

Section 1: 10-K (10-K)

[Table of Contents](#)

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

FORM 10-K

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

For the fiscal year ended December 31, 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)

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)

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

Title of class	Name of Each Exchange on Which Registered
Common stock, par value \$0.01 per share	Nasdaq Global Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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

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 Act). YES NO

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of June 30, 2018 was \$205.0 million, based on the closing price of \$16.79 per share on the Nasdaq Global Market.

As of February 18, 2019, there were 12,601,889 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

<u>Documents</u>	<u>Part of Form 10-K</u>
Portions of the registrant's definitive Proxy Statement for the 2019 annual meeting of stockholders to be filed pursuant to Regulation 14A within 120 days of the end of the registrant's fiscal year ended December 31	Part III

[Table of Contents](#)

FREIGHTCAR AMERICA, INC.

TABLE OF CONTENTS

	Page
PART I	
Item 1. Business	3
Item 1B. Unresolved Staff Comments	8
Item 2. Properties	9
Item 3. Legal Proceedings	9
Item 4. Mine Safety Disclosures	9
PART II	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	9
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	10
Item 8. Financial Statements	21
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	57
Item 9A. Controls and Procedures	57
Item 9B. Other Information	58
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	58
Item 11. Executive Compensation	58
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	58
Item 13. Certain Relationships and Related Transactions, and Director Independence	58
Item 14. Principal Accounting Fees and Services	58
PART IV	
Item 15. Exhibits	59
Item 16. Form 10-K Summary	59
SIGNATURES	60

Table of Contents

PART I

Item 1. Business.

OVERVIEW

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, including open top hoppers, covered hoppers, and gondolas along with intermodal and non-intermodal flat cars. We and our predecessors have been manufacturing railcars since 1901. Over the last several years, we have introduced a number of new or redesigned railcar types as we continue to diversify our product portfolio. We believe we are the leading manufacturer of aluminum-bodied railcars including coal cars in North America, based on the number of railcars delivered.

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. Our former Danville, Illinois facility was idled for railcar production effective March 31, 2017 and sold in August 2018.

We lease freight cars through our JAIX Leasing Company subsidiary. Although we continually look for opportunities to package our leased assets for sale to our leasing company partners, these leased assets may not be converted to sales, and may remain revenue producing assets into the foreseeable future. We also 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.

Our primary customers are financial institutions, railroads and shippers, which represented 42%, 27% and 15%, respectively, of our total sales attributable to each type of customer for the year ended December 31, 2018. In the year ended December 31, 2018, we delivered 4,214 railcars, including 2,584 new railcars, 1,205 rebuilt railcars and 425 leased railcars, compared to 4,427 railcars delivered in the year ended December 31, 2017, including 4,305 new railcars, 47 rebuilt railcars and 75 leased railcars. Our total backlog of firm orders for railcars decreased from 2,392 railcars as of December 31, 2017 to 1,699 railcars as of December 31, 2018. Our backlog as of December 31, 2018 includes a variety of railcar types. The estimated sales value of our backlog is \$160 million as of December 31, 2018.

Our Internet website is www.freightcaramerica.com. We make available, free of charge, on or through our website items related to Corporate governance, including, among other things, our Corporate governance guidelines, charters of various committees of the Board of Directors and our code of business conduct and ethics. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments thereto, are available on our website and on the SEC’s website at www.sec.gov. Any stockholder of our company may also obtain copies of these documents, free of charge, by sending a request in writing to Investor Relations at FreightCar America, Inc., Two North Riverside Plaza, Suite 1300, Chicago, Illinois 60606.

OUR PRODUCTS AND SERVICES

We design and manufacture a broad variety of freight cars including covered hoppers, open top hoppers, gondolas, intermodal and non-intermodal flat cars that transport numerous types of dry bulk and containerized freight products.

In the last five years, we have added 31 new or redesigned products to our portfolio, including various covered hopper car products with cubic capacities from 3,282 cubic foot to 6,250 cubic foot; 52’ and 66’ mill gondolas; coil gondolas; triple hoppers and hybrid aluminum/stainless steel railcars; ore hopper and gondola railcars; ballast hopper cars; aggregate hopper cars (with manual, independent or fully automatic transverse or longitudinal door systems); intermodal flats (including the 3-unit, 53-foot well cars) and non-intermodal flat cars (including slab, hot slab and bulkhead flats). Focused product development activity continues in areas where we can leverage our technical knowledge base and capabilities to realize market opportunities.

Table of Contents

The types of railcars listed below include the major types of railcars that we are capable of manufacturing; however, some of the types of railcars listed below have not been ordered by any of our customers or manufactured by us in a number of years. 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. Many of our railcars are produced using a patented one-piece center sill, the main longitudinal structural component of the railcar. The one-piece center sill provides a higher carrying capacity, but weighs significantly less than traditional multiple-piece center sills. In addition to railcars designed for use in North America, we have manufactured railcars for export to Latin America and the Middle East. Railroads outside of North America are constructed with a variety of track gauges that are sized differently than in North America, which requires us, in some cases, to alter our manufacturing specifications accordingly.

Any of the railcar types listed below may be further developed to meet the characteristics of the materials being transported and customer specifications.

- *VersaFlood Hopper Cars.* The VersaFlood™ product series offers versatile design options for transportation of aggregates, sand or minerals. Our VersaFlood™ series open-top hopper railcars include steel, stainless steel or hybrid steel and aluminum-bodied designs equipped with three-pocket (transverse gate) or two-pocket (longitudinal gate) discharge door systems with manual, independent or fully automatic door operation.
- *Covered Hopper Cars.* Our covered hopper railcar product offerings encompass a wide range of cubic foot (cf) capacity designs for shipping dry bulk commodities of varying densities including: 3,282 cf covered hopper cars for cement, sand and roofing granules; 4,300 cf covered hopper cars for potash or similar commodities; 5,200 cf, 5,400 cf and 5700 cf covered hopper cars for grain and other agricultural products; and 5,800 cf and 6,250 cf covered hopper cars for plastic pellets.
- *Dynastack Series.* Our intermodal doublestack railcar product offerings include a stand-alone 40 foot well car, the DynaStack® articulated, 5-unit, 40 foot and the DynaStack® articulated 3-unit, 53 foot well cars for transportation of international and domestic containers.
- *Steel Products Cars.* Our portfolio of railcar types also includes 52' and 66' mill gondola railcars used to transport steel products and scrap; slab, hot slab and coil steel railcars designed specifically for transportation of steel slabs and coil steel products, respectively.
- *Boxcars.* Our high capacity boxcar railcar product offerings, featuring inside length of 50' and 60'9", double plug doors, galvanized steel roof panels and nailable steel floors, primarily designed for transporting paper products, paper rolls, lumber and wood products and foodstuffs.
- *Aluminum Coal Cars.* The BethGon® is the leader in the aluminum-bodied coal gondola railcar segment. Since we introduced the steel BethGon railcar in the late 1970s and the aluminum BethGon railcar in 1986, the BethGon railcar has become the most widely used coal car in North America. Our current BethGon II features lighter weight, higher capacity and increased durability suitable for long-haul coal carrying railcar service. We have received several patents on the features of the BethGon II and continue to explore ways to increase the BethGon II's capacity and reliability.

Our aluminum bodied open-top hopper railcar, the AutoFlood™, is a five-pocket coal car equipped with a bottom discharge gate mechanism. We began manufacturing AutoFlood railcars in 1984, and introduced the AutoFlood II and AutoFlood III designs in 1996 and 2002, respectively. Both the AutoFlood II and AutoFlood III designs incorporate the automatic rapid discharge system, the MegaFlo™ door system, a patented mechanism that uses an over-center locking design, enabling the cargo door to close with tension rather than by compression. Further, AutoFlood railcars can be equipped with rotary couplers to permit rotary unloading.

- *Stainless Steel and Hybrid Stainless Steel/Aluminum Coal Cars.* We manufacture a series of stainless steel and hybrid stainless steel and aluminum AutoFlood and BethGon coal cars designed to serve the Eastern railroads. These coal cars are designed to withstand the rigors of Eastern coal transportation service. They offer a unique balance of maximized payload, light weight, efficient unloading and long service life. Our coal car product offerings include aluminum-bodied flat-bottom gondola railcars and steel or stainless steel-bodied triple hopper railcars for coal, metallurgical coke and petroleum coke service.

Table of Contents

- *Other Railcar Types.* Our other railcar types include non-intermodal flat railcars and bulkhead flat railcars designed to transport a variety of products, including machinery and equipment, steel and structural steel components (including pipe), wood and forest products and other bulk industrial products; woodchip hopper and gondola railcars designed to haul woodchips and municipal waste or other low-density commodities; and a variety of non-coal carrying open top hopper railcars designed to carry ballast, iron ore, taconite pellets and other bulk commodities; the AVC™ Aluminum Vehicle Carrier design used to transport commercial and light vehicles (automobiles and trucks) from assembly plants and ports to rail distribution centers; and the articulated bulk container railcar designed to carry dense bulk products such as waste products in 20 foot containers.

MANUFACTURING

We have railcar production facilities in Cherokee, Alabama and Roanoke, Virginia. Our facilities are each certified or approved for certification by the Association of American Railroads (the “AAR”), which sets railcar manufacturing industry standards for quality control. Our Shoals manufacturing facility delivered its first railcars during the fourth quarter of 2013 and provides a solid platform from which to pursue a broad range of non-coal car business including intermodal well cars, non-intermodal flat cars and various open-top hopper, covered hopper and gondola cars. During 2015, we expanded our Shoals facility to add additional production capacity to meet demand for our new types of railcars. On February 28, 2018, we acquired substantially all of the operating assets of Navistar, Inc. and its subsidiary, International Truck and Engine Investments Corporation, at the Shoals facility, including their railcar business (the “Acquisition”). Our former Danville facility was idled for railcar production effective March 31, 2017 and sold in August 2018.

Our manufacturing process involves four basic steps: fabrication, assembly, finishing and inspection. Each of our facilities has numerous checkpoints at which we inspect products to maintain quality control, a process that our operations management continuously monitors. In our fabrication processes, we employ standard metal working tools, many of which are computer controlled. Each assembly line typically involves 15 to 20 manufacturing positions, depending on the complexity of the particular railcar design. We use mechanical fastening in the fitting and assembly of our aluminum-bodied railcar parts, while we typically use welding for the assembly of our steel-bodied railcars. For aluminum-bodied railcars, we begin the finishing process by cleaning the railcar’s surface and then applying the decals. In the case of steel-bodied railcars, we begin the finishing process by blasting the surface area of the railcar, painting it and then applying decals. Once we have completed the finishing process, our employees, along with representatives of the customer purchasing the particular railcars, inspect all railcars for adherence to specifications.

CUSTOMERS

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

Our customer base consists mostly of North American financial institutions, railroads and shippers and. We believe that our customers’ preference for reliable, high-quality products, the relatively high cost for customers to switch manufacturers, our technological leadership in developing and enhancing innovative products and the competitive pricing of our railcars have helped us maintain our long-standing relationships with our customers.

In 2018, revenue from three customers, BNSF Railway, Wells Fargo Rail Corporation and Transtar, Inc., accounted for approximately 26%, 19% and 10%, respectively, of total revenue. In 2018, sales to our top five customers accounted for approximately 71% of total revenue. In 2017, revenue from three customers, TTX Company, CIT Rail and ECN Capital Corporation, accounted for approximately 21%, 15% and 12%, respectively, of total revenue. In 2017, sales to our top five customers accounted for approximately 70% of total revenue. Our railcar sales to customers outside the United States were \$12.9 million and \$23.2 million in 2018 and 2017, respectively. Many of our customers do not purchase railcars every year since railcar fleets are not necessarily replenished or augmented every year. The size and frequency of railcar orders often results in a small number of customers representing a significant portion of our sales in a given year. Although we have long-standing relationships with many of our major customers, the loss of any significant portion of our sales to any major customer, the loss of a single major customer or a material adverse change in the financial condition of any one of our major customers could have a material adverse effect on our business, financial condition and results of operations.

[Table of Contents](#)

SALES AND MARKETING

Our direct sales group is organized geographically and consists of regional sales managers and contract administrators, a manager of customer service and support staff. The regional sales managers are responsible for managing customer relationships. Our contract administrators are responsible for preparing proposals and other inside sales activities. Our manager of customer service is responsible for after-sale follow-up and in-field product performance reviews.

RESEARCH AND DEVELOPMENT

We utilize the latest engineering methods, tools and processes to ensure that new products and processes meet our customers' requirements and are delivered in a timely manner. We develop and introduce new railcar designs as a result of a combination of customer feedback and close observation of developing market trends. We work closely with our customers to understand their expectations and design railcars that meet their needs. New product designs are tested and validated for compliance with AAR standards prior to introduction. This comprehensive approach provides the criteria and direction that ensure we are developing products that our customers desire and perform as expected. Costs associated with research and development are expensed as incurred and totaled \$42,000 and \$0.3 million for the years ended December 31, 2018 and 2017, respectively.

BACKLOG

We define backlog as the value of those products or services which our customers have committed in writing to purchase from us or lease from us when built, but which have not yet been recognized as sales. Our contracts may include cancellation clauses under which customers are required, upon cancellation of the contract, to reimburse us for costs incurred in reliance on an order and in some cases, to compensate us for lost profits. However, customer orders may be subject to customer requests for delays in railcar deliveries, inspection rights and other customary industry terms and conditions, which could prevent or delay backlog from being converted into sales.

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

	Year Ended December 31,	
	2018	2017
Railcar backlog at start of period	2,392	4,259
Railcars delivered	(4,214)	(4,427)
Net railcar orders received (canceled)	3,521	2,560
Railcar backlog at end of period (1)	1,699	2,392
Estimated revenue from backlog at end of period (in thousands) (2)	\$ 160,157	\$ 181,117

(1) Railcar backlog includes 0 and 599 rebuilt railcars as of December 31, 2018 and 2017, respectively.

(2) Estimated revenue from backlog reflects the total revenue attributable to the backlog reported at the end of the period as if such backlog were converted to actual sales. Estimated revenue from backlog does not reflect potential price increases and decreases under customer contracts that provide for variable pricing based on changes in the cost of raw materials. Although we continually look for opportunities to package our leased assets for sale to our leasing company partners, these leased assets may not be converted to sales.

Although our reported backlog is typically converted to sales within two years, our reported backlog may not be converted to sales in any particular period, if at all, and the actual sales from these contracts may not equal our reported backlog estimates. In addition, due to the large size of railcar orders and variations in the mix of railcars, the size of our reported backlog at the end of any given period may fluctuate significantly.

[Table of Contents](#)

SUPPLIERS AND MATERIALS

The cost of raw materials and components represents a substantial majority of the manufacturing costs of most of our railcar product lines. As a result, the management of raw materials and components purchasing is critical to our profitability. We enjoy generally strong relationships with our suppliers, which helps to ensure access to supplies when railcar demand is high.

Our primary aluminum suppliers are Mandel Metals and Champagne Metals. Aluminum prices generally are not fixed at the time a railcar order is accepted due to our infrequent usage and subsequent low volume purchases of aluminum. Our primary carbon steel and fabrication suppliers are Steel Warehouse, O'Neal Steel, and Ryerson. We do have fixed pricing, based on futures, established on our raw sheet steel for dedicated tonnage.

Our primary component suppliers include Wabtec, New York Air Brake, SKF, and Amsted, Inc., who supplies us with truck components, brake components, couplers and bearings. Also, Standard Steel (a subsidiary of Summit Railroad Products, Inc.) supplies us with axles and wheels. Roll Form Group is the sole supplier of our roll-formed center sills, which were used in 87% and 43% of our new railcars produced in 2018 and 2017, respectively. A center sill is the primary longitudinal structural component of a railcar, which helps the railcar withstand the weight of the cargo and the force of being pulled during transport. Our center sill is formed into its final shape without heating by passing steel plate through a series of rollers. In addition, through the date of the Acquisition, International Truck and Engine Investments Corporation, an affiliate of Navistar, Inc., supplied us with various fabricated parts, components and subassemblies and provided truck and wheel and axle assembly services and blast and paint finishing services primarily for our Shoals facility. Other suppliers provide brake systems, castings, bearings, fabrications and various other components. The railcar industry is periodically subject to supply constraints for some of the key railcar components.

Except as described above, there are usually at least two suppliers for each of our raw materials and specialty components. No single supplier accounted for more than 12% and 20% of our total purchases in 2018 and 2017, respectively. Our top ten suppliers accounted for 48% and 72% of our total purchases in 2018 and 2017, respectively.

COMPETITION

We operate in a highly competitive marketplace especially in periods of low market demand resulting in excess manufacturing capacity and face substantial competition from established competitors in the railcar industry in North America. In addition to price, competition is based on delivery timing, product performance and technological innovation, reputation for product quality and customer service and support.

We have four principal competitors in the North American railcar market that primarily manufacture railcars for third-party customers, which are Trinity Industries, Inc., The Greenbrier Companies, Inc., American Railcar Industries, Inc. and National Steel Car Limited.

Competition in the North American market from railcar manufacturers located outside of North America is limited by, among other factors, high shipping costs and familiarity with the North American market.

INTELLECTUAL PROPERTY

We have several U.S. and international patents and pending applications, registered trademarks, copyrights and trade names. Key patents include our one-piece center sill, our hopper railcar with automatic individual door system and our railroad car tub. The protection of our intellectual property is important to our business.

EMPLOYEES

As of December 31, 2018, we had 1,077 employees, of whom 183 were salaried and 894 were hourly wage earners, and approximately 50, or 5%, of our employees were members of unions. As of December 31, 2017, we had 985 employees, of whom 177 were salaried and 808 were hourly wage earners, and approximately 60, or 6%, of our employees were members of unions. On August 9, 2017, we reached an agreement with the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America to terminate a collective bargaining agreement that covered 10% of our employees as of December 31, 2016.

Table of Contents

REGULATION

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

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

ENVIRONMENTAL MATTERS

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

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

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

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

Item 1B. Unresolved Staff Comments.

None.

Table of Contents

Item 2. Properties.

The following table presents information on our primary leased and owned operating properties as of December 31, 2018:

<u>Use</u>	<u>Location</u>	<u>Size</u>	<u>Leased or Owned</u>	<u>Lease Expiration Date</u>
Corporate headquarters	Chicago, Illinois	15,540 square feet	Leased	March 31, 2022
Railcar assembly and component manufacturing	Roanoke, Virginia	383,709 square feet on 15.5 acres of land	Leased	December 31, 2024
Railcar assembly and component manufacturing	Cherokee, Alabama	2,150,000 square feet	Leased	December 31, 2021
Administrative and parts warehouse	Johnstown, Pennsylvania	86,000 square feet	Leased	December 31, 2023

Item 3. Legal Proceedings.

The information in response to this item is included in Note 17, Risks and Contingencies, to our Consolidated Financial Statements included in Part II, Item 8 of this Form 10-K.

Item 4. Mine Safety Disclosures.

Not applicable

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock has been quoted on the Nasdaq Global Market under the symbol "RAIL" since April 6, 2005. As of February 8, 2019, there were approximately 85 holders of record of our common stock, which does not include persons whose shares of common stock are held by a bank, brokerage house or clearing agency.

Dividend Policy

On November 1, 2017, we announced that our board of directors had approved the suspension of our quarterly dividend to our shareholders. The declaration and payment of future dividends will be at the discretion of our board of directors and will depend on, among other things, general economic and business conditions, our strategic plans, our financial results, contractual and legal restrictions on the payment of dividends by us and our subsidiaries and such other factors as our board of directors considers to be relevant. The ability of our board of directors to declare a dividend on our common stock is limited by Delaware law.

[Table of Contents](#)

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

You should read the following discussion in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. 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 "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 financial institutions, railroads and shippers.

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. Restructuring and impairment charges for the year ended December 31, 2017 included employee severance and other employment termination costs and pension and postretirement benefit plan curtailment and special termination benefits of \$1.9 million and non-cash impairment charges of \$0.3 million for property, plant and equipment at our idled Danville, Illinois facility.

Railcar deliveries totaled 4,214 units, consisting of 2,584 new railcars, 1,205 rebuilt railcars and 425 leased railcars, for the year ended December 31, 2018, compared to 4,427 units, consisting of 4,305 new railcars, 75 leased railcars and 47 rebuilt railcars, for the year ended December 31, 2017. Our total backlog of firm orders for railcars decreased from 2,392 railcars as of December 31, 2017 to 1,699 railcars as of December 31, 2018.

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.

FINANCIAL STATEMENT PRESENTATION

Revenues

Our Manufacturing segment revenues are generated primarily from sales of the railcars that we manufacture. Our Manufacturing segment sales depend on industry demand for new railcars, which is driven by overall economic conditions and the demand for railcar transportation of various products, such as coal, steel products, minerals, cement, motor vehicles, forest products and agricultural commodities. Our Manufacturing segment sales are also affected by competitive market pressures that impact our market share, the prices for our railcars and by the types of railcars sold. Our Manufacturing segment revenues also include revenues from major railcar rebuilds and lease rental payments received with respect to railcars under operating leases. Our Corporate and Other revenue sources include parts sales.

We generally recognize revenue at a point in time as we satisfy 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 we expect to receive in exchange for transferring the promised goods or services to the customer. 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, our performance obligation includes transfer of the finished railcar to a specified railroad connection point. In these instances, we recognize revenue from the sale when the railcar reaches the specified railroad connection point. When a railcar sales contract contains multiple performance obligations, we allocate 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 variable purchase patterns of our customers and the timing of completion, delivery and customer acceptance of railcars may cause our revenues and income from operations to vary substantially each quarter, which will result in significant fluctuations in our quarterly results.

Table of Contents

Cost of sales

Our cost of sales includes the cost of raw materials such as aluminum and steel, as well as the cost of finished railcar components, such as castings, wheels, truck components and couplers, and other specialty components. Our cost of sales also includes labor, utilities, freight, manufacturing depreciation and other operating costs. Factors that have affected our cost of sales include the cost of steel and aluminum and the cost of railcar components, which have been impacted by the increase in industry demand. As we diversified, although we strove to reduce manufacturing costs at our manufacturing facilities, our cost of sales has been negatively impacted by production inefficiencies and idle capacity as we entered into new railcar markets and invested in diversifying our product portfolio. A portion of the contracts covering our backlog at December 31, 2018 are fixed-rate contracts. Therefore, if material costs were to increase, we will likely not be able to pass on these increased costs to our customers. We manage material price increases by locking in prices where possible.

Operating loss

Operating loss represents revenues less cost of sales, gain on sale of railcars available for lease, gain on sale of facility, selling, general and administrative expenses, and restructuring and impairment charges.

RESULTS OF OPERATIONS

Year Ended December 31, 2018 compared to Year Ended December 31, 2017

Revenues

Our consolidated revenues for the year ended December 31, 2018 were \$316.5 million compared to \$409.5 million for the year ended December 31, 2017. Manufacturing segment revenues for the year ended December 31, 2018 were \$302.2 million compared to \$400.5 million for the year ended December 31, 2017. The decrease in Manufacturing segment revenues for 2018 compared to 2017 reflects the decrease in the number of railcars delivered, a lower average selling price for new railcars delivered and a higher percentage of rebuilt railcars with lower average selling prices than new railcars delivered in 2018. Corporate and Other revenues for the year ended December 31, 2018 were \$14.4 million compared to \$9.0 million for the year ended December 31, 2017 reflecting higher parts sales.

Gross Profit

Our consolidated gross profit margin was (1.2) % for the year ended December 31, 2018 compared to 0.7% for the year ended December 31, 2017. Our consolidated gross loss for the year ended December 31, 2018 was \$3.6 million compared to gross profit of \$3.0 million for the year ended December 31, 2017, reflecting a decrease in gross profit from our Manufacturing segment of \$7.0 million, which was partially offset by an increase in gross profit from Corporate and Other of \$0.3 million. The decrease in sales prices due to the competitive market environment and the change in mix of railcar deliveries in 2018 contributed a \$11.3 million decrease in gross profit in our Manufacturing segment. These decreases in gross profit in our Manufacturing segment for 2018 compared to 2017 were partially offset by monetization of scrap inventory and favorable absorption variance.

Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses for the year ended December 31, 2018 were \$29.1 million compared to \$33.0 million for the year ended December 31, 2017. Manufacturing segment selling, general and administrative expenses for the year ended December 31, 2018 were \$8.0 million compared to \$5.9 million for the year ended December 31, 2017 primarily due to higher allocated costs of \$1.0 million, increases in salaries and wages of \$0.5 million and higher third-party sales commissions of \$0.2 million. Corporate and Other selling, general and administrative expenses were \$21.0 million for the year ended December 31, 2018 compared to \$27.0 million for the year ended December 31, 2017. The decrease in Corporate and Other selling, general and administrative expenses was primarily due to \$7.5 million of costs associated with a confidential litigation settlement and related legal expenses recorded during 2017 and decreases of \$0.9 million in employee severance costs which were partially offset by increases in salaries and wages of \$0.9 million and stock-based compensation of \$1.9 million.

Table of Contents

Restructuring and Impairment Charges

There were no restructuring and impairment charges for the year ended December 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. Restructuring and impairment charges for the year ended December 31, 2017 included employee severance and other employment termination costs and pension and postretirement benefit plan curtailment and special termination benefits of \$1.9 million and non-cash impairment charges of \$0.3 million for property, plant and equipment at our idled Danville, Illinois facility. 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 year ended December 31, 2017 have been reclassified as other income (expense) in the Consolidated Statement of Operations.

Operating Loss

Our consolidated operating loss for the year ended December 31, 2018 was \$32.1 million compared to operating loss of \$31.8 million for the year ended December 31, 2017. Operating loss for the Manufacturing segment was \$14.6 million for the year ended December 31, 2018 compared to operating loss of \$7.0 million for the year ended December 31, 2017, reflecting the decrease in Manufacturing segment gross profit and the increase in selling, general and administrative expenses described above, which were partially offset by the decrease in Manufacturing segment restructuring and impairment charges of \$0.9 million and gain on sale of facility of \$0.6 million. Corporate and Other operating loss was \$17.5 million for the year ended December 31, 2018 compared to an operating loss of \$24.8 million for the year ended December 31, 2017, primarily due to the reductions in Corporate and Other selling, general and administrative expenses of \$6.0 million described above and the decrease in Corporate and Other restructuring and impairment charges of \$0.9 million.

Income Taxes

Our income tax provision was \$10.2 million for the year ended December 31, 2018 compared to an income tax benefit of \$8.8 million for the year ended December 31, 2017. The year ended December 31, 2018 included income tax expense of \$18.2 million related to recognition of additional valuation allowance against our deferred tax assets. We have concluded that, based on evaluation of the positive and negative evidence, primarily our history of operating losses, we will not more likely than not realize the benefit of our deferred tax assets. The year ended December 31, 2017 included income tax expense of \$2.5 million related to remeasurement of net deferred tax assets as a result of the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). Our effective tax rate for the year ended December 31, 2018 was (33.4)% compared to 28.2% for the year ended December 31, 2017. The change in our effective tax rate was primarily due to the impact of the valuation allowance recorded in 2018.

Net Loss

As a result of the foregoing, our net loss was \$40.6 million for the year ended December 31, 2018, compared to net loss of \$22.6 million for the year ended December 31, 2017. For the year ended December 31, 2018 our diluted net loss per share was \$3.26 compared to diluted net loss per share of \$1.82 for the year ended December 31, 2017.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity were our cash provided by operations, cash and cash equivalent balances on hand, our securities held to maturity and our revolving credit facility.

On June 13, 2016, we amended the credit agreement dated as of July 26, 2013 (as so amended, the "Credit Agreement"), by and among us and certain of our 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

The Credit Agreement contains a \$50.0 million senior secured revolving credit facility (the “Revolving Credit Facility”) and a sub-facility for letters of credit not to exceed the lesser of \$30.0 million and the amount of the senior secured revolving credit facility at such time. The Revolving Credit Facility can be used for general corporate purposes, including working capital. Under the Credit Agreement, revolving loans outstanding will bear interest at a rate of LIBOR plus an applicable margin of between 1.25% and 1.75% depending on our consolidated leverage ratio or at a base rate, as selected by us. Base rate loans will bear interest at the highest of (a) the federal funds rate plus 0.50%, (b) the prime rate or (c) LIBOR plus 1.00%. We are required to pay a non-utilization fee of between 0.10% and 0.25% on the unused portion of the revolving loan commitment depending on our quarterly average balance of unrestricted cash and our consolidated leverage ratio. Borrowings under the Revolving Credit Facility are secured by a first priority perfected security interest in substantially all of the Borrowers’ assets excluding railcars held by our railcar leasing subsidiary, JAIX. The Borrowers also have pledged all of the equity interests in our direct and indirect domestic subsidiaries as security for the Revolving Credit Facility. The Credit Agreement has both affirmative and negative covenants, including, without limitation, a negative covenant requiring a maximum consolidated net leverage ratio of 2.50:1.00 and limitations on indebtedness, liens and investments. The Credit Agreement also provides for customary events of default. As of December 31, 2018 and 2017, we had no borrowings under the Revolving Credit Facility. As of December 31, 2018 and 2017, we had \$4.9 million and \$5.5 million, respectively, in outstanding letters of credit under the Revolving Credit Facility. The existing Credit Facility is an earnings based facility. Given the operating losses experienced, we will not be able to borrow against the credit facility until we return to positive earnings. We are in the process of negotiating a new asset based lending facility which we expect to be in place prior to the expiration of the current facility.

Our restricted cash and restricted certificates of deposit balance was \$5.0 million as of December 31, 2018 and \$5.7 million as of December 31, 2017, and consisted of cash and certificates of deposit used to collateralize standby letters of credit with respect to performance guarantees and to support our worker’s compensation insurance claims. The decrease in restricted cash balances as of December 31, 2018 compared to December 31, 2017 was a result of decreases in standby letters of credit with respect to performance guarantees and our corresponding obligation to collateralize them. The standby letters of credit outstanding as of December 31, 2018 are scheduled to expire at various dates through January 18, 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.

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 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.

We historically provided pension and retiree welfare benefits to certain salaried and hourly employees upon their retirement. Benefits under our pension plan are now frozen and will not be impacted by increases due to future service and compensation increases. The most significant assumptions used in determining our net periodic benefit costs are the discount rate used on our pension and postretirement welfare obligations and expected return on pension plan assets. As of December 31, 2018, our benefit obligation under our defined benefit pension plan was \$48.6 million, which exceeded the fair value of plan assets by \$5.8 million. We made no contributions to our defined benefit pension plan during 2018 and are not required to make any contributions to our defined benefit pension plan in 2019. Funding levels will be affected by future contributions, investment returns on plan assets, growth in plan liabilities and interest rates.

As of December 31, 2018, our benefit obligation under our postretirement benefit plan was \$5.4 million, which is unfunded. We made contributions to our postretirement benefit plan of \$0.6 million for salaried retirees during 2018 and expect to make \$0.4 million in contributions to our postretirement benefit plan in 2019 for salaried retirees.

Table of Contents

Cash Flows

The following table summarizes our net cash provided by or used in operating activities, investing activities and financing activities for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
	<i>(In thousands)</i>	
Net cash (used in) provided by:		
Operating activities	\$(31,644)	\$ 40,341
Investing activities	(10,946)	(45,289)
Financing activities	(128)	(3,374)
Total	<u>\$(42,718)</u>	<u>\$ (8,322)</u>

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 year ended December 31, 2018 was \$31.6 million compared to net cash provided by operating activities of \$40.3 million for the year ended December 31, 2017. Our net cash used in operating activities for the year ended December 31, 2018 reflects our net loss of \$40.6 million, increases in accounts receivable of \$10.6 million, increases in inventories of \$16.3 million to meet current production needs which were partially offset by increases in accounts and contractual payables of \$10.7 million, non-cash depreciation and amortization of \$12.1 million and the net \$10.0 million decrease in deferred tax assets as a result of our valuation allowance. Our net cash provided by operating activities for the year ended December 31, 2017 reflects decreases in working capital including a \$50.6 million decrease in inventory and the receipt of a federal income tax refund of \$11.9 million.

Investing Activities. Net cash used in investing activities for the year ended December 31, 2018 was \$10.9 million and primarily represented the \$37.3 million cost of railcars available for lease which was partially offset by the \$25.4 million maturity of U.S. Treasury securities and certificates of deposit (net of purchases) and the \$0.8 million maturity of restricted certificates of deposit (net of purchases). Net cash used in investing activities for the year ended December 31, 2017 was \$45.3 million and primarily represented the \$42.7 million purchase of U.S. Treasury securities and certificates of deposit (net of maturities) and the \$3.1 million purchase of restricted certificates of deposit (net of maturities), which were partially offset by \$1.4 million of state and local incentives received.

Financing Activities. Net cash used in financing activities for the year ended December 31, 2018 was \$0.1 million compared to \$3.4 million for the year ended December 31, 2017, reflecting the suspension of our quarterly cash dividend to our stockholders in November 2017. The declaration and payment of future dividends will be at the discretion of our board of directors and will depend on, among other things, general economic and business conditions, our strategic plans, our financial results, contractual and legal restrictions on the payment of dividends by us and our subsidiaries and such other factors that our board of directors consider to be relevant.

Capital Expenditures

Our capital expenditures were \$2.2 million for the year ended December 31, 2018 compared to \$1.0 million for the year ended December 31, 2017. During the year ended December 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. Capital expenditures for 2017 were primarily to maintain our facilities. Excluding unforeseen expenditures, we expect that total capital expenditures will be between \$4 million and \$5 million for 2019.

[Table of Contents](#)

CRITICAL ACCOUNTING POLICIES

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

Our critical accounting policies include the following:

Long-lived assets

We evaluate long-lived assets, including property, plant and equipment, under the provisions of ASC 360, *Property, Plant and Equipment*, which addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. For assets to be held or used, we group a long-lived asset or assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. An impairment loss for an asset group reduces only the carrying amounts of a long-lived asset or assets of the group being evaluated. Our estimates of future cash flows used to test the recoverability of a long-lived asset group include only the future cash flows that are directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the asset group. Our future cash flow estimates exclude interest charges.

We test long-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. These changes in circumstances may include a significant decrease in the market price of an asset group, a significant adverse change in the manner in or extent to which an asset group is used, a current year operating loss combined with a history of operating losses or a current expectation that, more likely than not, a long-lived asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. If indicators of impairment are present, we then determine if the carrying value of the asset group is recoverable by comparing the carrying value of the asset group to total undiscounted future cash flows of the asset group. If the carrying value of the asset group is not recoverable, an impairment loss is measured based on the excess of the carrying amount of asset group over the estimated fair value of the asset group.

Our history of operating losses and a significant drop in our stock price resulted in us performing an impairment analysis of long-lived assets in 2018 by comparing the carrying value of the asset group to total undiscounted future cash flows of the asset group and concluded the carrying value is recoverable.

Due to the idling of our Danville, Illinois manufacturing facility, we tested the long-lived assets at our Danville facility for impairment during the second quarter of 2017. The carrying values of property, plant and equipment at our Danville facility were reduced to their estimated fair market values, resulting in a pre-tax impairment charge of \$0.3 million for the year ended December 31, 2017. 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. Our Danville facility was sold in 2018.

Impairment of goodwill

We assess the carrying value of goodwill for impairment annually or more frequently whenever events occur or circumstances change indicating potential impairment.

We perform our annual goodwill impairment assessment on August 1 of each year. In addition, we tested goodwill for impairment as of December 31, 2018 due to a significant drop in the Company's stock price. During each of our goodwill impairment assessments we estimated the fair value of our Manufacturing reporting unit, the only reporting unit with associated goodwill, and concluded that the estimated fair value of the Manufacturing reporting unit exceeded the carrying value and therefore no impairment charges were recorded. For our annual impairment testing we determined the fair value of the Manufacturing reporting unit using a combination of the income approach, utilizing the discounted cash flow method, and the market approach, utilizing the guideline public company method.

Table of Contents

The discounted cash flow method indicates the fair value of a business based on the present value of the cash flows that the business can be expected to generate in the future, and the guideline company method seeks to determine the multiple of revenue or earnings at which shares of similar companies are exchanged to estimate the fair value of a company's equity. For our interim impairment testing we determined the fair value of the Manufacturing reporting unit using the discounted cash flow method with updated assumptions including the risk of achieving projected future cash flows to incorporate the view of a market participant. During our impairment test as of December 31, 2018 we noted that the fair value of the Manufacturing reporting unit exceeded its carrying value by \$12 million, or 6.4% of the carrying value.

The discounted cash flow method involves management making estimates with respect to a variety of factors that will significantly impact the future performance of the business, including:

- future railcar volume projections;
- estimated margins on railcar sales;
- estimated growth rate for selling, general and administrative costs;
- future effective tax rate for our Company; and
- weighted-average cost of capital ("WACC") used to discount future performance of our Company.

Because these estimates form a basis for the determination of whether or not an impairment charge should be recorded, these estimates are considered to be critical accounting estimates.

We use our knowledge of the railcar market and history of railcar sales to estimate volume projections in our discounted cash flow method. We believe that this data is the best indicator of expected future performance assuming that we maintain a consistent market share over time, which management believes is supportable based on historical performance. Our estimated gross margins used in the discounted cash flow method are based primarily on historical gross margins achieved over the duration of a business cycle. Management estimated WACC of 16%, 13% and 14% for our December 31, 2018, August 1, 2018 and August 1, 2017 goodwill impairment valuation analyses for our Manufacturing reporting unit.

During our interim goodwill impairment assessment as of December 31, 2018 and our annual goodwill impairment assessment as of August 1, 2018, in addition to estimating the fair value of our Manufacturing reporting unit using the discounted cash flow method in the base case scenario, we also estimated the fair value of our Manufacturing reporting unit using the discounted cash flow method for alternate scenarios. From a sensitivity perspective, the estimated fair value of our Manufacturing reporting unit as of December 31, 2018 exceeded the carrying value even if the terminal growth rate was decreased by one hundred basis points or WACC used in the discounted cash flow model was increased by one hundred basis points. If market conditions further deteriorate or the performance of the Manufacturing reporting unit is worse than is currently projected over an extended period of time, the reporting unit could potentially be at risk of an impairment charge. As of December 31, 2018, the total goodwill balance of the Manufacturing reporting unit was \$21.5 million.

The guideline company method values a business by comparing the subject company to similar publicly traded companies. The application of the guideline company method consists of several steps including:

- identifying the most similar publicly traded companies to the reporting unit;
- reviewing financial and supplemental data, such as market prices and business descriptions for the selected companies;
- calculating valuation multiples for the selected publicly traded guideline companies;
- performing comparative analyses to select valuation multiples and then applying them to the financial data of the reporting unit to arrive at a preliminary indication of the value of the reporting unit's invested capital on a marketable, minority basis;

Table of Contents

- applying a control premium to the indicated equity values on a marketable, minority basis to arrive at the indicated value of the common equity attributable to the reporting unit on a marketable, controlling basis; and
- where appropriate, making adjustments to add the appropriate balances related to cash and short-term investments, excess working capital and the benefits of net operating loss carryforwards.

During our December 31, 2018 interim testing the guideline company method was not used due to the high level of volatility exhibited by the stock which indicates that the market approach is likely not a reliable indicator of value at the valuation date.

Pensions and postretirement benefits

We historically provided pension and retiree welfare benefits to certain salaried and hourly employees upon their retirement. Benefits under our pension plan are now frozen and will not be impacted by increases due to future service. The most significant assumptions used in determining our net periodic benefit costs are the discount rate used on our pension and postretirement welfare obligations and expected return on pension plan assets.

In 2018, we assumed that the expected long-term rate of return on pension plan assets would be 5.40%. As permitted under ASC 715, the assumed long-term rate of return on assets is applied to a calculated value of plan assets, which recognizes changes in the fair value of plan assets in a systematic manner over five years. This produces the expected return on plan assets that is included in our net periodic benefit cost. The difference between this expected return and the actual return on plan assets is deferred. The net deferral of past asset gains (losses) affects the calculated value of plan assets and, ultimately, future net periodic benefit cost. We review the expected return on plan assets annually and would revise it if conditions should warrant. A change of one hundred basis points in the expected long-term rate of return on plan assets would have the following effect for the year ended; December 31, 2018:

	<u>1% Increase</u>	<u>1% Decrease</u>
	<u>(in thousands)</u>	
Effect on net periodic benefit cost	\$ (469)	\$ 469

At the end of each year, we determine the discount rate to be used to calculate the present value of our pension and postretirement welfare plan liabilities. The discount rate is an estimate of the current interest rate at which our pension liabilities could be effectively settled at the end of the year. In estimating this rate, we look to rates of return on high-quality, fixed-income investments that receive one of the two highest ratings given by a recognized ratings agency. At December 31, 2018, we determined this rate on our postretirement welfare plan to be 4.32%, an increase of 0.67% from the 3.65% rate used at December 31, 2017. At December 31, 2018, we determined this rate on our pension plan to be 4.35% an increase of 0.67% from the 3.68% rate used at December 31, 2017. A change of one hundred basis points in the discount rate would have the following effect:

	<u>1% Increase</u>	<u>1% Decrease</u>
	<u>(in thousands)</u>	
Effect on net periodic benefit cost	\$ 3	\$ (26)

In October 2018, the Society of Actuaries published updated mortality improvement assumptions for U.S. plans, scale (MP-2018), which reflects additional data that the Social Security Administration has released since prior assumptions (MP-2017) were developed. Scale (MP-2018) results in lower projected mortality improvement than scale (MP-2017). We have historically utilized the Society of Actuaries' published mortality data in our plan assumptions. Accordingly, we adopted MP-2018 for purposes of measuring our pension and postretirement obligations at December 31, 2018.

For the years ended December 31, 2018 and 2017, we recognized consolidated pre-tax pension benefit cost (income) of \$(0.7) million and \$0.0 million, respectively. We are not required to make any contributions to our pension plan during 2019. However, we may elect to adjust the level of contributions based on a number of factors, including

Table of Contents

performance of pension investments and changes in interest rates. The Pension Protection Act of 2006 provided for changes to the method of valuing pension plan assets and liabilities for funding purposes as well as requiring minimum funding levels. Our defined benefit pension plan is in compliance with minimum funding levels established in the Pension Protection Act. Funding levels will be affected by future contributions, investment returns on plan assets, growth in plan liabilities and interest rates. Once the plan is Fully Funded as that term is defined within the Pension Protection Act, we will be required to fund the ongoing growth in plan liabilities on an annual basis. We anticipate funding pension contributions with cash from operations.

For the years ended December 31, 2018 and 2017, we recognized a consolidated pre-tax postretirement benefit cost of \$0.0 million and \$0.1 million, respectively.

Income taxes

We account for income taxes under the asset and liability method prescribed by ASC 740, *Income Taxes*. We provide for deferred income taxes based on differences between the book and tax bases of our assets and liabilities and for items that are reported for financial statement purposes in periods different from those for income tax reporting purposes. The deferred tax liability or asset amounts are based upon the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax liability or asset is expected to be settled or realized.

Our income tax expense, deferred tax assets and liabilities and reserves for unrecognized tax benefits reflect our best assessment of estimated future taxes to be paid. Management judgment is required in developing our provision for income taxes, including the determination of deferred tax assets, liabilities and any valuation allowances recorded against the deferred tax assets. We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In evaluating whether it is more likely than not that our net deferred tax assets will be realized, we consider both positive and negative evidence including the reversal of existing taxable temporary differences, taxable income in prior carryback years if carryback is permitted under the tax law and such taxable income has not previously been used for carryback, future taxable income exclusive of reversing temporary differences and carryforwards based on near-term and longer-term projections of operating results and the length of the carryforward period. We evaluate the realizability of our net deferred tax assets and assess the valuation allowance on a quarterly basis, adjusting the amount of such allowance, if necessary. Failure to achieve forecasted taxable income might affect the ultimate realization of the net deferred tax assets. Factors that may affect our ability to achieve sufficient forecasted taxable income include, but are not limited to, increased competition, a decline in sales or margins and loss of market share.

As of December 31, 2018, we have concluded that, based on evaluation of the positive and negative evidence, primarily our history of operating losses, we will not more likely than not realize the benefit of our deferred tax assets. Our income tax provision for the year ended December 31, 2018 includes income tax expense of \$18.2 million related to recognition of additional valuation allowance, bringing our total valuation allowance as of December 31, 2018 to \$24.5 million. Net of the valuation allowance, we had total net deferred tax liabilities of \$0.4 million as of December 31, 2018.

On December 22, 2017, the President of the United States signed into law the Tax Act. The Tax Act includes a number of changes to existing U.S. tax laws that impact the Company, most notably a reduction of the U.S. corporate income tax rate from 35 percent to 21 percent for tax years beginning after December 31, 2017. The Tax Act also provides for the acceleration of depreciation for certain assets placed into service after September 27, 2017 as well as prospective changes beginning in 2018, including the repeal of the domestic manufacturing deduction and additional limitations on executive compensation.

We recognized the income tax effects of the Tax Act in our 2017 financial statements in accordance with Staff Accounting Bulletin No. 118, which provides SEC staff guidance for the application of ASC 740, *Income Taxes*, in the reporting period in which the Tax Act was signed into law. Our 2017 financial statements reflected estimates for the remeasurement of U.S. deferred tax balances to reflect the new U.S. corporate income tax rate. Our 2017 U.S. corporate income tax return was filed in 2018 and there were no material financial statement adjustments when finalizing the accounting for the Tax Act.

The change to existing U.S. tax law as a result of the Tax Act which we believe has the most significant impact on our income tax provision is the reduction of the U.S. corporate statutory tax rate. We measure deferred tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid. Accordingly, our deferred tax assets and liabilities were remeasured to reflect the reduction in the U.S. corporate income tax rate from 35 percent to 21 percent, resulting in a \$2.5 million increase in income tax expense for the year ended December 31, 2017 and a corresponding \$2.5 million decrease in net deferred tax assets as of December 31, 2017.

Table of Contents

Product warranties

Warranty terms are based on the negotiated railcar sales contracts. We generally warrant that new railcars produced by us will be free from defects in material and workmanship under normal use and service identified for a period of up to seven years from the time of sale. We also provide limited warranties with respect to certain rebuilt railcars. With respect to parts and materials manufactured by others and incorporated by us in our products, such parts and materials may be covered by the warranty provided by the original manufacturer. We establish a warranty reserve at the time of sale to account for future warranty charges. The warranty reserve consists of two categories: assigned claims and unassigned claims. The unassigned warranty reserve is calculated based on historical warranty costs adjusted for estimated material price changes and other factors. Once a warranty claim is filed for railcars under warranty, the estimated cost to correct the defect is moved from the unassigned reserve to the assigned reserve and tracked separately.

Revenue recognition

We generally recognize revenue at a point in time, as we satisfy 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 we expect to receive in exchange for transferring the promised goods or services to the customer. 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, our performance obligation includes transfer of the finished railcar to a specified railroad connection point. In these instances, we recognize revenue from the sale when the railcar reaches the specified railroad connection point. When a railcar sales contract contains multiple performance obligations, we allocate 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. We do not provide discounts or rebates in the normal course of business. As a practical expedient, we recognize the incremental costs of obtaining contracts, such as sales commissions, as an expense when incurred since the amortization period of the asset that we otherwise would have recognized is one year or less. Performance obligations are satisfied and we recognize revenue from most parts sales when the parts are shipped to customers. We recognize operating lease revenue on Inventory on Lease on a contractual basis and recognize operating lease revenue on Railcars Available for Lease on a straight-line basis over the contract term. We recognize 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. We recognize 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.

We recognize a loss when we have a contractual commitment to manufacture railcars at an estimated cost in excess of the contractual selling price.

RECENT ACCOUNTING PRONOUNCEMENTS (See Note 2 Summary of Significant Accounting Policies, to our Consolidated Financial Statements)

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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” and similar expressions in this Annual Report on Form 10-K 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,

Table of Contents

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 Form 10-K 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.

Table of Contents

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
FreightCar America, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of FreightCar America, Inc. and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), stockholders’ equity and cash flows, for each of the two years in the period ended December 31, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 4, 2019, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois
March 04, 2019

We have served as the Company’s auditor since 1999.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
FreightCar America, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of FreightCar America, Inc. and subsidiaries (the “Company”) as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018, of the Company and our report dated March 04, 2019, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ *DELOITTE & TOUCHE LLP*
Chicago, Illinois
March 04, 2019

[Table of Contents](#)

FreightCar America, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(in thousands, except for share and per share data)

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Assets		
Current assets		
Cash, cash equivalents and restricted cash equivalents	\$ 45,070	\$ 87,788
Restricted certificates of deposit	4,952	5,720
Marketable securities	18,019	42,917
Accounts receivable, net of allowance for doubtful accounts of \$91 and \$56, respectively	18,218	7,581
Inventories, net	64,562	45,292
Inventory on lease	—	5,550
Other current assets	5,012	5,099
Total current assets	155,833	199,947
Property, plant and equipment, net	45,317	38,253
Railcars available for lease, net	64,755	23,434
Goodwill	21,521	21,521
Deferred income taxes, net	—	9,446
Other long-term assets	2,311	3,303
Total assets	<u>\$ 289,737</u>	<u>\$ 295,904</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts and contractual payables	\$ 34,749	\$ 23,329
Accrued payroll and other employee costs	1,639	1,809
Reserve for workers' compensation	3,344	3,394
Accrued warranty	9,309	8,062
Customer deposits	3,000	362
Deferred income state and local incentives, current	2,219	2,219
Deferred rent, current	6,466	178
Other current liabilities	1,324	964
Total current liabilities	62,050	40,317
Accrued pension costs	5,841	5,763
Accrued postretirement benefits, less current portion	4,975	5,556
Deferred income state and local incentives, long-term	6,941	9,161
Deferred rent, long-term	15,519	2,988
Accrued taxes and other long-term liabilities	801	387
Total liabilities	96,127	64,172
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 December 31, 2018 and December 31, 2017)	—	—
Common stock, \$0.01 par value, 50,000,000 shares authorized, 12,731,678 shares issued at December 31, 2018 and December 31, 2017	127	127
Additional paid in capital	90,593	90,347
Treasury stock, at cost, 272,030 and 336,982 shares at December 31, 2018 and December 31, 2017, respectively	(9,721)	(12,555)
Accumulated other comprehensive loss	(8,188)	(7,567)
Retained earnings	120,799	161,380
Total stockholders' equity	193,610	231,732
Total liabilities and stockholders' equity	<u>\$ 289,737</u>	<u>\$ 295,904</u>

See notes to consolidated financial statements

Table of Contents**FreightCar America, Inc. and Subsidiaries****CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except for share and per share data)

	Year Ended December 31,	
	2018	2017
Revenues	\$ 316,519	\$ 409,474
Cost of sales	320,146	406,478
Gross (loss) profit	(3,627)	2,996
Selling, general and administrative expenses	29,051	32,987
Gain on sale of facility	(573)	—
Restructuring and impairment charges	—	1,792
Operating loss	(32,105)	(31,783)
Interest expense and deferred financing costs	(155)	(163)
Other income	1,848	539
Loss before income taxes	(30,412)	(31,407)
Income tax provision (benefit)	10,169	(8,845)
Net loss	\$ (40,581)	\$ (22,562)
Net loss per common share – basic	\$ (3.26)	\$ (1.82)
Net loss per common share – diluted	\$ (3.26)	\$ (1.82)
Weighted average common shares outstanding – basic	12,318,861	12,285,566
Weighted average common shares outstanding – diluted	12,318,861	12,285,566
Dividends declared per common share	\$ —	\$ 0.27

See notes to the consolidated financial statements

[Table of Contents](#)

FreightCar America, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

	Year Ended December 31,	
	2018	2017
Net loss	\$ (40,581)	\$ (22,562)
Other comprehensive (loss) income net of tax:		
Pension liability adjustments, net of tax	(597)	734
Postretirement liability adjustments, net of tax	(24)	(138)
Other comprehensive (loss) income	(621)	596
Comprehensive loss	\$ (41,202)	\$ (21,966)

See notes to the consolidated financial statements

[Table of Contents](#)

FreightCar America, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except for share data)

	Common Stock		Additional	Treasury Stock		Accumulated	Retained	Total
	Shares	Amount	Paid In Capital	Shares	Amount	Other Comprehensive Loss	Earnings	Stockholders' Equity
Balance, January 1, 2017	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 loss	—	—	—	—	—	—	(22,562)	(22,562)
Other comprehensive income	—	—	—	—	—	596	—	596
Restricted stock awards	—	—	(2,957)	72,503	2,957	—	—	—
Employee stock settlement	—	—	—	(1,500)	(23)	—	—	(23)
Forfeiture of restricted stock awards	—	—	906	(56,239)	(906)	—	—	—
Stock-based compensation recognized	—	—	1,162	—	—	—	—	1,162
Cash dividends	—	—	—	—	—	—	(3,351)	(3,351)
Other	—	—	(1,004)	—	—	—	—	(1,004)
Balance, December 31, 2017	12,731,678	\$ 127	\$ 90,347	(336,982)	\$(12,555)	\$ (7,567)	\$ 161,380	\$ 231,732
Net loss	—	—	—	—	—	—	(40,581)	(40,581)
Other comprehensive loss	—	—	—	—	—	(621)	—	(621)
Restricted stock awards	—	—	(3,141)	85,182	3,141	—	—	—
Employee stock settlement	—	—	—	(7,089)	(118)	—	—	(118)
Forfeiture of restricted stock awards	—	—	189	(13,141)	(189)	—	—	—
Stock-based compensation recognized	—	—	3,198	—	—	—	—	3,198
Balance, December 31, 2018	<u>12,731,678</u>	<u>\$ 127</u>	<u>\$ 90,593</u>	<u>(272,030)</u>	<u>\$(9,721)</u>	<u>\$ (8,188)</u>	<u>\$ 120,799</u>	<u>\$ 193,610</u>

See notes to the consolidated financial statements

[Table of Contents](#)**FreightCar America, Inc. and Subsidiaries****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	Year Ended December 31,	
	2018	2017
Cash flows from operating activities		
Net loss	\$ (40,581)	\$ (22,562)
Adjustments to reconcile net loss to net cash flows (used in) provided by operating activities:		
Net proceeds from Shoals transaction	2,655	—
Depreciation and amortization	12,017	9,366
Recognition of deferred income from state and local incentives	(2,220)	(2,219)
Gain on sale of facility	(573)	—
Deferred income taxes	9,969	(6,424)
Stock-based compensation recognized	3,198	1,162
Other non-cash items, net	269	1,957
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(10,637)	16,216
Inventories	(16,311)	50,639
Other assets	1,728	(3,248)
Accounts and contractual payables	10,693	(11,170)
Accrued payroll and employee benefits	(165)	(1,305)
Income taxes receivable/payable	657	9,623
Accrued warranty	1,247	(262)
Other liabilities	(2,461)	(754)
Accrued pension costs and accrued postretirement benefits	(1,129)	(678)
Net cash flows (used in) provided by operating activities	<u>(31,644)</u>	<u>40,341</u>
Cash flows from investing activities		
Purchase of restricted certificates of deposit	(8,312)	(9,966)
Maturity of restricted certificates of deposit	9,080	6,856
Purchase of securities held to maturity	(111,356)	(85,821)
Proceeds from maturity of securities	136,716	43,080
Cost of railcars available for lease	(37,347)	—
Purchase of property, plant and equipment	(2,185)	(967)
Proceeds from sale of property, plant and equipment and railcars available for lease	2,458	119
State and local incentives received	—	1,410
Net cash flows used in investing activities	<u>(10,946)</u>	<u>(45,289)</u>
Cash flows from financing activities		
Employee stock settlement	(118)	(23)
Cash dividends paid to stockholders	—	(3,351)
Deferred financing costs	(10)	—
Net cash flows used in financing activities	<u>(128)</u>	<u>(3,374)</u>
Net decrease in cash and cash equivalents	(42,718)	(8,322)
Cash, cash equivalents and restricted cash equivalents at beginning of year	87,788	96,110
Cash, cash equivalents and restricted cash equivalents at end of year	<u>\$ 45,070</u>	<u>\$ 87,788</u>
Supplemental cash flow information		
Interest paid	\$ 68	\$ 72
Income tax refunds received	\$ 599	\$ 11,929
Income tax paid	\$ 5	\$ 104

See notes to the consolidated financial statements

Table of Contents

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

(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 – Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of FreightCar America, Inc. and all of its direct and indirect subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the valuation of used railcars received in sale transactions, useful lives of long-lived assets, warranty accruals, workers’ compensation accruals, pension and postretirement benefit assumptions, stock compensation, evaluation of goodwill, other intangibles and property, plant and equipment for impairment and the valuation of deferred taxes. Actual results could differ from those estimates.

Cash and Cash Equivalents

On a daily basis, cash in excess of current operating requirements is invested in various highly liquid investments. The Company considers all unrestricted short-term investments with maturities of three months or less when acquired to be cash equivalents. The amortized cost of cash equivalents approximate fair value because of the short maturity of these instruments.

The Company’s cash and cash equivalents are primarily deposited with one U.S. financial institution. Such deposits are in excess of federally insured limits.

Restricted Cash and Restricted Certificates of Deposit

The Company establishes restricted cash balances and restricted certificates of deposit to collateralize certain standby letters of credit with respect to purchase price payment guarantees and performance guarantees and to support the Company’s worker’s compensation insurance claims. The restrictions expire upon completing the Company’s related obligation.

[Table of Contents](#)

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

Financial Instruments

Management estimates that all financial instruments (including cash equivalents, restricted cash and restricted certificates of deposit, marketable securities, accounts receivable and accounts payable) as of December 31, 2018 and 2017, have fair values that approximate their carrying values.

Upon purchase, the Company categorizes debt securities as *securities held to maturity*, *securities available for sale* or *trading securities*. Debt securities that the Company has the positive intent and ability to hold to maturity are classified as *securities held to maturity* and are reported at amortized cost adjusted for amortization of premium and accretion of discount on a level yield basis. Debt securities that are bought and held principally for the purpose of selling them in the near term are classified as *trading securities* and reported at fair value, with unrealized gains and losses included in earnings. Debt securities not classified as either held-to-maturity or trading securities are classified as *securities available for sale* and are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a component of other comprehensive income, which is included in stockholders' equity, net of deferred taxes.

Fair Value Measurements

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of assets and liabilities and the placement within the fair value hierarchy levels.

The Company classifies the inputs to valuation techniques used to measure fair value as follows:

- Level 1* — Quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2* — Inputs other than quoted prices for Level 1 inputs that are either directly or indirectly observable for the asset or liability including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means.
- Level 3* — Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability.

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined on a first-in, first-out basis and includes material, labor and manufacturing overhead. The Company's inventory consists of work in progress and finished goods for individual customer contracts, used railcars acquired upon trade-in and railcar parts retained for sale to external parties.

Leased Railcars

The Company offers railcar leases to its customers at market rates with terms and conditions that have been negotiated with the customers. It is the Company's strategy to actively market these leased assets for sale to leasing companies and financial institutions rather than holding them to maturity. If, as of the date of the initial lease, management determines that the sale of the leased railcars is probable, and transfer of the leased railcars is expected to qualify for recognition as a completed sale within one year, then the leased railcars are classified as current assets on the balance sheet (Inventory on Lease). In determining whether it is probable that the leased railcars will be sold

Table of Contents

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

within one year, management considers general market conditions for similar railcars and considers whether market conditions are indicative of a potential sales price that will be acceptable to the Company to sell the cars within one year. Inventory on Lease is carried at the lower of cost or market value and is not depreciated. At the one-year anniversary of the initial lease or such earlier date when management no longer believes the leased railcars will be sold within one year of the initial lease, the leased railcars are reclassified from current assets (Inventory on Lease) to long-term assets (Railcars Available for Lease). Railcars Available for Lease are depreciated over 40 years from the date the railcars are placed in service under the initial lease and evaluated for impairment on a quarterly basis.

Property, Plant and Equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation. Depreciation is provided using the straight-line method over the original estimated useful lives of the assets or lease term if shorter, which are as follows:

Description of Assets	Life
Buildings and improvements	15-40 years
Leasehold improvements	6-19 years
Machinery and equipment	3-7 years
Software	3-7 years

Maintenance and repairs are charged to expense as incurred, while major refurbishments and improvements are capitalized. The cost and accumulated depreciation of items sold or retired are removed from the property accounts and any gain or loss is recorded in the consolidated statement of operations upon disposal or retirement.

Long-Lived Assets

The Company tests long-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. These changes in circumstances may include a significant decrease in the market price of an asset group, a significant adverse change in the manner or extent in which an asset group is used, a current year operating loss combined with history of operating losses, or a current expectation that, more likely than not, a long-lived asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

For assets to be held and used, the Company groups a long-lived asset or assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test the recoverability of a long-lived asset group include only the future cash flows that are directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the asset group. Recoverability of the carrying value of the asset group is determined by comparing the carrying value of the asset group to total undiscounted future cash flows of the asset group. If the carrying value of the asset group is not recoverable, an impairment loss is measured based on the excess of the carrying amount of asset group over the estimated fair value of the asset group. An impairment loss for an asset group reduces only the carrying amounts of a long-lived asset or assets of the group being evaluated.

The Company's history of operating losses and a significant drop in the Company's stock price resulted in management performing an impairment analysis of long-lived assets in 2018 by comparing the carrying value of the asset group to total undiscounted future cash flows of the asset group and concluded the carrying value is recoverable.

Table of Contents

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

Research and Development

Costs associated with research and development are expensed as incurred and totaled approximately \$42 and \$298 for the years ended December 31, 2018 and 2017, respectively. Such costs are reported within selling, general and administrative expenses in the consolidated statements of operations.

Goodwill and Intangible Assets

The Company assesses the carrying value of goodwill for impairment as required by ASC 350, *Intangibles – Goodwill and Other*, as of August 1 of each year. We test goodwill for impairment between annual tests whenever events occur or circumstances change indicating potential impairment. We tested goodwill for impairment as of December 31, 2018 due to a significant drop in the Company's stock price. During its interim goodwill impairment assessment as of December 31, 2018 and its annual goodwill impairment assessments as of August 1, 2018 and 2017, management estimated the fair value of its Manufacturing reporting unit, the only reporting unit carrying goodwill, and concluded that the estimated fair value of the Manufacturing reporting unit exceeded the carrying value as of each of the testing dates and therefore no impairment charges were recorded. If market conditions further deteriorate or the performance of the Manufacturing reporting unit is worse than is currently projected over an extended period of time, the reporting unit could potentially be at risk of an impairment charge. As of December 31, 2018, the total goodwill balance of the Manufacturing reporting unit was \$21.5 million.

For our annual impairment testing management determined the fair value of the Manufacturing reporting unit using a combination of the income approach, utilizing the discounted cash flow method, and the market approach, utilizing the guideline company method. The discounted cash flow method indicates the fair value of a business based on the present value of the cash flows that the business can be expected to generate in the future, and the guideline company method uses the multiples at which shares of similar companies are exchanged to estimate the fair value of a company's equity. Fair value based on the income approach was given a 60% weighting and fair value based on the market approach was given a 40% weighting. For our interim impairment testing we determined the fair value of the Manufacturing reporting unit using the discounted cash flow method with updated assumptions including the risk of achieving projected future cash flows to incorporate the view of a market participant. The guideline company method was not used due to the high level of volatility exhibited by the stock which indicates that the market approach is likely not a reliable indicator of value at the valuation date.

Income Taxes

For federal income tax purposes, the Company files a consolidated federal tax return. The Company also files state tax returns in states where the Company has operations. In conformity with ASC 740, *Income Taxes*, the Company provides for deferred income taxes on differences between the book and tax bases of its assets and liabilities and for items that are reported for financial statement purposes in periods different from those for income tax reporting purposes. The Company's deferred tax liability or asset amounts are based upon the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax liability or asset is expected to be settled or realized.

Management evaluates net deferred tax assets and provides a valuation allowance when it believes that it is more likely than not that some portion of these assets will not be realized. In making this determination, management evaluates both positive evidence, such as cumulative pre-tax income for previous years, the projection of future taxable income, the reversals of existing taxable temporary differences and tax planning strategies, and negative evidence, such as any recent history of losses and any projected losses. Management also considers the expiration dates of net operating loss carryforwards in the evaluation of net deferred tax assets. Management evaluates the realizability of the Company's net deferred tax assets and assesses the valuation allowance on a quarterly basis, adjusting the amount of such allowance as necessary. The year ended December 31, 2018 included income tax expense of \$18,187 related to recognition of additional valuation allowance against our deferred tax assets. (See Note 15)

Tax benefits related to uncertain tax positions taken or expected to be taken on a tax return are recorded when such benefits meet a more likely than not threshold. Otherwise, these tax benefits are recorded when a tax position has been effectively settled, which means that the appropriate taxing authority has completed its examination even

Table of Contents

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

though the statute of limitations remains open, or the statute of limitation expires. Interest and penalties related to uncertain tax positions are recognized as part of the provision for income taxes and are accrued beginning in the period that such interest and penalties would be applicable under relevant tax law until such time that the related tax benefits are recognized.

On December 22, 2017, the President of the United States signed into law the Tax Act. The Tax Act included a number of changes to existing U.S. tax laws that impact the Company, most notably a reduction of the U.S. corporate income tax rate from 35 percent to 21 percent for tax years beginning after December 31, 2017. The Tax Act also provided for the acceleration of depreciation for certain assets placed into service after September 27, 2017 as well as prospective changes beginning in 2018, including repeal of the domestic manufacturing deduction and additional limitations on executive compensation.

The Company recognized the income tax effects of the Tax Act in its 2017 financial statements in accordance with Staff Accounting Bulletin No. 118, which provides SEC staff guidance for the application of ASC 740, Income Taxes, in the reporting period in which the Tax Act was signed into law. The Company's 2017 financial statements reflected estimates for the remeasurement of U.S. deferred tax balances to reflect the new U.S. corporate income tax rate. The Company's 2017 U.S. corporate income tax return was filed in 2018 and there were no material financial statement adjustments when finalizing the accounting for the Tax Act.

Product Warranties

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 seven 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 establishes a warranty reserve at the time of sale to account for future warranty charges. The warranty reserve consists of two categories: assigned claims and unassigned claims. The unassigned warranty reserve is calculated based on historical warranty costs adjusted for estimated material price changes and other factors. Once a warranty claim is filed for railcars under warranty, the estimated cost to correct the defect is moved from the unassigned reserve to the assigned reserve and tracked separately. 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.

State and Local Incentives

The Company records state and local incentives when there is reasonable assurance that the incentive will be received and the Company is able to comply with the conditions attached to the incentives received. State and local incentives related to assets are recorded as deferred income and recognized on a straight-line basis over the useful life of the related long-lived assets of seven to sixteen years.

Table of Contents

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

Revenue Recognition

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

	Year ended December 31,	
	2018	2017
Railcar sales	\$ 296,394	\$ 398,095
Parts sales	14,180	8,874
Other sales	59	207
Revenues from contracts with customers	310,633	407,176
Leasing revenues	5,886	2,298
Total revenues	<u>\$ 316,519</u>	<u>\$ 409,474</u>

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.

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.

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.

Table of Contents

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

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 December 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 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 Consolidated Balance Sheet as of December 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 December 31, 2018 with expected duration of greater than one year.

Earnings Per Share

The Company computes earnings (loss) per share using the two-class method, which is an earnings (loss) allocation formula that determines earnings (loss) per share for common stock and participating securities. The Company's participating securities are its grants of restricted stock which contain non-forfeitable rights to dividends. Basic earnings (loss) per share attributable to common shareholders is computed by dividing net income (loss) attributable to common shareholders by the weighted average common shares outstanding. The calculation of diluted earnings per share includes the effect of any dilutive equity incentive instruments. The Company uses the treasury stock method to calculate the effect of outstanding dilutive equity incentive instruments, which requires the Company to compute total proceeds as the sum of (1) the amount the employee must pay upon exercise of the award and (2) the amount of unearned stock-based compensation costs attributed to future services. Equity incentive instruments for which the total employee proceeds from exercise exceed the average fair value of the same equity incentive instrument over the period have an anti-dilutive effect on earnings per share during periods with net income from continuing operations, and accordingly, the Company excludes them from the calculation.

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

[Table of Contents](#)

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

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. Early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on its financial statements.

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 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 Consolidated Statement of Operations. The service cost component is included in cost of sales and selling, general and administrative expenses.

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

	Year ended December 31, 2017		
	As reported	Reclassifications	As adjusted
Cost of sales	\$ 406,143	\$ 335	\$ 406,478
Selling, general and administrative expenses	\$ 32,911	\$ 76	\$ 32,987
Restructuring and impairment charges	\$ 2,212	\$ (420)	\$ 1,792
Other income	\$ 548	\$ (9)	\$ 539

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 Consolidated Statement of Cash Flows for the year ended December 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 Consolidated Statement of Cash Flows as of December 31, 2018 and 2017 include only cash and cash equivalents as there are no restricted cash equivalents included in the restricted certificates of deposit balances in the Consolidated Balance Sheets as of those dates.

Table of Contents

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

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 March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting*, to simplify the accounting for stock compensation. The Company adopted this standard effective January 1, 2017 and, on a prospective basis, all excess tax benefits and tax deficiencies related to share-based payments are recognized as income tax expense or benefit rather than additional paid-in capital and are classified as operating activities on the consolidated statements of cash flows. Excess tax benefits and tax deficiencies are considered discrete items in the reporting period during which they occur and are not included in the estimate of the Company's annual effective tax rate. Additionally, excess tax benefits and tax deficiencies are prospectively excluded from the assumed proceeds in the calculation of diluted shares. As permitted by ASU 2016-09, the Company elected to account for forfeitures as they occur, rather than continuing to estimate expected forfeitures. This election was applied using a modified retrospective transition method whereby the cumulative effect of the change as of January 1, 2017 was recorded as a decrease of \$215 to retained earnings and an increase of \$215 to additional paid in capital. The adoption of this standard did not have a material impact on the Company's financial position, results of operations or cash flows.

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. This standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. This ASU allows for a modified retrospective transition approach, applying the new standard to all leases existing at the date of initial adoption. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statement as its date of initial application. The Company has elected to apply the transition requirements at the January 1, 2019 effective date rather than at the beginning of the earliest comparative period presented. This approach allows for a cumulative effect adjustment in the period of adoption, and prior periods will not be restated. 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. As an accounting policy election, the Company will exclude short-term leases (term of 12 months or less) from the balance sheet. The Company is finalizing the evaluation of the January 1, 2019 impact and estimates material increases in lease-related assets of between \$42 and \$47 million and lease-related liabilities of between \$65 and \$70 million in the Consolidated Balance Sheet (before consideration of the Shoals lease amendment disclosed in Note 23 Subsequent Event). The Company also expects to provide enhanced disclosure regarding its lease obligations. The impact to the Company's Consolidated Statement of Operations and Consolidated Statement of Cash Flows is not expected to be material.

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 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.

[Table of Contents](#)**FreightCar America, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****For the Years Ended December 31, 2018 and 2017**

(in thousands, except for share and per share data)

Note 3 – Fair Value Measurements

The following table sets forth by level within the ASC 820 *Fair Value Measurement* 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 December 31, 2018			
	Level 1	Level 2	Level 3	Total
ASSETS:				
Cash equivalents	\$17,012	\$ —	\$ —	\$17,012
Restricted certificates of deposit	\$ 4,952	\$ —	\$ —	\$ 4,952
Escrow receivable	\$ —	\$ —	\$ 930	\$ 930

Recurring Fair Value Measurements

	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
ASSETS:				
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
ASSETS:				
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 FCSL. The fair market value of the remaining escrow receivable above represents the escrow balance of \$980 and \$1,470 as of December 31, 2018 and 2017, respectively, net of the fair value of the indemnification obligations, which was estimated using the discounted probability-weighted cash flow method.

Note 4 – 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 \$18,019 and \$42,917 as of December 31, 2018 and 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.

[Table of Contents](#)

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

Note 5 – Inventories

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

	December 31,	
	2018	2017
Work in process	\$60,112	\$42,460
Finished new railcars	—	85
Parts inventory	4,450	2,747
Total inventories, net	<u>\$64,562</u>	<u>\$45,292</u>

Inventory on the Company's consolidated balance sheets includes reserves of \$6,812 and \$6,160 relating to excess or slow-moving inventory for parts and work in process at December 31, 2018 and 2017, respectively.

Note 6 – Leased Railcars

Railcars available for lease at December 31, 2018 was \$64,755 (cost of \$70,850 and accumulated depreciation of \$6,095) and at December 31, 2017 was \$23,434 (cost of \$28,074 and accumulated depreciation of \$4,640). Depreciation expense on railcars available for lease was \$1,458 and \$704 for the years ended December 31, 2018 and 2017, respectively.

Leased railcars at December 31, 2018 are subject to lease agreements with external customers with remaining terms of up to six and a half years and are accounted for as operating leases.

Future minimum rental revenues on leases at December 31, 2018 are as follows:

Year ending December 31, 2019	\$ 6,387
Year ending December 31, 2020	6,387
Year ending December 31, 2021	5,073
Year ending December 31, 2022	4,680
Year ending December 31, 2023	2,491
Thereafter	2,060
	<u>\$27,078</u>

Note 7 – 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. Restructuring and impairment charges for the year ended December 31, 2017 included employee severance and other employment termination costs and pension and postretirement benefit plan curtailment and special termination benefits of \$1,879 and non-cash impairment charges of \$333 for property, plant and equipment at our idled Danville, Illinois facility. 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 year ended December 31, 2017 have been reclassified as other income (expense) in the Consolidated Statement of Operations. There were no restructuring and impairment charges during the year ended December 31, 2018.

Table of Contents

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

Note 8 – Property, Plant and Equipment

Property, plant and equipment consists of the following:

	December 31,	
	2018	2017
Land	\$ —	\$ 140
Buildings and improvements	229	670
Leasehold improvements	14,988	14,945
Machinery and equipment	86,542	69,442
Software	9,011	8,979
Construction in process	465	230
Total cost	111,235	94,406
Less: Accumulated depreciation and amortization	(65,918)	(56,153)
Total property, plant and equipment, net	<u>\$ 45,317</u>	<u>\$ 38,253</u>

Depreciation expense for the years ended December 31, 2018 and 2017, was \$10,559 and \$8,662, respectively. The table above reflects the impairment charges of \$333 to property, plant and equipment for the year ended December 31, 2017 described in Note 7.

Note 9 – Intangible Assets and Goodwill

The Company had \$21,521 of goodwill associated with its Manufacturing segment as of each of December 31, 2018 and 2017.

Note 10 – Product Warranties

Warranty terms are based on the negotiated railcar sales contracts. The Company generally warrants that new railcars produced by it will be free from defects in material and workmanship under normal use and service identified for a period of up to seven years from the time of sale. The changes in the warranty reserve for the years ended December 31, 2018 and 2017, are as follows:

	December 31,	
	2018	2017
Balance at the beginning of the year	\$ 8,062	\$ 8,324
Current year provision	1,324	1,661
Reductions for payments, costs of repairs and other	(526)	(894)
Adjustments to prior warranties	449	(1,029)
Balance at the end of the year	<u>\$ 9,309</u>	<u>\$ 8,062</u>

Adjustments to prior warranties includes changes in the warranty reserve for warranties issued in prior periods due to expiration of the warranty period, revised warranty cost estimates and other factors.

Note 11 – State and Local Incentives

During the year ended December 31, 2015, the Company received cash payments of \$15,733 for Alabama state and local incentives related to the Company's 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

Table of Contents

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

Company if targeted levels of employment are not maintained for a period of 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 at December 31, 2018.

In December 2016, the Company also qualified for an additional \$1,410 in incentives at the Shoals facility. This amount was received in January 2017.

The changes in deferred income from these incentives for the years ended December 31, 2018 and 2017, are as follows:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Balance at the beginning of the year	\$11,380	\$13,599
State and local incentives received during the year	—	—
Recognition of state and local incentives as a reduction of cost of sales	(2,220)	(2,219)
Balance at the end of the year, including current portion	<u>\$ 9,160</u>	<u>\$11,380</u>

Note 12 – 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.

The Credit Agreement contains a \$50,000 senior secured revolving credit facility (the "Revolving Credit Facility") and a sub-facility for letters of credit not to exceed the lesser of \$30,000 and the amount of the senior secured revolving credit facility at such time. The Revolving Credit Facility can be used for general corporate purposes, including working capital. Under the Credit Agreement, revolving loans outstanding will bear interest at a rate of LIBOR plus an applicable margin of between 1.25% and 1.75% depending on the Company's consolidated leverage ratio or at a base rate, as selected by the Company. Base rate loans will bear interest at the highest of (a) the federal funds rate plus 0.50%, (b) the prime rate or (c) LIBOR plus 1.00%. The Company is required to pay a non-utilization fee of between 0.10% and 0.25% on the unused portion of the revolving loan commitment depending on the Company's quarterly average balance of unrestricted cash and the Company's consolidated leverage ratio. Borrowings under the Revolving Credit Facility are secured by a first priority perfected security interest in substantially all of the Borrowers' assets excluding railcars held by the Company's railcar leasing subsidiary, JAIX. The Borrowers also have pledged all of the equity interests in the Company's direct and indirect domestic subsidiaries as security for the Revolving Credit Facility. The Credit Agreement has both affirmative and negative covenants, including, without limitation, a negative covenant requiring a maximum consolidated net leverage ratio of 2.50:1.00 and limitations on indebtedness, liens and investments. The Credit Agreement also provides for customary events of default.

As of December 31, 2018 and 2017, the Company had no borrowings under the Revolving Credit Facility. As of December 31, 2018 and 2017, the Company had \$4,924 and \$5,452, respectively, in outstanding letters of credit under the Revolving Credit Facility. The existing Credit Facility is an earnings based facility. Given the operating losses experienced, the Company will not be able to borrow against the credit facility until it returns to positive earnings. The Company is in the process of negotiating a new asset based lending facility which it expects to be in place prior to the expiration of the current facility.

[Table of Contents](#)**FreightCar America, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****For the Years Ended December 31, 2018 and 2017**

(in thousands, except for share and per share data)

Note 13 – Accumulated Other Comprehensive Income (Loss)

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

	<u>Pre-Tax</u>	<u>Tax</u>	<u>After-Tax</u>
Year ended December 31, 2018			
Pension liability activity:			
Actuarial loss	\$ (1,210)	\$ (258)	\$ (952)
Reclassification adjustment for amortization of net loss (pre-tax other income (expense))	451	96	355
Postretirement liability activity:			
Actuarial gain	237	50	187
Reclassification adjustment for amortization of net gain (pre-tax other income (expense))	(282)	(60)	(222)
Reclassification adjustment for amortization of prior service cost (pre-tax other income (expense))	14	3	11
	<u>\$ (790)</u>	<u>\$ (169)</u>	<u>\$ (621)</u>

	<u>Pre-Tax</u>	<u>Tax</u>	<u>After-Tax</u>
Year ended December 31, 2017			
Pension liability activity:			
Actuarial gain	\$ 545	\$ 119	\$ 426
Reclassification adjustment for amortization of net loss (pre-tax other income (expense))	475	167	308
Postretirement liability activity:			
Actuarial gain	74	17	57
Reclassification adjustment for amortization of net gain (pre-tax other income (expense))	(317)	(112)	(205)
Reclassification adjustment for amortization of prior service cost (pre-tax other income (expense))	14	4	10
	<u>\$ 791</u>	<u>\$ 195</u>	<u>\$ 596</u>

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Unrecognized pension cost, net of tax of \$6,282 and \$6,120	\$ (10,304)	\$ (9,707)
Unrecognized postretirement income, net of tax of \$527 and \$533	2,116	2,140
	<u>\$ (8,188)</u>	<u>\$ (7,567)</u>

[Table of Contents](#)

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

Note 14 – 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’s 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. As a result of the cost reduction program initiated in January 2017 (see Note 7), certain employees participating in the salaried pension and postretirement benefit plans were impacted, which triggered curtailments of the respective plans.

The Company has elected to utilize a full yield curve approach in estimating the service and interest components of net periodic benefit cost for postretirement benefits and the interest component for pension benefits by applying the specific spot rates along the yield curve used in determining the benefit obligation to the relevant projected cash flows.

The changes in benefit obligation, change in plan assets and funded status as of December 31, 2018 and 2017, are as follows:

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Change in benefit obligation				
Benefit obligation – Beginning of year	\$54,319	\$53,293	\$ 5,956	\$ 6,172
Service cost	—	—	33	48
Interest cost	1,712	1,786	186	199
Actuarial loss (gain)	(4,037)	2,599	(237)	(74)
Benefits paid	(3,404)	(3,629)	(568)	(539)
Lump-sum settlement payment	—	—	—	—
Settlement gain	—	—	—	—
Plan curtailment	—	—	—	—
Special termination benefits	—	270	—	150
Benefit obligation – End of year	<u>48,590</u>	<u>54,319</u>	<u>5,370</u>	<u>5,956</u>
Change in plan assets				
Plan assets – Beginning of year	48,556	46,472	—	—
Return on plan assets	(2,403)	5,713	—	—
Employer contributions	—	—	568	539
Benefits paid	(3,404)	(3,629)	(568)	(539)
Lump-sum settlement payment	—	—	—	—
Plan assets at fair value – End of year	<u>42,749</u>	<u>48,556</u>	<u>—</u>	<u>—</u>
Funded status of plans – End of year	<u><u>\$ (5,841)</u></u>	<u><u>\$ (5,763)</u></u>	<u><u>\$ (5,370)</u></u>	<u><u>\$ (5,956)</u></u>

[Table of Contents](#)

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Amounts recognized in the Consolidated Balance Sheets				
Current liabilities	\$ —	\$ —	\$ (395)	\$ (400)
Noncurrent liabilities	(5,841)	(5,763)	(4,975)	(5,556)
Net amount recognized at December 31	<u>\$(5,841)</u>	<u>\$(5,763)</u>	<u>\$ (5,370)</u>	<u>\$ (5,956)</u>

Amounts recognized in accumulated other comprehensive loss but not yet recognized in earnings at December 31, 2018 and 2017, are as follows:

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Net actuarial loss (gain)	\$16,586	\$15,827	\$ (2,801)	\$ (2,846)
Prior service cost	—	—	158	173
	<u>\$16,586</u>	<u>\$15,827</u>	<u>\$ (2,643)</u>	<u>\$ (2,673)</u>

The estimated net loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost in 2019 is \$530. The estimated net gain and prior service cost for the postretirement benefit plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost in 2019 are \$(281) and \$14, respectively.

Components of net periodic benefit cost for the years ended December 31, 2018 and 2017, are as follows:

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Components of net periodic benefit cost				
Service cost	\$ —	\$ —	\$ 33	\$ 48
Interest cost	1,712	1,786	186	199
Expected return on plan assets	(2,845)	(2,569)	—	—
Amortization of unrecognized prior service cost	—	—	14	14
Amortization of unrecognized net loss (gain)	451	475	(282)	(317)
Lump-sum settlement cost	—	—	—	—
Curtailement recognition	—	—	—	—
Contractual benefit charge	—	270	—	150
Total net periodic benefit cost	<u>\$ (682)</u>	<u>\$ (38)</u>	<u>\$ (49)</u>	<u>\$ 94</u>

[Table of Contents](#)

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

The increase (decrease) in accumulated other comprehensive loss (pre-tax) for the years ended December 31, 2018 and 2017, are as follows:

	2018		2017	
	Pension Benefits	Postretirement Benefits	Pension Benefits	Postretirement Benefits
Net actuarial loss (gain)	\$ 1,210	\$ (237)	\$ (545)	\$ (74)
Settlement gain	—	—	—	—
Curtailment – prior service cost	—	—	—	—
Net actuarial loss settlement expense	—	—	—	—
Amortization of net actuarial loss (gain)	(451)	282	(475)	317
Amortization of prior service cost	—	(14)	—	(14)
Total recognized in accumulated other comprehensive loss (gain)	<u>\$ 759</u>	<u>\$ 31</u>	<u>\$ (1,020)</u>	<u>\$ 229</u>

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2018:

	Pension Benefits	Postretirement Benefits
2019	\$ 3,360	\$ 395
2020	3,338	390
2021	3,299	386
2022	3,291	383
2023	3,270	382
2024 through 2028	15,812	1,823

The Company is not required to make any contributions to its pension plan in 2019 to meet its minimum funding requirements. The postretirement benefits in the table above represent benefit payments for the Company's salaried retirees.

The assumptions used to determine end of year benefit obligations are shown in the following table:

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Discount rates	4.35%	3.68%	4.32%	3.65%

The discount rate is determined using a yield curve model that uses yields on high quality corporate bonds (AA rated or better) to produce a single equivalent rate. The yield curve model excludes callable bonds except those with make-whole provisions, private placements and bonds with variable rates.

In October 2018, the Society of Actuaries published updated mortality improvement assumptions for U.S. plans, scale (MP-2018), which reflects additional data that the Social Security Administration has released since prior assumptions (MP-2017) were developed. Scale (MP-2018) results in lower projected mortality improvement than scale (MP-2017). The Company has historically utilized the Society of Actuaries' published mortality data in its plan assumptions. Accordingly, the Company adopted MP-2018 for purposes of measuring its pension and postretirement obligations at December 31, 2018.

[Table of Contents](#)

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

The assumptions used in the measurement of net periodic cost are shown in the following table:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Discount rate for benefit obligations	3.68%	4.22%	3.65%	4.18%
Expected return on plan assets	6.07%	5.75%	N/A	N/A
Rate for interest on benefit obligations	3.28%	3.51%	3.24%	3.48%
Discount rate for service cost	N/A	N/A	3.89%	4.55%

As benefits under these postretirement healthcare plans have been capped, assumed health care cost trend rates have no effect on the amounts reported for the health care plans.

The Company's pension plan's weighted average asset allocations at December 31, 2018 and 2017, and target allocations for 2018, by asset category, are as follows:

<u>Asset Category</u>	<u>Plan Assets at December 31,</u>		<u>Target Allocation</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>
Cash and cash equivalents	1%	1%	0% – 5%
Equity securities	51%	57%	45% – 65%
Fixed income securities	43%	37%	30% – 50%
Real estate	5%	5%	4% – 6%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

The basic goal underlying the pension plan investment policy is to ensure that the assets of the plans, along with expected plan sponsor contributions, will be invested in a prudent manner to meet the obligations of the plans as those obligations come due under a broad range of potential economic and financial scenarios, maximize the long-term investment return with an acceptable level of risk based on such obligations, and broadly diversify investments across and within the capital markets to protect asset values against adverse movements in any one market. The Company's investment strategy balances the requirement to maximize returns using potentially higher return generating assets, such as equity securities, with the need to manage the risk of such investments with less volatile assets, such as fixed-income securities. Investment practices must comply with the requirements of ERISA and any other applicable laws and regulations. The Company, in consultation with its investment advisors, has determined a targeted allocation of invested assets by category and it works with its advisors to reasonably maintain the actual allocation of assets near the target. The long term return on assets was estimated based upon historical market performance, expectations of future market performance for debt and equity securities and the related risks of various allocations between debt and equity securities. Numerous asset classes with differing expected rates of return, return volatility and correlations are utilized to reduce risk through diversification.

[Table of Contents](#)

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

The Company's pension plan assets are invested in one mutual fund for each fund classification. The following table presents the fair value of pension plan assets classified under the appropriate level of the ASC 820 fair value hierarchy (see Note 2 for a description of the fair value hierarchy) as of December 31, 2018 and 2017:

Pension Plan Assets	As of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Fixed income funds	\$18,210	—	—	\$18,210
Large cap funds	12,671	—	—	12,671
Small cap funds	3,562	—	—	3,562
International funds	5,799	—	—	5,799
Real estate funds	2,195	—	—	2,195
Cash and equivalents	312	—	—	312
Total	<u>\$42,749</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$42,749</u>

Pension Plan Assets	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Fixed income funds	\$18,250	—	—	\$18,250
Large cap funds	15,356	—	—	15,356
Small cap funds	4,589	—	—	4,589
International funds	7,755	—	—	7,755
Real estate funds	2,385	—	—	2,385
Cash and equivalents	221	—	—	221
Total	<u>\$48,556</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$48,556</u>

The Company also maintains qualified defined contribution plans, which provide benefits to their employees based on employee contributions and employee earnings, with discretionary contributions allowed. Expenses related to these plans were \$1,603 and \$1,486 for the years ended December 31, 2018 and 2017, respectively.

Note 15 – Income Taxes

On December 22, 2017, the President of the United States signed into law the Tax Act. The Tax Act includes a number of changes to existing U.S. tax laws that impact the company, most notably a reduction of the U.S. corporate income tax rate from 35 percent to 21 percent for tax years beginning after December 31, 2017. The Tax Act also provides for the acceleration of depreciation for certain assets placed into service after September 27, 2017 as well as prospective changes beginning in 2018, including the repeal of the domestic manufacturing deduction and additional limitations on executive compensation.

The Company recognized the income tax effects of the Tax Act in its 2017 financial statements in accordance with Staff Accounting Bulletin No. 118, which provides SEC staff guidance for the application of ASC 740, Income Taxes, in the reporting period in which the Tax Act was signed into law. The Company's 2017 financial statements reflected estimates for the remeasurement of U.S. deferred tax balances to reflect the new U.S. corporate income tax rate. The Company's 2017 U.S. corporate income tax return was filed in 2018 and there were no material financial statement adjustments when finalizing the accounting for the Tax Act.

The change to existing U.S. tax law as a result of the Tax Act which we believe has the most significant impact on the Company's income tax provision is the reduction of the U.S. corporate statutory tax rate. The Company measures deferred tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid. Accordingly, the Company's deferred tax assets and liabilities were remeasured to reflect the reduction in the U.S. corporate income tax rate from 35 percent to 21 percent, resulting in a \$2,502 increase in income tax expense for the year ended December 31, 2017 and a corresponding \$2,502 decrease in net deferred tax assets as of December 31, 2017.

[Table of Contents](#)

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

The (benefit) provision for income taxes for the periods indicated includes current and deferred components as follows:

	Year Ended December 31,	
	2018	2017
Current taxes		
Federal	\$ (3)	\$ (2,230)
State	156	(187)
	<u>153</u>	<u>(2,417)</u>
Deferred taxes		
Federal	5,784	(4,703)
State	4,185	(1,721)
	<u>9,969</u>	<u>(6,424)</u>
Tax (benefit) expense related to a (decrease) increase in unrecognized tax benefits	—	(57)
Interest expense, gross of related tax effects	47	53
Total (benefit) provision	\$ 10,169	\$ (8,845)

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

	Year Ended December 31,	
	2018	2017
Statutory U.S. federal income tax rate	21.0%	35.0%
State income taxes, net of federal tax benefit	5.0%	3.4%
Valuation allowance	(59.7)%	0.1%
Enactment of the Tax Cuts and Jobs Act	0.0%	(8.0)%
Domestic manufacturing deduction	0.0%	(1.0)%
State rate and other changes in deferred taxes	1.0%	(1.3)%
Federal and state credits	0.1%	0.1%
Uncertain tax positions	(0.3)%	(0.3)%
Nondeductible expenses and other	(0.5)%	0.2%
Effective income tax rate	<u>(33.4)%</u>	<u>28.2%</u>

Deferred income taxes result from temporary differences in the financial and tax basis of assets and liabilities.

[Table of Contents](#)**FreightCar America, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****For the Years Ended December 31, 2018 and 2017**

(in thousands, except for share and per share data)

Components of deferred tax assets (liabilities) consisted of the following:

Description	December 31, 2018		December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
Accrued postretirement and pension benefits	\$ 2,424	\$ —	\$ 2,545	\$ —
Intangible assets	—	(1,653)	—	(1,669)
Accrued expenses	9,210	—	4,104	—
Deferred state and local incentive revenue	2,349	—	2,933	—
Inventory valuation	2,338	—	1,869	—
Property, plant and equipment and railcars on operating leases	—	(20,975)	—	(8,957)
Net operating loss and tax credit carryforwards	28,165	—	13,371	—
Stock-based compensation expense	1,168	—	807	—
Other	1,320	(251)	1,085	(379)
	46,974	(22,879)	26,714	(11,005)
Valuation allowance	(24,450)	—	(6,263)	—
Deferred tax assets (liabilities)	<u>\$ 22,524</u>	<u>\$ (22,879)</u>	<u>\$ 20,451</u>	<u>\$ (11,005)</u>
Increase (decrease) in valuation allowance	<u>\$ 18,187</u>		<u>\$ 1,066</u>	

A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management has concluded that, based on evaluation of the positive and negative evidence, primarily the history of operating losses, we will not more likely than not realize the benefit of the deferred tax assets. The Company has certain pretax state net operating loss carryforwards of \$132,204 which will expire between 2020 and 2037, for which a full valuation allowance has been recorded. The Company also has federal net operating loss carryforwards and federal tax credit carryforwards of \$83,739 and \$2,015, respectively, which will begin to expire in 2030, for which a full valuation allowance also has been recorded.

A reconciliation of the beginning and ending gross amounts of unrecognized tax benefits for the years ended December 31, 2018 and 2017, were as follows:

	2018	2017
Beginning of year balance	\$1,383	\$1,572
Increases in prior period tax positions	—	—
Decreases in prior period tax positions	(73)	(189)
Increases in current period tax positions	—	—
End of year balance	<u>\$1,310</u>	<u>\$1,383</u>

The total estimated unrecognized tax benefit that, if recognized, would affect the Company's effective tax rate was approximately \$0 and \$408 as of December 31, 2018 and 2017, respectively. Due to the nature of the Company's unrecognized tax benefits, the Company does not expect changes in its unrecognized tax benefit reserve in the next twelve months to have a material impact on its financial statements. The Company's income tax provision included \$94 of expenses (net of federal tax benefits of \$11) and \$106 of expense (net of federal tax benefits of \$13) related to interest and penalties for the years ended December 31, 2018 and 2017, respectively. The Company records interest and penalties as a component of income tax expense. Such expenses brought the balance of accrued interest and penalties to \$200 and \$106 at December 31, 2018 and 2017, respectively.

Table of Contents

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

The Company and/or its subsidiaries file income tax returns with the U.S. federal government and in various state and foreign jurisdictions. The Company is currently under examination of its 2015 and 2016 federal income tax returns by the Internal Revenue Service. A summary of tax years that remain subject to examination is as follows:

Jurisdiction	Earliest Year Open to Examination
U.S. Federal	2012
States:	
Pennsylvania	2000
Texas	2014
Illinois	2010
Virginia	2015
Colorado	2010
Indiana	2010
Nebraska	2010
Alabama	2015
Foreign:	
China	2015

Note 16 – Stock-Based Compensation

The Company's incentive compensation plans, titled "The 2005 Long Term Incentive Plan" (as restated to incorporate all amendments, the "2005 Plan") and "The FreightCar America, Inc. 2018 Long Term Incentive Plan (the "2018 Plan" and, collectively, the "Incentive Plans"), were approved by the Company's board of directors and ratified by the stockholders. The Incentive Plans provide for the grant to eligible persons of stock options, share appreciation rights, or SARs, restricted shares, restricted share units, or RSUs, performance shares, performance units, dividend equivalents and other share-based awards, referred to collectively as the awards. Time-vested stock option awards generally vest based on one to three years of service and have 10 year contractual terms. Share awards generally vest over one to three years. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined in the Incentive Plans). The 2005 Plan will terminate as to future awards on May 17, 2023 and the 2018 Plan will terminate as to future awards on May 10, 2028. Under the 2005 Plan, 2,459,616 shares of common stock have been reserved for issuance (from either authorized but unissued shares or treasury shares), of which 376,343 were available for issuance at December 31, 2018. Under the 2018 Plan, 1,250,000 shares of common stock have been reserved for issuance (from either authorized but unissued shares or treasury shares), all of which were available for issuance at December 31, 2018.

The Company recognizes stock-based compensation expense for time-vested stock option awards based on the fair value of the award on the grant date using the Black-Scholes option valuation model. Expected life in years for time-vested stock option awards was determined using the simplified method. The Company believes that it is appropriate to use the simplified method in determining the expected life for time-vested stock options because the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term for time-vested stock options. Expected volatility was based on the historical volatility of the Company's stock. The risk-free interest rate was based on the U.S. Treasury bond rate for the expected life of the option. The expected dividend yield was based on the latest annualized dividend rate and the current market price of the underlying common stock on the date of the grant. The Company recognizes stock-based compensation for restricted stock awards over the vesting period based on the fair market value of the stock on the date of the award, calculated as the average of the high and low trading prices for the Company's common stock on the award date.

Table of Contents

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

Grant date fair values of time-vested stock option awards were estimated using the Black-Scholes option valuation model with the following assumptions:

<u>Grant Year</u>	<u>Grant Date</u>	<u>Expected Life</u>	<u>Expected Volatility</u>	<u>Expected Dividend Yield</u>	<u>Risk Free Interest Rate</u>	<u>Grant Date Fair Value Per Share</u>
2018	1/12/2018	6 years	44.25%	0.00%	2.42%	\$7.57

In each of January 2016 and 2017, the Company granted performance shares with performance measurement periods of three calendar years. Since the outcome of the performance conditions were below the threshold level, no performance shares from the January 2016 grant were earned by the end of the performance measurement period on December 31, 2018. The performance shares from the January 2017 grant will vest and be earned at the end of the performance measurement period, if at all, based on the Company's three-year cumulative basic earnings per share, provided that a minimum three-year average return on invested capital goal is also met or exceeded. The earnings per share thresholds and return on invested capital goals were established by the Company's board of directors on the grant dates. The Company recognizes stock-based compensation cost for performance shares over the vesting period based on the fair market value of the Company's stock on the award date multiplied by the estimated number of shares to be awarded based on the probable outcome of the performance conditions. As of December 31, 2018, the probable outcome of the performance conditions for the January 2017 awards was estimated to be below the threshold level.

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 previous 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.

On July 31, 2017, the Company granted non-qualified stock options to purchase 350,000 shares of our common stock to an executive 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 previous 90 calendar days (the "Threshold Stock Price") exceeds the closing price per share of the Company's stock on July 31, 2017 (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 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 with market conditions were calculated using a Monte Carlo simulation. Assumptions used in valuing stock options with market conditions include the expected stock option life, expected volatility, expected dividend yield and risk-free rate. The stock options with market conditions 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 was based on the Company's historical stock price volatility over the ten-year period ended on the grant date. The expected dividend yield was based on the latest annualized dividend rate and the current market price of the underlying common stock on the date of the grant. The risk-free rate assumption 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.

[Table of Contents](#)

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

Grant date fair values of stock option awards with market conditions were estimated using a Monte Carlo simulation model with the following assumptions:

Grant Year	Grant Date	Expected Volatility	Expected Dividend Yield	Risk Free Interest Rate	Grant Date Fair Value Per Share	Derived Service Period
2018	1/12/2018	49.33%	0.00%	2.55%	\$8.51 to \$9.12	1.0 to 2.43 years
2017	7/31/2017	49.22%	2.19%	2.30%	\$6.88 to \$7.25	0.98 to 2.39 years

As of December 31, 2018, there was \$971 of total unrecognized compensation expense related to stock options with market conditions, which will be recognized over the average remaining requisite service period of 12 months.

A summary of the Company's time-vested stock options activity and related information at December 31, 2018 and 2017, and changes during the years then ended, is presented below:

	December 31,		December 31,	
	2018	2017	2018	2017
	Options Outstanding	Weighted-Average Exercise Price (per share)	Options Outstanding	Weighted-Average Exercise Price (per share)
Outstanding at the beginning of the year	175,620	\$ 25.13	378,990	\$ 24.32
Granted	89,445	16.66	—	—
Exercised	—	—	—	—
Forfeited or expired	(56,639)	23.30	(203,370)	23.67
Outstanding at the end of the year	<u>208,426</u>	<u>\$ 21.47</u>	<u>175,620</u>	<u>\$ 25.13</u>
Exercisable at the end of the year	<u>121,755</u>	<u>\$ 24.90</u>	<u>175,620</u>	<u>\$ 25.13</u>

A summary of the Company's time vested stock options outstanding as of December 31, 2018 is presented below:

	Options Outstanding	Weighted-Average Remaining Contractual Term (in years)	Weighted-Average Exercise Price (per share)	Aggregate Intrinsic Value
Options outstanding	208,426	5.9	\$ 21.47	\$ —
Vested or expected to vest	208,426	5.9	\$ 21.47	\$ —
Options exercisable	121,755	3.6	\$ 24.90	\$ —

[Table of Contents](#)

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

There were no time-vested stock options exercised during 2018 or 2017. As of December 31, 2018, there was \$444 of total unrecognized compensation expense related to time-vested stock options, which will be recognized over the average remaining requisite service period of 24 months.

A summary of the Company's nonvested restricted shares as of December 31, 2018 and 2017, and changes during the years then ended is presented below:

	December 31,		2017	
	2018	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
	Shares	(per share)	Shares	(per share)
Nonvested at the beginning of the year	99,864	\$ 17.75	111,549	\$ 19.19
Granted	85,182	16.16	72,503	15.44
Vested	(38,443)	20.50	(27,949)	15.55
Forfeited	(13,141)	15.96	(56,239)	18.73
Nonvested at the end of the year	133,462	\$ 16.12	99,864	\$ 17.75
Expected to vest	133,462	\$ 16.12	99,864	\$ 17.75

The fair value of stock awards vested during the years ended December 31, 2018 and 2017, was \$622 and \$475, respectively, based on the value at vesting date. As of December 31, 2018, there was \$969 of unrecognized compensation expense related to nonvested restricted stock awards, which will be recognized over the average remaining requisite service period of 20 months.

Stock-based compensation expense of \$3,198 and \$1,162 is included within selling, general and administrative expense for the years ended December 31, 2018 and 2017, respectively. The total income tax benefit recognized in the consolidated statements of operations for share-based compensation arrangements was \$681 and \$330 for the years ended December 31, 2018 and 2017, respectively.

Note 17 – Risks and 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.

On April 17, 2015 and September 30, 2015, National Steel Car Limited ("NSC") filed Complaints for Patent Infringement against the Company in the United States District Court for the Northern District of Illinois (Eastern Division) in Chicago, Illinois. The complaints asserted five United States patents against certain aggregate gondola freight cars sold to certain customers. The complaints sought injunctive relief and an unspecified amount of damages. On January 29, 2016, NSC filed an amended complaint, alleging that 18 offers to sell made by the Company also infringed NSC's patents. The Company filed its answer to NSC's amended complaint, responding to NSC's newly raised allegations and adding new affirmative defenses as well as counterclaims for non-infringement and invalidity. The Company also filed *inter partes* review ("IPR") petitions in March 2016 with the U.S. Patent and Trademark Office's Patent Trial and Appeal Board ("PTAB") for two of the five asserted patents. Settlement was

[Table of Contents](#)

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

reached on November 15, 2017 the terms of which are confidential. As part of the settlement, the Company received a release for past claims. The Company made no admissions of liability. The parties filed a Stipulation of Dismissal on November 20, 2017 and the court dismissed all claims and counterclaims with prejudice.

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.

On a quarterly basis, the Company evaluates the potential outcome of all significant contingencies and estimates the likelihood that a future event or events will confirm the loss of an asset or the incurrence of a liability. When information available prior to the issuance of the Company's financial statements indicates that, in management's judgment, it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements and the amount of loss can be reasonably estimated, the contingency is accrued by a charge to income. During the third and fourth quarters of 2017, the Company recorded pre-tax contingent liability charges of \$2,850 and \$1,450, respectively, related to the foregoing matters.

Note 18 – Other Commitments

The Company leases certain property and equipment under long-term operating leases expiring at various dates through 2024. The leases generally contain specific renewal options at lease-end at the then fair market amounts.

Future minimum lease payments at December 31, 2018 are as follows:

Year ending December 31, 2019	\$20,295
Year ending December 31, 2020	20,595
Year ending December 31, 2021	20,424
Year ending December 31, 2022	4,873
Year ending December 31, 2023	3,820
Thereafter	3,024
	<u>\$73,031</u>

The Company is liable for maintenance, insurance and similar costs under most of its leases and such costs are not included in the future minimum lease payments. Total rental expense for the years ended December 31, 2018 and 2017, was \$13,152 and \$9,818, respectively.

The Company is party to certain non-cancelable fixed price agreements to purchase fixed amounts of materials used in the manufacturing process. The Company expects to take delivery of such materials during 2019. At December 31, 2018, the Company had purchase commitments totaling \$11,422 under these agreements.

[Table of Contents](#)

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

Note 19 – Earnings Per Share

The weighted average common shares outstanding are as follows:

	Year Ended December 31,	
	2018	2017
Weighted average common shares outstanding	12,318,861	12,285,566
Dilutive effect of employee stock options and nonvested share awards	—	—
Weighted average diluted common shares outstanding	<u>12,318,861</u>	<u>12,285,566</u>

The Company computes earnings per share using the two-class method, which is an earnings allocation formula that determines earnings per share for common stock and participating securities. The Company's participating securities are its grants of restricted stock which contain non-forfeitable rights to dividends. The Company computes basic earnings per share by dividing net income allocated to common shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated to give effect to all potentially dilutive common shares that were outstanding during the year. 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 years ended December 31, 2018 and 2017, 349,132 and 443,047 shares, respectively, were not included in the weighted average common shares outstanding calculation as they were anti-dilutive.

Note 20 – Revenue Sources and Concentration of Sales

The following table sets forth the Company's sales resulting from various revenue sources for the periods indicated below:

	Year ended December 31,	
	2018	2017
Railcar sales	\$ 296,394	\$ 398,095
Parts sales	14,180	8,874
Leasing revenues	5,886	2,298
Other sales	59	207
	<u>\$ 316,519</u>	<u>\$ 409,474</u>

Due to the nature of its operations, the Company is subject to significant concentration of risks related to business with a few customers. Sales to the Company's top three customers accounted for 26%, 19% and 10%, respectively, of revenues for the year ended December 31, 2018. Sales to the Company's top three customers accounted for 21%, 15% and 12%, respectively, of revenues for the year ended December 31, 2017. The Company's sales to customers outside the United States were \$12,943 and \$23,212 in 2018 and 2017, respectively.

Note 21 – 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.

[Table of Contents](#)**FreightCar America, Inc. and Subsidiaries****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****For the Years Ended December 31, 2018 and 2017**

(in thousands, except for share and per share data)

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.

	Year Ended December 31,	
	2018	2017
Revenues:		
Manufacturing	\$302,154	\$400,481
Corporate and Other	14,365	8,993
Consolidated Revenues	<u>\$316,519</u>	<u>\$409,474</u>
Operating (Loss) Income:		
Manufacturing	\$ (14,556)	\$ (6,998)
Corporate and Other	(17,549)	(24,785)
Consolidated Operating (Loss) Income	(32,105)	(31,783)
Consolidated interest expense and deferred financing costs	(155)	(163)
Consolidated other income	1,848	539
Consolidated (Loss) Income Before Income Taxes	<u>\$ (30,412)</u>	<u>\$ (31,407)</u>
Depreciation and Amortization:		
Manufacturing	\$ 11,269	\$ 8,642
Corporate and Other	748	724
Consolidated Depreciation and Amortization	<u>\$ 12,017</u>	<u>\$ 9,366</u>
Capital Expenditures:		
Manufacturing (1)	\$ 1,851	\$ 624
Corporate and Other	334	343
Consolidated Capital Expenditures	<u>\$ 2,185</u>	<u>\$ 967</u>

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

	December 31, 2018	December 31, 2017
Assets:		
Manufacturing	\$ 208,663	\$ 136,448
Corporate and Other	79,028	147,303
Total Operating Assets	287,691	283,751
Consolidated income taxes receivable	2,046	2,707
Consolidated deferred income taxes, long-term	—	9,446
Consolidated Assets	<u>\$ 289,737</u>	<u>\$ 295,904</u>

[Table of Contents](#)

FreightCar America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the Years Ended December 31, 2018 and 2017

(in thousands, except for share and per share data)

Note 22 – Business Acquisition

On February 28, 2018, the Company 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”). 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 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 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)
	<u>\$20,225</u>

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 its 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.

Note 23 – Subsequent Event

On February 26, 2019 the Company and its wholly owned subsidiary, FreightCar Alabama, LLC, entered into the Second Amendment to Industrial Facility Lease with the Teachers Retirement Systems of Alabama and the Employees’ Retirement System of Alabama, as landlord in connection with the lease for the Company’s Shoals facility in Cherokee, Alabama. The lease amendment extends the initial term of the lease from December 31, 2021 to December 31, 2026, with two five-year extension terms thereafter, at the option of FreightCar Alabama, LLC. In addition, the lease amendment reduces both the square footage and rent payment at the Shoals facility, up to 40% each. The amended lease terms will go into effect in January 2022.

Table of Contents

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, 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 our annual report on Form 10-K for the fiscal year ended December 31, 2018 (the “Evaluation Date”). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures were 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.

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act, is a process designed by, or under the supervision of, the Chief Executive Officer and Chief Financial Officer and effected by the board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP;
- Provide reasonable assurance that receipts and expenditures of the Company are being made only in accordance with appropriate authorization of management and the board of directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

As of the end of the Company’s 2018 fiscal year, management conducted an evaluation of the effectiveness of the Company’s internal control over financial reporting based on the framework established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s system of internal control over financial reporting is designed to provide reasonable assurance to the Company’s management and board of directors regarding the reliability of financial records used in preparation of the Company’s published financial statements. As all internal control systems have inherent limitations, even systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Based on its assessment, management has concluded that the Company’s internal control over financial reporting was effective as of December 31, 2018.

The effectiveness of the Company’s internal control over financial reporting as of December 31, 2018 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There has been no change in our internal control over financial reporting during the last fiscal quarter of 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

[Table of Contents](#)

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required to be disclosed by this item is hereby incorporated by reference to the information under the captions “Governance of the Company,” “Stock Ownership,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Executive Officers,” “Compensation Overview” and “Executive Compensation” in our definitive Proxy Statement to be filed pursuant to Regulation 14A, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2018.

Item 11. Executive Compensation.

Information required to be disclosed by this item is hereby incorporated by reference to the information under the captions “Executive Compensation,” “Board of Directors,” “Compensation Overview and “Director Compensation” in our definitive Proxy Statement to be filed pursuant to Regulation 14A, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2018.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information required to be disclosed by this item is hereby incorporated by reference to the information under the captions “Stock Ownership” and “Equity Compensation Plan Information” in our definitive Proxy Statement to be filed pursuant to Regulation 14A, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2018.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information required to be disclosed by this item is hereby incorporated by reference to the information under the captions “Certain Transactions” and “Board of Directors” in our definitive Proxy Statement to be filed pursuant to Regulation 14A, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2018.

Item 14. Principal Accounting Fees and Services.

Information required to be disclosed by this item is hereby incorporated by reference to the information under the caption “Fees of Independent Registered Public Accounting Firm and Audit Committee Report” in our definitive Proxy Statement to be filed pursuant to Regulation 14A, which Proxy Statement is anticipated to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2018.

[Table of Contents](#)

PART IV

Item 15. Exhibits, Financial Statement Schedules.

Exhibits

(a) Documents filed as part of this report:

The following financial statements are included in this Form 10-K:

1. Consolidated Financial Statements of FreightCar America, Inc. and Subsidiaries

Reports of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets as of December 31, 2018 and 2017.

Consolidated Statements of Operations for the years ended December 31, 2018 and 2017.

Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2018 and 2017.

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018 and 2017.

Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2017.

Notes to Consolidated Financial Statements.

2. The exhibits listed on the "Exhibit Index" to this Form 10-K are filed with this Form 10-K or incorporated by reference as set forth below.

(b) The exhibits listed on the "Exhibit Index" to this Form 10-K are filed with this Form 10-K or incorporated by reference as set forth below.

(c) Additional Financial Statement Schedules

None.

Item 16. Form 10-K Summary.

None.

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: March 1, 2019

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

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
_____ /s/ JAMES R. MEYER James R. Meyer	President and Chief Executive Officer (principal executive officer) and Director	March 1, 2019
_____ /s/ MATTHEW S. KOHNKE Matthew S. Kohnke	Vice President, Finance, Chief Financial Officer and Treasurer (principal financial officer)	March 1, 2019
_____ /s/ JOSEPH J. MALIEKEL Joseph J. Maliekel	Vice President and Corporate Controller (principal accounting officer)	March 1, 2019
_____ /s/ WILLIAM D. GEHL William D. Gehl	Chairman of the Board and Director	March 1, 2019
_____ /s/ JAMES D. CIRAR James D. Cirar	Director	March 1, 2019
_____ /s/ THOMAS A. MADDEN Thomas A. Madden	Director	March 1, 2019
_____ /s/ MALCOLM F. MOORE Malcolm F. Moore	Director	March 1, 2019
_____ /s/ ANDREW B. SCHMITT Andrew B. Schmitt	Director	March 1, 2019

Table of Contents

EXHIBIT INDEX

- 2.1 [Asset Purchase Agreement, dated September 30, 2015, by and among FreightCar Rail Services, LLC, FreightCar Short Line, Inc. and ARS Nebraska, LLC. \(incorporated by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015 filed with the Commission on November 3, 2015\).](#)
- 2.2 [Asset Purchase Agreement dated February 26, 2018, by and among Navistar, Inc, International Truck and Engine Investments Corporation and FreightCar Alabama, LLC \(incorporated by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 filed with the Commission on May 3, 2018\).](#)
- 3.1 [Certificate of Ownership and Merger of FreightCar America, Inc. into FCA Acquisition Corp., as amended \(incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on September 7, 2006\).](#)
- 3.2 [Third Amended and Restated By-laws of FreightCar America, Inc. \(incorporated by reference to Exhibit 3.1 to the Company's Current Report filed on Form 8-K filed with the Commission on September 28, 2007\).](#)
- 4.1 [Form of Registration Rights Agreement, by and among FreightCar America, Inc., Hancock Mezzanine Partners, L.P., John Hancock Life Insurance Company, Caravelle Investment Fund, L.L.C., Trimaran Investments II, L.L.C., Camillo M. Santomero, III, and the investors listed on Exhibit A attached thereto \(incorporated by reference to Exhibit 4.3 to Registration Statement Nos. 333-123384 and 333-123875 filed with the Commission on April 4, 2005\).](#)
- 10.1 [Letter agreement regarding Terms of Employment dated August 27, 2010 by and between FreightCar America, Inc. and Joseph E. McNeely \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on August 27, 2010\).](#)
- 10.2 [Letter agreement regarding Terms of Employment dated April 30, 2013 by and between FreightCar America, Inc. and Joseph E. McNeely \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on May 2, 2013\).](#)
- 10.3 [Letter agreement regarding Terms of Employment dated October 4, 2013 by and between FreightCar America, Inc. and Joseph E. McNeely \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on October 4, 2013\).](#)
- 10.4 [Separation Agreement and General Release dated July 17, 2017 by and between FreightCar America, Inc. and Joseph E. McNeely. \(incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on July 19, 2017\)](#)
- 10.5 [Letter agreement regarding Terms of Employment dated July 17, 2017, by and between FreightCar America, Inc. and James R. Meyer \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on July 19, 2017\)](#)
- 10.6 [Letter agreement regarding Terms of Employment dated November 17, 2015 by and between FreightCar America, Inc. and Georgia L. Vlamis \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on December 2, 2015\)](#)
- 10.7 [Letter agreement regarding Terms of Employment dated June 1, 2017 by and between FreightCar America, Inc. and Georgia L. Vlamis \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on June 5, 2017\).](#)
- 10.8 [Letter agreement regarding Terms of Employment dated January 19, 2016 by and between FreightCar America, Inc. and Matthew S. Kohnke \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on January 25, 2016\).](#)
- 10.9 [Letter agreement regarding Terms of Employment dated May 25, 2016 by and between FreightCar America, Inc. and Theodore W. Baun \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on May 27, 2016\).](#)

Table of Contents

- 10.10 [FreightCar America, Inc. 2005 Long Term Incentive Plan \(Restated to incorporate all Amendments\) \(incorporated by reference to Appendix I to the Company's Proxy Statement for the annual meeting of stockholders held on May 17, 2013 filed with the Commission on April 12, 2013\).](#)
- 10.11 [FreightCar America, Inc. 2018 Long Term Incentive Plan \(incorporated by reference to Appendix I to the Company's Proxy Statement for the annual meeting of stockholders held on May 10, 2018 filed with the Commission on March 30, 2018\).](#)
- 10.12 [Form of Restricted Share Award Agreement for the Company's independent directors \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on January 27, 2006\).](#)
- 10.13 [Form of Restricted Share Award Agreement for the Company's employees \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on January 15, 2008\).](#)
- 10.14 [Form of Stock Option Award Agreement for the Company's employees \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on January 15, 2008\).](#)
- 10.15 [Form of Performance Share Award Agreement for the Company's employees \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on January 16, 2015\).](#)
- 10.16 [Lease Agreement, dated as of December 20, 2004, by and between Norfolk Southern Railway Company and Johnstown America Corporation \(the "Lease Agreement"\) \(incorporated by reference to Exhibit 10.27 to Registration Statement Nos. 333-123384 and 333-123875 filed with the Commission on April 4, 2005\).*](#)
- 10.17 [Amendment to the Lease Agreement, dated as of December 1, 2005 \(incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005\).*](#)
- 10.18 [Second Amendment to the Lease Agreement, dated as of February 1, 2008, by and between Norfolk Southern Railway Company and Johnstown America Corporation \(incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2008 filed with the Commission on May 12, 2008\).](#)
- 10.19 [Amendment to Lease, dated as of October 12, 2012, by and between Norfolk Southern Railway Company and Johnstown America Corporation \(incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2012 filed with the Commission on November 9, 2012\).*](#)
- 10.20 [Amendment to Lease Agreement, dated as of November 23, 2015, by and between Norfolk Southern Railway Company and Johnstown America Corporation \(incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015\).*](#)
- 10.21 [Fifth Amendment to Lease Agreement dated March 1, 2018 by and between Norfolk Southern Railway Company and Johnstown America Corporation. \(incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 filed with the Commission on May 3, 2018\).](#)
- 10.22 [Sublease, dated as of February 19, 2013, by and between Navistar, Inc. and FreightCar Alabama, LLC \(incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013 filed with the Commission on May 10, 2013\).*](#)
- 10.23 [Amendment to Sublease, dated as of March 11, 2013, by and among Teachers' Retirement Systems of Alabama, Employees' Retirement System of Alabama, Navistar, Inc. and FreightCar Alabama, LLC \(incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013 filed with the Commission on May 10, 2013\).*](#)

Table of Contents

10.24	<u>Second Amendment to Sublease and Consent to Sublease, dated October 27, 2014, by and among Teachers' Retirement Systems of Alabama, Employees' Retirement System of Alabama, Navistar, Inc. and FreightCar Alabama, LLC (incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015).*</u>
10.25	<u>Third Amendment to Sublease and Consent to Sublease, dated as of February 1, 2016, by and among Teachers' Retirement Systems of Alabama, Employees' Retirement System of Alabama, Navistar, Inc. and FreightCar Alabama, LLC. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016 filed with the Commission on May 3, 2016).*</u>
10.26	<u>Assignment and Assumption of Lease, dated as of February 28, 2018, by and between Navistar, Inc. and FreightCar Alabama, LLC (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 filed with the Commission on May 3, 2018).</u>
10.27	<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. (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 filed with the Commission on May 3, 2018).*</u>
10.28	<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 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 filed with the Commission on May 3, 2018).</u>
10.29	<u>Credit Agreement, dated as of July 26, 2013, by and among FreightCar America, Inc. and certain of its subsidiaries and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on August 1, 2013).</u>
10.30	<u>Security and Pledge Agreement, dated as of July 26, 2013, by and among FreightCar America, Inc. and certain of its subsidiaries and Bank of America, N.A. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on August 1, 2013).</u>
10.31	<u>First Amendment to Credit Agreement, dated as of June 13, 2016, by and among FreightCar America, Inc. and certain of its subsidiaries and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016 filed with the Commission on August 2, 2016).</u>
10.32	<u>FreightCar America, Inc. Executive Severance Plan (As Amended and Restated Effective December 1, 2016) (and Summary Plan Description) incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016).</u>
10.33	<u>Form of Letter of Resignation (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on December 19, 2006).</u>
10.34	<u>Form of Letter of Resignation (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on December 20, 2009).</u>
10.35	<u>Form of Indemnification Agreement between FreightCar America, Inc. and each of its current directors (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on March 24, 2010).</u>
21	<u>Subsidiaries of FreightCar America, Inc.</u>
23	<u>Consent of Independent Registered Public Accounting Firm.</u>

Table of Contents

31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Confidential treatment has been granted 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.

64

[\(Back To Top\)](#)

Section 2: EX-21 (EX-21)

Exhibit 21

SUBSIDIARIES OF FREIGHTCAR AMERICA, INC.

Name of Subsidiary	Percent Ownership by Registrant
JAC Operations Inc.	100%
Johnstown America, LLC	100%
Freight Car Services, Inc.	100%
JPIX Leasing Company	100%
FreightCar Roanoke, LLC	100%
FreightCar Rail Services, LLC	100%
FreightCar Rail Management Services, LLC	100%
FreightCar Short Line, Inc.	100%
FreightCar Mauritius Ltd.	100%
FreightCar Alabama, LLC	100%
FreightCar (Shanghai) Trading Co., Ltd.	100%

All subsidiaries are Delaware corporations or Delaware limited liability companies except FreightCar Mauritius Ltd., which is incorporated in Mauritius, and FreightCar (Shanghai) Trading Co., Ltd., which is organized in the People's Republic of China.

[\(Back To Top\)](#)

Section 3: EX-23 (EX-23)

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
FreightCar America, Inc.
Chicago, Illinois

We consent to the incorporation by reference in Registration Statement No. 333-131981, 333-184820 and 333-225886 on Form S-8 of our reports dated March 04, 2019, relating to the consolidated financial statements of FreightCar America, Inc. and subsidiaries ("the Company"), and the effectiveness of Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2018.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois

Section 4: EX-31.1 (EX-31.1)

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, James R. Meyer, certify that:

1. I have reviewed this Annual Report on Form 10-K of FreightCar America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined by Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2019

By: _____ /s/ JAMES R. MEYER
James R. Meyer
President and Chief Executive Officer

[\(Back To Top\)](#)

Section 5: EX-31.2 (EX-31.2)

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Matthew S. Kohnke, certify that:

1. I have reviewed this Annual Report on Form 10-K of FreightCar America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

