182.3 million of Notes outstanding and no borrowings under the $75 million revolving credit line under the Senior Bank Facilities. Availability under the revolving credit line after consideration of outstanding letters of credit of $14.1 million, was $60.9 million.

Interest payments on the Notes and under the Senior Bank Facilities represent significant near-term cash requirements for the Company. The Notes require semiannual interest payments of approximately $10.6 million. Borrowings under the Senior Bank Facilities bear interest at floating rates and require interest payments on varying dates depending upon the interest rate option selected by the Company. The $56.6 million of outstanding Tranche B term loans require periodic principal payments through their maturities.

At December 31, 1998, JAIX Leasing owned or leased 1,041 freight cars. JAIX Leasing has a 10-year term loan facility, which as of December 31, 1998, had a balance of $9.2 million outstanding. See Note 5 of the Consolidated Financial Statements for a description of this facility.

The Company believes that the cash flow generated from its operations, together with amounts available under the revolving credit line, should be sufficient to fund its debt service requirements, working capital needs, anticipated capital expenditures and other operating expenses (including expenditures required by applicable environmental laws and regulations). The Company's future operating performance and ability to service or refinance the Notes and to extend or refinance the Senior Bank Facilities will be subject to future economic conditions and to financial, business and other factors, many of which are beyond the Company's control.

As of December 31, 1998, the Company had cash of $39.1 million.

YEAR 2000

The Year 2000 issue is the result of date-sensitive devices, systems and computer programs that were deployed using two digits rather than four to define the applicable year. Any such technology may recognize a year containing "00" as the year 1900 rather than the year 2000. This issue could result in a system failure or miscalculations causing disruptions of operations including, among other things, a temporary inability to process transactions or engage in similar normal business activities.



In 1996, the Company initiated a comprehensive program to ensure that its various business systems continue to function properly in the year 2000. By the end of 1998, all critical business systems at each operating unit had been reviewed, modified if necessary, and tested. Many non-critical business systems had also been reviewed, modified and tested. All non-critical systems are expected to be fully tested by mid 1999. Assessment of manufacturing processes and facility management systems is underway and is expected to be substantially

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completed by mid 1999.

Additionally, the Company is currently assessing readiness for the year 2000 by key suppliers and other third parties with whom it has significant business relationships. Information requests have been distributed and replies have been received. If the risk is deemed material, the Company is performing onsite visits to verify the adequacy of the information received.

Based upon the accomplishments to date, no contingency plans are expected to be needed and therefore none have been developed. However, because of the substantial progress to date, we believe adequate time will be available to insure alternatives can be developed, assessed and implemented if necessary, prior to the Year 2000 issue having a material impact on the Company's operations. If however, systems of the Company or its key suppliers or other third parties with whom it has significant business relationships are not Year 2000 compliant on a timely basis and a contingency plan is not developed on a timely basis, the Year 2000 issue could have a material adverse effect on the Company's operations and financial condition.

Beginning in 1996, as part of the Company's ongoing information system improvement process, its enterprise systems were upgraded, which partially mitigated the impact of the Year 2000 problem. Excluding the cost of upgrading the enterprise systems, the pretax cost incurred to date of becoming "Year 2000" compliant has been approximately $0.5 million and is not expected to be more than $0.7 million for the total project. Such costs are being funded through operating cash flows.

The cost of the project and expected completion are based on management's best estimates, which were derived using numerous assumptions of future events, including the continued availability of certain resources and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties. Additionally, there can be no guarantee that the systems of other companies on which the Company's systems rely will be timely converted, or that a failure to convert by another company, or a conversion that is incompatible with the Company's systems, would not have a material adverse effect on the Company.

ENVIRONMENTAL MATTERS

The Company is subject to comprehensive and frequently changing federal, state and local environmental laws and regulations, and will incur additional capital and operating costs in the future to comply with currently existing laws and regulations, new regulatory requirements arising from recently enacted statutes and possible new statutory enactments. In addition to environmental laws that regulate the Company's subsidiaries' ongoing operations, the subsidiaries also are subject to environmental remediation liability. Under the federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and analogous state laws, the Company's subsidiaries may be liable as a result of the release or threatened release of hazardous substances into the environment. The Company's subsidiaries are currently involved in several matters relating to the investigation and/or remediation of locations where the subsidiaries have arranged for the disposal of foundry and other wastes.

Such matters include five situations in which the Company, through certain truck components segment businesses and their predecessors, have been named or are believed to be Potentially Responsible Parties (PRPs) in the contamination of the sites. Additionally, environmental remediation may be required at two of the truck components segment facilities at which soil and groundwater contamination has been identified.

The Company believes that it has valid claims for contractual indemnification against prior owners for certain of the investigatory and remedial costs at each of the above mentioned sites. As a result of a private party settlement of certain pending litigation with a prior owner of Gunite, TCI and Gunite will not be responsible (through a contractual undertaking by the former owner) for certain liabilities and costs resulting from Gunite's waste disposal prior to the acquisition of Gunite by TCI in September 1987 at certain of such sites. The Company has been notified, however, by certain other contractual indemnitors that they will not honor future claims for indemnification. Accordingly, the Company is litigating indemnification claims and there is no assurance that even if successful in any such claims, any judgments against the indemnitors will ultimately be recoverable. In addition, the Company believes it is likely that it has incurred some liability at various sites for activities and disposal following acquisition which would not in any event be covered by indemnification by prior owners.



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As of December 31, 1998, the Company has a $10.7 million environmental reserve. This reserve is based on current cost estimates and does not reduce estimated expenditures to net present value. The Company currently anticipates spending approximately $0.8 million per year in 1999 through 2003 for monitoring the various environmental sites associated with the environmental reserve, including attorney and consultant costs for strategic planning and negotiations with regulators and other PRPs, and payment of remedial investigation costs. These sites are generally in the early investigatory stages of the remediation process and thus it is anticipated that significant cash payments for remediation will not be incurred for at least several years. After the evaluation and investigation period, the investigation and remediation costs will likely increase because the actual remediation of the various environmental sites associated with the environmental reserve will likely be underway. Any cash expenditures required by the Company or its subsidiaries to comply with applicable environmental laws and/or to pay for any remediation efforts will not be reduced or otherwise affected by the existence of the environmental reserve. Due to the early stage of investigation of many of the sites and potential remediations referred to above, there are significant uncertainties as to waste quantities involved, the extent and timing of the remediation which will be required, the range of acceptable solutions, costs of remediation and the number of PRPs contributing to such costs. Based on all of the information presently available to it, the Company believes that the environmental reserve will be adequate to cover its future costs related to the sites associated with the environmental reserve, and that any additional costs will not have a material adverse effect on the financial condition or results of operations of the Company. However, the discovery of additional sites, the modification of existing laws or regulations, the imposition of joint and several liability under CERCLA or the uncertainties referred to above could result in such a material adverse effect.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The Company's market risk sensitive instruments do not subject the Company to material market risk exposures except as such risks relate to interest rate fluctuations. As of December 31, 1998, the Company has long-term debt outstanding with a carrying value of $255.0 million. The estimated fair value of this debt is $264.0 million. Fixed interest rate debt outstanding as of December 31, 1998 represents 76% of total debt, carries an average interest rate of 11.6% and matures as follows: $0.5 million in fiscal 1999, $0.5 million in fiscal 2000, $0.6 million in fiscal 2001, $0.6 million in fiscal 2002, $0.7 million in fiscal 2003 and $193.4 million thereafter. Variable interest rate debt outstanding as of December 31, 1998 had an average interest rate at that date of 8.2% and matures as follows: $8.8 million in fiscal 1999, $8.0 million in fiscal 2000, $11.4 million in fiscal 2001, $14.7 million in fiscal 2002, $13.7 million in fiscal 2003 and $5.0 million thereafter.

The Company has an interest rate protection agreement to fix a portion of its variable rate Senior Bank debt. At December 31, 1998, the notional principal amount of this contract was $25 million at a 6.14% fixed rate of interest plus the applicable borrowing margins. The contract matures in August 2000 and has a market value of $(0.4) million.

EFFECTS OF INFLATION

General price inflation has not had a material impact on the Company's results of operations.

FORWARD LOOKING STATEMENTS

The foregoing outlook contains forward-looking statements that are based on current expectations and are subject to a number of risks and uncertainties. Actual results could differ materially from current expectations due to a number of factors, including general economic conditions; competitive factors and pricing pressures; shifts in market demand, the performance and needs of industries served by the Company's businesses; and the risks described from time to time in the Company's Securities and Exchange Commission reports.



<TABLE>

CONSOLIDATED STATEMENTS OF INCOME

<CAPTION>
(IN THOUSANDS, EXCEPT PER SHARE DATA)

| YEARS ENDED DECEMBER 31, | 1998 | 1997 | 1996 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Net manufacturing sales | $957,762 | $642,764 | $555,510 |

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| | | | |
|---|---|---|---|
| Leasing revenue | 8,296 | 7,583 | 4,462 |
| Total revenue | 966,058 | 650,347 | 559,972 |
| Cost of sales - manufacturing | 821,005 | 552,360 | 472,054 |
| Cost of leasing | 4,895 | 4,005 | 2,104 |
| Gross profit | 140,158 | 93,982 | 85,814 |
| Selling, general and administrative expense | 53,005 | 46,187 | 46,605 |
| Amortization expense | 8,557 | 8,554 | 10,174 |
| Gain on sale of leased freight cars | (1,223) | (824) | (1,354) |
| Pension termination gain | (1,688) | -- | -- |
| Patent lawsuit settlement | (16,750) | -- | -- |
| Reduction of environmental reserves | -- | (14,300) | -- |
| Operating income | 98,257 | 54,365 | 30,389 |
| Interest income | (2,094) | (625) | (624) |
| Interest expense | 31,189 | 33,616 | 33,639 |
| Interest expense - leasing | 1,228 | 2,389 | 2,821 |
| Income (loss) before income taxes and extraordinary item | 67,934 | 18,985 | (5,447) |
| Provision (benefit) for income taxes | 28,933 | 9,511 | (76) |
| Net income (loss) before extraordinary item | 39,001 | 9,474 | (5,371) |
| Extraordinary item, net of income taxes | (1,146) | (2,008) | -- |
| Net income (loss) and comprehensive income (loss) | $37,855 | $7,466 | $(5,371) |
| Basic earnings per share: | | | |
| Income (loss) before extraordinary item | $ 3.96 | $ 0.97 | $ (0.55) |
| Extraordinary item | (0.11) | (0.21) | -- |
| Net income (loss) per share | $ 3.85 | $ 0.76 | $ (0.55) |
| Basic weighted average shares outstanding | 9,838 | 9,761 | 9,790 |
| Diluted earnings per share: | | | |
| Income (loss) before extraordinary item | $ 3.85 | $ 0.96 | $ (0.55) |
| Extraordinary item | (0.11) | (0.20) | -- |
| Net income (loss) per share | $ 3.74 | $ 0.76 | $ (0.55) |
| Diluted weighted average equivalents and shares outstanding | 10,122 | 9,856 | 9,794 |



CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS EXCEPT PER SHARE DATA)

| AS OF DECEMBER 31, | 1998 | 1997 |
|---|---|---|
| ASSETS: | | |
| Cash and cash equivalents | $39,112 | $30,875 |
| Accounts receivable, net | 81,740 | 60,484 |
| Inventories | 66,678 | 58,674 |
| Deferred income tax assets | 13,688 | 13,521 |
| Prepaid expenses and other current assets | 2,514 | 4,047 |
| Total current assets | 203,732 | 167,601 |
| Property, plant and equipment, net | 115,193 | 118,063 |
| Leasing business assets, net | 19,523 | 38,430 |
| Deferred financing costs, net | 7,526 | 11,594 |
| Intangible assets, net | 238,380 | 243,150 |
| Total assets | $584,354 | $578,838 |
| LIABILITIES: | | |
| Accounts payable | $65,583 | $55,246 |
| Accrued payroll and employee benefits | 27,287 | 22,666 |
| Other current liabilities | 43,556 | 35,967 |
| Current maturities of long-term debt and capital lease | 9,511 | 4,783 |
| Total current liabilities | 145,937 | 118,662 |

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| | | |
|---|---|---|
| Long-term debt and capital lease, less current maturities | 63,197 | 124,799 |
| Senior subordinated notes | 182,338 | 182,691 |
| Deferred income tax liabilities | 34,571 | 36,373 |
| Other long-term liabilities | 47,594 | 45,293 |
| Total liabilities | 473,637 | 507,818 |
| SHAREHOLDERS' EQUITY: | | |
| Preferred stock, par $.01, 20,000 shares authorized, none outstanding Common stock, par $.01, 201,000 shares authorized, 9,900 and 9,768 issued and outstanding as of December 31, 1998 and 1997, respectively | 99 | 98 |
| Paid-in capital | 56,892 | 55,066 |
| Retained earnings | 53,741 | 15,886 |
| Employee receivables for stock purchase | (15) | (30) |
| Total shareholders' equity | 110,717 | 71,020 |
| Total liabilities and shareholders' equity | $584,354 | $578,838 |



CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

| YEARS ENDED DECEMBER 31, | 1998 | 1997 | 1996 |
|---|---|---|---|
| OPERATING ACTIVITIES: | | | |
| Net income (loss) | $37,855 | $7,466 | $(5,371) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities - | | | |
| Depreciation | 14,947 | 15,009 | 14,772 |
| Amortization | 11,374 | 11,617 | 14,498 |
| Deferred income tax expense | 96 | 5,937 | 58 |
| Provision for postretirement benefits | 2,825 | 2,169 | 1,671 |
| Gain on sale of leased freight cars | (1,223) | (824) | (1,354) |
| Pension termination gain | (1,688) | -- | -- |
| Reduction of environmental reserves | -- | (14,300) | -- |
| Extraordinary item, net of income tax | 1,146 | 2,008 | -- |
| Change in operating assets and liabilities: | | | |
| Accounts receivable | (21,256) | (11,137) | 10,613 |
| Inventories | (8,004) | (9,085) | (5,689) |
| Prepaid expenses and other current assets | 1,698 | (829) | 14,091 |
| Accounts payable | 10,337 | 11,921 | 3,677 |
| Accrued payroll and employee benefits | 2,415 | 758 | (5,177) |
| Other assets and liabilities | 6,188 | 6,038 | (5,411) |
| Net cash provided by operating activities | 56,710 | 26,748 | 36,378 |
| INVESTING ACTIVITIES: | | | |
| Capital expenditures | (11,537) | (8,246) | (9,919) |
| Leasing business asset additions | (4,875) | (27,639) | (5,438) |
| Proceeds from sale of leased freight cars | 24,320 | 10,182 | 18,113 |
| Change in restricted cash and other | 141 | 631 | 786 |
| Net cash provided by (used for) investing activities | 8,049 | (25,072) | 3,542 |
| FINANCING ACTIVITIES: | | | |
| Payments of term loans and capital lease | (36,899) | (90,170) | (16,812) |
| Net (payments) borrowings of JAIX Leasing debt | (19,976) | 15,577 | (8,799) |
| Issuance of long-term debt | -- | 82,823 | -- |
| Payment of deferred financing costs and other | 353 | (3,566) | (1,413) |
| Net cash provided by (used for) financing activities | (56,522) | 4,664 | (27,024) |
| Net increase in cash and cash equivalents | 8,237 | 6,340 | 12,896 |
| Cash and cash equivalents, beginning of year | 30,875 | 24,535 | 11,639 |
| Cash and cash equivalents, end of year | $39,112 | $30,875 | $24,535 |

</TABLE>



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## NOTE 1. ORGANIZATION

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Johnstown America Industries, Inc. (the Company) has two operating segments within the transportation industry: truck components, a leading manufacturer of wheel end components, seating, steerable drive axles, gearboxes and other castings for the heavy-duty truck industry; and freight cars, a leading manufacturer and lessor of new and rebuilt freight cars used for hauling coal, intermodal containers, highway trailers, automobiles, agricultural and mining products.

On October 28, 1991, Johnstown America Corporation, (JAC), wholly owned by Johnstown America Industries, Inc., a Delaware corporation, consummated

the purchase of the former Freight Car Division of Bethlehem Steel Corporation .

The Company completed the acquisition of Truck Components Inc. (TCI) and its subsidiaries (Gunite Corporation, Brillion Iron Works, Inc. and Fabco Automotive Corporation) on August 23, 1995, and Bostrom Seating, Inc. (Bostrom) on January 13, 1995. Operations commenced on October 2, 1995, at the Freight Car Services, Inc. facility.

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## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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The accompanying consolidated financial statements reflect the application of the following significant accounting policies:

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and accounts have been eliminated in the accompanying consolidated financial statements.

### CASH EQUIVALENTS

The Company considers all short-term investments with original maturities of three months or less when acquired to be cash equivalents.

### INVENTORIES

Inventories are stated at the lower of cost or market. The cost of 66% and 60 % of the Company's inventories as of December 31, 1998 and 1997, respectively, was determined on the first-in, first-out (FIFO) method, with the cost of the remaining inventories, representing certain inventories in the truck components segment, determined on the last-in, first-out method (LIFO). Had all inventories been determined on the FIFO method at December 31, 1998 and 1997, the reported value of such inventories would have been increased by $1.1 million and $0.7 million, respectively.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method by making periodic charges to income over the estimated useful lives of the assets, which are as follows:

| | |
|---|---|
| Buildings and improvements | 10-40 years |
| Machinery and equipment | 3-12 years |

Property, plant and equipment under capital leases are amortized over the shorter of the estimated useful life of the asset or the term of the lease.

Maintenance and repairs are charged to expense as incurred, while major replacements and improvements are capitalized. The cost and accumulated depreciation of items sold or retired are removed from the property accounts and any gain or loss is recorded currently in the consolidated statements of income.



### RESEARCH AND DEVELOPMENT

Costs associated with research and development are expensed as incurred.

### LEASING BUSINESS ASSETS

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Leasing business assets, which primarily consist of freight cars, are stated at cost, which is fully absorbed cost for those assets self-constructed by the Company, less accumulated depreciation. Freight cars are being depreciated using the straight-line method over the estimated useful life of 20-30 years.

INTANGIBLE ASSETS
The excess of purchase costs over amounts allocated to identifiable assets and liabilities of businesses acquired (goodwill) is amortized on the straight-line method over 40 years. Should events or circumstances occur subsequent to the acquisition of a business which bring into question the realizable value or impairment of the related goodwill, the Company will evaluate the remaining useful life and balance of goodwill, and should an impairment be identified, a loss would be recognized to the extent that the carrying value exceeds the fair value. The Company's principle considerations in determining impairment include the strategic benefit to the Company of the particular business as measured by undiscounted current and expected future operating cash flows of that particular business.

Other intangible assets, except pension assets, are amortized on the straight-line method over their estimated useful lives, which are as follows:

| | |
|---|---|
| Trademarks | 40 years |
| Technologies | 13-40 years |
| Patents | 8 years |
| Organization costs | 5 years |

ENVIRONMENTAL RESERVES
The Company is subject to comprehensive and frequently changing federal, state and local environmental laws and regulations, and will incur additional capital and operating costs in the future to comply with currently existing laws and regulations, new regulatory requirements arising from recently enacted statutes and possible new statutory enactments. In addition to environmental laws that regulate the Company's ongoing operations, the Company is also subject to environmental remediation liability. It is the Company's policy to provide and accrue for the estimated cost of environmental matters, on a nondiscounted basis, when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Such provisions and accruals exclude claims for recoveries from insurance carriers or other third parties.

Statement of Position (SOP) 96-1, "Environmental Remediation Liabilities" was issued in October 1996 and adopted by the Company with minimal impact in 1997. This SOP provides authoritative guidance on specific accounting issues that are present in the recognition, measurement and disclosure of environmental remediation liabilities.

INCOME TAXES
The Company provides for deferred income taxes on differences that arise when items are reported for financial statement purposes in years different from those for income tax reporting purposes in conformance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes."

REVENUE RECOGNITION
Revenues on new and rebuilt freight cars are recognized when individual cars are completed and accepted by the customer's inspector. Revenue from leasing is recognized ratably during the lease term. All other revenue is recognized when the products are shipped.

USE OF ESTIMATES
The preparation of financial statements in conformity with generally accepted accounting principles requires management 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING PRONOUNCEMENTS
SFAS No. 130, "Reporting Comprehensive Income" was issued in July 1997. This new pronouncement establishes standards for reporting and display of comprehensive income and its components. There were no other comprehensive income items to report other than net income for 1998, 1997 and 1996.



SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" introduces a new model for segment reporting, called the "management approach." The management approach is based on the way that the chief operating decision maker organizes segments within the company for making

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operating decisions and assessing performance. The Company adopted this standard in 1998. See Note 13 for segment information.

SFAS No. 132, "Employers' Disclosure about Pensions and other Postretirement Benefits" was issued in February 1998 and was adopted by the Company during 1998. This new pronouncement requires the Company to standardize disclosure for pension and other postretirement benefits. See Note 7.

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" was issued in June 1998 and must be adopted by the Company by the year 2000. This new pronouncement will require the Company to record derivatives on the balance sheet as assets or liabilities, measured at fair value and gains or losses resulting from the changes in the values of those derivatives to be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Company is evaluating the standard and does not expect it to have a material impact on the financial results or condition of the Company because the use of derivatives at the Company is not significant.

SOP 98-5, "Reporting on Costs of Start-Up Activities" was issued in April 1998 and was adopted by the Company in late 1998. The new pronouncement requires that companies expense the costs of start-up activities as those costs are incurred. Previously, such costs could have been capitalized and amortized and any such unamortized capitalized costs must be expensed upon adoption of the new standard. The adoption of this standard did not have a material impact on the Company's financial position or results of operations.

RECLASSIFICATIONS

Certain reclassifications have been made to prior year amounts to conform to current year presentation.

## NOTE 3. DETAIL OF CERTAIN ASSETS AND LIABILITIES

<TABLE>

<CAPTION>

ALLOWANCE FOR DOUBTFUL ACCOUNTS
(IN THOUSANDS)

| YEARS ENDED DECEMBER 31, | 1998 | 1997 | 1996 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Balance at beginning of year | $2,294 | $1,883 | $1,690 |
| Provision for doubtful accounts | 673 | 1,904 | 538 |
| Net write-offs | (1,188) | (1,493) | (345) |
| Balance at end of year | $1,779 | $2,294 | $1,883 |

INVENTORIES
(IN THOUSANDS)

| AS OF DECEMBER 31, | 1998 | 1997 |
|---|---|---|
| Raw materials and purchased components | $11,605 | $10,894 |
| Work in progress and finished goods | 55,073 | 47,780 |
| Inventories | $66,678 | $58,674 |



PROPERTY, PLANT AND EQUIPMENT
(IN THOUSANDS)

| AS OF DECEMBER 31, | 1998 | 1997 |
|---|---|---|
| Land | $4,975 | $4,683 |
| Buildings and improvements | 30,748 | 28,615 |
| Machinery and equipment | 127,487 | 121,081 |
| Construction in progress | 5,401 | 3,969 |
| | 168,611 | 158,348 |
| Accumulated depreciation | 53,418 | 40,285 |
| Property, plant and equipment, net | $115,193 | $118,063 |

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LEASING BUSINESS ASSETS
(IN THOUSANDS)

| AS OF DECEMBER 31, | 1998 | 1997 |
|---|---|---|
| Leasing business assets | $20,747 | $39,763 |
| Accumulated depreciation | 1,224 | 1,333 |
| Leasing business assets, net | $19,523 | $38,430 |

INTANGIBLE ASSETS
(IN THOUSANDS)

| | ORIGINAL | ACCUMULATED | NET BALANCE | |
|---|---|---|---|---|
| AS OF DECEMBER 31, | COST | AMORTIZATION | 1998 | 1997 |
| Excess cost over net assets acquired | $204,520 | $18,229 | $186,291 | $191,404 |
| Trademarks | 26,988 | 2,325 | 24,663 | 25,360 |
| Technologies | 20,722 | 2,735 | 17,987 | 18,807 |
| Patents | 17,278 | 11,718 | 5,560 | 7,320 |
| Pension asset | 3,879 | -- | 3,879 | -- |
| Organization costs | 742 | 742 | -- | 259 |
| Intangible assets | $274,129 | $35,749 | $238,380 | $243,150 |

OTHER CURRENT LIABILITIES
(IN THOUSANDS)

| AS OF DECEMBER 31, | 1998 | 1997 |
|---|---|---|
| Accrued interest | $9,166 | $9,336 |
| Accrued workers' compensation | 5,458 | 5,281 |
| Current portion of postretirement and pension benefit reserves | 3,000 | 3,655 |
| Accrued warranty | 6,198 | 3,847 |
| Other | 19,734 | 13,848 |
| Other current liabilities | $43,556 | $35,967 |



OTHER LONG-TERM LIABILITIES
(IN THOUSANDS)

| AS OF DECEMBER 31, | 1998 | 1997 |
|---|---|---|
| Postretirement and pension benefit reserves | $32,690 | $29,880 |
| Environmental reserves | 9,904 | 10,402 |
| Other | 5,000 | 5,011 |
| Other long-term liabilities | $47,594 | $45,293 |

## NOTE 4. SHAREHOLDERS' EQUITY

(IN THOUSANDS)

| | COMMON STOCK | PAID-IN CAPITAL | RETAINED EARNINGS | EMPLOYEE RECEIVABLES | TOTAL |
|---|---|---|---|---|---|
| Balance-December 31, 1995 | $98 | $55,015 | $13,791 | $(30) | $68,874 |
| Options exercised | -- | 34 | -- | -- | 34 |
| Net loss for year | -- | -- | (5,371) | -- | (5,371) |
| Balance-December 31, 1996 | 98 | 55,049 | 8,420 | (30) | 63,537 |
| Options exercised | -- | 17 | -- | -- | 17 |
| Net income for year | -- | -- | 7,466 | -- | 7,466 |

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| | | | | | |
|---|---|---|---|---|---|
| Balance-December 31, 1997 | 98 | 55,066 | 15,886 | (30) | 71,020 |
| Collection of employee receivables | -- | -- | -- | 15 | 15 |
| Options exercised | 1 | 1,512 | -- | -- | 1,513 |
| Common stock issued | -- | 314 | -- | -- | 314 |
| Net income for year | -- | -- | 37,855 | -- | 37,855 |
| Balance-December 31, 1998 | $99 | $56,892 | $53,741 | $(15) | $110,717 |

</TABLE>

COMMON AND PREFERRED STOCK
The Company authorized 200,000,000 shares of Common Stock (voting), 1,000,000 shares of Class B Common Stock (non-voting) and 20,000,000 shares of preferred stock. No Class B Common Stock or preferred stock has been issued.

In October 1995, the Board of Directors of the Company adopted a Shareholder Rights Plan and declared a dividend of one right ("Right") for each outstanding share of the Company's common stock held by shareholders of record on October 16, 1995. When exercisable, each Right entitles shareholders of record to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock at an exercise price of $32.00, subject to certain adjustments. The Company authorized 20,000 shares of such stock pursuant to this plan. The Rights will become exercisable, and will trade separately from the common stock, only if a person or group acquires 15% or more of the Company's outstanding common stock or commences a tender or exchange offer that would result in that person or group owning 15% or more of the Company's outstanding common stock. Subsequently, upon the occurrence of certain events, holders of Rights will be entitled to purchase common stock of the Company or a third-party acquiror at an amount equal to twice the Right's exercise price. Until the Rights become exercisable, they may be redeemed at the Company's option at a price of one cent per Right. The Rights expire on October 4, 2005.



NOTE 5. LONG-TERM DEBT

Long-term debt consisted of the following:
(IN THOUSANDS)

| AS OF DECEMBER 31, | 1998 | 1997 |
|---|---|---|
| Revolving credit line | $ -- | $ -- |
| Tranche B term loan | 56,632 | 93,340 |
| Industrial revenue bond | 5,300 | 5,300 |
| Capital lease | 1,593 | 1,783 |
| JAIX leasing debt | 9,183 | 29,159 |
| Total debt | 72,708 | 129,582 |
| Current maturities | (9,511) | (4,783) |
| Long-term debt | $63,197 | $124,799 |

Maturities of long-term debt are as follows:
(IN THOUSANDS)

| AS OF DECEMBER 31, 1998 | |
|---|---|
| 1999 | $9,511 |
| 2000 | 8,792 |
| 2001 | 12,200 |
| 2002 | 15,512 |
| 2003 | 14,418 |
| Thereafter | 12,275 |

SENIOR BANK FACILITIES
The Company entered into a credit facility ( Senior Bank Facilities) on August 23, 1995. The revolving credit line portion of the Senior Bank Facilities provides for up to $75 million of outstanding borrowings and letters of credit, limited by the level of eligible accounts receivable and inventories. As of December 31, 1998, availability under the revolving credit line, after consideration of outstanding letters of credit of $14.1 million, was $60.9 million.

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At the Company's election, interest rates per annum for the revolving credit line are fluctuating rates of interest measured by reference to either (a) an adjusted London inter-bank offered rate (LIBOR) plus a borrowing margin or (b) an alternate base rate (ABR) plus a borrowing margin. Such borrowing margins range between 1.50% and 2.50% for LIBOR loans and between 0.50% and 1.50% for ABR loans, fluctuating within each range in 0.25% increments based on the Company achieving certain financial results. Interest rates per annum applicable to Tranche B term loan are either (a) LIBOR plus a margin of 3.00% or (b) ABR plus 2.00%. Additionally, various fees related to unused commitments, letters of credit and administration of the facility are incurred by the Company. As of December 31, 1998 and 1997, the weighted average interest rate of all outstanding loans under the Senior Bank Facilities was 8.84% and 9.01%, respectively. Borrowings under the Senior Bank Facilities are guaranteed by each of the Company's subsidiaries other than JAIX Leasing (the Guarantor Subsidiaries) and are secured by the assets and stock of the Company and its Guarantor Subsidiaries. During 1998, the Company prepaid $35 million of the Tranche B loan and during 1997, the Company retired the Tranche A loan in conjunction with the issuance of debt described in Note 6. As a result of these prepayments, the Company recorded extraordinary charges, net of income taxes, of $1.1 million and $2.0 million in 1998 and 1997, respectively, representing the non-cash writeoff of related unamortized deferred financing costs. The revolving credit line matures on March 31, 2002 and the Tranche B Term Loan matures on March 31, 2003.



The Senior Bank Facilities contain various financial covenants including capital expenditure limitations, maximum leverage ratio, interest coverage ratio, and minimum net worth. It also restricts the Company from paying dividends, repurchasing common stock and making other distributions in certain circumstances.

INDUSTRIAL REVENUE BOND

The Company, through its wholly owned subsidiary, Freight Car Services, Inc., issued an Industrial Revenue Bond for $5.3 million which bears interest at a variable rate (4.3% as of December 31, 1998) and can be redeemed by the Company at any time. The bonds are secured by a letter of credit issued by the Company. The bonds have no amortization and mature on December 1, 2010. The bonds are also subject to a weekly "put" provision by the holders of the bonds. In the event that any or all of the bonds are put to the Company under the provision, the Company would effectively refinance such bonds with additional borrowings under the revolving credit line portion of the Senior Bank Facilities.

JAIX LEASING DEBT

On June 14, 1996, JAIX Leasing refinanced its then existing debt with a ten year term loan. This debt is secured by JAIX Leasing's leases and assets and contains various covenants. During 1998, the loan was prepaid by $19.5 million from the proceeds of the sale of 380 JAIX Leasing's freight cars. At December 31, 1998 and 1997, the average interest rate on the then outstanding balances were 9.32% and 8.78%, respectively.

OTHER

During 1997, the Company entered into various interest rate contracts to fix a portion of the cost of its variable rate Senior Bank Facilities. These contracts limit the effect of market fluctuations on the interest cost of floating rate debt. The notional principal amounts outstanding covering the current period on the interest rate contracts were $25 million and $75 million as of December 31, 1998 and 1997, respectively. The fixed rates of interest on these contracts were 6.14% as of December 31, 1998 and ranged from 5.98% to 6.32% as of December 31, 1997. The remaining contract matures in August 2000. The impact of fixed versus variable interest rates is recorded as incurred, as a component of interest expense. Costs associated with obtaining the Senior Bank Facilities, the Senior Subordinated Notes described in Note 6 and other indebtedness aggregated to $8.7 million as of December 31, 1998. Such costs are amortized over the term of the related debt. Amortization of deferred financing costs amounted to $1.9 million, $2.2 million and $3.2 million for the years ended December 31, 1998, 1997, and 1996, respectively. As of December 31, 1998 and 1997, accumulated amortization of such costs was $4.3 million and $4.0 million, respectively.

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NOTE 6. SENIOR SUBORDINATED NOTES

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In conjunction with the acquisition of TCI, the Company issued $100 million of Senior Subordinated Notes which are due August 15, 2005. In 1997, the Company issued $80 million of additional notes due August 15, 2005 (collectively, the Notes) with substantially identical terms to the already outstanding notes at a

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$3.6 million premium, for an effective rate of 10.8%. These Notes have an interest rate of 11.75% per annum and are guaranteed on a unsecured, senior subordinated joint and several basis by each of the Guarantor Subsidiaries. Pursuant to the settlement of separate interest rate contracts in effect when each portion of the Notes was issued, the Company realized a $0.8 million loss and a $2.6 million gain upon the 1997 and 1995 issuances, respectively. The gain and the loss are being amortized as an offset to interest expense over the term of the Notes. The Notes have customary covenants including restrictions on incurrence of additional indebtedness, payment of dividends and redemption of capital stock. The Notes are subordinated to all indebtedness under the Senior Bank Facilities and cross-default provisions do exist. Except in certain limited circumstances, the Notes are not subject to optional redemption by the Company prior to August 15, 2000, and thereafter are subject to optional redemption by the Company at declining redemption premiums. Upon the occurrence of a change in control (as defined), the Company is required to offer to repurchase the Notes at a price equal to 101% of the principal amount thereof plus accrued interest.

The Company's future operating performance and ability to service or refinance the Notes and to extend or refinance the Senior Bank Facilities will be subject to future economic conditions and to financial, business and other factors, many of which are beyond the Company's control.



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NOTE 7. EMPLOYEE BENEFIT PLANS

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PENSION BENEFITS
Certain of the Company's subsidiaries have qualified, defined benefit plans covering substantially all of their employees. Company contributions to the plans were 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 for certain JAC employees which accrued as a result of pre-acquisition service remain the responsibility of Bethlehem Steel. The Company initiated new pension plans for such employees for service subsequent to the acquisition date which essentially provide benefits similar to the former plans. Following the acquisition of TCI, a certain TCI plan was frozen and was replaced with a defined contribution plan. The Company, after consideration of previously unrecognized amounts, recognized a $1.7 million non-cash gain on the termination of the plan in 1998.

POSTRETIREMENT BENEFITS
The Company provides health care benefits for certain 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.

In connection with the purchase of JAC, the cost of postretirement benefits of employees over age 43 at the purchase date remained the responsibility of Bethlehem Steel. Costs of benefits relating to current service are expensed currently.

The Company does not offer any other significant postretirement benefits.

<TABLE>

The following table sets forth the plans' funded status:
<CAPTION>
(IN THOUSANDS)

| | PENSION BENEFITS | | POSTRETIREMENT BENEFITS | |
|---|---|---|---|---|
| AS OF DECEMBER 31, | 1998 | 1997 | 1998 | 1997 |
| <S> | <C> | <C> | <C> | <C> |
| Benefit obligation at beginning of year | $39,820 | $32,144 | $25,128 | $19,732 |
| CHANGE IN BENEFIT OBLIGATION | | | | |
| Service cost | 2,071 | 1,744 | 1,094 | 725 |
| Interest cost | 2,781 | 2,371 | 1,796 | 1,660 |
| Plan amendment | 5,155 | -- | -- | -- |
| Actuarial loss | 965 | 4,330 | 747 | 3,885 |
| Special termination benefit loss | 223 | -- | -- | -- |
| Settlement gain | (1,688) | -- | -- | -- |
| Benefits paid | (5,977) | (769) | (1,301) | (874) |

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| | | | | |
|---|---|---|---|---|
| Benefit obligation at end of year | $43,350 | $39,820 | $27,464 | $25,128 |
| CHANGE IN PLAN ASSETS | | | | |
| Fair value of plan assets at beginning of year | $27,352 | $20,311 | $ -- | $ -- |
| Actual return on plan assets | 3,468 | 3,697 | -- | -- |
| Employer contribution | 5,081 | 4,113 | -- | -- |
| Benefits paid | (5,977) | (769) | -- | -- |
| Fair value of plan assets at end of year | $29,924 | $27,352 | $ -- | $ -- |



| | PENSION BENEFITS | | POSTRETIREMENT BENEFITS | |
|---|---|---|---|---|
| AS OF DECEMBER 31, | 1998 | 1997 | 1998 | 1997 |
| Benefit obligation in excess of plan assets | $(13,426) | $(12,468) | $(27,464) | $(25,128) |
| Unrecognized net gain | (112) | (50) | (35) | (814) |
| Unrecognized prior service cost | 9,242 | 4,924 | -- | -- |
| Net amount recognized | $(4,296) | $(7,594) | $(27,499) | $(25,942) |

| ACCRUED BENEFIT OBLIGATION | PENSION BENEFITS | | POSTRETIREMENT BENEFITS | |
|---|---|---|---|---|
| AS OF DECEMBER 31, | 1998 | 1997 | 1998 | 1997 |
| Accrued benefit liability | $(8,175) | $(7,594) | $(27,499) | $(25,942) |
| Intangible asset | 3,879 | -- | -- | -- |
| Net amount recognized | $(4,296) | $(7,594) | $(27,499) | $(25,942) |

| WEIGHTED-AVERAGE ASSUMPTIONS | PENSION BENEFITS | | POSTRETIREMENT BENEFITS | |
|---|---|---|---|---|
| AS OF DECEMBER 31, | 1998 | 1997 | 1998 | 1997 |
| Discount rate | 6.75% | 7.00% | 6.85% | 7.10% |
| Expected return on plan assets | 9.00% | 9.00% | -- | -- |
| Rate of compensation increase | 3.00-4.00% | 3.00-4.00% | -- | -- |

For measurement purposes, a 7.50% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1998 decreasing gradually to an ultimate rate of 4.25% by the year 2004.

(In thousands)

| COMPONENTS OF NET PERIODIC BENEFIT COST | PENSION BENEFITS | | | POSTRETIREMENT BENEFITS | | |
|---|---|---|---|---|---|---|
| YEARS ENDED DECEMBER 31, | 1998 | 1997 | 1996 | 1998 | 1997 | 1996 |
| Service cost | $2,071 | $1,744 | $2,189 | $1,094 | $725 | $854 |
| Interest cost | 2,781 | 2,371 | 2,173 | 1,796 | 1,660 | 1,340 |
| Expected return on plan assets | (2,273) | (3,725) | (2,143) | -- | -- | -- |
| Amortization of unrecognized gains and losses | 63 | 1,824 | 1,208 | (32) | (98) | (183) |
| Amortization of unrecognized prior service cost | 675 | 389 | -- | -- | -- | -- |
| Special termination benefit loss | 223 | -- | -- | -- | -- | -- |
| Net periodic benefit cost | $3,540 | $2,603 | $3,427 | $2,858 | $2,287 | $2,011 |

</TABLE>

Pursuant to a union agreement ratified at JAC in January 1998, JAC has offered early retirement benefits to certain freight car segment union employees who meet certain criteria and elect such benefits by the end of the current agreement term (October 31, 2001). The cost of the benefits for the program will be recognized over the actuarially determined estimated service life of the eligible employees. The Company recognized a minimum pension liability for underfunded plans. The minimum liability is equal to the excess of the accumulated benefit obligation over plan assets. A corresponding amount is recognized as an intangible asset.

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Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

<TABLE>

<CAPTION>
(IN THOUSANDS)

| AS OF DECEMBER 31, 1998 | 1-PERCENTAGE-POINT INCREASE | 1-PERCENTAGE-POINT DECREASE |
|---|---|---|
| <S> | <C> | <C> |
| Effect on total of service and interest cost | $680 | $(592) |
| Effect on postretirement benefit obligation | 5,661 | (4,778) |

</TABLE>

DEFINED CONTRIBUTION PLANS
Certain of the Company's subsidiaries also maintain qualified, defined contribution plans which provide benefits to their employees based on employee contributions, years of service, employee earnings or certain subsidiary earnings, with discretionary contributions allowed. Expenses relating to these plans were $4.7 million, $3.2 million and $3.1 million for the years 1998, 1997 and 1996, respectively.

NOTE 8. INCOME TAXES

The provision (benefit) for income taxes before extraordinary item includes current and deferred components as follows:
<TABLE>

<CAPTION>
(IN THOUSANDS)

| YEARS ENDED DECEMBER 31, | 1998 | 1997 | 1996 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Current taxes: | | | |
| Federal | $24,286 | $2,741 | $ -- |
| State | 4,551 | 833 | (134) |
| | 28,837 | 3,574 | (134) |
| Deferred taxes: | | | |
| Federal | 533 | 4,969 | (444) |
| State | (437) | 968 | 502 |
| | 96 | 5,937 | 58 |
| Provision (benefit) for income taxes before extraordinary item | $28,933 | $9,511 | $(76) |

The provision (benefit) for income taxes before extraordinary item differs from the amounts computed by applying the federal statutory rate as follows:

(IN THOUSANDS)

| YEARS ENDED DECEMBER 31, | 1998 | 1997 | 1996 |
|---|---|---|---|
| Income taxes at federal statutory rate | 35.0% | 35.0% | (34.0)% |
| State income taxes, net of federal benefit | 4.2 | 6.3 | (0.1) |
| Nondeductible amortization expense | 2.6 | 9.5 | 32.7 |
| Other, net | 0.8 | (0.7) | -- |
| Effective income tax rate | 42.6% | 50.1% | (1.4)% |



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Components of deferred tax benefits (obligations) consist of the following:

(IN THOUSANDS)

| AS OF DECEMBER 31, | 1998 | | 1997 | |
|---|---|---|---|---|
| | BENEFITS | OBLIGATIONS | BENEFITS | OBLIGATIONS |
| Postretirement and pension benefit reserves | $12,458 | $ -- | $12,042 | $ -- |
| Environmental reserve | 4,155 | -- | 4,388 | -- |
| Accrued workers' compensation reserve | 1,862 | -- | 1,721 | -- |
| Warranty reserve | 2,924 | -- | 1,500 | -- |
| Alternative minimum tax credit carryforward | -- | -- | 2,110 | -- |
| Property, plant and equipment | -- | (26,487) | -- | (27,674) |
| Trademarks and technologies | -- | (18,339) | -- | (19,061) |
| Inventories | -- | (2,412) | -- | (2,818) |
| Other | 8,375 | (3,419) | 7,487 | (2,547) |
| Deferred tax benefits (obligations) | $29,774 | $(50,657) | $29,248 | $(52,100) |

</TABLE>

In the consolidated balance sheets, these deferred benefits and deferred obligations are classified as deferred income tax assets or deferred income tax liabilities, based on the classification of the related liability or asset for financial reporting. A deferred tax asset or liability that is not related to an asset or liability for financial reporting, including deferred tax assets related to carryforwards, are classified according to the expected reversal date of the temporary difference as of the end of the year. Tax credit carryforwards primarily consist of alternative minimum taxes, which can be carried forward indefinitely, and certain state tax net operating losses subject to various limitations which expire, if unused, in 1999 through 2007 under the current tax laws.

A valuation allowance of $1.0 million and $0.3 million as of December 31, 1998 and 1997, has been recorded to offset these state tax credit carryforwards. As of December 31, 1998 and 1997, no other valuation allowances are deemed necessary as management expects to realize all other deferred benefits as future tax deductions.

## NOTE 9. STOCK OPTION PLANS

The Company maintains a Stock Option Plan (the Option Plan) for management and nonaffiliated directors of the Company and has reserved 989,000 shares of common stock for issuance under such plan. Options are granted to management at the discretion of the Company's directors and pursuant to an option program for nonaffiliated Company directors. Options granted under the Option Plan generally have an exercise price equal to the closing market value of the Company's common stock as of the date of grant, and become exercisable under various vesting periods of up to three years.



Certain information regarding stock options issued by the Company is summarized below:
<TABLE>

<CAPTION>
(IN THOUSANDS, EXCEPT WEIGHTED AVERAGE PRICES)

| | OUTSTANDING | | EXERCISABLE | |
|---|---|---|---|---|
| | SHARES | WTD. AVG. EXER. PRICE | SHARES | WTD. AVG. EXER. PRICE |
| <S> | <C> | <C> | <C> | <C> |
| December 31, 1995 | 583 | $11.79 | 277 | $11.18 |
| Issued | 178 | 4.82 | | |
| Exercised | (14) | 2.50 | | |
| Canceled | (74) | 12.17 | | |

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| | | | | |
|---|---|---|---|---|
| December 31, 1996 | 673 | 10.10 | 472 | 10.82 |
| Issued | 209 | 6.54 | | |
| Exercised | (10) | 2.79 | | |
| Canceled | (50) | 15.40 | | |
| December 31, 1997 | 822 | 8.94 | 651 | 9.74 |
| Issued | 72 | 15.35 | | |
| Exercised | (102) | 6.57 | | |
| December 31, 1998 | 792 | $9.79 | 670 | $9.62 |

(In thousands, except weighted average prices)

| AS OF DECEMBER 31, 1998 | | Outstanding | | Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Shares | Wtd. Avg Remaining Years | Wtd. Avg. Exer. Price | Shares | Wtd. Avg. Exer. Price |
| $2.50 - $11.13 | 543 | 7.42 | $ 6.41 | 469 | $ 6.25 |
| 12.13 - 25.63 | 249 | 6.71 | 17.18 | 201 | 17.47 |

The Company measures compensation cost under the intrinsic value based method. Had compensation expense been determined under the fair value based method pro forma net income and diluted earnings per share would have been as follows:

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

| YEARS ENDED DECEMBER 31, | 1998 | 1997 | 1996 |
|---|---|---|---|
| Pro forma net income (loss) | $ 37.7 | $ 6.9 | $ (6.1) |
| Pro forma diluted earnings (loss) per share | 3.73 | 0.70 | (0.62) |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes pricing model assuming an expected life of 10 years, a zero dividend yield and the following weighted average assumptions:

| YEARS ENDED DECEMBER 31, | 1998 | 1997 | 1996 |
|---|---|---|---|
| Risk free interest rate | 5.3% | 6.3% | 7.1% |
| Volatility rate | 60.9% | 64.9% | 56.6% |

</TABLE>

NOTE 10. ENVIRONMENTAL MATTERS

The Company is subject to comprehensive and frequently changing federal, state and local environmental laws and regulations, and will incur additional capital and operating costs in the future to comply with currently existing laws and regulations, new regulatory requirements arising from recently enacted statutes and possible new statutory enactments. In addition to environmental laws that regulate the Company's subsidiaries' ongoing operations, the subsidiaries also are subject to environmental remediation liability. Under the federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and analogous state laws, the Company's subsidiaries may be liable as a result of the release or threatened release of hazardous substances into the environment. The Company's subsidiaries are currently involved in several matters relating to the investigation and/or remediation of locations where the subsidiaries have arranged for the disposal of foundry and other wastes.



Such matters include five situations in which the Company, through certain of its truck components segment businesses and their predecessors, have been named or are believed to be Potentially Responsible Parties (PRPs) in the contamination of the sites. Additionally, environmental remediation may be required at two of the truck components segment facilities at which soil and groundwater contamination has been identified.

The Company believes that it has valid claims for contractual indemnification against prior owners for certain of the investigatory and remedial costs at each

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of the above mentioned sites. As a result of a private party settlement of certain pending litigation with a prior owner of Gunite, TCI and Gunite will not be responsible (through a contractual undertaking by the former owner) for certain liabilities and costs resulting from Gunite's waste disposal prior to the acquisition of Gunite by TCI in September 1987 at certain of such sites. The Company has been notified, however, by certain other contractual indemnitors that they will not honor future claims for indemnification. Accordingly, the Company is litigating indemnification claims and there is no assurance that even if successful in any such claims, any judgments against the indemnitors will ultimately be recoverable. In addition, the Company believes it is likely that it has incurred some liability at various sites for activities and disposal following acquisition which would not in any event be covered by indemnification by prior owners.

As of December 31, 1998, the Company has a $10.7 million environmental reserve. This reserve is based on current cost estimates and does not reduce estimated expenditures to net present value. The Company currently anticipates spending approximately $0.8 million per year in 1999 through 2003 for monitoring the various environmental sites associated with the environmental reserve, including attorney and consultant costs for strategic planning and negotiations with regulators and other PRPs, and payment of remedial investigation costs. These sites are generally in the early investigatory stages of the remediation process and thus it is anticipated that significant cash payments for remediation will not be incurred for at least several years. After the evaluation and investigation period, the investigation and remediation costs will likely increase because the actual remediation of the various environmental sites associated with the environmental reserve will likely be under way. Any cash expenditures required by the Company or its subsidiaries to comply with applicable environmental laws and/or to pay for any remediation efforts will not be reduced or otherwise affected by the existence of the environmental reserve. Due to the early stage of investigation of many of the sites and potential remediations referred to above, there are significant uncertainties as to waste quantities involved, the extent and timing of the remediation which will be required, the range of acceptable solutions, costs of remediation and the number of PRPs contributing to such costs. Based on all of the information presently available to it, the Company believes that the environmental reserve will be adequate to cover its future costs related to the sites associated with the environmental reserve, and that any additional costs will not have a material adverse effect on the financial condition or results of operations of the Company. However, the discovery of additional sites, the modification of existing laws or regulations, the imposition of joint and several liability under CERCLA or the uncertainties referred to above could result in such a material adverse effect.

---

## NOTE 11. CONTINGENCIES

---

In December 1992, JAC commenced a patent infringement lawsuit against Trinity Industries, Inc. (Trinity) in the United States District Court for the Western District of Pennsylvania alleging infringement of JAC's patent for its BethGon Coalporter(R) freight car. The suit involved Trinity's manufacture, sale and offering for sale of its Aluminator II coal freight car in competition with JAC's BethGon Coalporter(R) freight car, the tubs of which are covered by JAC's patent.



In April 1998, JAC settled this litigation. Pursuant to the settlement agreement, Trinity paid $16.75 million in cash as damages for Trinity's infringement. In addition, the settlement agreement provides that Trinity will not market, manufacture, use, sell or lease its infringing Aluminator II freight car through the expiration of the patent in November 1999. The settlement agreement further provides that the Company will covenant not to sue Trinity in connection with Trinity's marketing, manufacturing, using, selling or leasing its single tub coal gondola freight car as presently designed and manufactured.

The Company is involved in certain threatened and pending legal proceedings including workers' compensation claims arising out of the conduct of its businesses. In the opinion of management, the ultimate outcome of such legal proceedings will not have a material adverse effect on the financial position or results of operations of the Company.

Additionally, the Company is involved in various warranty and repair claims with its customers as a normal course of business. In the opinion of management, accrued warranty costs relating to these obligations are adequate.

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NOTE 12. COMMITMENTS

The Company leases certain real property and equipment under long-term leases expiring at various dates through 2032. The leases generally contain specific renewal or purchase options at the then fair market value.

Future minimum lease payments at December 31, 1998, are as follows:
<TABLE>

<CAPTION>
(IN THOUSANDS)

| | CAPITAL LEASE | OPERATING LEASES |
|---|---|---|
| <S> | <C> | <C>> |
| 1999 | $395 | $5,191 |
| 2000 | 395 | 2,814 |
| 2001 | 395 | 1,968 |
| 2002 | 281 | 1,261 |
| 2003 | 125 | 861 |
| Thereafter | 2,003 | 2,220 |
| Total minimum lease payments | 3,594 | $14,315 |
| Less: Amount representing interest | 2,001 | |
| Present value of minimum lease payments | 1,593 | |
| Less: Current portion of obligation under capital lease | 212 | |
| Noncurrent obligation under capital lease | $1,381 | |

</TABLE>

While the Company is liable for maintenance, insurance and similar costs under most of its leases, such costs are not included in the future minimum lease payments.

Accumulated depreciation of this asset was $0.4 million and $0.3 million as of December 31, 1998 and 1997, respectively.

Total rental expense for the years 1998, 1997 and 1996 amounted to $7.4 million, $6.5 million and $3.7 million, respectively.



NOTE 13. BUSINESS SEGMENT INFORMATION

The Company is engaged in the transportation industry and operates in two business segments. Both segments operate in North America. There are no intersegment sales.

The Company's reportable segments are its strategic business units that serve separate markets. They are managed separately because each segment serves a different sector in the transportation field. The freight car segment consists of Johnstown America Corporation, Freight Car Services and JAIX Leasing. The truck components segment consists of Gunite Corporation, Brillion Iron Works, Bostrom Seating and Fabco Automotive.

The Company accumulates its expenses for the Corporate headquarters which provide services to each of the operating segments. These costs are partially allocated to the segments based primarily on the sales of each unit.

In each of 1998, 1997 and 1996 a different customer accounted for 10%, 12% and 13% of the Company's total revenue. The particular customer sales were recorded in the freight car segment's revenues. No other customer accounted for greater than 10% of the Company's total revenue during these periods.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performances based on operating income or loss before interest and income taxes, and also on operating cash flow defined as operating income or loss plus depreciation and

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amortization.

<TABLE>

Segment information for the years 1998, 1997, 1996 is as follows:
<CAPTION>

| (IN MILLIONS) | NET SALES | OPERATING INCOME (LOSS) | IDENTIFIABLE ASSETS | DEPRECIATION AND AMORTIZATION | CAPITAL EXPENDITURES |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| 1998 | | | | | |
| Freight Car | $532.5 | $49.7(1) | $125.7 | $6.7 | $2.5(4) |
| Truck Components | 433.6 | 49.8(2) | 398.9 | 18.2 | 8.9 |
| Corporate | 0.0 | (1.2) | 59.8 | 1.4 | 0.1 |
| Total | $966.1 | $98.3 | $584.4 | $26.3 | $11.5 |
| 1997 | | | | | |
| Freight Car | $234.7 | $(5.1) | $130.8 | $6.5 | $1.6(4) |
| Truck Components | 415.6 | 60.6(3) | 406.9 | 18.0 | 6.5 |
| Corporate | 0.0 | (1.1) | 41.1 | 2.1 | 0.1 |
| Total | $650.3 | $54.4 | $578.8 | $26.6 | $8.2 |
| 1996 | | | | | |
| Freight Car | $198.3 | $(3.9) | $104.6 | $8.1 | $2.9(4) |
| Truck Components | 361.7 | 35.5 | 409.4 | 18.0 | 6.8 |
| Corporate | 0.0 | (1.2) | 41.3 | 3.2 | 0.2 |
| Total | $560.0 | $30.4 | $555.3 | $29.3 | $9.9 |

(1) Includes favorable settlement of patent lawsuit litigation of $16.8 million.
(2) Includes pension termination gain of $1.7 million from former pension plan at Gunite Corporation.
(3) Includes reduction of environmental reserves of $14.3 million as a result of a settlement of litigation.
(4) JAIX Leasing purchases of new or rebuilt freight cars for its leased fleet are excluded. Such purchases aggregated to $4.9 million, $27.6 million and $5.4 million in 1998, 1997 and 1996, respectively.
</TABLE>



## NOTE 14. UNAUDITED QUARTERLY INFORMATION

<TABLE>

<CAPTION>
(IN MILLIONS, EXCEPT PER SHARE DATA)

| 1998 | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| Total revenue | $231.2 | $238.2 | $242.8 | $253.9 |
| Gross profit | 30.5 | 33.0 | 37.2 | 39.4 |
| Net income | 14.0 | 6.2 | 8.0 | 9.7 |
| Diluted earnings per share | 1.40 | 0.61 | 0.78 | 0.96 |

| 1997 | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER |
|---|---|---|---|---|
| Total revenue | $115.7 | $158.2 | $186.8 | $189.6 |
| Gross profit | 19.0 | 22.4 | 24.7 | 27.8 |
| Net income (loss) | (1.9) | (0.5) | 8.1 | 1.8 |
| Diluted earnings (loss) per share | (0.19) | (0.05) | 0.83 | 0.18 |

</TABLE>

## NOTE 15. GUARANTOR SUBSIDIARIES

The Notes and the obligations under the Senior Bank Facilities are fully and unconditionally guaranteed on an unsecured, senior subordinated, joint and several basis by each of the Guarantor Subsidiaries. The following condensed consolidating financial data illustrate the composition of the Parent Company, Guarantor Subsidiaries, and JAIX Leasing. Separate complete financial statements

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of the respective Guarantors Subsidiaries would not provide additional information which would be useful in assessing the financial composition of the Guarantor Subsidiaries and thus are not presented. Investments in subsidiaries are accounted for by the Parent Company on the equity method for purposes of the supplemental consolidating presentation. Earnings of subsidiaries are, therefore, reflected in the Parent Company's investment accounts and earnings. The principal elimination entries eliminate the Parent Company's investment in subsidiaries and intercompany balances and transactions.



CONDENSED CONSOLIDATING BALANCE SHEET

<TABLE>

(IN MILLIONS)

| AS OF DECEMBER 31, 1998 | PARENT COMPANY | GUARANTOR SUBSIDIARIES | JAIX LEASING | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Cash and cash equivalents | $47.4 | $(13.5) | $5.2 | $ -- | $39.1 |
| Accounts receivable, net | -- | 81.3 | 0.4 | -- | 81.7 |
| Inventories | -- | 66.7 | -- | -- | 66.7 |
| Prepaid expenses and other | 3.1 | 12.0 | 1.1 | -- | 16.2 |
| Total current assets | 50.5 | 146.5 | 6.7 | -- | 203.7 |
| Property, plant and equipment, net | 2.4 | 114.4 | 18.2 | (0.3) | 134.7 |
| Other assets | 168.1 | 238.5 | 0.3 | (160.9) | 246.0 |
| Total assets | $221.0 | $499.4 | $25.2 | $(161.2) | $584.4 |
| Accounts payable | $ -- | $65.4 | $0.2 | $ -- | $65.6 |
| Other current liabilities | (16.0) | 93.9 | 2.4 | -- | 80.3 |
| Total current liabilities | (16.0) | 159.3 | 2.6 | -- | 145.9 |
| Noncurrent liabilities | -- | 78.8 | 3.5 | -- | 82.3 |
| Long-term debt, less current maturities and intercompany advances (receivables) | 126.3 | 110.5 | 8.7 | -- | 245.5 |
| Total shareholders' equity | 110.7 | 150.8 | 10.4 | (161.2) | 110.7 |
| Total liabilities and shareholders' equity | $221.0 | $499.4 | $25.2 | $(161.2) | $584.4 |

CONDENSED CONSOLIDATING STATEMENT OF INCOME

(IN MILLIONS)

| YEAR ENDED DECEMBER 31, 1998 | PARENT COMPANY | GUARANTOR SUBSIDIARIES | JAIX LEASING | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| Total revenue | $ -- | $957.8 | $8.3 | $ -- | $966.1 |
| Cost of sales | -- | 821.0 | 4.9 | -- | 825.9 |
| Gross profit | -- | 136.8 | 3.4 | -- | 140.2 |
| Selling, general, administrative and amortization expenses | 1.2 | 59.5 | 0.9 | -- | 61.6 |
| Gain on sale of leased freight cars | -- | -- | (1.2) | -- | (1.2) |
| Patent lawsuit settlement | -- | (1.7) | -- | -- | (1.7) |
| Pension termination gain | -- | (16.8) | -- | -- | (16.8) |
| Operating income (loss) | (1.2) | 95.8 | 3.7 | -- | 98.3 |
| Interest expense, net | 12.6 | 16.9 | 0.9 | -- | 30.4 |
| Equity (earnings) of subsidiaries | (47.4) | -- | -- | 47.4 | -- |
| Provision (benefit) for income taxes | (5.4) | 33.2 | 1.1 | -- | 28.9 |
| Net income (loss) before extraordinary item | 39.0 | 45.7 | 1.7 | (47.4) | 39.0 |
| Extraordinary item, net of tax | (1.1) | -- | -- | -- | (1.1) |
| Net income (loss) | $37.9 | $45.7 | $1.7 | $(47.4) | $37.9 |

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(IN MILLIONS)

| YEAR ENDED DECEMBER 31, 1998 | PARENT COMPANY | GUARANTOR SUBSIDIARIES | JAIX LEASING | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| Cash flows from (used for) operating activities | $(29.6) | $82.4 | $3.9 | $ -- | $56.7 |
| Cash flows from (used for) investing activities: | | | | | |
| Capital expenditures | (0.1) | (11.4) | -- | -- | (11.5) |
| Leasing business asset additions | -- | -- | (4.9) | -- | (4.9) |
| Proceeds from sale of leased assets | -- | -- | 24.3 | -- | 24.3 |
| Changes in restricted cash/other | 0.2 | (0.1) | -- | -- | 0.1 |
| Cash flows from (used for) investing activities | 0.1 | (11.5) | 19.4 | -- | 8.0 |
| Cash flows from (used for) financing activities: | | | | | |
| Payments of term loans and capital lease | (36.7) | (0.2) | -- | -- | (36.9) |
| Net payments of JAIX Leasing debt | -- | -- | (20.0) | -- | (20.0) |
| Intercompany advances | 88.0 | (88.0) | -- | -- | -- |
| Payment of deferred financing costs and other | 0.5 | -- | (0.1) | -- | 0.4 |
| Cash flows from (used for) financing activities | 51.8 | (88.2) | (20.1) | -- | (56.5) |
| Net increase (decrease) in cash and cash equivalents | 22.3 | (17.3) | 3.2 | -- | 8.2 |
| Cash and cash equivalents, beginning of year | 25.1 | 3.8 | 2.0 | -- | 30.9 |
| Cash and cash equivalents, end of year | $47.4 | $(13.5) | $5.2 | $ -- | $39.1 |



CONDENSED CONSOLIDATING BALANCE SHEET

(In millions)

| AS OF DECEMBER 31, 1997 | PARENT COMPANY | GUARANTOR SUBSIDIARIES | JAIX LEASING | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| Cash and cash equivalents | $25.1 | $3.8 | $2.0 | $ -- | $30.9 |
| Accounts receivable, net | -- | 60.5 | -- | -- | 60.5 |
| Inventories | -- | 58.7 | -- | -- | 58.7 |
| Prepaid expenses and other | 2.6 | 13.9 | 1.0 | -- | 17.5 |
| Total current assets | 27.7 | 136.9 | 3.0 | -- | 167.6 |
| Property, plant and equipment, net | 2.6 | 117.3 | 36.9 | (0.3) | 156.5 |
| Other assets | 124.7 | 242.8 | 0.8 | (113.6) | 254.7 |
| Total assets | $155.0 | $497.0 | $40.7 | $(113.9) | $578.8 |
| Accounts payable | $0.5 | $54.7 | $ -- | $ -- | $55.2 |
| Other current liabilities | 2.7 | 60.2 | 0.5 | -- | 63.4 |
| Total current liabilities | 3.2 | 114.9 | 0.5 | -- | 118.6 |
| Noncurrent liabilities | -- | 78.2 | 3.5 | -- | 81.7 |
| Long-term debt, less current maturities and intercompany | | | | | |

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| | | | | | |
|---|---|---|---|---|---|
| advances (receivables) | 80.8 | 198.8 | 27.9 | -- | 307.5 |
| Total shareholders' equity | 71.0 | 105.1 | 8.8 | (113.9) | 71.0 |
| Total liabilities and shareholders' equity | $155.0 | $497.0 | $40.7 | $(113.9) | $578.8 |

CONDENSED CONSOLIDATING STATEMENT OF INCOME

(In millions)

| YEAR ENDED DECEMBER 31, 1997 | PARENT COMPANY | GUARANTOR SUBSIDIARIES | JAIX LEASING | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| Total revenue | $ -- | $642.8 | $7.6 | $ -- | $650.4 |
| Cost of sales | -- | 552.4 | 4.0 | -- | 556.4 |
| Gross profit | -- | 90.4 | 3.6 | -- | 94.0 |
| Selling, general, administrative and amortization expenses | 1.1 | 53.5 | 0.1 | -- | 54.7 |
| Gain on sale of leased freight cars | -- | -- | (0.8) | -- | (0.8) |
| Reduction of environmental reserves | -- | (14.3) | -- | -- | (14.3) |
| Operating income (loss) | (1.1) | 51.2 | 4.3 | -- | 54.4 |
| Interest expense, net | 12.3 | 20.9 | 2.2 | -- | 35.4 |
| Equity (earnings) of subsidiaries | (17.6) | -- | -- | 17.6 | -- |
| Provision (benefit) for income taxes | (5.3) | 14.2 | 0.6 | -- | 9.5 |
| Net income (loss) before extraordinary item | 9.5 | 16.1 | 1.5 | (17.6) | 9.5 |
| Extraordinary item, net of tax | (2.0) | -- | -- | -- | (2.0) |
| Net income (loss) | $7.5 | $16.1 | $1.5 | $(17.6) | $7.5 |



CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(IN MILLIONS)

| YEAR ENDED DECEMBER 31, 1997 | PARENT COMPANY | GUARANTOR SUBSIDIARIES | JAIX LEASING | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| Cash flows from (used for) operating activities | $(5.2) | $29.5 | $2.4 | $ -- | $26.7 |
| Cash flows from (used for) investing activities: | | | | | |
| Capital expenditures | (0.1) | (8.2) | -- | -- | (8.3) |
| Leasing business asset additions | -- | -- | (27.6) | -- | (27.6) |
| Proceeds from sale of leased assets | 3.1 | -- | 7.1 | -- | 10.2 |
| Changes in restricted cash/other | -- | 0.6 | -- | -- | 0.6 |
| Cash flows from (used for) investing activities | 3.0 | (7.6) | (20.5) | -- | (25.1) |
| Cash flows from (used for) financing activities: | | | | | |
| Issuance of long-term debt | 82.8 | -- | -- | -- | 82.8 |
| Payments of term loans and capital lease | (90.0) | (0.1) | -- | -- | (90.1) |
| Net proceeds from JAIX Leasing debt | -- | -- | 15.6 | -- | 15.6 |
| Intercompany advances | 19.4 | (19.4) | -- | -- | -- |
| Payment of deferred financing costs and other | (3.0) | -- | (0.5) | -- | (3.5) |
| Cash flows from (used for) financing activities | 9.2 | (19.5) | 15.1 | -- | 4.8 |
| Net increase (decrease) in cash and cash equivalents | 7.0 | 2.4 | (3.0) | -- | 6.4 |
| Cash and cash equivalents, beginning of year | 18.1 | 1.4 | 5.0 | -- | 24.5 |
| Cash and cash equivalents, end of year | $25.1 | $3.8 | $2.0 | $ -- | $30.9 |

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CONDENSED CONSOLIDATING STATEMENT OF INCOME

(IN MILLIONS)

| YEAR ENDED DECEMBER 31, 1996 | PARENT COMPANY | GUARANTOR SUBSIDIARIES | JAIX LEASING | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| Total revenue | $ -- | $555.6 | $4.4 | $ -- | $560.0 |
| Cost of sales | -- | 472.1 | 2.1 | -- | 474.2 |
| Gross profit | -- | 83.5 | 2.3 | -- | 85.8 |
| Selling, general, administrative and amortization expenses | 1.2 | 55.6 | -- | -- | 56.8 |
| Gain on sale of leased freight cars | -- | -- | (1.4) | -- | (1.4) |
| Operating income (loss) | (1.2) | 27.9 | 3.7 | -- | 30.4 |
| Interest expense, net | 11.4 | 21.7 | 2.7 | -- | 35.8 |
| Equity (earnings) of subsidiaries | (2.0) | -- | -- | 2.0 | -- |
| Provision (benefit) for income taxes | (5.2) | 4.8 | 0.4 | -- | -- |
| Net income (loss) | $(5.4) | $1.4 | $0.6 | $(2.0) | $(5.4) |



CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(IN MILLIONS)

| YEAR ENDED DECEMBER 31, 1996 | PARENT COMPANY | GUARANTOR SUBSIDIARIES | JAIX LEASING | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| Cash flows from (used for) operating activities | $(5.0) | $40.1 | $1.3 | $ -- | $36.4 |
| Cash flows from (used for) investing activities: | | | | | |
| Capital expenditures | (0.2) | (9.7) | -- | -- | (9.9) |
| Leasing business asset additions | (4.9) | 0.3 | (0.8) | -- | (5.4) |
| Proceeds from sale of leased freight cars | -- | -- | 18.1 | -- | 18.1 |
| Changes in restricted cash/other | -- | 0.8 | -- | -- | 0.8 |
| Cash flows from (used for) investing activities | (5.1) | (8.6) | 17.3 | -- | 3.6 |
| Cash flows from (used for) financing activities: | | | | | |
| Payments of term loans and capital lease | (16.6) | (0.2) | -- | -- | (16.8) |
| Net payments of JAIX Leasing debt | -- | -- | (8.8) | -- | (8.8) |
| Intercompany advances | 27.1 | (23.7) | (3.4) | -- | -- |
| Dividends received/ (paid) | 1.6 | -- | (1.6) | -- | -- |
| Payment of deferred financing costs | (0.8) | -- | (0.7) | -- | (1.5) |
| Cash flows from (used for) financing activities | 11.3 | (23.9) | (14.5) | -- | (27.1) |
| Net increase in cash and cash equivalents | 1.2 | 7.6 | 4.1 | -- | 12.9 |
| Cash and cash equivalents, beginning of year | 16.9 | (6.2) | 0.9 | -- | 11.6 |
| Cash and cash equivalents, end of year | $18.1 | $1.4 | $5.0 | $ -- | $24.5 |

</TABLE>

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## NOTE 17. FAIR VALUE OF FINANCIAL INSTRUMENTS

Based on borrowing rates currently available to the Company for borrowings with similar terms and maturities, the fair value of the Company's total debt, including JAIX Leasing, was approximately $264 million and $327 million as of December 31, 1998 and 1997, respectively. No quoted market value is available except for the Notes which had a market value of approximately $190 million and $196 million as of December 31, 1998, and 1997, respectively. Outstanding interest rate contracts, based on current market pricing models, have an estimated discounted fair market value of negative $0.4 million and negative $0.2 million as of December 31, 1998 and 1997, respectively. JAIX Leasing's debt has approximate fair market value of $10.2 million and $30.1 million as of December 31, 1998 and 1997, respectively. All other financial instruments of the Company have fair market values which approximate carrying value as of December 31, 1998 and 1997.

## NOTE 18. SUPPLEMENTAL CASH FLOWS

(IN THOUSANDS)

| YEARS ENDED DECEMBER 31, | 1998 | 1997 | 1996 |
|---|---|---|---|
| Cash paid for: | | | |
| Interest | $31,040 | $30,157 | $31,487 |
| Income taxes | 28,914 | 952 | 1,382 |



## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF JOHNSTOWN AMERICA INDUSTRIES,INC.:

We have audited the accompanying consolidated balance sheets of Johnstown America Industries, Inc. and Subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Johnstown America Industries, Inc. and Subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ARTHUR ANDERSEN LLP

ARTHUR ANDERSEN LLP

Chicago, Illinois
January 27, 1999



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REPORT OF MANAGEMENT

The management of Johnstown America Industries, Inc. is responsible for the fairness and accuracy of the consolidated financial statements. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles, using management's best estimates and judgements where appropriate. The financial information throughout this report is consistent with our consolidated financial statements.

Management has established a system of internal controls that provides reasonable assurance that assets are adequately safeguarded and transactions are recorded accurately, in all material respects, in accordance with management's authorization. Our internal controls provide for appropriate separation of duties and responsibilities, and there are documented policies regarding utilization of company assets and proper financial reporting. These formally stated and regularly communicated policies demand highly ethical conduct from all employees.

The Audit Committee of the Board of Directors meets regularly to determine that management and independent auditors are properly discharging their duties regarding internal control and financial reporting. The independent auditors and employees have full and free access to the Audit Committee at any time.

Arthur Andersen LLP, independent public accountants, are retained to audit the consolidated financial statements.

| /s/THOMAS M. BEGEL | /S/ANDREW M. WELLER |
| --- | --- |
| Thomas M. Begel | Andrew M. Weller |
| Chairman, President and | Executive Vice President and |
| Chief Executive Officer | Chief Financial Officer |

January 27, 1999

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Subsidiaries of the Company

| Name of Subsidiary | State of Incorporation |
| --- | --- |
| Johnstown America Corporation | Delaware |
| JAC Patent Corporation | Delaware |
| JAIX Leasing Company | Delaware |
| Freight Car Services, Inc. | Delaware |
| Bostrom Holdings, Inc. | Delaware |
| Bostrom Seating, Inc. | Delaware |
| Truck Components Inc. | Delaware |
| Gunite Corporation | Delaware |
| Brillion Iron Works, Inc. | Delaware |
| Fabco Automotive Corporation | Delaware |
| JAII Management Company | Delaware |

* All subsidiaries are 100% owned by the specified entity

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CONSENT OF INDEPENDENT PUBLIC ACCOUNTS

As independent public accountants, we hereby consent to the incorporation of our report incorporated by reference in this Form 10-K into the Company's previously filed Form S-8 Registration Statements, File No. 333-12677, File No. 333-12679 and File No. 333-62525.

/s/ Arthur Andersen LLP

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ARTHUR ANDERSEN LLP

Chicago, Illinois
March 25, 1999

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