

FreightCar America, Inc.  
Form 10-Q  
May 02, 2019

**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, 2019**

**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)**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**25-1837219**  
**(I.R.S. Employer**  
**Identification No.)**

**Two North Riverside Plaza, Suite 1300**

**Chicago, Illinois**  
**(Address of principal executive offices)**

**60606**  
**(Zip Code)**

**(800) 458-2235**

**(Registrant's telephone number, including area code)**

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

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted 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 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

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

| <b>Title of each class</b>                      | <b>Trading Symbol(s)</b> | <b>Name of Each Exchange on Which Registered</b> |
|---|--------------------------|--|
| <b>Common stock, par value \$0.01 per share</b> | <b>RAIL</b>              | <b>Nasdaq Global Market</b>                      |

As of April 17, 2019, there were 12,596,142 shares of the registrant's common stock outstanding.

**FREIGHTCAR AMERICA, INC.**

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

|   | <b>March 31, 2019</b>                                     | <b>December 31, 2018</b> |
|---|---|--------------------------|
|   | (in thousands, except for share and<br>per<br>share data) |                          |
| <b>Assets</b>   |   |                          |
| Current assets  |   |                          |
| Cash, cash equivalents and restricted cash equivalents                                      | \$ 65,000   | \$ 45,070                |
| Restricted certificates of deposit  | 1,668   | 4,952                    |
| Marketable securities   | 1,998   | 18,019                   |
| Accounts receivable, net of allowance for doubtful accounts of \$108 and \$91, respectively | 9,290   | 18,218                   |
| Inventories, net  | 52,700  | 64,562                   |
| Other current assets  | 7,373   | 5,012                    |
| Total current assets  | 138,029   | 155,833                  |
| Property, plant and equipment, net  | 43,406  | 45,317                   |
| Railcars available for lease, net   | 64,370  | 64,755                   |
| Right of use asset  | 74,174  |                          |
| Goodwill  | 21,521  | 21,521                   |
| Other long-term assets  | 2,583   | 2,311                    |
| Total assets  | \$ 344,083  | \$ 289,737               |
| <b>Liabilities and Stockholders Equity</b>  |   |                          |
| Current liabilities   |   |                          |
| Accounts and contractual payables   | \$ 30,586   | \$ 34,749                |
| Accrued payroll and other employee costs  | 1,998   | 1,639                    |
| Reserve for workers compensation  | 3,527   | 3,344                    |
| Accrued warranty  | 11,045  | 9,309                    |
| Customer deposits   | 1,281   | 3,000                    |
| Deferred income state and local incentives, current   | 2,219   | 2,219                    |
| Deferred rent, current  |   | 6,466                    |
| Lease liability, current  | 16,840  |                          |
| Other current liabilities   | 1,325   | 1,324                    |
| Total current liabilities   | 68,821  | 62,050                   |
| Accrued pension costs   | 5,752   | 5,841                    |
| Accrued postretirement benefits, less current portion                                       | 4,907   | 4,975                    |
| Deferred income state and local incentives, long-term                                       | 6,387   | 6,941                    |
| Deferred rent, long-term  |   | 15,519                   |
| Lease liability, long-term  | 77,281  |                          |
| Accrued taxes and other long-term liabilities   | 476   | 801                      |

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|   |            |            |
|---|------------|------------|
| Total liabilities   | 163,624    | 96,127     |
| 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, 2019 and December 31, 2018) |            |            |
| Common stock, \$0.01 par value, 50,000,000 shares authorized, 12,731,678 shares issued at March 31, 2019 and December 31, 2018  | 127        | 127        |
| Additional paid in capital  | 86,074     | 90,593     |
| Treasury stock, at cost, 135,286 and 272,030 shares at March 31, 2019 and December 31, 2018, respectively   | (4,572)    | (9,721)    |
| Accumulated other comprehensive loss  | (8,145)    | (8,188)    |
| Retained earnings   | 106,975    | 120,799    |
| Total stockholders' equity  | 180,459    | 193,610    |
| Total liabilities and stockholders' equity  | \$ 344,083 | \$ 289,737 |

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

**FreightCar America, Inc.**

**Condensed Consolidated Statements of Operations**

**(Unaudited)**

|  | <b>Three Months Ended</b>                              |             |
|--|--|-------------|
|  | <b>March 31,</b>                                       |             |
|  | <b>2019</b>  | <b>2018</b> |
|  | (in thousands, except for share<br>and per share data) |             |
| Revenues   | \$ 70,708  | \$ 82,973   |
| Cost of sales                                      | 77,557   | 83,569      |
| Gross loss   | (6,849)  | (596)       |
| Selling, general and administrative expenses       | 7,667  | 7,996       |
| Operating loss                                     | (14,516)   | (8,592)     |
| Interest expense and deferred financing costs      | (36)   | (32)        |
| Other income                                       | 319  | 381         |
| Loss before income taxes                           | (14,233)   | (8,243)     |
| Income tax benefit                                 | (201)  | (1,839)     |
| Net loss   | \$ (14,032)  | \$ (6,404)  |
| Net loss per common share basic                    | \$ (1.12)  | \$ (0.51)   |
| Net loss per common share diluted                  | \$ (1.12)  | \$ (0.51)   |
| Weighted average common shares outstanding basic   | 12,337,013   | 12,306,011  |
| Weighted average common shares outstanding diluted | 12,337,013   | 12,306,011  |
| Dividends declared per common share                | \$   | \$          |

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

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

|  | <b>Three Months Ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2019</b>                         | <b>2018</b> |
|  | <b>(in thousands)</b>               |             |
| Net loss   | \$ (14,032)                         | \$ (6,404)  |
| Other comprehensive (loss) income, net of tax:   |                                     |             |
| Pension liability adjustments, net of tax        | 137                                 | 88          |
| Postretirement liability adjustments, net of tax | (94)                                | (52)        |
| Other comprehensive (loss) income                | 43                                  | 36          |
| Comprehensive loss                               | \$ (13,989)                         | \$ (6,368)  |

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

## FreightCar America, Inc.

## Condensed Consolidated Statements of Stockholders Equity (Unaudited)

(in thousands, except for share data)

|  | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid In<br>Capital | Treasury Stock<br>Shares | Treasury Stock<br>Amount | Accumulated<br>Other<br>Comprehensive<br>Loss | Retained<br>Earnings | Total<br>Stockholders<br>Equity |
|--|------------------------|------------------------|----------------------------------|--------------------------|--------------------------|---|----------------------|---------------------------------|
| <b>Balance,<br/>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<br>comprehensive<br>income               |                        |                        |                                  |                          |                          | 36  |                      | 36                              |
| Restricted stock<br>awards                     |                        |                        | (2,392)                          | 64,457                   | 2,392                    |   |                      |                                 |
| Employee stock<br>settlement                   |                        |                        |                                  | (7,089)                  | (118)                    |   |                      | (118)                           |
| Forfeiture of<br>restricted stock<br>awards    |                        |                        | 117                              | (7,991)                  | (117)                    |   |                      |                                 |
| Stock-based<br>compensation<br>recognized      |                        |                        | 836                              |                          |                          |   |                      | 836                             |
| <b>Balance,<br/>March 31, 2018</b>             | 12,731,678             | \$ 127                 | \$ 88,908                        | (287,605)                | \$(10,398)               | \$ (7,531)                                    | \$ 154,976           | \$ 226,082                      |
| <b>Balance,<br/>December 31, 2018</b>          | 12,731,678             | \$ 127                 | \$ 90,593                        | (272,030)                | \$(9,721)                | \$ (8,188)                                    | \$ 120,799           | \$ 193,610                      |
| Cumulative effect<br>of adoption of<br>ASC 842 |                        |                        |                                  |                          |                          |   | 208                  | 208                             |
| Net loss                                       |                        |                        |                                  |                          |                          |   | (14,032)             | (14,032)                        |
| Other<br>comprehensive loss                    |                        |                        |                                  |                          |                          | 43  |                      | 43                              |
| Restricted stock<br>awards                     |                        |                        | (5,227)                          | 146,948                  | 5,227                    |   |                      |                                 |
| Employee stock<br>settlement                   |                        |                        |                                  | (7,404)                  | (59)                     |   |                      | (59)                            |
| Forfeiture of<br>restricted stock<br>awards    |                        |                        | 19                               | (2,800)                  | (19)                     |   |                      |                                 |

|                                     |  |  |  |  |  |  |  |  |  |     |     |
|-------------------------------------|--|--|--|--|--|--|--|--|--|-----|-----|
| Stock-based compensation recognized |  |  |  |  |  |  |  |  |  | 689 | 689 |
|-------------------------------------|--|--|--|--|--|--|--|--|--|-----|-----|

|                                |            |        |           |           |            |            |            |            |
|--------------------------------|------------|--------|-----------|-----------|------------|------------|------------|------------|
| <b>Balance, March 31, 2019</b> | 12,731,678 | \$ 127 | \$ 86,074 | (135,286) | \$ (4,572) | \$ (8,145) | \$ 106,975 | \$ 180,459 |
|--------------------------------|------------|--------|-----------|-----------|------------|------------|------------|------------|

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

**FreightCar America, Inc.**

**Condensed Consolidated Statements of Cash Flows**

**(Unaudited)**

|  | <b>Three Months Ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2019</b>                         | <b>2018</b> |
|  | <b>(in thousands)</b>               |             |
| <b>Cash flows from operating activities</b>  |                                     |             |
| Net loss   | \$ (14,032)                         | \$ (6,404)  |
| Adjustments to reconcile net loss to net cash flows provided by (used in) by operating activities: |                                     |             |
| Net proceeds from Shoals transaction   |                                     | 2,655       |
| Depreciation and amortization  | 3,206                               | 2,550       |
| Amortization expense right-of-use leased assets  | 3,202                               |             |
| Recognition of deferred income from state and local incentives                                     | (554)                               | (555)       |
| Deferred income taxes  |                                     | (1,992)     |
| Stock-based compensation recognized  | 689                                 | 836         |
| Other non-cash items, net  | (736)                               | 273         |
| Changes in operating assets and liabilities, net of acquisitions:                                  |                                     |             |
| Accounts receivable  | 8,928                               | (5,330)     |
| Inventories  | 12,591                              | 1,930       |
| Inventories on lease   |                                     | (9,186)     |
| Other assets   | (2,355)                             | (3,323)     |
| Accounts and contractual payables  | (4,516)                             | 2,284       |
| Accrued payroll and employee benefits  | 359                                 | 338         |
| Income taxes receivable/payable  | (200)                               | 650         |
| Accrued warranty   | 1,736                               | 979         |
| Lease liability  | (5,037)                             |             |
| Other liabilities  | (1,460)                             | 1,223       |
| Accrued pension costs and accrued postretirement benefits  | (114)                               | (418)       |
| Net cash flows provided by (used in) operating activities  | 1,707                               | (13,490)    |
| <b>Cash flows from investing activities</b>  |                                     |             |
| Purchase of restricted certificates of deposit   | (1,117)                             | (1,040)     |
| Maturity of restricted certificates of deposit   | 4,400                               | 1,308       |
| Purchase of securities held to maturity  | (1,986)                             | (41,244)    |
| Proceeds from maturity of securities   | 18,025                              | 32,005      |
| Purchase of property, plant and equipment  | (760)                               | (182)       |
| Proceeds from sale of property, plant and equipment and railcars available for lease               |                                     | 228         |
| Net cash flows provided by (used in) investing activities  | 18,562                              | (8,925)     |
| <b>Cash flows from financing activities</b>  |                                     |             |
| Employee stock settlement  | (59)                                | (118)       |
| Deferred financing costs   | (280)                               |             |

|   |           |           |
|---|-----------|-----------|
| Net cash flows used in financing activities                                   | (339)     | (118)     |
| Net increase (decrease) in cash and cash equivalents                          | 19,930    | (22,533)  |
| Cash, cash equivalents and restricted cash equivalents at beginning of period | 45,070    | 87,788    |
| Cash, cash equivalents and restricted cash equivalents at end of period       | \$ 65,000 | \$ 65,255 |
| <b>Supplemental cash flow information</b>                                     |           |           |
| Interest paid   | \$ 15     | \$ 18     |
| Income tax refunds received   | \$        | \$ 487    |
| Income tax paid   | \$        | \$        |

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

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**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; 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, 2019 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 2018 year-end balance sheet data was derived from the audited financial statements as of December 31, 2018. 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, 2018.

**Note 3 Recent Accounting Pronouncements**

In August 2018, the Financial Accounting Standards Board (the FASB ) issued Accounting Standards Update ( ASU ) 2018-15, *Intangibles Goodwill and Other Internal-Use Software*, which requires capitalization of certain implementation costs incurred in a cloud computing arrangement that is a service contract. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019, 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.

In August 2018, the FASB issued ASU 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans General*, which modifies the disclosure requirements for defined benefit and other postretirement plans. ASU 2018-14 eliminates certain disclosures related to accumulated other comprehensive income, plan assets, related parties and the effects of interest rate basis point changes on assumed health care costs, and adds disclosures to address significant gains and losses related to changes in benefit obligations. ASU 2018-14 also clarifies disclosure requirements for projected benefit and accumulated benefit obligations. ASU 2018-14 is effective for fiscal years ending after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. Adoption on a retrospective basis for all periods presented is required. The Company is currently assessing the impact of this standard on its consolidated financial statements and related disclosures.

In February 2018, the FASB issued 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. The Company did not elect to reclassify tax effects stranded in accumulated other comprehensive income as a result of the recent U.S. tax reform to retained earnings.

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, as amended, *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. The Company adopted ASU 2016-02 effective January 1, 2019. See Note 4 – Leases for the impact on the financial statements and related disclosures from the adoption of this standard.

#### **Note 4 – Leases**

Effective January 1, 2019, the Company adopted ASU 2016-02, as amended, *Leases (Topic 842)* using the modified retrospective method of applying the new standard at the adoption date. In addition, the Company has elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, does not require reassessment of prior conclusions related to contracts containing a lease, lease classification, and initial direct lease costs. Adoption of this standard resulted in the recording of net operating lease right-of-use (ROU) assets of \$45,727 and corresponding operating lease liabilities of \$67,508 as of January 1, 2019. The condensed consolidated balance sheets for reporting periods beginning on or after January 1, 2019 are presented under the new guidance, while prior period amounts are not adjusted and continue to be reported in accordance with ASC Topic 840, Leases.

The Company determines if an arrangement is a lease at inception of a contract. Substantially all of the Company's leases are operating leases. A significant portion of the Company's operating lease portfolio includes manufacturing sites, component warehouses and corporate offices. The remaining lease terms on the majority of the Company's leases is between 2.5 to 8 years, some of which include options to extend the lease terms. Leases with initial term of 12 months or less are not recorded on the condensed consolidated balance sheet. Operating lease ROU assets are presented within long term assets, the current portion of operating lease liabilities is presented within current liabilities and the non-current portion of operating lease liabilities are presented within long term liabilities on the consolidated condensed consolidated balance sheet.

ROU assets represent the Company's right to use an underlying asset during the lease term and the lease liabilities represent the Company's obligation to make the lease payments arising during the lease. ROU assets and liabilities are recognized at commencement date based on the net present value of fixed lease payments over the lease term. The Company's ROU assets have been reduced by the remaining unamortized lease incentive that the Company received on February 28, 2018 from Navistar, Inc in exchange for the Company assuming all of the remaining contractual lease obligations for the Shoals facility. The Company's lease term includes options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. As most of the Company's operating leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Operating lease expense is recognized on a straight-line basis over the lease term. The components of the lease costs were as follows:

|                               | <b>Three Months Ended<br/>March 31, 2019</b> |              |
|-------------------------------|--|--------------|
| <b>Operating lease costs:</b> |  |              |
| Fixed                         | \$   | 3,534        |
| Variable                      |  |              |
| Short-term                    |  | 183          |
| <b>Total lease cost</b>       | <b>\$</b>                                    | <b>3,717</b> |

Supplemental balance sheet information related to leases were as follows:

|  | <b>March 31, 2019</b> |               |
|--|-----------------------|---------------|
| <b>Operating leases:</b>                 |                       |               |
| Right of use assets                      | \$                    | 74,174        |
| <b>Lease liabilities:</b>                |                       |               |
| Lease liability, current                 | \$                    | 16,840        |
| Lease liability, long-term               |                       | 77,281        |
| <b>Total operating lease liabilities</b> | <b>\$</b>             | <b>94,121</b> |

Supplemental cash flow information is as follows:

|  | <b>Three Months Ended<br/>March 31, 2019</b> |              |
|--|--|--------------|
| <b>Cash paid for amounts included in the measurement of lease liabilities:</b> |  |              |
| Operating cash flows from operating leases                                     | \$   | 5,366        |
| <b>Total</b>   | <b>\$</b>                                    | <b>5,366</b> |

Right of use assets obtained in exchange for new lease obligations:

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|                  |    |               |
|------------------|----|---------------|
| Operating leases | \$ | 32,079        |
| <b>Total</b>     | \$ | <b>32,079</b> |

The aggregate future lease payments for operating leases as of March 31, 2019 are as follows

|   | <b>Operating leases</b> |                |
|---|-------------------------|----------------|
| 2019 (Excluding the three months ending March 31, 2019) | \$                      | 15,593         |
| 2020  |                         | 20,326         |
| 2021  |                         | 20,032         |
| 2022  |                         | 12,869         |
| 2023  |                         | 11,817         |
| Thereafter  |                         | 27,313         |
| <b>Total lease payments</b>                             |                         | <b>107,949</b> |
| Less: interest  |                         | (13,828)       |
| <b>Total</b>  | \$                      | <b>94,121</b>  |

The aggregate future lease payments for operating leases as of December 31, 2018 were as follows

|              | <b>Operating leases</b> |
|--------------|-------------------------|
| 2019         | \$ 20,295               |
| 2020         | 20,595                  |
| 2021         | 20,424                  |
| 2022         | 4,873                   |
| 2023         | 3,820                   |
| Thereafter   | 3,024                   |
| <b>Total</b> | <b>\$ 73,031</b>        |

|   |      |
|---|------|
| Weighted-average remaining lease term (years) |      |
| Operating leases                              | 8.1  |
| Weighted-average discount rate                |      |
| Operating leases                              | 4.5% |

On February 26, 2019, the Company entered into an Amendment to its lease of the Shoals, Alabama manufacturing facility to extend the initial term thereof from December 31, 2021 to December 31, 2026, with two five-year extension terms thereafter through December 31, 2031 and December 31, 2036, at the Company's option. In addition, the Company will vacate up to 40% of the manufacturing facility on or before December 31, 2021 with the base rent payable to the Landlord reduced on proportional basis.

The Company has accounted for the amendment as a modification of the lease, resulting in a non-cash increase to lease liability and right of use asset of \$32,079. The company concluded that the initial term through December 31, 2026 would be included in the measurement of lease liabilities as of March 31, 2019. The Company has concluded that the options for extensions beyond that date are not reasonably certain of exercise, and have been excluded from the measurement of lease liabilities.

#### **Note 5 Revenue Recognition**

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

|  | <b>Three months<br/>ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2019</b>                                 | <b>2018</b> |
| Railcar sales                          | \$ 65,944                                   | \$ 79,079   |
| Parts sales                            | 3,064                                       | 3,212       |
| Other sales                            | 19  | 56          |
| Revenues from contracts with customers | 69,027                                      | 82,347      |
| Leasing revenues                       | 1,681                                       | 626         |
| Total revenues                         | \$ 70,708                                   | \$ 82,973   |

Contract Balances and Accounts Receivable

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, 2019. 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 customer deposits, other current liabilities and other long-term liabilities in the Company's Condensed Consolidated Balance Sheet as of March 31, 2019 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, 2019 with expected duration of greater than one year.

### **Note 6 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 and restricted cash and restricted 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.

|  | <b>Three months ended</b> |                   |
|--|---------------------------|-------------------|
|  | <b>March 31,</b>          |                   |
|  | <b>2019</b>               | <b>2018</b>       |
| <b>Revenues:</b>   |                           |                   |
| Manufacturing  | \$ 67,595                 | \$ 79,733         |
| Corporate and Other  | 3,113                     | 3,240             |
| <b>Consolidated Revenues</b>                               | <b>\$ 70,708</b>          | <b>\$ 82,973</b>  |
| <b>Operating (Loss) Income:</b>                            |                           |                   |
| Manufacturing  | \$ (9,637)                | \$ (3,816)        |
| Corporate and Other  | (4,879)                   | (4,776)           |
| <b>Consolidated Operating (Loss) Income</b>                | <b>(14,516)</b>           | <b>(8,592)</b>    |
| Consolidated interest expense and deferred financing costs | (36)                      | (32)              |
| Consolidated other income                                  | 319                       | 381               |
| <b>Consolidated (Loss) Income Before Income Taxes</b>      | <b>\$ (14,233)</b>        | <b>\$ (8,243)</b> |

### **Depreciation and Amortization:**

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|   |                 |                 |
|---|-----------------|-----------------|
| Manufacturing                                     | \$ 3,013        | \$ 2,484        |
| Corporate and Other                               | 184             | 66              |
| <b>Consolidated Depreciation and Amortization</b> | <b>\$ 3,197</b> | <b>\$ 2,550</b> |
| <b>Capital Expenditures:</b>                      |                 |                 |
| Manufacturing (1)                                 | \$ 535          | \$ 141          |
| Corporate and Other                               | 225             | 41              |
| <b>Consolidated Capital Expenditures</b>          | <b>\$ 760</b>   | <b>\$ 182</b>   |

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

|                                      | March 31,<br>2019 | December 31,<br>2018 |
|--------------------------------------|-------------------|----------------------|
| <b>Assets:</b>                       |                   |                      |
| Manufacturing                        | \$ 257,040        | \$ 208,663           |
| Corporate and Other                  | 84,989            | 79,028               |
| <b>Total Operating Assets</b>        | 342,029           | 287,691              |
| Consolidated income taxes receivable | 2,054             | 2,046                |
| <b>Consolidated Assets</b>           | \$ 344,083        | \$ 289,737           |

**Note 7 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.

**Recurring Fair Value Measurements**

|                                    | As of March 31, 2019 |         |         |           |
|------------------------------------|----------------------|---------|---------|-----------|
|                                    | Level 1              | Level 2 | Level 3 | Total     |
| <b>ASSETS:</b>                     |                      |         |         |           |
| Cash equivalents                   | \$ 33,315            | \$      | \$      | \$ 33,315 |
| Restricted certificates of deposit | \$ 5,028             | \$      | \$      | \$ 5,028  |
| Escrow receivable                  | \$                   | \$      | \$ 930  | \$ 930    |

**Recurring Fair Value Measurements**

|                                    | As of December 31, 2018 |         |         |           |
|------------------------------------|-------------------------|---------|---------|-----------|
|                                    | Level 1                 | Level 2 | Level 3 | Total     |
| <b>ASSETS:</b>                     |                         |         |         |           |
| Cash equivalents                   | \$ 17,012               | \$      | \$      | \$ 17,012 |
| Restricted certificates of deposit | \$ 4,952                | \$      | \$      | \$ 4,952  |
| Escrow receivable                  | \$                      | \$      | \$ 930  | \$ 930    |

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 FCSL. The fair market value of the remaining escrow receivable above represents the escrow balance of \$980 as of each of March 31, 2019 and December 31, 2018, net of the fair value of the indemnification obligations, which was estimated using the discounted probability-weighted cash flow method.

**Note 8 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 \$1,998 and \$18,019 as of March 31, 2019 and December 31, 2018, 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 9 Inventories**

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

|                        | <b>March 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|------------------------|---------------------------|------------------------------|
| Work in process        | \$ 48,281                 | \$ 60,112                    |
| Finished new railcars  |                           |                              |
| Parts inventory        | 4,419                     | 4,450                        |
| Total inventories, net | \$ 52,700                 | \$ 64,562                    |

Inventory on the Company's Condensed Consolidated Balance Sheets includes reserves of \$6,083 and \$6,812 relating to excess or slow-moving inventory for parts and work in process at March 31, 2019 and December 31, 2018, respectively.

**Note 10 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.

As of March 31, 2019 and December 31, 2018, 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, 2019 and December 31, 2018, the Company had \$4,789 and \$4,924, respectively in outstanding letters of credit under the Revolving Credit Facility. On April 12, 2019, the Credit Agreement was terminated and replaced by a new credit agreement. See Note 16 Subsequent Events.

**Note 11 Accumulated Other Comprehensive Income (Loss)**

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

|   | <b>Pre-Tax</b> | <b>Tax</b> | <b>After-Tax</b> |
|---|----------------|------------|------------------|
| <b><u>Three months ended March 31, 2019</u></b>   |                |            |                  |
| Pension liability activity:   |                |            |                  |
| Reclassification adjustment for amortization of net loss (pre-tax other income (expense))           | \$ 137         | \$         | \$ 137           |
| Postretirement liability activity:  |                |            |                  |
| Reclassification adjustment for amortization of net gain (pre-tax other income (expense))           | (97)           |            | (97)             |
| Reclassification adjustment for amortization of prior service cost (pre-tax other income (expense)) | 3              |            | 3                |
|   | \$ 43          | \$         | \$ 43            |



|   | 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     |

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

|   | March 31,<br>2019 | December 31,<br>2018 |
|---|-------------------|----------------------|
| Unrecognized pension cost, net of tax of \$6,282 and \$6,282      | \$ (10,167)       | \$ (10,304)          |
| Unrecognized postretirement income, net of tax of \$527 and \$527 | 2,022             | 2,116                |
|   | \$ (8,145)        | \$ (8,188)           |

### Note 12 Stock-Based Compensation

Total stock-based compensation was \$689 and \$836 for the three months ended March 31, 2019 and 2018, respectively. As of March 31, 2019, there was \$1,760 of unearned compensation expense related to restricted stock awards, which will be recognized over the remaining weighed average service period of 27 months. As of March 31, 2019, there was \$651 of unearned compensation related to performance stock options, which will be recognized over the remaining weighted average derived service period of 10 months. As of March 31, 2019, there was \$1,066 of unearned compensation related to time-vested stock options, which will be recognized over the remaining service period of 29 months.

### Note 13 Employee Benefit Plans

The Company has a qualified, defined benefit pension plan that was established to provide benefits to certain employees. The plan is frozen and participants are no longer accruing benefits. Generally, contributions to the plan 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 plan assets are held by an independent trustee 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.



The components of net periodic benefit cost (benefit) for the three months ended March 31, 2019 and 2018, are as follows:

| <b>Pension Benefits</b>               | <b>Three Months Ended<br/>March 31,</b> |             |
|---------------------------------------|---|-------------|
|                                       | <b>2019</b>                             | <b>2018</b> |
| Interest cost                         | \$ 466                                  | \$ 427      |
| Expected return on plan assets        | (555)                                   | (711)       |
| Amortization of unrecognized net loss | 137                                     | 113         |
|                                       | \$ 48                                   | \$ (171)    |

  

| <b>Postretirement Benefit Plan</b>           | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2019</b>                             | <b>2018</b> |
| Service cost                                 | \$ 5                                    | \$ 8        |
| Interest cost                                | 45                                      | 45          |
| Amortization of prior service cost           | 4                                       | 4           |
| Amortization of unrecognized net (gain) loss | (97)                                    | (70)        |
|  | \$ (43)                                 | \$ (13)     |

The Company made no contributions to the Company's defined benefit pension plan for each of the three months ended March 31, 2019 and 2018. The Company expects to make no contributions to its pension plan in 2019.

The Company made contributions to the Company's postretirement benefit plan for salaried retirees of \$118 and \$225 for the three months ended March 31, 2019 and 2018, respectively. The Company expects to make \$472 in contributions (including contributions already made) to its postretirement benefit plan in 2019 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 \$371 and \$430 for the three months ended March 31, 2019 and 2018, respectively.

#### **Note 14 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 \$8,606 as of March 31, 2019.

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.

**Note 15 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<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2019</b>                             | <b>2018</b> |
| Weighted average common shares outstanding                           | 12,337,013                              | 12,306,011  |
| Dilutive effect of employee stock options and nonvested share awards |   |             |
| Weighted average diluted common shares outstanding                   | 12,337,013                              | 12,306,011  |

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, 2019 and 2018, 628,912 and 355,631 shares, respectively, were not included in the weighted average common shares outstanding calculation as they were anti-dilutive.

**Note 16 Subsequent Events****BMO Credit Agreement**

On April 12, 2019, the Company entered into a Credit and Security Agreement (the "BMO Credit Agreement") by and among the Company and certain of its subsidiaries, as borrowers and guarantors (together with the Company, the "Borrowers"), and BMO Harris Bank N.A., as lender ("BMO"). Pursuant to the BMO Credit Agreement, BMO extended an asset backed credit facility, in the maximum aggregate principal amount of up to \$50,000, consisting of revolving loans and a sub-facility for letters of credit not to exceed the lesser of \$10,000 and the amount of the revolving credit facility.

The BMO Credit Agreement replaces the Company's prior revolving credit facility pursuant to a Credit Agreement dated as of July 26, 2013, among the Company and certain of its subsidiaries, as borrowers and guarantors, Bank of America, N.A., as administrative agent, swingline lender and letter of credit issuer, and the lenders party thereto, as amended from time to time, which was terminated effective April 12, 2019 and otherwise would have matured on July 26, 2019.

The BMO Credit Agreement has a term ending on April 12, 2024. Revolving loans outstanding thereunder will bear interest, at Borrowers' option and subject to the provisions of the BMO Credit Agreement, at Base Rate (as defined in the BMO Credit Agreement) or LIBOR Rate (as defined in the BMO Credit Agreement) plus the Applicable Margin for each such interest rate set forth in the BMO Credit Agreement.

The BMO Credit Agreement provides for a revolving credit facility with maximum availability of \$42,500, subject to borrowing base requirements set forth in the BMO Credit Agreement, which generally limit availability under the revolving credit facility to (a) 85% of the value of eligible assets, (b) 90% of the value of eligible accounts supported by credit insurance or letters of credit acceptable to BMO, and (c) up to the lesser of (i) 85% of the net orderly liquidation value of eligible inventory, (ii) 75% of the cost of eligible inventory and (iii) \$30,000 and as reduced by the greater of \$7,500 and 15% of the revolving credit facility and other reserves established by BMO from time to time.

The BMO Credit Agreement has both affirmative and negative covenants, including, without limitation, limitations on indebtedness, liens and investments. The BMO Credit Agreement also provides for customary events of default. Borrowings under the BMO Credit Agreement are collateralized by substantially all of the Borrowers' assets.

M&T Credit Agreement

On April 16, 2019, Freightcar America Leasing 1, LLC, an indirect wholly-owned subsidiary of the Company ( Freightcar Leasing Borrower ) entered into a Credit Agreement (the M&T Credit Agreement ) with M & T Bank, N.A., as lender ( M&T ). Pursuant to the M&T Credit Agreement, M&T extended a revolving credit facility to Freightcar Leasing Borrower in an aggregate amount of up to \$40,000 for the purpose of financing railcars which will be leased to third parties.

Freightcar Leasing Borrower also entered into a Security Agreement on April 16, 2019 (the M&T Security Agreement) pursuant to which it granted a security interest in all of its assets to M&T to secure its obligations under the M&T Credit Agreement.

On April 16, 2019, Freightcar America Leasing, LLC, a wholly-owned subsidiary of the Company and parent of Freightcar Leasing Borrower ( Freightcar Leasing Guarantor ), entered into (i) a Guaranty Agreement (the M&T Guaranty Agreement ) pursuant to which Freightcar Leasing Guarantor guarantees the repayment and performance of certain obligations of Freightcar Leasing Borrower and Freightcar Leasing Guarantor and (ii) a Pledge Agreement (the M&T Pledge Agreement ) pursuant to which Freightcar Leasing Guarantor pledged all of the equity of Freightcar Leasing Borrower held by Freightcar Leasing Guarantor.

The loans under the M&T Credit Agreement are non-recourse to the assets of the Company or its subsidiaries other than the assets of Freightcar Leasing Borrower and Freightcar Leasing Guarantor.

The M&T Credit Agreement has a term ending on April 16, 2021. Loans outstanding thereunder will bear interest, accrued daily, at the Adjusted LIBOR Rate (as defined in the M&T Credit Agreement) or the Adjusted Base Rate (as defined in the M&T Credit Agreement).

The M&T Credit Agreement has both affirmative and negative covenants, including, without limitation, maintaining an Interest Coverage Ratio (as defined in the M&T Credit Agreement) of not less than 1.25:1.00, measured quarterly, and limitations on indebtedness, loans, liens and investments. The M&T Credit Agreement also provides for customary events of default.

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**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 ) 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 at the 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 ). 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.

Total orders for railcars in the first quarter of 2019 were 694 units, consisting of 194 new railcars and 500 rebuilt railcars, compared to orders for 756 units, consisting of 156 new railcars and 600 leased railcars, in the first quarter of 2018. Total backlog of unfilled orders was 1,752 units at March 31, 2019, compared to 1,699 units at December 31, 2018. The estimated sales value of the backlog was \$152 million and \$160 million, respectively, as of March 31, 2019 and December 31, 2018.

**RESULTS OF OPERATIONS**

**Three Months Ended March 31, 2019 compared to Three Months Ended March 31, 2018**

**Revenues**

Our consolidated revenues for the three months ended March 31, 2019 were \$70.7 million compared to \$83.0 million for the three months ended March 31, 2018. Manufacturing segment revenues for the three months ended March 31, 2019 were \$67.6 million compared to \$79.7 million for the three months ended March 31, 2018. Railcar deliveries totaled 641 units, all of which were new railcars, in the first quarter of 2019, compared to 1,094 units, consisting of 891 new railcars, 122 leased railcars and 81 rebuilt railcars, in the first quarter of 2018. The decrease in Manufacturing segment revenues for the 2019 period compared to the 2018 period reflects a decrease in the number of railcars delivered which was partially offset by a higher average selling price for new railcars and a higher number of new versus rebuilt railcars. Corporate and Other revenues for the three months ended March 31, 2019 were \$3.1 million compared to \$3.2 million for the three months ended March 31, 2018 reflecting slightly lower parts sales.

## Gross Loss

Our consolidated gross margin was (9.7)% for the three months ended March 31, 2019 compared to (0.7)% for the three months ended March 31, 2018. Our consolidated gross loss was \$6.8 million for the three months ended March 31, 2019 compared to \$0.6 million for the three months ended March 31, 2018. Manufacturing segment gross loss for the three months ended March 31, 2019 was \$7.6 million compared to \$1.8 million for the three months ended March 31, 2018. The decline in railcar deliveries contributed a \$1.7 million increase in gross loss in our Manufacturing segment and product mix, pricing and production costs contributed a \$4.8 million increase in our Manufacturing segment gross loss for the 2019 period compared to 2018. The increase in our Manufacturing segment gross loss for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 was also impacted by an increase in product warranty reserve, related to railcars produced in prior years, recorded for the three months ended March 31, 2019.

## **Selling, General and Administrative Expenses**

Consolidated selling, general and administrative expenses for the three months ended March 31, 2019 were \$7.7 million compared to \$8.0 million for the three months ended March 31, 2018. Manufacturing segment selling, general and administrative expenses for the three months ended March 31, 2019 were \$2.1 million compared to \$2.0 million for the three months ended March 31, 2018 and included higher allocated costs of \$0.2 million which were offset by lower sales commissions of \$0.2 million. Corporate and Other selling, general and administrative expenses were \$5.6 million for the three months ended March 31, 2019 compared to \$6.0 million for the three months ended March 31, 2018. The reduction in Corporate and Other selling, general and administrative expenses for the three months ended March 31, 2019 were primarily due to decreases of \$0.3 million in incentive compensation and \$0.3 million in professional fees which were partially offset by increases in research and development costs of \$0.2 million.

## **Operating Loss**

Our consolidated operating loss for the three months ended March 31, 2019 was \$14.5 million compared to \$8.6 million for the three months ended March 31, 2018. Operating loss for the Manufacturing segment was \$9.6 million for the three months ended March 31, 2019 compared to \$3.8 million for the three months ended March 31, 2018 reflecting the increase in Manufacturing segment gross loss described above. Corporate and Other operating loss was \$4.9 million for the three months ended March 31, 2019 compared to \$4.8 million for the three months ended March 31, 2018 as decreases in Corporate and Other gross profit of \$0.5 million were offset by decreases in Corporate and Other selling, general and administrative expenses of \$0.4 million.

## **Income Taxes**

Our income tax benefit was \$0.2 million for the three months ended March 31, 2019 compared to \$1.8 million for the three months ended March 31, 2018. Our effective tax rate for the three months ended March 31, 2019 was 1.4% compared to 22.3% for the three months ended March 31, 2018. As a result of additional valuation allowance recorded for the three months ended March 31, 2019, our effective tax rate for the three months ended March 31, 2019 primarily included the impact of a change in uncertain tax positions recorded during the three months ended March 31, 2019.

## **Net Loss**

As a result of the foregoing, our net loss was \$14.0 million for the three months ended March 31, 2019 compared to \$6.4 million for the three months ended March 31, 2018. For the three months ended March 31, 2019, our diluted net loss per share was \$1.12 compared to \$0.51 for the three months ended March 31, 2018.

## **LIQUIDITY AND CAPITAL RESOURCES**

Our primary sources of liquidity for the three months ended March 31, 2019 and 2018, were our cash provided by operations, cash and cash equivalent balances on hand and our securities held to maturity.

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, 2019 and December 31, 2018, 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, 2019, and

December 31, 2018, we had \$4.8 million and \$4.9 million, respectively, in outstanding letters of credit under the Revolving Credit Facility. On April 12, 2019, the Credit Agreement was terminated and replaced by a new credit agreement. See Note 16 Subsequent Events.

Our restricted certificates of deposit balance was \$5.0 million as of each of March 31, 2019 and December 31, 2018, 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, 2019 are scheduled to expire at various dates through February 1, 2020. 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.

We adopted ASU 2016-02, the new lease accounting standard, effective January 1, 2019 and also entered into an amendment of the lease of our Shoals, Alabama facility to extend the term. See Note 4 Leases for additional information and discussion.

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 facilities, 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 facilities 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.

## Cash Flows

The following table summarizes our net cash provided by (used in) operating activities, investing activities and financing activities for the three months ended March 31, 2019 and 2018:

|                                 | <b>Three Months Ended March 31,</b> |                    |
|---------------------------------|-------------------------------------|--------------------|
|                                 | <b>2019</b>                         | <b>2018</b>        |
|                                 | <i>(In thousands)</i>               |                    |
| Net cash provided by (used in): |                                     |                    |
| Operating activities            | \$ 1,707                            | \$ (13,490)        |
| Investing activities            | 18,562                              | (8,925)            |
| Financing activities            | (339)                               | (118)              |
| <b>Total</b>                    | <b>\$ 19,930</b>                    | <b>\$ (22,533)</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 provided by operating activities for the three months ended March 31, 2019 was \$1.7 million compared to net cash used in operating activities of \$13.5 million for the three months ended March 31, 2018. Our net cash provided by operating activities for the three months ended March 31, 2019 reflects changes in working capital, including decreases in inventory and accounts receivable due to the timing of deliveries of railcars and the related cash receipts. 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.

*Investing Activities.* Net cash provided by investing activities for the three months ended March 31, 2019 was \$18.6 million and primarily represented the \$16.0 million maturity of U.S. Treasury securities and certificates of deposit (net of purchases) and the \$3.3 million maturity of restricted certificates of deposit (net of purchases) which was partially offset by the \$0.8 million cost of property, plant and equipment. 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).

*Financing Activities.* Net cash used in financing activities was \$0.3 million for the three months ended March 31, 2019, compared to \$0.1 million for the three months ended March 31, 2018. Net cash used in financing activities for the three months ended March 31, 2019 primarily represented deferred financing costs related to our new credit facilities.

### **Capital Expenditures**

Our capital expenditures were \$0.8 million in the three months ended March 31, 2019 compared to \$0.2 million in the three months ended March 31, 2018. Excluding unforeseen expenditures, management anticipates that total capital expenditures for 2019 will be between \$4.0 million and \$5.0 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. However, forward-looking statements inherently involve risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. These risks and uncertainties relate to, among other things, 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, fluctuating costs of raw materials, including steel and aluminum, and delays in the delivery of raw materials, the risk of lack of acceptance of our new railcar offerings by our customers, risks relating to our relationship with our unionized employees and their unions and other competitive factors. The factors listed above are not exhaustive. Other sections of this quarterly report on Form 10-Q include additional factors that could materially and adversely affect our business, financial condition and results of operations. New factors emerge from time to time and it is not possible for management to predict the impact of all of these factors on our business, financial condition or results of operations or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not rely on forward-looking statements as a prediction of actual results. 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.

### **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.

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## PART II OTHER INFORMATION

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

The information in response to this item is included in Note 14 Contingencies to our condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

### **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.

### **Item 6. Exhibits.**

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

|         |  |
|---------|--|
| 10.1    | <u>Second Amendment to Industrial Facility Lease, dated as of February 26, 2019, by and among Teachers Retirement Systems of Alabama, Employees Retirement System of Alabama, FreightCar Alabama, LLC and FreightCar America, Inc.</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   |



**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 2, 2019

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

By: /s/ CHRISTOPHER J. EPPEL  
Christopher J. Eppel, 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)

**EXHIBIT INDEX**

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