

FreightCar America, Inc.  
Form 10-Q  
May 03, 2018  
Table of Contents

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

**FORM 10-Q**

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

**For the Quarterly Period Ended March 31, 2018**

**or**

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

**Commission file number: 000-51237**

**FREIGHTCAR AMERICA, INC.**

**(Exact name of registrant as specified in its charter)**

<b>Delaware</b> <b>(State or other jurisdiction of</b> <b>incorporation or organization)</b>	<b>25-1837219</b> <b>(I.R.S. Employer</b> <b>Identification No.)</b>
<b>Two North Riverside Plaza, Suite 1300</b>	
<b>Chicago, Illinois</b> <b>(Address of principal executive offices)</b>	<b>60606</b> <b>(Zip Code)</b>
<b>(800) 458-2235</b> <b>(Registrant's telephone number, including area code)</b>	

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.:

Large accelerated filer   Accelerated Filer   Non-accelerated filer   Smaller reporting company   Emerging growth company  
(Do not check if a smaller reporting company)

If an emerging growth company, indicate by a check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act:

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

As of April 27, 2018, there were 12,444,073 shares of the registrant's common stock outstanding.



**Table of Contents**

**FREIGHTCAR AMERICA, INC.**

**INDEX TO FORM 10-Q**

<b>Item Number</b>		<b>Page Number</b>
	<b><u>PART I FINANCIAL INFORMATION</u></b>	
1.	<u>Financial Statements:</u>	
	<u>Condensed Consolidated Balance Sheets (Unaudited) as of March 31, 2018 and December 31, 2017</u>	3
	<u>Condensed Consolidated Statements of Operations (Unaudited) for the Three Months Ended March 31, 2018 and 2017</u>	4
	<u>Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited) for the Three Months Ended March 31, 2018 and 2017</u>	5
	<u>Condensed Consolidated Statements of Stockholders' Equity (Unaudited) for the Three Months Ended March 31, 2018 and 2017</u>	6
	<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Three Months Ended March 31, 2018 and 2017</u>	7
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	8
2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	22
4.	<u>Controls and Procedures</u>	23
	<b><u>PART II OTHER INFORMATION</u></b>	
1.	<u>Legal Proceedings</u>	23
1A.	<u>Risk Factors</u>	23
2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
3.	<u>Defaults Upon Senior Securities</u>	23
4.	<u>Mine Safety Disclosures</u>	23
5.	<u>Other Information</u>	23
6.	<u>Exhibits</u>	24
	<u>Signatures</u>	25

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****FreightCar America, Inc.****Condensed Consolidated Balance Sheets****(Unaudited)**

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
	<i>(in thousands, except for share and per share data)</i>	
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 65,255	\$ 87,788
Restricted certificates of deposit	5,452	5,720
Marketable securities	52,288	42,917
Accounts receivable, net of allowance for doubtful accounts of \$67 and \$56, respectively	12,911	7,581
Inventories, net	46,685	45,292
Inventory on lease	14,736	5,550
Income taxes receivable	329	815
Other current assets	7,693	4,284
<b>Total current assets</b>	<b>205,349</b>	<b>199,947</b>
Property, plant and equipment, net	53,023	38,253
Railcars available for lease, net	23,140	23,434
Goodwill	21,521	21,521
Deferred income taxes, net	11,428	9,446
Other long-term assets	3,169	3,303
<b>Total assets</b>	<b>\$ 317,630</b>	<b>\$ 295,904</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities		
Accounts and contractual payables	\$ 26,273	\$ 23,329
Accrued payroll and other employee costs	2,147	1,809
Reserve for workers compensation	3,749	3,394
Accrued warranty	9,041	8,062
Deferred income state and local incentives, current	2,219	2,219
Deferred rent, current	5,215	178
Other current liabilities	2,747	1,326
<b>Total current liabilities</b>	<b>51,391</b>	<b>40,317</b>
Accrued pension costs	5,480	5,763

Edgar Filing: FreightCar America, Inc. - Form 10-Q

Accrued postretirement benefits, less current portion	5,385	5,556
Deferred income state and local incentives, long-term	8,606	9,161
Deferred rent, long-term	20,292	2,988
Accrued taxes and other long-term liabilities	394	387
<b>Total liabilities</b>	<b>91,548</b>	<b>64,172</b>
Stockholders' equity		
Preferred stock, \$0.01 par value, 2,500,000 shares authorized (100,000 shares each designated as Series A voting and Series B non-voting, 0 shares issued and outstanding at March 31, 2018 and December 31, 2017)		
Common stock, \$0.01 par value, 50,000,000 shares authorized, 12,731,678 shares issued at March 31, 2018 and December 31, 2017	127	127
Additional paid in capital	88,908	90,347
Treasury stock, at cost, 287,605 and 336,982 shares at March 31, 2018 and December 31, 2017, respectively	(10,398)	(12,555)
Accumulated other comprehensive loss	(7,531)	(7,567)
Retained earnings	154,976	161,380
<b>Total stockholders' equity</b>	<b>226,082</b>	<b>231,732</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 317,630</b>	<b>\$ 295,904</b>

*See Notes to Condensed Consolidated Financial Statements (Unaudited).*

**Table of Contents****FreightCar America, Inc.****Condensed Consolidated Statements of Operations****(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
	<i>(In thousands, except for share and per share data)</i>	
Revenues	\$ 82,973	\$ 139,536
Cost of sales	83,569	129,730
Gross (loss) profit	(596)	9,806
Selling, general and administrative expenses	7,996	7,030
Restructuring and impairment charges		1,357
Operating (loss) income	(8,592)	1,419
Interest expense and deferred financing costs	(32)	(42)
Other income (expense)	381	(299)
(Loss) income before income taxes	(8,243)	1,078
Income tax (benefit) provision	(1,839)	440
Net (loss) income	\$ (6,404)	\$ 638
Net (loss) income per common share basic	\$ (0.51)	\$ 0.05
Net (loss) income per common share diluted	\$ (0.51)	\$ 0.05
Weighted average common shares outstanding basic	12,306,011	12,269,555
Weighted average common shares outstanding diluted	12,306,011	12,269,555
Dividends declared per common share	\$	\$ 0.09

*See Notes to Condensed Consolidated Financial Statements (Unaudited).*

Table of Contents**FreightCar America, Inc.****Condensed Consolidated Statements of Comprehensive (Loss) Income****(Unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
	<i>(In thousands)</i>	
Net (loss) income	\$ (6,404)	\$ 638
Other comprehensive income:		
Pension liability adjustments, net of tax	88	77
Postretirement liability adjustments, net of tax	(52)	(49)
Other comprehensive income	36	28
Comprehensive (loss) income	\$ (6,368)	\$ 666

*See Notes to Condensed Consolidated Financial Statements (Unaudited).*



**Table of Contents****FreightCar America, Inc.****Condensed Consolidated Statements of Stockholders Equity (Unaudited)**

(in thousands, except for share data)

	Common Stock Shares	Common Stock Amount	Additional Paid In Capital	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders Equity
<b>Balance, December 31, 2016</b>	12,731,678	\$ 127	\$ 92,025	(351,746)	\$ (14,583)	\$ (8,163)	\$ 187,508	\$ 256,914
Cumulative effect of adoption of ASU 2016-09			215				(215)	
Net income							638	638
Other comprehensive income						28		28
Restricted stock awards			(2,097)	50,983	2,097			
Forfeiture of restricted stock awards			142	(9,585)	(142)			
Employee stock settlement				(999)	(14)			(14)
Stock-based compensation recognized			214					214
Cash dividends							(1,117)	(1,117)
<b>Balance, March 31, 2017</b>	12,731,678	\$ 127	\$ 90,499	(311,347)	\$ (12,642)	\$ (8,135)	\$ 186,814	\$ 256,663
<b>Balance, December 31, 2017</b>	12,731,678	\$ 127	\$ 90,347	(336,982)	\$ (12,555)	\$ (7,567)	\$ 161,380	\$ 231,732
Net loss							(6,404)	(6,404)
Other comprehensive income						36		36
Restricted stock awards			(2,392)	64,457	2,392			
Forfeiture of restricted stock			117	(7,991)	(117)			

awards									
Employee stock settlement				(7,089)		(118)			(118)
Stock-based compensation recognized				836					836
<b>Balance, March 31, 2018</b>	12,731,678	\$ 127	\$ 88,908	(287,605)	\$ (10,398)	\$ (7,531)	\$ 154,976	\$	226,082

*See Notes to Condensed Consolidated Financial Statements (Unaudited).*

**Table of Contents****FreightCar America, Inc.****Condensed Consolidated Statements of Cash Flows****(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
	<i>(in thousands)</i>	
<b>Cash flows from operating activities</b>		
Net (loss) income	\$ (6,404)	\$ 638
Adjustments to reconcile net (loss) income to net cash flows (used in) provided by operating activities:		
Net proceeds from Shoals transaction	2,655	
Depreciation and amortization	2,550	2,337
Recognition of deferred income from state and local incentives	(555)	(555)
Gain on sale of railcars available for lease	38	
Deferred income taxes	(1,992)	408
Stock-based compensation recognized	836	214
Other non-cash items, net	235	84
Changes in operating assets and liabilities:		
Accounts receivable	(5,330)	1,630
Inventories	1,930	20,101
Inventory on lease	(9,186)	(8,391)
Other assets	(3,323)	(1,481)
Accounts and contractual payables	2,284	(1,170)
Accrued payroll and employee benefits	338	1,098
Income taxes receivable/payable	650	48
Accrued warranty	979	267
Other liabilities	1,223	547
Accrued pension costs and accrued postretirement benefits	(418)	185
Net cash flows (used in) provided by operating activities	(13,490)	15,960
<b>Cash flows from investing activities</b>		
Purchase of restricted certificates of deposit	(1,040)	(4,668)
Maturity of restricted certificates of deposit	1,308	1,558
Purchase of securities held to maturity	(41,244)	(10,995)
Proceeds from maturity of securities	32,005	
Purchase of property, plant and equipment	(182)	(296)
Proceeds from sale of property, plant and equipment and railcars available for lease	228	119
State and local incentives received		1,410
Net cash flows used in investing activities	(8,925)	(12,872)

**Cash flows from financing activities**

Employee stock settlement	(118)	(14)
Cash dividends paid to stockholders		(1,117)

Net cash flows used in financing activities	(118)	(1,131)
---	-------	---------

Net (decrease) increase in cash and cash equivalents	(22,533)	1,957
--	----------	-------

Cash, cash equivalents and restricted cash equivalents at beginning of period	87,788	96,110
---	--------	--------

Cash, cash equivalents and restricted cash equivalents at end of period	\$ 65,255	\$ 98,067
---	-----------	-----------

**Supplemental cash flow information**

Interest paid	\$ 18	\$ 23
---------------	-------	-------

Income tax refunds received	\$ 487	\$
-----------------------------	--------	----

*See Notes to Condensed Consolidated Financial Statements (Unaudited).*

---

**Table of Contents**

**FreightCar America, Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

*(In thousands, except for share and per share data)*

**Note 1 Description of the Business**

FreightCar America, Inc. ( FreightCar ) operates primarily in North America through its direct and indirect subsidiaries, JAC Operations, Inc., Johnstown America, LLC, Freight Car Services, Inc., JAIX Leasing Company ( JAIX ), FreightCar Roanoke, LLC, FreightCar Mauritius Ltd. ( Mauritius ), FreightCar Rail Services, LLC ( FCRS ), FreightCar Short Line, Inc. ( FCSL ), FreightCar Alabama, LLC and FreightCar (Shanghai) Trading Co., Ltd. (herein collectively referred to as the Company ), and manufactures a wide range of railroad freight cars, supplies railcar parts and leases freight cars. The Company designs and builds high-quality railcars, including coal cars, bulk commodity cars, covered hopper cars, intermodal and non-intermodal flat cars, mill gondola cars, coil steel cars and boxcars. The Company is headquartered in Chicago, Illinois and has facilities in the following locations: Cherokee, Alabama; Danville, Illinois; Grand Island, Nebraska; Johnstown, Pennsylvania; Roanoke, Virginia; and Shanghai, People s Republic of China.

The Company and its direct and indirect subsidiaries are all Delaware corporations or Delaware limited liability companies except Mauritius, which is incorporated in Mauritius, and FreightCar (Shanghai) Trading Co., Ltd., which is organized in the People s Republic of China. The Company s direct and indirect subsidiaries are all wholly owned.

**Note 2 Basis of Presentation**

The accompanying condensed consolidated financial statements include the accounts of FreightCar America, Inc. and subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The foregoing financial information has been prepared in accordance with the accounting principles generally accepted in the United States of America ( GAAP ) and rules and regulations of the U.S. Securities and Exchange Commission (the SEC ) for interim financial reporting. The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results to be expected for the full year. The accompanying interim financial information is unaudited; however, the Company believes the financial information reflects all adjustments (consisting of items of a normal recurring nature) necessary for a fair presentation of financial position, results of operations and cash flows in conformity with GAAP. The 2017 year-end balance sheet data was derived from the audited financial statements as of December 31, 2017. Certain information and note disclosures normally included in the Company s annual financial statements prepared in accordance with GAAP have been condensed or omitted. These interim financial statements should be read in conjunction with the audited financial statements contained in the Company s annual report on Form 10-K for the year ended December 31, 2017.

**Note 3 Recent Accounting Pronouncements**

In February 2018, the Financial Accounting Standards Board (the FASB ) issued Accounting Standards Update ( ASU ) 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which permits entities to reclassify tax effects stranded in accumulated other comprehensive income as a result of the recent U.S. tax reform to retained earnings. Companies that elect to reclassify these amounts must reclassify stranded tax effects for

all items accounted for in accumulated other comprehensive income. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact of this standard on its consolidated financial statements and related disclosures.

On January 1, 2018, the Company adopted ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This standard requires entities to present non-service cost components of net periodic benefit cost in a caption below operating income (loss) and provides that only service cost is eligible to be capitalized in inventory or construction of an asset. This standard requires retrospective application of the change in the statement of operations and prospective application for the capitalization of service cost in assets. Utilizing the practical expedient approach permitted under the standard, based on amounts previously disclosed, the Company reclassified non-service components of net periodic benefit cost from cost of sales, selling, general and administrative expenses and restructuring and impairment charges to other income (expense) in the Condensed Consolidated Statement of Operations. The service cost component is included in cost of sales and selling, general and administrative expenses.

**Table of Contents**

The following table discloses the amount of net periodic benefit cost reclassified as other income (expense) for the prior period presented in the condensed consolidated financial statements as a result of the adoption of ASU 2017-07:

	<b>Three months ended March 31, 2017</b>		
	<b>As reported</b>	<b>Reclassifications</b>	<b>As adjusted</b>
Cost of sales	\$ 129,646	\$ 84	\$ 129,730
Selling, general and administrative expenses	\$ 7,011	\$ 19	\$ 7,030
Restructuring and impairment charges	\$ 1,777	\$ (420)	\$ 1,357
Other income (expense)	\$ 18	\$ (317)	\$ (299)

On January 1, 2018, the Company adopted the changes required under ASU 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*. The ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, restricted cash and restricted cash equivalents. As a result, restricted cash and restricted cash equivalents are included in beginning-of-period and end-of-period total amounts shown on the statement of cash flows and changes in restricted cash and restricted cash equivalents are no longer included in cash flows from investing activities. The Company has applied these changes in presentation retrospectively, which resulted in an increase of \$3,360 in the beginning-of-period balance and an increase of \$3,360 in net cash flows used in investing activities in the Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2017. Restricted cash and restricted certificates of deposit are used to collateralize standby letters of credit with respect to performance guarantees and to support the Company's workers' compensation insurance claims. Restricted certificates of deposit with original maturities of up to 90 days are considered restricted cash equivalents and are included in beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Cash, cash equivalents and restricted cash equivalents in the Condensed Consolidated Statement of Cash Flows as of December 31, 2017 and March 31, 2018 include only cash and cash equivalents as there are no restricted cash equivalents included in the restricted certificates of deposit balances in the Condensed Consolidated Balance Sheets as of those dates.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. Topic 350 currently requires an entity to perform a two-step test to determine the amount, if any, of goodwill impairment. The amendment in ASU 2017-04 removes the second step of the test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. This standard is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019 and early adoption is permitted. The Company is currently assessing the impact of this standard on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires a lessee to record a right-of-use asset and a lease liability for all leases with a term greater than twelve months regardless of whether the lease is classified as an operating lease or a financing lease. Leases with a term of twelve months or less will be accounted for in a similar manner to existing guidance for operating leases. This standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. While the Company is still evaluating the impact that ASU 2016-02 will have on its consolidated financial statements, the new standard will reflect a significant increase in both assets and liabilities due to the requirement to recognize right-of-use assets and lease liabilities on the balance sheet for facility and equipment leases.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which was further clarified in March 2016. The ASU outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most prior revenue recognition guidance, including industry-specific guidance. The ASU is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Entities have the option of using either a full retrospective or a modified retrospective approach



**Table of Contents**

for the adoption of the new standard. The ASU is effective for annual reporting periods beginning after December 15, 2017 and early adoption for annual reporting periods beginning after December 15, 2016 is permitted. The Company adopted ASU 2014-09 effective January 1, 2018 using the modified retrospective method of adoption. Adoption of this standard did not have any significant impact on the Company's revenue recognition methods or costs to fulfill its contracts. Additionally, no significant changes in business processes or systems were required as a result of the adoption of this new standard.

**Note 4 Revenue Recognition**

The following table disaggregates the Company's revenues by major source:

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
Railcar sales	\$ 79,079	\$ 137,085
Parts sales	3,212	1,763
Other sales	56	54
Revenues from contracts with customers	82,347	138,902
Leasing revenues	626	634
Total revenues	\$ 82,973	\$ 139,536

The Company generally recognizes revenue at a point in time, as it satisfies a performance obligation, by transferring control over a product or service to a customer. Revenue is measured at the transaction price, which is based on the amount of consideration that the Company expects to receive in exchange for transferring the promised goods or services to the customer.

**Railcar Sales**

Performance obligations are typically completed and revenue is recognized for the sale of new and rebuilt railcars when a certificate of acceptance has been issued by the customer and title and risk of loss are transferred to the customer. At that time, the customer directs the use of, and obtains substantially all of the remaining benefits from, the asset. In certain sales contracts, the Company's performance obligation includes transfer of the finished railcar to a specified railroad connection point. In these instances, the Company recognizes revenue from the sale when the railcar reaches the specified railroad connection point. When a railcar sales contract contains multiple performance obligations, the Company allocates the transaction price to the performance obligations based on the relative stand-alone selling price of the performance obligation determined at the inception of the contract based on an observable market price, expected cost plus margin or market price of similar items. The Company does not provide discounts or rebates in the normal course of business.

The Company provides warranties in connection with the sale of new and rebuilt railcars. Warranty terms are based on the negotiated railcar sales contracts. The Company generally warrants that new railcars will be free from defects in material and workmanship under normal use and service identified for a period of up to five years from the time of sale. The Company also provides limited warranties with respect to certain rebuilt railcars. With respect to parts and materials manufactured by others and incorporated by the Company in its products, such parts and materials may be

covered by the warranty provided by the original manufacturer. The Company does not provide its customers the option to purchase additional warranties and, therefore, the Company's warranties are not considered a separate service or performance obligation.

As a practical expedient, the Company recognizes the incremental costs of obtaining contracts, such as sales commissions, as an expense when incurred since the amortization period of the asset that the Company otherwise would have recognized is one year or less.

#### Parts Sales

The Company sells forged, cast and fabricated parts for all of the railcars it produces, as well as those manufactured by others. Performance obligations are satisfied and the Company recognizes revenue from most parts sales when the parts are shipped to customers.

## Table of Contents

### Leasing Revenue

The Company recognizes operating lease revenue on Inventory on Lease on a contractual basis and recognizes operating lease revenue on Railcars Available for Lease on a straight-line basis over the contract term. The Company recognizes revenue from the sale of Inventory on Lease on a gross basis in manufacturing sales and cost of sales if the sales process is completed within 12 months of the manufacture of the leased railcars. The Company recognizes revenue from the sale of Railcars Available for Lease on a net basis as Gain (Loss) on Sale of Railcars Available for Lease since the sale represents the disposal of a long-term operating asset.

### Contract Balances and Accounts Receivable

Accounts receivable payments for railcar sales are typically due within 5 to 10 business days of invoicing while payments from parts sales are typically due within 30 to 45 business days of invoicing. The Company has not experienced significant historical credit losses.

Contract assets represent the Company's rights to consideration for performance obligations that have been satisfied but for which the terms of the contract do not permit billing at the reporting date. The Company has no contract assets as of March 31, 2018. The Company may receive cash payments from customers in advance of the Company satisfying performance obligations under its sales contracts resulting in deferred revenue or customer deposits, which are considered contract liabilities. Deferred revenue and customer deposits are classified as either current or long-term in the Condensed Consolidated Balance Sheet based on the timing of when the Company expects to recognize the related revenue. Deferred revenue and customer deposits included in other current liabilities and other long-term liabilities in the Company's Condensed Consolidated Balance Sheet as of March 31, 2018 were not material.

### Performance Obligations

The Company is electing not to disclose the value of the remaining unsatisfied performance obligation with a duration of one year or less as permitted by the practical expedient in ASU 2014-09, *Revenue from Contracts with Customers*. The Company had no material remaining unsatisfied performance obligations as of March 31, 2018 with expected duration of greater than one year.

## **Note 5 Segment Information**

The Company's operations comprise two operating segments, Manufacturing and Parts, and one reportable segment, Manufacturing. The Company's Manufacturing segment includes new railcar manufacturing, used railcar sales, railcar leasing and major railcar rebuilds. The Company's Parts operating segment is not significant for reporting purposes and has been combined with corporate and other non-operating activities as Corporate and Other.

Segment operating income is an internal performance measure used by the Company's Chief Operating Decision Maker to assess the performance of each segment in a given period. Segment operating income includes all external revenues attributable to the segments as well as operating costs and income that management believes are directly attributable to the current production of goods and services. The Company's management reporting package does not include interest revenue, interest expense or income taxes allocated to individual segments and these items are not considered as a component of segment operating income. Segment assets represent operating assets and exclude intersegment accounts, deferred tax assets and income tax receivables. The Company does not allocate cash and cash equivalents to its operating segments as the Company's treasury function is managed at the corporate level. Intersegment revenues were not material in any period presented.



**Table of Contents**

	<b>Three months ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Revenues:</b>		
Manufacturing	\$ 79,733	\$ 137,740
Corporate and Other	3,240	1,796
<b>Consolidated Revenues</b>	<b>\$ 82,973</b>	<b>\$ 139,536</b>
<b>Operating (Loss) Income:</b>		
Manufacturing	\$ (3,816)	\$ 7,249
Corporate and Other	(4,776)	(5,830)
<b>Consolidated Operating (Loss) Income</b>	<b>(8,592)</b>	<b>1,419</b>
Consolidated interest expense and deferred financing costs	(32)	(42)
Consolidated other income (expense)	381	(299)
<b>Consolidated (Loss) Income Before Income Taxes</b>	<b>\$ (8,243)</b>	<b>\$ 1,078</b>
<b>Depreciation and Amortization:</b>		
Manufacturing	\$ 2,484	\$ 2,157
Corporate and Other	66	180
<b>Consolidated Depreciation and Amortization</b>	<b>\$ 2,550</b>	<b>\$ 2,337</b>
<b>Capital Expenditures:</b>		
Manufacturing (1)	\$ 141	\$ 312
Corporate and Other	41	(16)
<b>Consolidated Capital Expenditures</b>	<b>\$ 182</b>	<b>\$ 296</b>

(1) Excluding assets acquired as part of a business acquisition of \$17.2 million on February 28, 2018.(see Note 16)

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
<b>Assets:</b>		
Manufacturing	\$ 166,284	\$ 136,448
Corporate and Other	137,822	149,195
<b>Total Operating Assets</b>	<b>304,106</b>	<b>285,643</b>
Consolidated income taxes receivable	329	815
Consolidated deferred income taxes, long-term	11,428	9,446
Consolidated income taxes receivable, long-term	1,767	
<b>Consolidated Assets</b>	<b>\$ 317,630</b>	<b>\$ 295,904</b>

**Note 6 Fair Value Measurements**

The following table sets forth by level within the fair value hierarchy the Company's financial assets that were recorded at fair value on a recurring basis and the Company's non-financial assets that were recorded at fair value on a non-recurring basis.

<b>Recurring Fair Value Measurements</b>	<b>As of March 31, 2018</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>ASSETS:</b>				
Cash equivalents	\$ 38,497	\$	\$	\$ 38,497
Restricted certificates of deposit	\$ 5,452	\$	\$	\$ 5,452
Escrow receivable	\$	\$	\$ 1,420	\$ 1,420

**Table of Contents****Recurring Fair Value Measurements**

	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
<b>ASSETS:</b>				
Cash equivalents	\$ 45,542	\$	\$	\$ 45,542
Restricted certificates of deposit	\$ 5,720	\$	\$	\$ 5,720
Escrow receivable	\$	\$	\$ 1,420	\$ 1,420

**Non-Recurring Fair Value Measurements**

	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
<b>ASSETS:</b>				
Property, plant and equipment	\$	\$	\$ 1,434	\$ 1,434

The sale of the Company's railcar repair and maintenance services business on September 30, 2015 resulted in \$1,960 of the aggregate purchase price being placed into escrow in order to secure the indemnification obligations of FCRS and FC SL. The fair market value of the remaining escrow receivable above represents the escrow balance of \$1,470 as of each of March 31, 2018 and December 31, 2017 net of the fair value of the indemnification obligations, which was estimated using the discounted probability-weighted cash flow method.

The carrying value of property, plant and equipment at the Company's Johnstown, Pennsylvania administrative facility was reduced to its estimated fair market value during the third quarter of 2016, resulting in a non-cash impairment charge of \$1,255. Fair market value was estimated using the market approach using market data such as recent sales of comparable assets in active markets and estimated salvage values. The proceeds from sale of the facility during the first quarter of 2017 and the resulting gain on sale were not material.

**Note 7 Marketable Securities**

The Company's current investment policy is to invest in cash, certificates of deposit, U.S. Treasury securities, U.S. government agency obligations and money market funds invested in U.S. government securities. Marketable securities of \$52,288 and \$42,917 as of March 31, 2018 and December 31, 2017, respectively, consisted of U.S. Treasury securities held to maturity and certificates of deposit with original maturities of greater than 90 days and up to one year. Due to the short-term nature of these securities and their low interest rates, there is no material difference between their fair market values and amortized costs.

**Note 8 Inventories**

Inventories, net of reserve for excess and obsolete items, consist of the following:

	March 31, 2018	December 31, 2017
Work in process	\$ 43,454	\$ 42,460
Finished new railcars		85
Parts inventory	3,231	2,747
Total inventories, net	\$ 46,685	\$ 45,292

Inventory on the Company's Condensed Consolidated Balance Sheets includes reserves of \$6,448 and \$6,160 relating to excess or slow-moving inventory for parts and work in process at March 31, 2018 and December 31, 2017, respectively.

**Note 9 Revolving Credit Facility**

On June 13, 2016, the Company amended the credit agreement, dated as of July 26, 2013 (as so amended, the Credit Agreement), by and among FreightCar and certain of its subsidiaries, as borrowers and guarantors (together, the Borrowers), and Bank of America, N.A., as lender, administrative agent, swingline lender and letter of credit issuer (the Bank) to, among other things, extend the term of the Credit Agreement to July 26, 2019.



**Table of Contents**

As of March 31, 2018 and December 31, 2017, the Company had no borrowings under the \$50,000 senior secured revolving credit facility (the Revolving Credit Facility), provided under the Credit Agreement. As of March 31, 2018 and December 31, 2017, the Company had \$5,452 in outstanding letters of credit under the Revolving Credit Facility and therefore had \$44,548 available for borrowing under the Revolving Credit Facility.

**Note 10 Accumulated Other Comprehensive Income (Loss)**

The changes in accumulated other comprehensive income (loss) consist of the following:

	Pre-Tax	Tax	After-Tax
<b>Three months ended March 31, 2018</b>			
Pension liability activity:			
Reclassification adjustment for amortization of net loss (pre-tax other income (expense))	\$ 113	\$ 25	\$ 88
Postretirement liability activity:			
Reclassification adjustment for amortization of net gain (pre-tax other income (expense))	(70)	(15)	(55)
Reclassification adjustment for amortization of prior service cost (pre-tax other income (expense))	4	1	3
	\$ 47	\$ 11	\$ 36
	<b>Pre-Tax</b>	<b>Tax</b>	<b>After-Tax</b>
<b>Three months ended March 31, 2017</b>			
Pension liability activity:			
Reclassification adjustment for amortization of net loss (pre-tax other income (expense))	\$ 119	\$ 42	\$ 77
Postretirement liability activity:			
Reclassification adjustment for amortization of net gain (pre-tax other income (expense))	(80)	(28)	(52)
Reclassification adjustment for amortization of prior service cost (pre-tax other income (expense))	4	1	3
	\$ 43	\$ 15	\$ 28

The components of accumulated other comprehensive loss consist of the following:

	March 31, 2018	December 31, 2017
Unrecognized pension cost, net of tax of \$6,096 and \$6,120	\$ (9,618)	\$ (9,707)
Unrecognized postretirement income, net of tax of \$519 and \$533	2,087	2,140

\$	(7,531)	\$	(7,567)
----	---------	----	---------

**Note 11 Stock-Based Compensation**

On January 12, 2018, the Company granted non-qualified stock options to purchase 146,590 shares of our common stock to executives of the Company. The award features a performance earning vesting schedule whereby the stock options will vest if the average closing price per share of the Company's stock over the trailing 90 calendar days (the Threshold Stock Price) exceeds the closing price per share of the Company's stock on January 12, 2018 (the Reference Stock Price) as follows: 34% of the stock options will vest if the Threshold Stock Price exceeds the Reference Stock Price by \$5.00; another 33% of the stock options will vest if the Threshold Stock Price exceeds the Reference Stock Price by \$10.00; and the remaining 33% of the stock options will vest if the Threshold Stock Price exceeds the Reference Stock Price by \$15.00. Such stock price appreciation goals can be achieved at any point during the options ten-year contractual term. When vesting of an award of

**Table of Contents**

stock-based compensation is dependent upon the attainment of a target stock price, the award is considered to be subject to a market condition. The Company recognizes stock-based compensation cost for stock options with market conditions over the derived service period of the stock options. The estimated fair value and derived service period for the stock options were calculated using a Monte Carlo simulation. Assumptions used in valuing the January 12, 2018 stock options include the expected stock option life, expected volatility, expected dividend yield and risk-free rate. The stock options were assumed to have an expected life equal to the midpoint of (a) the date the performance goal is attained and (b) the date the stock options expire. The expected volatility assumption of 49.33% was based on the Company's historical stock price volatility over the ten-year period ended on the grant date. The expected dividend yield assumption of 0% was based on the Company's suspension of its quarterly dividend payment in November 2017. The risk-free rate assumption of 2.55% was based on the yields on U.S. Treasury STRIPS with a remaining term that approximates the life assumed at the date of the grant. The estimated fair value of the three vesting tranches for the stock options ranged from \$8.51 to \$9.12 with derived service periods from 1.0 year to 2.43 years.

Total stock-based compensation was \$836 and \$214 for the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018, there was \$1,406 of unearned compensation expense related to restricted stock awards, which will be recognized over the remaining weighted average service period of 28 months. As of March 31, 2018, there was \$2,486 of unearned compensation related to performance stock options, which will be recognized over the remaining weighted average derived service period of 17 months. As of March 31, 2018, there was \$609 of unearned compensation related to time-vested stock options, which will be recognized over the remaining service period of 33 months.

**Note 12 Employee Benefit Plans**

The Company has qualified, defined benefit pension plans that were established to provide benefits to certain employees. These plans are frozen and participants are no longer accruing benefits. Generally, contributions to the plans are not less than the minimum amounts required under the Employee Retirement Income Security Act of 1974, as amended ( ERISA ), and not more than the maximum amount that can be deducted for federal income tax purposes. The plans' assets are held by independent trustees and consist primarily of equity and fixed income securities.

The Company also provides certain postretirement health care benefits for certain of its salaried retired employees. Generally, 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.

Additionally, as a result of the cost reduction program initiated in January 2017, certain employees participating in the salaried pension and postretirement benefit plans were impacted, which triggered curtailments of the respective plans during the three months ended March 31, 2017.

The components of net periodic benefit cost (benefit) for the three months ended March 31, 2018 and 2017, are as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Pension Benefits</b>		
Interest cost	\$ 427	\$ 446
Expected return on plan assets	(711)	(642)

Edgar Filing: FreightCar America, Inc. - Form 10-Q

Amortization of unrecognized net loss	113	119
Plan curtailment and special termination benefits		270
	\$ (171)	\$ 193

**Table of Contents**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Postretirement Benefit Plan</b>		
Service cost	\$ 8	\$ 12
Interest cost	45	50
Settlement income		
Amortization of prior service cost	4	4
Amortization of unrecognized net (gain) loss	(70)	(80)
Plan curtailment and special termination benefits		150
	\$ (13)	\$ 136

The Company made no contributions to the Company's defined benefit pension plans for each of the three months ended March 31, 2018 and 2017. The Company expects to make no contributions to its pension plans in 2018.

The Company made contributions to the Company's postretirement benefit plan for salaried retirees of \$225 and \$128 for the three months ended March 31, 2018 and 2017, respectively. The Company expects to make \$400 in contributions (including contributions already made) to its postretirement benefit plan in 2018 for salaried retirees.

The Company also maintains qualified defined contribution plans, which provide benefits to employees based on employee contributions, employee earnings or certain subsidiary earnings, with discretionary contributions allowed. Expenses related to these plans were \$430 and \$620 for the three months ended March 31, 2018 and 2017, respectively.

**Note 13 Contingencies**

The Company is involved in various warranty and repair claims and, in certain cases, related pending and threatened legal proceedings with its customers in the normal course of business. In the opinion of management, the Company's potential losses in excess of the accrued warranty and legal provisions, if any, are not expected to be material to the Company's consolidated financial condition, results of operations or cash flows.

The Company received cash payments of \$15,733 and \$1,410, during 2015 and 2017, respectively, for Alabama state and local incentives related to its capital investment and employment levels at its Cherokee, Alabama ( Shoals ) facility. Under the incentive agreements a certain portion of the incentives may be repayable by the Company if targeted levels of employment are not maintained for a period of up to six years from the date of the incentive. The Company's level of employment at its Shoals facility currently exceeds the minimum targeted levels of employment. In the event that employment levels drop below the minimum targeted levels of employment and any portion of the incentives is required to be paid back, the amount is unlikely to exceed the deferred liability balance of \$10,825 as of March 31, 2018.

In addition to the foregoing, the Company is involved in certain other pending and threatened legal proceedings, including commercial disputes and workers' compensation and employee matters arising out of the conduct of its business. While the ultimate outcome of these other legal proceedings cannot be determined at this time, it is the opinion of management that the resolution of these other actions will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.



**Table of Contents****Note 14 Earnings Per Share**

Shares used in the computation of the Company's basic and diluted earnings per common share are reconciled as follows:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
Weighted average common shares outstanding	12,306,011	12,269,555
Dilutive effect of employee stock options and nonvested share awards		
Weighted average diluted common shares outstanding	12,306,011	12,269,555

Weighted average diluted common shares outstanding include the incremental shares that would be issued upon the assumed exercise of stock options and the assumed vesting of nonvested share awards. For the three months ended March 31, 2018 and 2017, 355,631 and 517,448 shares, respectively, were not included in the weighted average common shares outstanding calculation as they were anti-dilutive.

**Note 15 Restructuring and Impairment Charges**

In the first quarter of 2017, in response to lower order trends in the industry, the Company announced reductions to its salaried workforce, initiatives to reduce discretionary spending and the idling of the Company's Danville, Illinois facility. In connection with the Company's cost reduction program during 2017, the Company recorded restructuring charges of \$1,777 during the three months ended March 31, 2017, which consisted primarily of employee severance and other employment termination costs and pension and postretirement benefit plan curtailment and special termination benefits. As a result of implementing ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, as of January 1, 2018, restructuring and impairment charges of \$420 for the three months ended March 31, 2017 have been reclassified as other income (expense) in the Condensed Consolidated Statement of Operations. There were no restructuring and impairment charges during the three months ended March 31, 2018.

**Note 16 Business Acquisition**

On February 28, 2018, the Company acquired substantially all of the operating assets at the Cherokee, Alabama ( Shoals ) facility, of Navistar, Inc. ( Navistar ) and its subsidiary, International Truck and Engine Investments Corporation, including their railcar business, and assumed the lease for the facility (the Acquisition ). The Company had subleased a portion of the Shoals facility since 2013. As a result of the Acquisition, the Company became the sole tenant of the approximately 2.2 million square-foot facility. Additionally, the Company offered employment opportunities to the majority of Navistar's approximately 200 employees on site. Under the terms of the Acquisition, the total consideration due to Navistar for the purchase of the operating assets was \$20,225. The parties also negotiated a \$24,130 lease incentive in favor of the Company in exchange for the Company assuming all remaining contractual lease obligations. Consideration for the acquisition was settled on a net basis and after certain other closing payments resulted in a payment of \$2,655 from Navistar to the Company. The \$24,130 lease incentive is included in deferred rent, current and deferred rent, long-term in the Company's Condensed Consolidated Balance Sheet and will be amortized over the remaining lease term as a reduction of rent expense. The Company incurred

acquisition costs of approximately \$400, which were primarily legal fees that were expensed as incurred.

The preliminary purchase price allocation is as follows:

Inventories	\$ 3,611
Other current assets	95
Property, plant and equipment, net	17,169
Accounts and contractual payables	(650)
	\$ 20,225

The purchase price equaled the estimated fair value of the net assets acquired (fair value hierarchy level 3) and, therefore, no goodwill or bargain purchase was recorded. Substantially all of Navistar's operations at the Shoals facility were in support of the Company's activities. Therefore, it is impracticable to determine the amount of operating profit attributable to the acquired business included in the Company's results of operations since the acquisition date as the Company has integrated the acquired business with our ongoing operations. Also, the pro-forma financial information for the Company's historical business and the assets acquired was impracticable to calculate as a result of various service, cost sharing and sublease agreements that were in place at the Shoals facility with Navistar.



---

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**OVERVIEW**

*You should read the following discussion in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this quarterly report on Form 10-Q. This discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about our business and operations. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements. See Cautionary Statement Regarding Forward-Looking Statements.*

We are a diversified manufacturer of railcars and railcar components. We design and manufacture a broad variety of railcar types for transportation of bulk commodities and containerized freight products primarily in North America.

We rebuild and convert railcars and sell forged, cast and fabricated parts for all of the railcars we produce, as well as those manufactured by others. We also lease freight cars. Our primary customers are railroads, shippers and financial institutions.

The Company's operations comprise two operating segments, Manufacturing and Parts, and one reportable segment, Manufacturing. The Company's Manufacturing segment includes new railcar manufacturing, used railcar sales, railcar leasing and major railcar rebuilds. The Company's Parts operating segment is not significant for reporting purposes and has been combined with corporate and other non-operating activities as Corporate and Other.

Our railcar manufacturing facilities are located in Cherokee, Alabama ( Shoals ), Danville, Illinois and Roanoke, Virginia. Our Shoals facility is an important part of our long-term growth strategy as we continue to expand our railcar product and service offerings. On February 28, 2018, we acquired substantially all of the operating assets of Navistar, Inc. ( Navistar ) and its subsidiary, International Truck and Engine Investments Corporation, at the Shoals facility, including their railcar business. Our Roanoke facility has the capacity to build a variety of railcar types in a cost-effective manner and will continue to support our coal car products as market conditions improve. Our Danville facility was idled for railcar production effective March 31, 2017.

Total orders for railcars in the first quarter of 2018 were 756 units, consisting of 156 new railcars and 600 rebuilt railcars, compared to orders for 68 units, consisting of 15 new railcars and 53 rebuilt railcars, in the first quarter of 2017. Total backlog of unfilled orders was 2,054 units at March 31, 2018, compared to 2,392 units at December 31, 2017. The estimated sales value of the backlog was \$143 million and \$181 million, respectively, as of March 31, 2018 and December 31, 2017.

**RESULTS OF OPERATIONS**

**Three Months Ended March 31, 2018 compared to Three Months Ended March 31, 2017**

**Revenues**

Our consolidated revenues for the three months ended March 31, 2018 were \$83.0 million compared to \$139.5 million for the three months ended March 31, 2017. Manufacturing segment revenues for the three months ended March 31, 2018 were \$79.7 million compared to \$137.7 million for the three months ended March 31, 2017. Railcar deliveries totaled 1,094 units, consisting of 891 new railcars, 122 leased railcars and 81 rebuilt railcars, for the first quarter of 2018, compared to 1,525 units, consisting of 1,425 new railcars and 100 leased railcars, in the first quarter of 2017. The decrease in Manufacturing segment revenues for the 2018 period compared to the 2017 period reflects the 28%

decrease in the number of railcars delivered and a lower average sales price. Corporate and Other revenues for the three months ended March 31, 2018 were \$3.2 million compared to \$1.8 million for the three months ended March 31, 2017, reflecting higher parts sales.

**Gross (Loss) Profit**

Our consolidated gross profit margin was (0.7)% for the three months ended March 31, 2018 compared to 7.0% for the three months ended March 31, 2017. Our consolidated gross loss for the three months ended March 31, 2018 was \$0.6 million compared to gross profit of \$9.8 million for the three months ended March 31, 2017, reflecting decreases in gross profit from our Manufacturing segment of \$11.1 million, which were partially offset by increases in gross profit from Corporate and Other of \$0.7 million. The decline in railcar deliveries contributed a \$3.9 million decrease in gross profit in our Manufacturing segment and an unfavorable product mix of lower-margin railcars and higher production inefficiencies contributed another \$7.2 million decrease in Manufacturing segment gross profit.

---

**Table of Contents****Selling, General and Administrative Expenses**

Consolidated selling, general and administrative expenses for the three months ended March 31, 2018 were \$8.0 million compared to \$7.0 million for the three months ended March 31, 2017. Manufacturing segment selling, general and administrative expenses for the three months ended March 31, 2018 were \$2.0 million compared to \$1.7 million for the three months ended March 31, 2017 primarily due to higher third-party sales commissions of \$0.2 million and higher professional fees of \$0.1 million. Corporate and Other selling, general and administrative expenses were \$5.9 million for the three months ended March 31, 2018 compared to \$5.3 million for the three months ended March 31, 2017. Corporate and Other selling, general and administrative expenses for the three months ended March 31, 2018 included increases due to a \$0.6 million provision for incentive compensation and increases in stock-based compensation of \$0.5 million, which were partially offset by decreases in legal fees of \$0.4 million. The decrease in legal fees was primarily due to the settlement of patent litigation during the fourth quarter of 2017.

**Restructuring and Impairment Charges**

There were no restructuring and impairment charges for the three months ended March 31, 2018. In the first quarter of 2017, in response to lower order trends in the industry, we announced reductions to our salaried workforce, initiatives to reduce discretionary spending and the idling of our Danville, Illinois facility. We recorded restructuring and impairment charges of \$1.8 million during the first quarter of 2017. These charges consisted primarily of employee severance and other employment termination costs and pension and postretirement benefit plan curtailment and special termination benefits. As a result of implementing ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, as of January 1, 2018, restructuring and impairment charges of \$0.4 million for the three months ended March 31, 2017 have been reclassified as other income (expense) in the Condensed Consolidated Statement of Operations.

**Operating (Loss) Income**

Our consolidated operating loss for the three months ended March 31, 2018 was \$8.6 million compared to operating income of \$1.4 million for the three months ended March 31, 2017. Operating loss for the Manufacturing segment was \$3.8 million for the three months ended March 31, 2018 compared to operating income of \$7.2 million for the three months ended March 31, 2017 reflecting the decrease in Manufacturing segment gross profit and increase in selling, general and administrative expenses described above, which were partially offset by the decrease in Manufacturing segment restructuring and impairment charges of \$0.4 million. Corporate and Other operating loss was \$4.8 million for the three months ended March 31, 2018 compared to an operating loss of \$5.8 million for the three months ended March 31, 2017 primarily due to decreases in restructuring and impairment charges of \$1.0 million.

**Income Taxes**

Our income tax benefit was \$1.8 million for the three months ended March 31, 2018 compared to an income tax provision of \$0.4 million for the three months ended March 31, 2017. Our effective tax rate for the three months ended March 31, 2018 was 22.3% compared to 40.8% for the three months ended March 31, 2017. The decrease in the effective tax rate was primarily due to the impact of the U. S. tax reform legislation commonly referred to as the Tax Cuts and Jobs Act, which reduced the U.S. corporate income tax rate from 35 percent to 21 percent.

**Net (Loss) Income**

As a result of the foregoing, our net loss was \$6.4 million for the three months ended March 31, 2018 compared to net income of \$0.6 million for the three months ended March 31, 2017. For the three months ended March 31, 2018, our

diluted net loss per share was \$0.51 compared to diluted earnings per share of \$0.05 for the three months ended March 31, 2017.

## **LIQUIDITY AND CAPITAL RESOURCES**

Our primary sources of liquidity for the three months ended March 31, 2018 and 2017, were our cash provided by operations, cash and cash equivalent balances on hand, our securities held to maturity and our revolving credit facility.

**Table of Contents**

On June 13, 2016, we amended the credit agreement, dated as of July 26, 2013 (as so amended, the Credit Agreement ), by and among FreightCar and certain of its subsidiaries, as borrowers and guarantors (together, the Borrowers ), and Bank of America, N.A., as lender, administrative agent, swingline lender and letter of credit issuer (the Bank ) to, among other things, extend the term of the Credit Agreement to July 26, 2019.

As of March 31, 2018 and December 31, 2017, we had no borrowings under the \$50 million senior secured revolving credit facility ( the Revolving Credit Facility ), provided under the Credit Agreement. As of March 31, 2018 and December 31, 2017, we had \$5.5 million in outstanding letters of credit under the Revolving Credit Facility and therefore had \$44.5 million available for borrowing under the Revolving Credit

Our restricted certificates of deposit balance was \$5.5 million as of March 31, 2018 and \$5.7 million as of December 31, 2017, and consisted of certificates of deposit used to collateralize standby letters of credit with respect to performance guarantees and to support our workers' compensation insurance claims. The standby letters of credit outstanding as of March 31, 2018 are scheduled to expire at various dates through February 4, 2019. We expect to establish restricted cash balances and restricted certificates of deposit in future periods to minimize bank fees related to standby letters of credit.

Based on our current level of operations and known changes in planned volume based on our backlog, we believe that our operating cash flows, our marketable securities and our cash balances, together with amounts available under our revolving credit facility, will be sufficient to meet our expected liquidity needs. Our long-term liquidity is contingent upon future operating performance and our ability to continue to meet financial covenants under our revolving credit facility and any other indebtedness. We may also require additional capital in the future to fund working capital as demand for railcars increases, payments for contractual obligations, organic growth opportunities, including new plant and equipment and development of railcars, joint ventures, international expansion and acquisitions, and these capital requirements could be substantial.

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

**Contractual Obligations**

The following table summarizes our contractual obligations as of March 31, 2018 and the effect that these obligations and commitments would be expected to have on our liquidity and cash flow in future periods:

Contractual Obligations	Total	Payments Due by Period			After 5 Years
		1 Year	2-3 Years	4-5 Years	
<i>(In thousands)</i>					
Operating leases	\$ 80,392	\$ 18,711	\$ 37,892	\$ 18,279	\$ 5,510

The above table excludes \$0.2 million related to a reserve for unrecognized tax benefits and accrued interest and penalties at March 31, 2018 because the timing of the payout of these amounts cannot be determined. We are also required to make minimum contributions to our pension plans and postretirement welfare plans.

**Table of Contents****Cash Flows**

The following table summarizes our net cash (used in) provided by operating activities, investing activities and financing activities for the three months ended March 31, 2018 and 2017:

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
	<i>(In thousands)</i>	
Net cash provided by (used in):		
Operating activities	\$ (13,490)	\$ 15,960
Investing activities	(8,925)	(12,872)
Financing activities	(118)	(1,131)
<b>Total</b>	<b>\$ (22,533)</b>	<b>\$ 1,957</b>

*Operating Activities.* Our net cash provided by or used in operating activities reflects net income or loss adjusted for non-cash charges and changes in operating assets and liabilities. Cash flows from operating activities are affected by several factors, including fluctuations in business volume, contract terms for billings and collections, the timing of collections on our contract receivables, processing of bi-weekly payroll and associated taxes, and payments to our suppliers. As some of our customers accept delivery of new railcars in train-set quantities, variations in our sales lead to significant fluctuations in our operating profits and cash from operating activities. We do not usually experience business credit issues, although a payment may be delayed pending completion of closing documentation.

Our net cash used in operating activities for the three months ended March 31, 2018 was \$13.5 million compared to net cash provided by operating activities of \$16.0 million for the three months ended March 31, 2017. Our net cash used in operating activities for the three months ended March 31, 2018 reflects changes in working capital, including a \$9.2 million increase in inventory on lease and a \$5.3 million increase in accounts receivable. Our net cash provided by operating activities for the three months ended March 31, 2017 reflects decreases in working capital, including a \$20.1 million decrease in inventory, which were partially offset by an \$8.4 million increase in inventory on lease.

*Investing Activities.* Net cash used in investing activities for the three months ended March 31, 2018 was \$8.9 million and primarily represented the \$9.2 million purchase of U.S. Treasury securities and certificates of deposit (net of maturities). Net cash used in investing activities for the three months ended March 31, 2017 was \$12.9 million and primarily represented the \$14.1 million purchase of U.S. Treasury securities and certificates of deposit (net of maturities), which was partially offset by \$1.4 million of state and local incentives received.

*Financing Activities.* Net cash used in financing activities was \$0.1 million for the three months ended March 31, 2018 compared to \$1.1 million for the three months ended March 31, 2017, reflecting the suspension of our quarterly cash dividend to our stockholders in November 2017.

**Capital Expenditures**

Our capital expenditures were \$0.2 million in the three months ended March 31, 2018 compared to \$0.3 million in the three months ended March 31, 2017. During the three months ended March 31, 2018, we also acquired \$17.2 million of equipment as part of the net settlement of our acquisition of Navistar's business at our Shoals facility. Excluding unforeseen expenditures, management anticipates that total capital expenditures for 2018 will be between \$3.0 million

and \$4.0 million, including amounts already paid.

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This quarterly report on Form 10-Q contains certain forward-looking statements including, in particular, statements about our plans, strategies and prospects. We have used the words may, will, expect, anticipate, believe, estimate, plan, intend and similar expressions in this report to identify forward-looking statements. We have based these forward-looking statements on our current views with respect to future events and financial performance. Our actual results could differ materially from those projected in the forward-looking statements.



**Table of Contents**

Our forward-looking statements are subject to risks and uncertainties, including:

the cyclical nature of our business;

the competitive nature of our industry;

our reliance upon a small number of customers that represent a large percentage of our sales;

the variable purchase patterns of our customers and the timing of completion, delivery and customer acceptance of orders;

the availability and price of used railcars offered for sale and new or used railcars offered for lease;

fluctuating costs of raw materials, including steel and aluminum, and delays in the delivery of raw materials;

limitations on the supply of railcar components;

international economic and political risks to the extent we expand our sales of products and services internationally;

the risk of lack of acceptance of our new railcar offerings by our customers;

our reported backlog may not indicate what our future sales will be;

potential significant warranty claims;

acquisitions may fail to perform to expectations or we may fail to successfully integrate acquired businesses into our existing business;

the risk of losing key personnel;

shortages of skilled labor;

risks relating to our relationship with our unionized employees and their unions;

our reliance on a single supplier for our roll-formed center sills;

the risk of equipment failures, delays in deliveries or extensive damage to our facilities;

the risk that we are unable to renew our lease arrangements at our manufacturing facilities at commercially acceptable terms;

the risk of failing to adequately protect our intellectual property;

cybersecurity risks relating to our information technology and other systems;

our ability to maintain relationships with our suppliers of railcar components;

the risk of changes in U.S. tax law and rates;

the cost of complying with environmental laws and regulations; and

various covenants in the agreements governing our indebtedness that limit our management's discretion in the operation of our businesses.

Our actual results could be different from the results described in or anticipated by our forward-looking statements due to the inherent uncertainty of estimates, forecasts and projections and may be better or worse than anticipated. Given these uncertainties, you should not rely on forward-looking statements. Forward-looking statements represent our estimates and assumptions only as of the date that they were made. We expressly disclaim any duty to provide updates to forward-looking statements, and the estimates and assumptions associated with them, in order to reflect changes in circumstances or expectations or the occurrence of unanticipated events except to the extent required by applicable securities laws. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed under Item 1A, "Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2017 filed with the Securities and Exchange Commission.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We have a \$50.0 million senior secured revolving credit facility, the proceeds of which can be used for general corporate purposes, including working capital. On an annual basis, a 1% change in the interest rate in our revolving credit facility will increase or decrease our interest expense by \$10,000 for every \$1.0 million of outstanding borrowings. As of March 31, 2018, we had \$5.5 million in outstanding letters of credit under the Revolving Credit Facility and therefore had \$44.5 million available for borrowing under the Revolving Credit Facility.

The production of railcars and our operations require substantial amounts of aluminum and steel. The cost of aluminum, steel and all other materials (including scrap metal) used in the production of our railcars represents a significant majority of our direct manufacturing costs. Our business is subject to the risk of price increases and periodic delays in the delivery of aluminum, steel and other materials, all of which are beyond our control. Any fluctuations in the price or availability of aluminum or steel, or any other material used in the production of our railcars, may have a material adverse effect on our business, results of operations or financial condition. In addition, if any of our suppliers were unable to continue its business or were to seek bankruptcy relief, the availability or price of the materials we use could be adversely affected. When market conditions permit us to do so, we negotiate contracts with our customers that allow for variable pricing to protect us against future changes in the cost of raw materials. When raw material prices increase rapidly or to levels significantly higher than normal, we may not be able to pass price increases through to our customers, which could adversely affect our operating margins and cash flows.

## **Table of Contents**

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

## **Item 4. Controls and Procedures.**

### **Evaluation of Disclosure Controls and Procedures**

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

### **Changes in Internal Control Over Financial Reporting**

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

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

The information in response to this item is included in Note 13 Contingencies to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

### **Item 1A. Risk Factors.**

There have been no material changes from the risk factors previously disclosed in Item 1A of our 2017 annual report on Form 10-K.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. Mine Safety Disclosures.**

Not applicable.

### **Item 5. Other Information.**

None.

**Table of Contents**

**Item 6. Exhibits.**

(a) Exhibits filed as part of this Form 10-Q:

2.1	<u>Asset Purchase Agreement dated February 26, 2018, by and among Navistar, Inc, International Truck and Engine Investments Corporation and FreightCar Alabama, LLC.</u>
10.1	<u>Assignment and Assumption of Lease, dated as of February 28, 2018, by and between Navistar, Inc. and FreightCar Alabama, LLC.</u>
10.2	<u>Industrial Facility Lease dated as of September 29, 2011, by and between Teachers Retirement Systems of Alabama and Employees Retirement System of Alabama and Navistar, Inc.*</u>
10.3	<u>Amendment to Industrial Facility Lease and Consent to Sublease, dated as of February 19, 2013, by and among Teachers Retirement Systems of Alabama, Employees Retirement System of Alabama, Navistar, Inc. and FreightCar Alabama, LLC.</u>
10.4	<u>Fifth Amendment to Lease Agreement dated March 1, 2018 by and between Norfolk Southern Railway Company and Johnstown America Corporation.</u>
31.1	<u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32	<u>Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

**Table of Contents**

**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.

**FREIGHTCAR AMERICA, INC.**

Date: May 3, 2018

By: /s/ JAMES R. MEYER  
James R. Meyer, President and Chief Executive Officer  
(Principal Executive Officer)

By: /s/ MATTHEW S. KOHNKE  
Matthew S. Kohnke, Vice President, Finance, Chief  
Financial Officer and Treasurer (Principal Financial  
Officer)

By: /s/ JOSEPH J. MALIEKEL  
Joseph J. Maliekel, Vice President and Corporate  
Controller (Principal Accounting Officer)

**Table of Contents****EXHIBIT INDEX**

<b>Exhibit</b>	<b>Description</b>
<b>Number</b>	<b>Description</b>
2.1	<u>Asset Purchase Agreement dated February 26, 2018, by and among Navistar, Inc., International Truck and Engine Investments Corporation and FreightCar Alabama, LLC.</u>
10.1	<u>Assignment and Assumption of Lease, dated as of February 28, 2018, by and between Navistar, Inc. and FreightCar Alabama, LLC.</u>
10.2	<u>Industrial Facility Lease, dated as of September 29, 2011, by and between Teachers Retirement Systems of Alabama and Employees Retirement System of Alabama and Navistar, Inc.*</u>
10.3	<u>Amendment to Industrial Facility Lease and Consent to Sublease, dated as of February 19, 2013, by and among Teachers Retirement Systems of Alabama, Employees Retirement System of Alabama, Navistar, Inc. and FreightCar Alabama, LLC.</u>
10.4	<u>Fifth Amendment to Lease Agreement dated March 1, 2018, by and between Norfolk Southern Railway Company and Johnstown America Corporation.</u>
31.1	<u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32	<u>Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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