

FreightCar America, Inc.
Form 10-K
March 15, 2010

**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, 2009

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 1250, 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 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller

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reporting company in Rule 12b-2 of the Exchange Act.:

Large accelerated
filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a smaller reporting company)

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, 2009 was \$198.6 million, based on the closing price of \$16.81 per share on the Nasdaq Global Market.

As of March 11, 2010, there were 11,937,896 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Documents

Portions of the registrant's definitive Proxy Statement for the 2010 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, 2009.

Part of Form 10-K

Part III

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PART I

Item 1. Business.

OVERVIEW

We and our predecessors have been manufacturing railcars since 1901. We are the leading manufacturer of aluminum-bodied railcars in North America, based on the number of railcars delivered. We specialize in the production of aluminum-bodied coal-carrying railcars, which represented 86% of our deliveries of railcars in 2009 and 69% of our deliveries of railcars in 2008, while the balance of our production consisted of a broad spectrum of railcar types, including aluminum-bodied and steel-bodied railcars. We also refurbish and rebuild railcars and sell forged, cast and fabricated parts for all of the railcars we produce, as well as those manufactured by others.

We are the leading North American manufacturer of coal-carrying railcars. We estimate that we have manufactured 65% of the coal-carrying railcars delivered over the three years ended December 31, 2009 in the North American market. Our BethGon[®] railcar has been the leading aluminum-bodied coal-carrying railcar sold in North America for nearly 20 years. Over the last 25 years, we believe we have built and introduced more types of coal-carrying railcars than all other manufacturers in North America combined.

Our current manufacturing facilities are located in Danville, Illinois and Roanoke, Virginia. Both facilities have the capability to manufacture a variety of types of railcars, including aluminum-bodied and steel-bodied railcars. We commenced operations at our leased manufacturing facility in Roanoke, Virginia in December 2004, and we delivered the first railcar manufactured at the Roanoke facility during the second quarter of 2005. In May 2008, we closed our manufacturing facility located in Johnstown, Pennsylvania.

Our primary customers are financial institutions, shippers and railroads, which represented 49%, 43% and 8%, respectively, of our total sales attributable to each type of customer for the year ended December 31, 2009. In the year ended December 31, 2009, we delivered 3,377 railcars, including 2,876 aluminum-bodied coal-carrying railcars. Our total backlog of firm orders for railcars decreased from 2,424 railcars as of December 31, 2008 to 265 railcars as of December 31, 2009, representing estimated sales of \$183 million and \$25 million as of December 31, 2008 and 2009, respectively, attributable to such backlog. In 2008, we began offering railcar leasing and refurbishment alternatives to our customers; an approach designed to enhance our position as a full service provider to the railcar industry. As a result of our expansion into these services, our backlog at December 31, 2009 included 60 units under firm operating leases with independent third parties. 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 will remain revenue producing assets into the foreseeable future.

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 1250, Chicago, Illinois 60606.

OUR PRODUCTS AND SERVICES

We design and manufacture aluminum-bodied and steel-bodied railcars that are used in various industries. 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.

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

We manufacture two primary types of coal-carrying railcars: gondolas and open-top hoppers. We build all of our coal-carrying railcars using a patented one-piece center sill, the main longitudinal structural component of the railcar. The one-piece center sill provides a higher carrying capacity and weighs significantly less than traditional multiple-piece center sills.

BethGon Series. The BethGon is the leader in the aluminum-bodied coal-carrying 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-carrying railcar 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 improve its reliability.

AutoFlood Series. Our aluminum bodied open-top hopper railcar, the AutoFlood, is a five-pocket coal-carrying railcar 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 design 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.

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

Other Railcar Types. Our portfolio of other railcar types includes the following: The AVC Aluminum Vehicle Carrier design is used to transport commercial and light vehicles (automobiles and trucks) from assembly plants and ports to rail distribution centers; the Articulated Bulk Container railcar is designed to carry dense bulk products such as waste products in 20 foot containers; Intermodal Double Stack railcars, including a stand-alone, 40 foot well car and the DynaStack articulated, 5-unit, 40 foot well car for international containers; a Small Cube Covered Hopper railcar used to transport high density products such as roofing granules, fly ash, sand and cement; a Mill Gondola Railcar used to transport steel products and scrap; Slab and Coil steel railcars designed specifically for transportation of steel slabs and coil steel products, respectively; Flat Railcars, Bulkhead Flat Railcars and Centerbeam Flat Railcars designed to transport a variety of products, including machinery and equipment, steel and structural steel components (including pipe), forest products and other bulky industrial products; a Woodchip Gondola Railcar designed to haul woodchips and municipal waste or other high-volume, low-density commodities; and a variety of non-coal carrying open top hopper railcars designed to carry aggregates, iron ore, taconite pellets, petroleum coke and other bulk commodities. For example, our VersaFlood aggregate car features the MegaFlo IA independent automatic door system with an optional hybrid aluminum/carbon steel body design

International Railcar Designs. We have established a licensing arrangement with a railcar manufacturer in Brazil pursuant to which our technology is used to produce various types of railcars in Brazil. In addition, we manufacture coal-carrying railcars for export to Latin America and have manufactured intermodal railcars for export to the Middle East. Railroads outside of North America have a variety of track gauges that are sized differently than in North America, which requires us, in some cases, to alter manufacturing specifications for foreign sales. In 2008 we established a joint venture in India. The joint venture company, Titagarh FreightCar Private Ltd., is developing prototype railcars based on our designs. We continue to explore opportunities in other international markets.

Spare Parts. We sell replacement parts for our railcars and railcars built by others.

We have added 15 new or redesigned products to our portfolio in the last five years, including the AVC, slab railcar, coil steel railcar, triple hopper railcars and hybrid aluminum/stainless steel railcars, ore cars, ballast cars and aggregate cars. We expect to continue introducing new or redesigned products.

MANUFACTURING

We operate railcar production facilities in Danville, Illinois and Roanoke, Virginia. Our Danville and Roanoke facilities are each certified or approved for certification by the Association of American Railroads, or the AAR, which sets railcar manufacturing industry standards for quality control. At our Danville and Roanoke facilities, we will continue to adjust salaried and hourly labor personnel levels to coincide with production requirements.

In May 2008, we closed our manufacturing facility located in Johnstown, Pennsylvania. This action was taken to further our strategy of maintaining our competitive position by optimizing production at our low-cost facilities and continuing our focus on cost control.

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 and then painting it. We use water-based paints to reduce the emission of volatile organic compounds, and we meet state and U.S. federal regulations for control of emissions and disposal of hazardous materials. Once we have completed the finishing process, our employees, along with representatives of the customer purchasing the particular railcars, inspect all railcars for adherence to specifications.

We have focused on making our manufacturing facilities more flexible and lean. Lean manufacturing reduces product change-overs and improves product quality. We believe our focus on lean manufacturing principles will change the competitive landscape while generating new profitability and market share.

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, shippers and railroads. 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 2009, revenue from three customers, Mitsui Rail Capital, Grand River Dam Authority and Bank of America Leasing, accounted for approximately 15%, 15% and 14% of total revenue, respectively. In 2009, sales to our top five customers accounted for approximately 63% of total revenue. Our railcar sales to customers outside the United States were \$43.1 million in 2009. While we maintain strong relationships with our customers and we serve over 70 active customers, many 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.

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

Our railcar research and development activities provide us with an important competitive advantage. Although railcar designs have been historically slow to change in our industry, we have introduced 15 new railcar designs or product-line extensions in the last five years. Our research and development team, working within our engineering

group, is dedicated to the design of new products. In addition, the team continuously identifies design upgrades for our existing railcars, which we implement as part of our effort to reduce costs and improve quality. We introduce new railcar designs as a result of a combination of customer feedback and close observation of market demand trends. Our engineers use current modeling software and three-dimensional modeling technology to assist with product design. New product designs are tested for compliance with AAR standards prior to introduction. Costs associated with research and development are expensed as incurred and totaled \$0.8 million, \$2.0 million and \$2.0 million for the years ended December 31, 2009, 2008 and 2007, respectively.

BACKLOG

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

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,		
	2009	2008	2007
Railcar backlog at start of period	2,424	5,399	9,315
Railcars delivered	(3,377)	(10,276)	(10,282)
Railcar orders, net of cancellations	1,218	7,301	6,366
Railcar backlog at end of period	265	2,424	5,399
Estimated backlog at end of period (in thousands) ⁽¹⁾	\$ 24,839	\$ 183,441	\$ 422,054

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

based on changes in the cost of raw materials. Estimated backlog includes leased railcars as if sold. 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

Our backlog at December 31, 2009 included 60 units under firm operating leases with independent third parties. Although our reported backlog is typically converted to sales within one year, our reported backlog may not be converted to sales in any particular period, if at all, and the actual sales from these contracts may not equal our reported backlog estimates. See Item 1A. Risk Factors Risks Related to Our Business The level of our reported backlog may not necessarily indicate what our future sales will be and our actual sales may fall short of the estimated sales value attributed to our backlog. In addition, due to the large size of railcar orders and variations in the mix of railcars, the size of our reported backlog at the end of any given period may fluctuate significantly. See Item 1A. Risk Factors Risks Related to the Railcar Industry The variable purchase patterns of our customers and the timing of completion, delivery and acceptance of customer orders may cause our sales and income from operations to vary substantially each quarter, which will result in significant fluctuations in our quarterly results.

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 purchasing raw materials and components 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 Alcoa Inc. and Alcan Inc. Aluminum prices generally are fixed at the time a railcar order is accepted, mitigating the effect of future fluctuations in prices. We purchase steel primarily from U.S. sources, except for our cold-rolled center sills, which we purchase from a single Canadian supplier. A center sill is the primary structural component of a railcar.

Our primary component suppliers include Amsted Industries, Inc., which supplies us with castings and couplers through its American Steel Foundries subsidiary, wheels through its Griffin Wheel Company subsidiary, draft components through its Keystone subsidiary and bearings through its Brenco subsidiary. Roll Form Group, a division of Samuel Manu-Tech, Inc., is the sole supplier of our cold-rolled center sills, which were used in 99% and 91% of our railcars produced in 2009 and 2008, respectively. Other suppliers provide brake systems, wheels, castings, axles and bearings. The railcar industry is subject to supply constraints for some of the key railcar components. See Item 1A. Risk Factors Risks Related to the Railcar Industry Limitations on the supply of wheels and other railcar components could adversely affect our business because they may limit the number of railcars we can manufacture. Except as described above, there are usually at least two suppliers for each of our raw materials and specialty components, and we actively purchase from over 200 suppliers. No single supplier accounted for more than 21% and 22% of our total purchases in 2009 and 2008, respectively. Our top ten suppliers accounted for 69% and 68% of our total purchases in 2009 and 2008, respectively.

COMPETITION

We operate in a highly competitive marketplace. Competition is based on price, product design, reputation for product quality, reliability of delivery 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., National Steel Car Limited, The Greenbrier Companies, Inc. and American Railcar Industries, Inc.

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 non-U.S. patents and pending applications, registered trademarks, copyrights and trade names. Our key patents are for our one-piece center sill, our MegaFlo door system and our top chord and side stake for coal-carrying railcars. The protection of our intellectual property is important to our business.

EMPLOYEES

As of December 31, 2009, we had 188 employees, of whom 121 were salaried and 67 were hourly wage earners. As of December 31, 2009, approximately 58, or 31%, of our employees were members of unions. As of December 31, 2008, we had 875 employees, of whom 173 were salaried and 702 were hourly wage earners. As of December 31, 2008, approximately 452, or 52%, of our employees were members of unions. See Item 1A. Risk Factors Risks Related to Our Business Labor disputes could disrupt our operations and divert the attention of our management and may have a material adverse effect on our operations and profitability.

REGULATION

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

We are also subject to oversight in other jurisdictions by foreign regulatory agencies 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 1A. Risk Factors.

The factors described below are the principal risks that could materially adversely affect our operating results and financial condition. Other factors may exist that we do not consider significant based on information that is currently available. In addition, new risks may emerge at any time, and we cannot predict those risks or estimate the extent to which they may affect us.

RISKS RELATED TO THE RAILCAR INDUSTRY

We operate in a highly cyclical industry, and our industry and markets are influenced by factors that are beyond our control, including U.S. economic conditions. In addition, the current weakness in the credit markets may limit our customers' ability to obtain financing to purchase railcars from us. Such factors could adversely affect demand for our railcar offerings.

Historically, the North American railcar market has been highly cyclical and we expect it to continue to be highly cyclical. During the most recent industry cycle, industry-wide railcar deliveries declined from a peak of 75,704 railcars in 1998 to a low of 17,736 railcars in 2002. During this period, our railcar production declined from approximately 9,000 railcars in 1998 to 4,067 railcars in 2002. Industry-wide railcar deliveries again peaked in 2006 with deliveries of 74,729 before declining to 21,682 in 2009. Our railcar deliveries trended downward from

18,764 in 2006 to 3,377 in 2009. Our industry and the markets for which we supply railcars are influenced by factors that are beyond our control, including U.S. economic conditions. Downturns in economic conditions could result in lower sales volumes, lower prices for railcars and a loss of profits. The cyclicity of the markets in which we operate may adversely affect our operating results and cash flow. In addition, fluctuations in the demand for our railcars may cause comparisons of our sales and operating results between different fiscal years to be less meaningful as indicators of our future performance.

We depend upon a small number of customers that represent a large percentage of our sales. The loss of any single customer, or a reduction in sales to any such customer, could have a material adverse effect on our business, financial condition and results of operations.

Since railcars are typically sold pursuant to large, periodic orders, a limited number of customers typically represent a significant percentage of our railcar sales in any given year. Over the last five years, our top five customers in each year based on sales represented, in the aggregate, approximately 33% of our total sales for the five-year period. In 2009, sales to our top three customers accounted for approximately 15%, 15% and 14%, respectively, of our total sales. In 2008, sales to our top three customers accounted for approximately 22%, 21% and 10%, respectively, of our total sales. 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 and financial results.

The variable purchase patterns of our customers and the timing of completion, delivery and acceptance of customer orders may cause our sales and income from operations to vary substantially each quarter, which will result in significant fluctuations in our quarterly results.

Most of our individual customers do not make purchases every year, since they do not need to replace or replenish their railcar fleets on a yearly basis. Many of our customers place orders for products on an as-needed basis, sometimes only once every few years. As a result, the order levels for railcars, the mix of railcar types ordered and the railcars ordered by any particular customer have varied significantly from quarterly period to quarterly period in the past and may continue to vary significantly in the future. Therefore, our results of operations in any particular quarterly period may be significantly affected by the number of railcars ordered and delivered and product mix of railcars ordered in any given quarterly period. Additionally, because we record the sale of a railcar at the time we complete production, the railcar is accepted by the customer following inspection, the risk for any damage or loss with respect to the railcar passes to the customer and title to the railcar transfers to the customer, and not when the order is taken, the timing of completion, delivery and acceptance of significant customer orders will have a considerable effect on fluctuations in our quarterly results. As a result of these quarterly fluctuations, we believe that comparisons of our sales and operating results between quarterly periods may not be meaningful and, as such, these comparisons should not be relied upon as indicators of our future performance.

We operate in a highly competitive industry and we may be unable to compete successfully against other railcar manufacturers.

We operate in a competitive marketplace and face substantial competition from established competitors in the railcar industry in North America. We have four principal competitors that primarily manufacture railcars for third-party customers. Some of these manufacturers have greater financial and technological resources than us, and they may increase their participation in the railcar segments in which we compete. Railcar purchasers' sensitivity to price and strong price competition within the industry have historically limited our ability to increase prices. In addition to price, competition is based on product performance and technological innovation, quality, reliability of delivery, customer service and other factors. In particular, technological innovation by any of our existing competitors, or new competitors entering any of the markets in which we do business, could put us at a competitive disadvantage. We may be unable to compete successfully against other railcar manufacturers or retain our market share in our established markets. Increased competition for the sales of our railcar products, particularly our coal-carrying railcars, could result in price reductions, reduced margins and loss of market share, which could negatively affect our prospects, business, financial condition and results of operations.

Further consolidation of the railroad industry may adversely affect our business.

Over the past 12 years, there has been a consolidation of railroad carriers operating in North America. Railroad carriers are large purchasers of railcars and represent a significant portion of our historical customer base. Future

consolidation of railroad carriers may adversely affect our sales and reduce our income from operations because with fewer railroad carriers, each railroad carrier will have proportionately greater buying power and operating efficiency, which may intensify competition among railcar manufacturers to retain customer relationships with the consolidated railroad carriers and cause our prices to decline.

The potential cost volatility of the raw materials that we use to manufacture railcars, especially aluminum and steel, and delivery delays associated with these raw materials may adversely affect our financial condition and results of operations.

The production of railcars and our operations require substantial amounts of aluminum and steel. The cost of aluminum, steel and all other materials (including scrap metal) used in the production of our railcars represents a significant majority of our direct manufacturing costs. Our business is subject to the risk of price increases and periodic delays in the delivery of aluminum, steel and other materials, all of which are beyond our control. Any fluctuations in the price or availability of aluminum or steel, or any other material used in the production of our railcars, may have a material adverse effect on our business, results of operations or financial condition. In addition, if any of our suppliers were unable to continue its business or were to seek bankruptcy relief, the availability or price of the materials we use could be adversely affected. Deliveries of our materials may also fluctuate depending on supply and demand for the material or governmental regulation relating to the material, including regulation relating to the importation of the material.

Limitations on the supply of wheels and other railcar components could adversely affect our business because they may limit the number of railcars we can manufacture.

We rely upon third-party suppliers for wheels and other components for our railcars. For the year ended December 31, 2004, due to a shortage of wheels and other railcar components, our deliveries were limited to 7,484 railcars, even though we had orders and production capacity to manufacture more railcars. The limited supply of wheels and other railcar components did not impact our deliveries for the years ended December 31, 2005 through 2009. In the future suppliers of railcar components may be unable to meet the short-term or longer-term demand of our industry for wheel and other railcar components. In the event that any of our suppliers of railcar components were to stop or reduce the production of wheels or the other railcar components that we use, go out of business, refuse to continue their business relationships with us or become subject to work stoppages, our business would be disrupted. We have in the past experienced challenges sourcing these railcar components to meet our increasing production requirements. Our ability to increase our railcar production to expand our business and/or meet any increase in demand, with new or additional manufacturing capabilities, depends on our ability to obtain an adequate supply of these railcar components. While we believe that we could secure alternative sources for these components, we may incur substantial delays and significant expense in doing so, the quality and reliability of these alternative sources may not be the same and our operating results may be significantly affected. In an effort to secure a supply of wheels, we have developed foreign sources that require deposits on some occasions. In the event of a material adverse business condition, such deposits may be forfeited. In addition, if one of our competitors entered into a preferred supply arrangement with, or was otherwise favored by, a particular supplier, we would be at a competitive disadvantage, which could negatively affect our operating results. Furthermore, alternative suppliers might charge significantly higher prices for wheels or other railcar components than we currently pay. Under such circumstances, the disruption to our business could have a material adverse impact on our customer relationships, financial condition and operating results.

RISKS RELATED TO OUR BUSINESS

The weak global economy and tight credit markets may continue to adversely affect our business.

The slowdown in the global economy likely has contributed to a near-term decline in the Company's sales levels. The uncertainty surrounding the duration and severity of the current economic conditions makes it difficult for us to predict the full impact of this slowdown on our business, results of operations and cash flows. While the financial condition of many of our customers, including railroad and utility companies, remains generally stable, certain of our customers may face financial difficulties, the unavailability of or reduction in commercial credit, or both, that may result in decreased sales for the Company. The weakness in the global economy also may adversely affect key suppliers of the Company, negatively impacting our ability to secure adequate materials for our manufacture of railcars on a timely basis.

While the Company currently does not have any borrowings outstanding under its two revolving credit facilities, the availability of credit under these facilities positively contributes to the Company's liquidity position. The continuation of severe economic conditions may adversely affect the financial institutions that participate in our credit facilities, which could limit their ability to lend if the Company were to seek to borrow under its current arrangements.

We rely significantly on the sales of our coal-carrying railcars. Future demand for coal could decrease, which could adversely affect our business, financial condition and results of operations.

Coal-carrying railcars are our primary railcar type, representing 92% and 89% of our sales revenues in 2009 and 2008, respectively, and 92% of the total railcars that we delivered in both 2009 and 2008. Fluctuations in the price of coal relative to other energy sources may cause utility companies, which are significant customers of our coal-carrying railcar lines, to select an alternative energy source to coal, thereby reducing the strength of the market for coal-carrying railcars. For example, if utility companies were to begin preferring natural gas instead of coal as an energy source, demand for our coal-carrying railcar lines would decrease and our operating results may be negatively affected.

The U.S. federal and state governments may adopt new legislation and/or regulations, or judicial or administrative interpretations of existing laws and regulations, that materially adversely affect the coal industry and/or our customers ability to use coal or to continue to use coal at present rates. Such legislation or proposed legislation and/or regulations may include proposals for more stringent protections of the environment that would further regulate and tax the coal industry. This legislation could significantly reduce demand for coal, adversely affect the demand for our coal-carrying railcars and have a material adverse effect on our financial condition and results of operations.

We rely upon a single supplier to supply us with all of our cold-rolled center sills for our railcars, and any disruption of our relationship with this supplier could adversely affect our business.

We rely upon a single supplier to manufacture all of our cold-rolled center sills for our railcars, which are based upon our proprietary and patented process. 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. Substantially all of the railcars that we produced in 2009 and 2008 were manufactured using this cold-rolled center sill. Although we have a good relationship with our supplier and have not experienced any significant delays, manufacturing shortages or failures to meet our quality requirements and production specifications in the past, our supplier could stop production of our cold-rolled center sills, go out of business, refuse to continue its business relationship with us or become subject to work stoppages. While we believe that we could secure alternative manufacturing sources, our present supplier is currently the only manufacturer of our cold-rolled center sills for our railcars. We may incur substantial delays and significant expense in finding an alternative source, our results of operations may be significantly affected and the quality and reliability of these alternative sources may not be the same. Moreover, alternative suppliers might charge significantly higher prices for our cold-rolled center sills than we currently pay. The prices for our cold-rolled center sills may also be impacted by the rising cost of steel and all other materials used in the production of our cold-rolled center sills. Under such circumstances, the disruption to our business may have a material adverse impact on our financial condition and results of operations.

Equipment failures, delays in deliveries or extensive damage to our facilities could lead to production or service curtailments or shutdowns.

We have production facilities in Danville, Illinois and Roanoke, Virginia. An interruption in production capabilities at these facilities, as a result of equipment failure or other reasons, could reduce or prevent the production of our railcars. A halt of production at any of our manufacturing facilities could severely affect delivery times to our customers. Any significant delay in deliveries to our customers could result in the termination of contracts, cause us to lose future sales and negatively affect our reputation among our customers and in the railcar industry and our results of operations. Our facilities are also subject to the risk of catastrophic loss due to unanticipated events, such as fires, explosions, floods or weather conditions. We may experience plant shutdowns or periods of reduced production as a result of equipment failures, delays in deliveries or extensive damage to any of our facilities, which could have a material adverse effect on our business, results of operations or financial condition.

An increase in health care costs could adversely affect our results of operations.

The cost of health care benefits in the United States has increased significantly, leading to higher costs for us to provide health care benefits to our active and retired employees, and we expect these costs to increase in the future. If these costs continue to rise, our results of operations will be adversely affected. During the term of our existing union agreements we are unable to limit our costs by changing or eliminating coverage under our employee benefit plans because a significant majority of our employee benefits are governed these agreements. For example, as of December 31, 2009, our postretirement benefit obligation was \$63.3 million, all of which is unfunded. Although the Johnstown settlement during 2003 limits our future liabilities for health care coverage for our retired unionized Johnstown employees, we will continue to be impacted by the health care cost increases of our active employees. If our costs under our employee benefit plans for active employees exceed our projections, our business and financial results could be materially adversely affected.

Our pension obligations are currently underfunded. We may have to make significant cash payments to our pension plans, which would reduce the cash available for our business.

As of December 31, 2009, our accumulated benefit obligation under our defined benefit pension plans exceeded the fair value of plan assets by \$15.5 million. The underfunding was caused, in part, by fluctuations in the financial markets that have caused the valuation of the assets in our defined benefit pension plans to decrease. Further, additional benefit obligations were added to our existing defined benefit pension plans in 2007, 2008 and 2009 as a result of plan curtailment and special termination benefit costs (as described in Note 3 and Note 12 to the Consolidated Financial Statements). We made contributions to our pension plans of \$12.6 million during the year ended December 31, 2009. Management expects that any future obligations under our pension plans that are not currently funded will be funded from our future cash flow from operations. If our contributions to our pension plans are insufficient to fund the pension plans adequately to cover our future pension obligations, the performance of the assets in our pension plans does not meet our expectations or other actuarial assumptions are modified, our contributions to our pension plans could be materially higher than we expect, which would reduce the cash available for our business.

The level of our reported backlog may not necessarily indicate what our future sales will be and our actual sales may fall short of the estimated sales value attributed to our backlog.

We define backlog as the sales value of products or services to which our customers have committed in writing to purchase from us, that have not been recognized as sales. In this annual report on Form 10-K, we have disclosed our backlog, or the number of railcars for which we have purchase orders, in various periods and the estimated sales value (in dollars) that would be attributable to this backlog once the backlog is converted to actual sales. We consider backlog to be an indicator of future sales of railcars. However, our reported backlog may not be converted into sales in any particular period, if at all, and the actual sales (including any compensation for lost profits and reimbursement for costs) from such contracts may not equal our reported estimates of backlog value. For example, we rely on third-party suppliers for heavy castings, wheels and components for our railcars and if these third parties were to stop or reduce their supply of heavy castings, wheels and other components, our actual sales could fall short of the estimated sales value attributed to our backlog. Also, customer orders may be subject to cancellation, inspection rights and other customary industry terms, and delivery dates may be subject to delay, thereby extending the date on which we will deliver the associated railcars and realize revenues attributable to such railcar backlog. Furthermore, any contract included in our reported backlog that actually generates sales may not be profitable. Therefore, our current level of reported backlog may not necessarily represent the level of sales that we may generate in any future period.

As a public company, we are required to comply with the reporting obligations of the Exchange Act and Section 404 of the Sarbanes-Oxley Act of 2002. If we fail to comply with the reporting obligations of the Exchange Act and Section 404 of the Sarbanes-Oxley Act or if we fail to maintain adequate internal controls over financial reporting, our business, results of operations and financial condition could be materially adversely affected.

As a public company, we are required to comply with the periodic reporting obligations of the Securities Exchange Act of 1934, as amended (the Exchange Act), including preparing annual reports and quarterly reports. Our failure to prepare and disclose this information in a timely manner could subject us to penalties under federal securities laws,

expose us to lawsuits and restrict our ability to access financing. In addition, we are required under applicable law and regulations to design and implement internal controls over financial reporting, and evaluate our existing

internal controls with respect to the standards adopted by the Public Company Accounting Oversight Board. On July 29, 2009 our management identified control deficiencies that existed as of December 31, 2008 and December 31, 2007 that constituted material weaknesses and resulted in material errors and the restatement of the Company's audited annual financial statements as of and for the years ended December 31, 2008 and December 31, 2007 and unaudited interim financial statements as of and for the quarterly periods ended March 31, 2009, September 30, 2008, June 30, 2008 and March 31, 2008. Although we have implemented measures that have remediated the material weaknesses, we cannot assure you that we will not identify additional control deficiencies that may constitute significant deficiencies or material weaknesses in our internal controls in the future. As a result, we may be required to implement further remedial measures and to design enhanced processes and controls to address issues identified through future reviews. This could result in significant delays and costs to us and require us to divert substantial resources, including management time, from other activities.

If we fail to maintain the adequacy of our internal controls in the future, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with the Sarbanes-Oxley Act. Moreover, effective internal controls are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, any failure to satisfy the requirements of Section 404 on a timely basis could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our common stock.

We recently implemented a new enterprise-wide financial reporting system which may cause operating or reporting disruptions.

In 2008, the Company initiated the implementation of an enterprise-wide financial reporting system to improve processes, enhance the access and timeliness of critical business information and strengthen controls throughout the Company. The Company's new enterprise-wide financial reporting system went live on August 1, 2009. Many companies have experienced operating or reporting disruptions when converting to a new ERP system, including limitations on a company's ability to deliver and bill for customer shipments, maintain current and complete books and records, and meet external reporting deadlines. While we have not had any significant operating or reporting disruptions to our business to date from the conversion, and do not currently anticipate any, any major difficulty in using the new reporting system could negatively impact the Company's business, results of operations and cash flows.

If we lose key personnel, our operations and ability to manage the day-to-day aspects of our business will be adversely affected.

We believe our success depends to a significant degree upon the continued contributions of our executive officers and key employees, both individually and as a group. Our future performance will substantially depend on our ability to retain and motivate them. If we lose key personnel or are unable to recruit qualified personnel, our ability to manage the day-to-day aspects of our business will be adversely affected.

The loss of the services of one or more members of our senior management team could have a material adverse effect on our business, financial condition and results of operations. Because our senior management team has many years of experience in the railcar industry and other manufacturing and capital equipment industries, it would be difficult to replace any of them without adversely affecting our business operations. Our future success will also depend in part upon our continuing ability to attract and retain highly qualified personnel. We do not currently maintain key person life insurance.

Labor disputes could disrupt our operations and divert the attention of our management and may have a material adverse effect on our operations and profitability.

As of December 31, 2009, we had collective bargaining agreements with unions representing approximately 31% of our total active labor force.

Disputes with the unions representing our employees could result in strikes or other labor protests which could disrupt our operations and divert the attention of management from operating our business. If we were to experience a strike or work stoppage, it could be difficult for us to find a sufficient number of employees with the necessary skills to replace these employees. Any such labor disputes could have a material adverse effect on our financial condition, results of operations or cash flows.

Shortages of skilled labor may adversely impact our operations.

We depend on skilled labor in the manufacture of railcars. Some of our facilities are located in areas where demand for skilled laborers often exceeds supply. Shortages of some types of skilled laborers may restrict our ability to increase production rates and could cause our labor costs to increase.

Lack of acceptance of our new railcar offerings by our customers could adversely affect our business.

Our strategy depends in part on our continued development and sale of new railcar designs and design changes to existing railcars to penetrate railcar markets in which we currently do not compete and to expand or maintain our market share in the railcar markets in which we currently compete. We have dedicated significant resources to the development, manufacturing and marketing of new railcar designs. We typically make decisions to develop and market new railcars and railcars with modified designs without firm indications of customer acceptance. New or modified railcar designs may require customers to alter their existing business methods or threaten to displace existing equipment in which our customers may have a substantial capital investment. Many railcar purchasers prefer to maintain a standardized fleet of railcars and railcar purchasers with established railcar fleets are generally resistant to railcar design changes. Therefore, any new or modified railcar designs that we develop may not gain widespread acceptance in the marketplace and any such products may not be able to compete successfully with existing railcar designs or new railcar designs that may be introduced by our competitors.

Our production of new railcar product lines may not be initially profitable and may result in financial losses.

When we begin production of a new railcar product line, we usually anticipate that our initial costs of production will be higher due to initial labor and operating inefficiencies associated with new manufacturing processes. Due to pricing pressures in our industry, the pricing for the new railcars in customer contracts usually does not reflect the initial additional costs, and our costs of production may exceed the anticipated revenues until we are able to gain labor efficiencies. For example, in 2005, we had losses of \$1.5 million relating to our contract for the manufacture of box railcars, a type of railcar that we had not manufactured in the past. To the extent that the total costs of production significantly exceed our anticipated costs of production, we may be unable to gain any profit from our sale of the railcars or we may incur a loss.

We may pursue acquisitions that involve inherent risks, any of which may cause us not to realize anticipated benefits.

Our business strategy includes the potential acquisition of businesses and entering into joint ventures and other business combinations that we expect would complement and expand our existing products and services and the markets where we sell our products and services and improve our market position. We may not be able to successfully identify suitable acquisition or joint venture opportunities or complete any particular acquisition, combination, joint venture or other transaction on acceptable terms. We cannot predict the timing and success of our efforts to acquire any particular business and integrate the acquired business into our existing operations. Also, efforts to acquire other businesses or the implementation of other elements of this business strategy may divert managerial resources away from our business operations. In addition, our ability to engage in strategic acquisitions may depend on our ability to raise substantial capital and we may not be able to raise the funds necessary to implement our acquisition strategy on terms satisfactory to us, if at all. Our failure to identify suitable acquisition or joint venture opportunities may restrict our ability to grow our business. In addition, we may not be able to successfully integrate businesses that we acquire in the future, which could have a material adverse effect on our business, results of operations and financial condition.

We might fail to adequately protect our intellectual property, which may result in our loss of market share, or third parties might assert that our intellectual property infringes on their intellectual property, which would be costly to defend and divert the attention of our management.

The protection of our intellectual property is important to our business. We rely on a combination of trademarks, copyrights, patents and trade secrets to protect our intellectual property. However, these protections might be inadequate. For example, we have patents for portions of our railcar designs that are important to our market leadership in the coal-carrying railcar segment. Our pending or future trademark, copyright and patent applications might not be approved or, if allowed, might not be sufficiently broad. Conversely, third parties might assert that our technologies or other intellectual property infringe on their proprietary rights. In either case, litigation may result, which could result in substantial costs and diversion of our and our management team's efforts. Regardless of whether we are ultimately successful in any litigation, such litigation could adversely affect our business, results of operations and financial condition.

We are subject to a variety of environmental laws and regulations and the cost of complying with environmental requirements or any failure by us to comply with such requirements may have a material adverse effect on our business, financial condition and results of operations.

We are subject to a variety of federal, state and local environmental laws and regulations, including those governing air quality and the handling, disposal and remediation of waste products, fuel products and hazardous substances. Although we believe that we are in material compliance with all of the various regulations and permits applicable to our business, we may not at all times be in compliance with such requirements. The cost of complying with environmental requirements may also increase substantially in future years. If we violate or fail to comply with these regulations, we could be fined or otherwise sanctioned by regulators. In addition, these requirements are complex, change frequently and may become more stringent over time, which could have a material adverse effect on our business. We have in the past conducted investigation and remediation activities at properties that we own to address historic contamination. However, there can be no assurance that these remediation activities have addressed all historic contamination. Environmental liabilities that we incur, including those relating to the off-site disposal of our wastes, if not covered by adequate insurance or indemnification, will increase our costs and have a negative impact on our profitability.

Our warranties may expose us to potentially significant claims, which may damage our reputation and adversely affect our business, financial condition and results of operations.

We warrant the workmanship and materials of many of our manufactured new products under limited warranties, generally for periods of five years or less. Accordingly, we may be subject to a risk of product liability or warranty claims in the event that the failure of any of our products results in personal injury or death, or does not conform to our customers' specifications. Although we currently maintain product liability insurance coverage, product liability claims, if made, may exceed our insurance coverage limits or insurance may not continue to be available on commercially acceptable terms, if at all. We have never experienced any material losses attributable to warranty claims, but it is possible for these types of warranty claims to result in costly product recalls, significant repair costs and damage to our reputation, all of which would adversely affect our results of operations.

The agreements governing our revolving credit facilities contain various covenants that, among other things, limit our discretion in operating our business and provide for certain minimum financial requirements.

The agreements governing our revolving credit facilities contain various covenants that, among other things, limit our management's discretion by restricting our ability to incur additional debt, redeem our capital stock, enter into certain transactions with affiliates, pay dividends and make other distributions, make investments and other restricted payments and create liens. Our failure to comply with the financial covenants set forth above and other covenants under our revolving credit facilities could lead to an event of default under the agreements governing any other indebtedness that we may have outstanding at the time, permitting the lenders to accelerate all borrowings under such agreements and to foreclose on any collateral. In addition, any such events may make it more difficult or costly for us to borrow additional funds in the future.

To the extent we expand our sales of products and services internationally, we will increase our exposure to international economic and political risks.

Conducting business outside the United States, for example through our joint venture in India and our sales to South America, subjects us to various risks, including changing economic, legal and political conditions, work stoppages, exchange controls, currency fluctuations, terrorist activities directed at U.S. companies, armed conflicts and unexpected changes in the United States and the laws of other countries relating to tariffs, trade restrictions, transportation regulations, foreign investments and taxation. If we fail to obtain and maintain certifications of our railcars and railcar parts in the various countries where we may operate, we may be unable to market and sell our railcars in those countries.

In addition, unexpected changes in regulatory requirements, tariffs and other trade barriers, more stringent rules relating to labor or the environment, adverse tax consequences and price exchange controls could limit our operations and make the manufacture and distribution of our products internationally more difficult. Furthermore, any material changes in the quotas, regulations or duties on imports imposed by the U.S. government and agencies or on exports by non-U.S. governments and their respective agencies could affect our ability to export the railcars that we manufacture in the United States. The uncertainty of the legal environment could limit our ability to enforce our rights effectively.

The market price of our securities may fluctuate significantly, which may make it difficult for stockholders to sell shares of our common stock when desired or at attractive prices.

Since our initial public offering in April 2005 until February 22, 2010, the trading price of our common stock ranged from a low of \$14.05 per share to a high of \$78.34 per share. The price for our common stock may fluctuate in response to a number of events and factors, such as quarterly variations in operating results and our reported backlog, the cyclical nature of the railcar market, announcements of new products by us or our competitors, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable to us, and news reports relating to trends in our markets or general economic conditions. Additionally, volatility or a lack of positive performance in our stock price may adversely affect our ability to retain key employees, all of whom have been granted stock options or other stock awards.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We own a railcar production facility in Danville, Illinois and we lease a railcar production facility in Roanoke, Virginia. The following table presents information on our leased and owned operating properties as of December 31, 2009:

Use	Location	Size	Leased or Owned	Lease Expiration Date
Corporate headquarters	Chicago, Illinois	8,574 square feet	Leased	September 30, 2013
Railcar assembly and component manufacturing	Danville, Illinois	308,665 square feet on 36.5 acres of land	Owned	
Railcar assembly and component Manufacturing	Roanoke, Virginia	383,709 square feet on 15.5 acres of land	Leased	November 30, 2014
Administrative	Johnstown, Pennsylvania	29,500 square feet on 1.02 acres of land	Owned	
Parts warehouse	Johnstown, Pennsylvania	86,000 square feet	Leased	December 31, 2016

As of December 31, 2009, our facility in Danville, Illinois operated one daily shift. In response to reduced industry demand for railcars over the short-term, our facility in Roanoke, Virginia ceased production of new railcars in July 2009. We expect to resume production of new railcars at our Roanoke facility in the future as industry demand improves.

Item 3. Legal Proceedings.

On September 29, 2008, Bral Corporation, a supplier of certain railcar parts to us, filed a complaint against us in the U.S. District Court for the Western District of Pennsylvania (the Pennsylvania Lawsuit). The complaint alleges that we breached an exclusive supply agreement with Bral by purchasing parts from CMN Components, Inc. (CMN). On December 14, 2007, Bral sued CMN in the U.S. District Court for the Northern District of Illinois, alleging among other things that CMN interfered in the business relationship between Bral and us (the Illinois Lawsuit). On October 22, 2008, we entered into an Assignment of Claims Agreement with CMN under which CMN assigned to us its counterclaims against Bral in the Illinois Lawsuit and we agreed to defend and indemnify CMN against Bral's claims in that lawsuit. The parties have been conducting coordinated discovery in both matters. While the ultimate outcomes of the Pennsylvania Lawsuit and the Illinois Lawsuit cannot be determined at this time, it is the opinion of management that the resolution of these lawsuits will not have a material adverse effect on our financial condition or results of operations.

In addition to the foregoing, we are involved in certain other threatened and pending legal proceedings, including commercial disputes and workers' compensation and employee matters arising out of the conduct of our 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 our financial condition, results of operations or cash flows.

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. Prior to that time, there was no public market for our common stock. As of February 22, 2010, there were approximately 39 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. The following table sets forth quarterly high and low closing prices of our common stock since April 6, 2005, as reported on the Nasdaq Global Market.

	Common stock price	
	High	Low
2009		
Fourth quarter	\$ 26.91	\$ 18.10
Third quarter	\$ 25.54	\$ 16.26
Second quarter	\$ 20.24	\$ 15.38
First quarter	\$ 21.63	\$ 14.52
2008		
Fourth quarter	\$ 28.39	\$ 17.01
Third quarter	\$ 39.16	\$ 27.94
Second quarter	\$ 44.63	\$ 33.56
First quarter	\$ 41.88	\$ 28.86
2007		
Fourth quarter	\$ 43.20	\$ 32.29
Third quarter	\$ 54.60	\$ 38.20
Second quarter	\$ 51.80	\$ 45.14
First quarter	\$ 58.87	\$ 46.85
2006		
Fourth quarter	\$ 57.07	\$ 48.79
Third quarter	\$ 60.05	\$ 45.10
Second quarter	\$ 76.57	\$ 46.60
First quarter	\$ 72.10	\$ 47.06
2005		
Fourth quarter	\$ 49.55	\$ 35.45
Third quarter	\$ 40.87	\$ 19.01
Second quarter (from April 6, 2005)	\$ 22.00	\$ 17.55

Dividend Policy

Prior to September 2005, our board of directors had never declared any cash dividends on our common stock.

Beginning in September 2005, we paid a recurring quarterly cash dividend of \$0.03 per share of common stock. In November 2006, the quarterly cash dividend increased to \$0.06 per share of common stock.

Our 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.

Our revolving credit agreements contain covenants that limit our ability to pay dividends to holders of our common stock except under certain circumstances. Additionally, the ability of our board of directors to declare a dividend on our common stock is limited by Delaware law.

Performance Graph

The following performance graph and related information shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

The following graph illustrates the cumulative total stockholder return on our common stock during the period from April 6, 2005, which is the date our common stock was initially listed on the Nasdaq Global Market, through December 31, 2009 and compares it with the cumulative total return on the NASDAQ Composite Index and DJ Transportation Index. The comparison assumes \$100 was invested on April 6, 2005 in our common stock and in each of the foregoing indices and assumes reinvestment of dividends, if any. The performance shown is not necessarily indicative of future performance.

	April 6, 2005	June 30, 2005	Dec. 31, 2005	June 30, 2006	Dec. 31, 2006	June 30, 2007	Dec. 31, 2007	June. 30, 2008	Dec. 31, 2008	June. 30, 2009	Dec. 31, 2009
FreightCar America, Inc.	\$ 100.00	\$ 94.29	\$ 228.96	\$ 264.59	\$ 264.72	\$ 228.94	\$ 168.02	\$ 170.94	\$ 88.44	\$ 81.94	\$ 97.26
Nasdaq Composite Index	\$ 100.00	\$ 103.48	\$ 111.17	\$ 110.07	\$ 122.69	\$ 132.37	\$ 135.63	\$ 117.71	\$ 81.34	\$ 95.16	\$ 118.20
DJ Transportation Index	\$ 100.00	\$ 94.18	\$ 113.89	\$ 134.45	\$ 125.08	\$ 140.62	\$ 126.87	\$ 138.23	\$ 99.71	\$ 92.39	\$ 118.26

Item 6. Selected Financial Data.

The selected financial data presented for each of the years in the five-year period ended December 31, 2009 was derived from our audited consolidated financial statements. The selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included in Item 7 and Item 8, respectively, of this annual report on Form 10-K.

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(in thousands, except share and per share data and railcar amounts)				
Statements of operations data:					
Revenues	\$ 248,462	\$ 746,390	\$ 817,025	\$ 1,444,800	\$ 927,187
Cost of sales	211,940	679,597	712,124	1,211,349	820,638
Gross profit	36,522	66,793	104,901	233,451	106,549
Selling, general and administrative expense	31,316	31,717	38,914	34,390	28,461
Plant closure charges (income) ⁽³⁾	(495)	20,037	30,836		
Operating income	5,701	15,039	35,151	199,061	78,088
Interest income	124	3,827	8,349	5,860	1,225
Interest expense	523	396	420	352	11,082
Amortization and write-off of deferred financing costs	270	281	232	306	776
Income before income taxes	5,032	18,189	42,848	204,263	67,455
Income tax provision	248	6,769	15,389	75,530	21,762
Net income	4,784	11,420	27,459	128,733	45,693
Redeemable preferred stock dividends accumulated					311
Net income attributable to common stockholders	4,784	11,420	27,459	128,733	45,382
Less: Net income attributable to noncontrolling interest in India JV	(156)				
Net income attributable to FreightCar America	\$ 4,940	\$ 11,420	\$ 27,459	\$ 128,733	\$ 45,382
Weighted average common shares outstanding - basic	11,861,366	11,788,400	12,115,712	12,586,889	11,135,440
Weighted average common shares outstanding - diluted	11,870,350	11,833,132	12,188,901	12,785,015	11,234,075
Per share data:					
Net income per common share attributable to FreightCar	\$ 0.42	\$ 0.97	\$ 2.27	\$ 10.23	\$ 4.08

America basic

Net income per share common
attributable to FreightCar

America diluted	\$	0.42	\$	0.97	\$	2.25	\$	10.07	\$	4.04
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Dividends declared per common
share

	\$	0.24	\$	0.24	\$	0.24	\$	0.15	\$	0.06
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**Other financial and operating
data:**Capital expenditures, including
railcars on operating leases

produced or acquired	\$	19,920	\$	42,192	\$	6,073	\$	6,903	\$	7,520
Railcars delivered		3,377		10,276		10,282		18,764		13,031
Railcar orders		1,218		7,301		6,366		7,350		22,363
Railcar backlog		265		2,424		5,399		9,315		20,729
Estimated backlog	\$	24,839	\$	183,441	\$	422,054	\$	697,054	\$	1,412,424

**Balance sheet data (at period
end):**

Cash and cash equivalents	\$	98,015	\$	129,192	\$	197,042	\$	212,026	\$	61,737
Restricted cash ⁽¹⁾		1,420								
Total assets		335,566		383,293		354,119		419,981		225,282
Total debt ⁽²⁾				28		93		154		224
Total redeemable preferred stock										
Total stockholders' equity (deficit)		206,253		204,826		199,063		203,869		92,199

(1) During 2009 we established restricted cash balances in lieu of standby letters of credit for purchase price payment guarantees and performance guarantees. The restrictions expire upon our delivery of certain railcars to customers.

(2)

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

- (3) For the year ended December 31, 2007, we recorded plant closure charges of \$30.8 million relating to the planned closure of our Johnstown facility, which included curtailment and special termination benefits for our pension and postretirement benefit plans of \$27.7 million, one-time employee termination benefits of \$2.2 million and fixed asset impairment charges of

\$950,000. For the year ended December 31, 2008, we recorded additional plant closure charges of \$20.0 million, which included special termination benefits for our pension and postretirement benefit plans of \$19.0 million, and other related costs of \$1.1 million. Plant closure income for the year ended December 31, 2009 represents insurance recoveries and adjustments to employment termination benefits. See Note 3 to the consolidated financial statements.

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 the leading manufacturer of aluminum-bodied railcars and coal-carrying railcars in North America, based on the number of railcars delivered. We also refurbish and rebuild railcars and sell forged, cast and fabricated parts for the railcars we produce, as well as those manufactured by others. Our primary customers are financial institutions, shippers and railroads.

Our manufacturing facilities are located in Danville, Illinois and Roanoke, Virginia. Each of our manufacturing facilities has the capability to manufacture a variety of types of railcars.

Railcar deliveries totaled 3,377 units for the year ended December 31, 2009, including delivery of 2,297 cars sold and delivery of 1,080 cars leased, compared to 10,276 units in the same period of 2008. Our total backlog of firm orders for railcars decreased by approximately 89%, from 2,424 railcars as of December 31, 2008 to 265 railcars as of December 31, 2009. Our backlog at December 31, 2009, included 60 units under firm operating leases with independent third parties. Subsequent to December 31, 2009 the Company received additional orders for more than 3,000 new railcars to be manufactured and delivered over the course of 2010 and 2011.

Prices for steel and aluminum, the primary raw material components of our railcars, and surcharges on steel and railcar components were at historically high levels for the first half of 2008 and since then prices have dropped significantly. Substantially all of the contracts covering our current backlog are fixed-rate contracts. Therefore, if material costs were to increase, we may not be able to pass on these increased costs to our customers.

The North American railcar market is highly cyclical and the trends in the railcar industry are closely related to the overall level of economic activity. We expect railroads and utilities to continue to upgrade their fleets of aging steel-bodied coal-carrying railcars to lighter and more durable aluminum-bodied coal-carrying railcars. Despite the decline in our backlog, we believe that the long-term outlook for railcar demand is positive, due to increased rail traffic and the replacement of aging railcar fleets. We also believe that the long-term outlook for our business, including the demand for our coal-carrying railcars, is positive, based on the historic cyclicity of the industry, our expanding product portfolio, our operational efficiency in manufacturing railcars and our international opportunities. However, U.S. economic conditions may not result in a sustained economic recovery, and our business is subject to these and significant other risks that may cause our current positive outlook to change. See Item 1A. Risk Factors. In May 2008, we closed our manufacturing facility located in Johnstown, Pennsylvania. This action was taken to further our strategy of optimizing production at our low-cost facilities and continuing our focus on cost control. We had entered into decisional bargaining with the USWA, but did not reach an agreement with the USWA that would have allowed us to continue to operate the facility in a cost-effective way. In December 2007, we recorded plant closure charges of \$30.8 million related to these actions.

On June 24, 2008, we announced a tentative global settlement that upon ratification by the Johnstown USWA membership and approval by the court resolved all legal disputes relating to the Johnstown facility and its workforce, including the Sowers/Hayden class action litigation, contested arbitration ruling and other pending grievance proceedings. The time for an appeal of the court's order has now run out and the settlement has expired. During 2008 we recorded \$20.0 million in plant closure charges related to these actions. The total plant closure charges recognized in 2007 and 2008 were primarily related to our pension and postretirement benefit plans.

During the fiscal year ended December 31, 2008, management, after a thorough evaluation of the Company's current information technology systems and its future needs, determined to upgrade the Company's existing information technology system to a fully integrated ERP system to be provided by Oracle Corporation. The Company's new enterprise-wide financial system went live on August 1, 2009. In addition to the implementation of the ERP system and in connection with the restatement of our consolidated financial statements for the years ended

December 31, 2008 and 2007, there have been changes in our internal control over financial reporting as more fully described in Item 9A of this annual report on Form 10-K.

FINANCIAL STATEMENT PRESENTATION

Revenues

Our revenues are generated primarily from sales of the railcars that we manufacture. Our sales depend on industry demand for new railcars, which is driven by overall economic conditions and the demand for railcar transportation of various products, primarily coal but also other products such as motor vehicles, steel products, forest products, minerals, cement and agricultural commodities. Our sales are also affected by competitive market pressures that impact the prices for our railcars and by the types of railcars sold. Revenues for 2009 also include lease payments received from railcars under operating leases to the same customer base to which we sell railcars.

We generally manufacture railcars under firm orders from our customers. We recognize sales, which we sometimes refer to as deliveries, of new and rebuilt railcars when we complete the individual railcars, the railcars are accepted by the customer following inspection, the risk of any damage or other loss with respect to the railcars passes to the customer and title to the railcars transfers to the customer. Deliveries include new, used and repair/refurbished cars sold and cars contracted under operating leases in that period. With respect to sales transactions involving the trading-in of used railcars, in accordance with accounting rules, we recognize sales for the entire transaction when the cash consideration received is in excess of 25% of the total transaction value and on a pro rata portion of the total transaction value when the cash consideration received is less than 25% of the total transaction value. We value used railcars received at their estimated fair market value. The variable purchase patterns of our customers and the timing of completion, delivery and acceptance of customer orders may cause our sales and income from operations to vary substantially each quarter, which will result in significant fluctuations in our quarterly results.

Cost of sales

Our cost of sales includes the cost of raw materials such as aluminum and steel, as well as the cost of finished railcar components, such as castings, wheels, truck components and couplers, and other specialty components. Our cost of sales also includes labor, utilities, freight, manufacturing depreciation and other manufacturing overhead costs. Factors that have affected our cost of sales include the recent volatility in the cost of steel and aluminum, our closure of our Johnstown, Pennsylvania facility and our efforts to continually reduce manufacturing costs at our other manufacturing facilities.

Prices for steel and aluminum, the primary raw material components of our railcars, and surcharges on steel and railcar components were at historically high levels for the first half of 2008 and since then prices have dropped significantly. Substantially all of the contracts covering our current backlog are fixed-rate contracts. Therefore, if material costs were to increase, we may not be able to pass on these increased costs to our customers.

Operating income

Operating income represents total sales less cost of sales, selling, general and administrative expenses, compensation expense under stock option and restricted share award agreements and plant closure charges.

RESULTS OF OPERATIONS

Year Ended December 31, 2009 compared to Year Ended December 31, 2008

Revenues

Our sales for the year ended December 31, 2009 were \$248.5 million as compared to \$746.4 million for the year ended December 31, 2008 while railcar deliveries of 3,377 were 6,899 units below the 2008 level. Railcar deliveries for the year ended December 31, 2009 included delivery of 2,297 cars sold and delivery of 1,080 cars leased. Revenues for the year ended December 31, 2009 included \$3.9 million generated from contract termination fees resulting from a customer's reduction of a sales order. The decrease in sales revenue for the year ended December 31, 2009 compared to 2008 levels was due primarily to lower sales of coal-carrying cars driven by reduced industry demand. Coal loadings in 2009 have significantly decreased from 2008 levels, and the number of railcars in storage

remains high. Recession-driven reductions in demand for electricity, ample utility stockpiles, lower production and decelerating export activity contributed to the decline in coal activity during 2009.

Gross Profit

Gross profit for the year ended December 31, 2009 was \$36.5 million as compared to \$66.8 million for the year ended December 31, 2008, representing a decrease of \$30.3 million. The corresponding margin rate was 14.7% for the year ended December 31, 2009 compared to 8.9% for the year ended December 31, 2008. The change in margin rate was driven primarily by a favorable product mix. The contract termination fee of \$3.9 million also contributed to the margin rate improvement for 2009.

Selling, General and Administrative Expense

Selling, general and administrative expenses for the year ended December 31, 2009 were \$31.3 million as compared to \$31.7 million for the year ended December 31, 2008, representing a decrease of \$0.4 million. We took significant actions in 2009 to reduce selling, general and administrative expenses, however those reductions were partially offset by increases for severance costs of \$3.1 million, costs associated with the restatement of our financial statements of \$1.0 million, costs associated with the suspension of our salaried pension plan of \$0.8 million and expenses associated with the implementation of our ERP system of \$0.4 million.

Plant Closure Charges

Plant closure income for the year ended December 31, 2009 represent insurance recoveries and accrual adjustments related to employee termination benefits. Plant closure charges for the year ended December 31, 2008 represent the incremental costs associated with our decision, in December 2007, to close our Johnstown, Pennsylvania manufacturing facility and included charges arising under our pension and postretirement benefit plans as well as employment termination and related closure costs. See Note 3 to the consolidated financial statements.

Interest Expense/Income

Total interest expense for the year ended December 31, 2009 was \$0.8 million compared to \$0.7 million for the year ended December 31, 2008. Interest expense consisted of commitment fees on our credit facilities and the amortization of deferred financing costs. Interest income for the year ended December 31, 2009 was \$0.1 million compared to \$3.8 million for the year ended December 31, 2008, representing a decrease of \$3.7 million as interest rates decreased compared to 2008 levels.

Income Taxes

The provision for income taxes was \$0.2 million for the year ended December 31, 2009, compared to a provision for income taxes of \$6.8 million for the year ended December 31, 2008. The effective tax rates for the years ended December 31, 2009 and 2008, were 4.9% and 37.2%, respectively. The effective tax rate for the year ended December 31, 2009 was lower than the statutory U.S. federal income tax rate of 35% due to a decrease of 13.9% resulting from a change in the blended state rate, a decrease of 12.1% for tax deductible goodwill, a decrease of 8.7% for the impact of the rate change on deferred taxes, an increase of 3.2% caused by a change in the valuation allowance, an increase of 0.7% for nondeductible expenses and an increase of 0.7% for the effect of other differences. The effective tax rate for the year ended December 31, 2008 was higher than the statutory U.S. federal income tax rate of 35% due to an increase of 7.7% caused by a change in the valuation allowance and an increase of 0.6% for the effect of other differences, partially offset by a decrease of 3.3% for tax deductible goodwill and a decrease of 2.8% due to a change in the blended state rate. The increase in the valuation allowance for 2008 was primarily due to plant closure charges that caused the Pennsylvania deferred tax assets to increase resulting in a corresponding increase to the valuation allowance.

Net Income

As a result of the foregoing, net income attributable to FreightCar America was \$4.9 million for the year ended December 31, 2009, reflecting a decrease of \$6.5 million from net income of \$11.4 million for the year ended December 31, 2008. For 2009, our basic and diluted net income per share were both \$0.42, on basic and diluted shares outstanding of 11,861,366 and 11,870,350, respectively. For 2008, our basic and diluted net income per share were both \$0.97, on basic and diluted shares outstanding of 11,788,400 and 11,833,132, respectively.

Year Ended December 31, 2008 compared to Year Ended December 31, 2007

Revenues

Our sales for the year ended December 31, 2008 were \$746.4 million as compared to \$817.0 million for the year ended December 31, 2007 while railcar deliveries of 10,276 were 6 units below the 2007 level.

Railcar deliveries for the year ended December 31, 2008 included delivery of 9,022 new cars sold and delivery of 735 leased cars that have not yet been sold as well as delivery of 519 used cars sold. The decrease in sales revenue was due primarily to heightened competition and general market conditions as average railcar pricing declined between 2007 and 2008. This reflects a shift in product mix to car types with different material costs and, more importantly, pricing pressures dictated by softer demand. Our coal-carrying railcars remain an essential part of our portfolio. Deliveries of our BethGon[®] II and AutoFlood III coal-carrying railcars comprised 69% of our total railcar deliveries for the year ended December 31, 2008.

Gross Profit

Gross profit for the year ended December 31, 2008 was \$66.8 million as compared to \$104.9 million for the year ended December 31, 2007, representing a decrease of \$38.1 million. The corresponding margin rate was 8.9% for the year ended December 31, 2008 compared to 12.8% for the year ended December 31, 2007. The margin for 2008 was negatively impacted by material price increases and surcharges that we were unable to pass on to our customers due to fixed price sales contracts and the aggressive pricing environment in which we are operating. For the year ended December 31, 2007, we were able to pass on increases in raw material costs to our customers with respect to 80% of our railcar deliveries.

Selling, General and Administrative Expense

Selling, general and administrative expenses for the year ended December 31, 2008 were \$31.7 million as compared to \$38.9 million for the year ended December 31, 2007, representing a decrease of \$7.2 million. Selling, general and administrative expenses were 4.3% of our sales for 2008 and 4.8% for 2007. The decrease in selling, general and administrative expenses for the year ended December 31, 2008 compared to 2007 was primarily attributable to reductions in outside professional services of \$1.3 million, contingent liabilities of \$3.9 million and incentive plan costs of \$2.2 million.

Plant Closure Charges

Plant closure charges for the year ended December 31, 2008 represent the incremental costs associated with our decision, in December 2007, to close our Johnstown, Pennsylvania manufacturing facility. As a result of the previously described global settlement, total plant closure costs incurred through December 31, 2008 were \$50.9 million. These costs include charges arising under our pension and postretirement benefit plans as well as employment termination and related closure costs. See Note 3 to the consolidated financial statements.

Interest Expense/Income

Total interest expense for each of the years ended December 31, 2008 and 2007 was \$0.7 million. Interest expense consisted of third-party interest expense and the amortization of deferred financing costs. Interest income for the year ended December 31, 2008 was \$3.8 million as compared to \$8.3 million for the year ended December 31, 2007, representing a decrease of \$4.5 million as both interest rates and our cash balances decreased compared to 2007 levels.

Income Taxes

The provision for income taxes was \$6.8 million for the year ended December 31, 2008, compared to a provision for income taxes of \$15.4 million for the year ended December 31, 2007. The effective tax rates for the years ended December 31, 2008 and 2007, were 37.2% and 35.9%, respectively. The effective tax rate for the year ended December 31, 2008 was higher than the statutory U.S. federal income tax rate of 35% due to a decrease of 3.3% for goodwill, a decrease of 2.8% due to a change in the blended state rate, an increase of 7.7% caused by a change in the

valuation allowance and an increase of 0.6% for the effect of other differences. The increase in the valuation allowance was primarily due to plant closure charges in 2008 that caused the Pennsylvania deferred tax assets to increase resulting in a corresponding increase to the valuation allowance. The effective tax rate for the year ended December 31, 2007 was slightly higher than the statutory U.S. federal income tax rate due to the addition of a 1.9% blended state rate and a 2.8% increase caused by a change in the valuation allowance. These increases were virtually offset by a decrease in the effective rate caused by the domestic manufacturing deduction.

Net Income

As a result of the foregoing, net income attributable to FreightCar America was \$11.4 million for the year ended December 31, 2008, reflecting a decrease of \$16.1 million from net income of \$27.5 million for the year ended December 31, 2007. For 2008, our basic and diluted net income per share were both \$0.97, on basic and diluted shares outstanding of 11,788,400 and 11,833,132, respectively. For 2007, our basic and diluted net income per share were \$2.27 and \$2.25, respectively, on basic and diluted shares outstanding of 12,115,712 and 12,188,901, respectively. Net income for both 2008 and 2007 was significantly impacted by plant closure costs, with pre-tax charges of \$20.0 million in 2008 and pre-tax charges of \$30.8 million in 2007.

LIQUIDITY AND CAPITAL RESOURCES

Our primary source of liquidity for the years ended December 31, 2009 and 2008, was our cash generated by cash flows from operations in prior periods. See Cash Flows.

On August 24, 2007, we entered into the Second Amended and Restated Credit Agreement with the lenders party thereto (collectively, the Lenders) and LaSalle Bank National Association (LaSalle) as administrative agent (as amended by the First Amendment to Second Amended and Restated Credit Agreement dated as of September 30, 2008 and the Second Amendment to Second Amended and Restated Credit Agreement dated as of March 11, 2009 the Credit Agreement). The proceeds of the revolving credit facility under the Credit Agreement can be used to finance our working capital requirements through direct borrowings and the issuance of stand-by letters of credit. The Credit Agreement consists of a total facility of \$50.0 million senior secured revolving credit facility, including: (i) a sub-facility for letters of credit in an amount not to exceed \$50.0 million; and (ii) a sub-facility for a swing line loan in an amount not to exceed \$5.0 million. The amount available under the revolving credit facility is based on the lesser of (i) \$50.0 million or (ii) The borrowing base representing a portion of working capital, calculated as a percentage of eligible accounts receivable plus percentages of eligible finished inventory and semi-finished inventory, less a \$20.0 million borrowing base reserve. Since our accounts receivable and inventory balances fluctuate considerably based on the cyclical nature of the business and the timing of orders, the amount available for borrowing also fluctuates considerably. Under the borrowing base calculation, the amount available for borrowing was \$3.2 million and \$38.5 million as of December 31, 2009 and 2008, respectively.

The Credit Agreement has a term ending on May 31, 2012 and bears interest at a rate of LIBOR plus an applicable margin of between 1.50% and 2.25% depending on Revolving Loan Availability (as defined in the Credit Agreement). We are required to pay a commitment fee of between 0.175% and 0.250% based on Revolving Loan Availability. Borrowings under the Credit Agreement are collateralized by substantially all of our assets and guaranteed by an unsecured guarantee made by JAIX in favor of LaSalle for the benefit of the Lenders. The Credit Agreement has both affirmative and negative covenants, including a minimum fixed charge coverage ratio and limitations on debt, liens, dividends, investments, acquisitions and capital expenditures. The Revolving Credit Agreement also provides for customary events of default.

As of December 31, 2009 and 2008, we had no borrowings under our revolving credit facilities. We had \$1.2 million and \$11.5 million in outstanding letters of credit under the letter of credit sub-facility as of December 31, 2009 and 2008, respectively which reduced the amount available for borrowing under the facility. Under the revolving credit facility, our subsidiaries are permitted to pay dividends and transfer funds to the Company without restriction.

On September 30, 2008, JAIX entered into a Credit Agreement (as amended by the First Amendment to Credit Agreement dated as of March 11, 2009, the JAIX Credit Agreement) to be used to fund our leasing operations. The JAIX Credit Agreement consists of a \$60 million senior secured revolving credit facility. The JAIX Credit Agreement has a term ending on March 31, 2012 and bears interest at the Eurodollar Loan Rate (as defined in the

JAIX Credit Agreement) plus 2.00% for the first two years of the JAIX Credit Agreement (the Revolving Period) and plus 2.50% for the remainder of the term until the termination date. JAIX is required to pay an annual commitment fee of 0.30% during the Revolving Period. Borrowings under the JAIX Credit Agreement are collateralized by substantially all of the assets of JAIX. Additionally, America guaranteed the JAIX Credit Agreement.

Availability under the JAIX Credit Agreement is based on a percentage of the Eligible Railcar Leases (as defined in the agreement) held under the JAIX Credit Agreement. For the first two years the facility requires interest only payments, thereafter the amount drawn on each group of Eligible Railcars under lease is required to be repaid in equal installments at the 6, 12 and 18 month anniversaries of such leases. The JAIX Credit Agreement has both affirmative and negative covenants, including, without limitation, a minimum fixed charge coverage ratio, a minimum tangible net worth, a requirement to deposit restricted cash and limitations on debt, liens, dividends, investments, acquisitions and capital expenditures. The JAIX Credit Agreement also provides for customary events of default. As of December 31, 2009 and 2008, we had no borrowings under the JAIX Credit Agreement.

As of December 31, 2009, we were in compliance with all covenant requirements under our revolving credit facilities. During 2008, in response to competitive market conditions and the deterioration of the financial markets, the Company selectively began to produce and offer railcars under operating lease arrangements with certain customers. These term of the leases vary but generally is less than seven years. The Company also continually evaluates opportunities to package and sell its leases to its operating lease customers. As of December 31, 2009, the value of railcars under operating leases was \$61.0 million, the investment in which was funded by cash flows from operations rather than the JAIX Credit Agreement. In 2010, the Company anticipates that it may continue to offer railcars under operating leases to certain customers and pursue opportunities to sell leases in its portfolio. Additional railcars under lease may be funded by cash flows from operations, borrowings under its credit facilities, or both, as the Company evaluates its liquidity and capital resources.

Based on our current level of operations, we believe that our proceeds from operating cash flows and our cash balances, together with amounts available under our revolving credit facilities, will be sufficient to meet our anticipated liquidity needs for 2010. Our long-term liquidity is contingent upon future operating performance and our ability to continue to meet financial covenants under our revolving credit facilities and any other indebtedness. We may also require additional capital in the future to fund working capital as demand for railcars increases, organic growth opportunities and cost reduction programs, including new plant and equipment, development of railcars, joint ventures and acquisitions, and these capital requirements could be substantial. Management continuously evaluates manufacturing facility requirements based upon market demand and may elect to make capital investments at higher levels in the future. We are also exploring product diversification initiatives and international and other opportunities. Our long-term liquidity needs also depend to a significant extent on our obligations related to our pension and welfare benefit plans. We provide pension and retiree welfare benefits to certain salaried and hourly employees upon their retirement. Benefits under our pension plans 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. Our management expects that any future obligations under our pension plans that are not currently funded will be funded out of our future cash flow from operations. As of December 31, 2009, our benefit obligation under our defined benefit pension plans and our postretirement benefit plan was \$61.5 million and \$63.3 million, respectively, which exceeded the fair value of plan assets by \$15.5 million and \$63.3 million, respectively. As disclosed in Note 12 to the consolidated financial statements, we expect to make no contributions relating to our defined benefit pension plans in 2010. We may elect to adjust the level of contributions to our pension plans based on a number of factors, including performance of pension investments, changes in interest rates and changes in workforce compensation. The Pension Protection Act of 2006 provides for changes to the method of valuing pension plan assets and liabilities for funding purposes as well as minimum funding levels. Our defined benefit pension plans are in compliance with the 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. Assuming that the plans are fully funded as that term is defined in 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.

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

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2009, and the effect that these obligations and commitments would be expected to have on our liquidity and cash flow in future periods:

Contractual Obligations	Total	Payments Due by Period			After 5 Years
		1 Year	2-3 Years	4-5 Years	
			<i>(In thousands)</i>		
Operating leases	\$ 13,768	\$ 2,587	\$ 5,275	\$ 4,846	\$ 1,060
Material and component purchases	117,523	23,872	50,965	42,686	
Total	\$ 131,291	\$ 26,459	\$ 56,240	\$ 47,532	\$ 1,060

Material and component purchases consist of non-cancelable agreements with suppliers to purchase materials used in the manufacturing process. Purchase commitments for aluminum are made at a fixed price and are typically entered into after a customer places an order for railcars. The estimated amounts above may vary based on the actual quantities and price.

In addition to the contractual obligations set forth above, we also will have interest payment obligations on any borrowings under the revolving credit facilities. See Note 10 to the consolidated financial statements.

We also paid consulting fees to one of our directors in the amount of \$13,000 for the year ended December 31, 2008 and \$50,000 for the year ended December 31, 2007. The agreement governing this arrangement expired in April 2008. See Note 20 to the consolidated financial statements.

The above table excludes \$5.2 million related to a reserve for unrecognized tax benefits and accrued interest and penalties at December 31, 2009 because the timing of the payout of these amounts cannot be determined.

We are a party to employment agreements with our President and Chief Executive Officer, Vice President, Finance, Chief Financial Officer and Treasurer, as well as other members of our executive management team. See Item 11.

Executive Compensation.

We are also required to make minimum contributions to our pension and postretirement welfare plans. See Note 12 to the consolidated financial statements regarding our expected contributions to our pension plans and our expected postretirement welfare benefit payments for 2010.

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, 2009, 2008 and 2007:

(Amounts in thousands)

	2009	2008	2007
Net cash (used in) provided by:			
Operating activities	\$ 22,864	(23,065)	\$ 41,398
Investing activities	(51,284)	(42,174)	(6,062)
Financing activities	(2,757)	(2,611)	(50,320)
Total	\$ (31,177)	\$ (67,850)	\$ (14,984)

Operating Activities. Our net cash provided by or used in operating activities reflects net income or loss adjusted for non-cash charges and changes in net working capital (including non-current assets and liabilities). Cash flows from operating activities are affected by several factors, including fluctuations in business volume, contract terms for billings and collections, the timing of collections on our contract receivables, processing of bi-weekly payroll and associated taxes, and payment to our suppliers. Our working capital accounts also fluctuate from quarter to quarter due to the timing of certain events, such as the payment or non-payment for our railcars. As some of our customers accept delivery of new railcars in train-set quantities, consisting on average of 120 to 135 railcars, 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, and a typical order of railcars may not yield cash proceeds until after the end of a reporting period.

Our net cash provided by operating activities for the year ended December 31, 2009 was \$22.9 million compared to net cash used in operating activities of \$23.1 million for the year ended December 31, 2008. Net cash provided by operating activities for the year ended December 31, 2009 included increases in cash due to changes in accounts receivable of \$69.4 million and increases in cash due to changes in income taxes of \$6.6 million, that were partially offset by decreases in cash due to changes in accounts payable of \$29.9 million, decreases in cash due to changes in inventories of \$18.3 million, and decreases in cash related to changes in accrued pension and postretirement benefits of \$10.6 million. Net cash used in operating activities for the year ended December 31, 2008 included decreases in cash due to changes in accounts receivable of \$60.1 million, the cost of leased railcars held for sale of \$11.5 million and decreases in cash due to changes in customer deposits and other current liabilities of \$11.9 million that were partially offset by increases in cash due to changes in inventories of \$17.5 million and increases in cash due to changes in accounts payable of \$10.1 million. Cash flows for the year ended December 31, 2008 also included increases from net income of \$11.4 million and adjustments for non-cash items, most significantly plant closure charges of \$20.0 million.

Our net cash provided by operating activities for the year ended December 31, 2007 was \$41.4 million and included increases from net income of \$27.5 million and adjustments for non-cash items, most significantly plant closure charges of \$30.8 million, as well as increases in cash due to changes in inventories of \$56.1 million and increases due to changes in customer deposits and other current liabilities of \$11.4 million. Increases in cash flows for the year ended December 31, 2007 were partially offset by decreases in cash due to changes in accounts payable of \$65.5 million and decreases in cash due to changes in income taxes of \$23.3 million.

Investing Activities. Net cash used in investing activities for the year ended December 31, 2009 was \$51.3 million as compared to \$42.2 million for the year ended December 31, 2008. Net cash used in investing activities for the year ended December 31, 2009 included the cost of purchasing securities available for sale of \$49.9 million, cost of railcars on operating leases produced or acquired of \$15.6 million and capital expenditures of \$4.3 million, partially offset by \$20.0 million of proceeds from the sale of securities available for sale. Net cash used in investing activities for the year ended December 31, 2008 included the cost of railcars on operating leases produced or acquired of \$35.2 million and capital expenditures of \$7.0 million.

Net cash used in investing activities for the year ended December 31, 2007 was \$6.1 million and consisted primarily of capital expenditures. For the year ended December 31, 2007, \$4.3 million of the \$6.1 million of total capital expenditures was used for cost reduction initiatives and the expansion of the production capacity to accommodate the manufacture of a new railcar type.

Financing Activities. Net cash used in financing activities for the year ended December 31, 2009 was \$2.8 million as compared to net cash used in financing activities of \$2.6 million for the year ended December 31, 2008. Net cash used in financing activities for the year ended December 31, 2009 included \$2.9 million of cash dividends paid to our stockholders, partially offset by a \$0.1 million investment in noncontrolling interest by our joint venture partner. Net cash used in financing activities for the year ended December 31, 2008 included \$2.9 million of cash dividends paid to our stockholders and \$0.9 million in deferred financing costs, partially offset by \$1.1 million of treasury stock issued for stock options exercised.

Net cash used in financing activities for the year ended December 31, 2007 was \$50.3 million and included \$50.0 million for stock repurchases, \$2.9 million to pay cash dividends to our stockholders and \$0.2 million related to

deferred financing costs. These were partially offset by the receipt of \$2.1 million for stock options exercised and \$0.8 million in excess tax benefit from stock-based compensation.

Capital Expenditures

Our capital expenditures were \$4.3 million in the year ended December 31, 2009 as compared to \$7.0 million in the year ended December 31, 2008. For the year ended December 31, 2009, capital expenditures were primarily cash outlays for our new ERP system. For the year ended December 31, 2008, capital expenditures were primarily comprised of equipment expenditures to enable us to build wheel and truck assemblies in-house and side sheet assemblies as well as cash outlays for our new ERP system.

Our capital expenditures were \$6.1 million in the year ended December 31, 2007 and included \$4.3 million of capital expenditures used for the expansion of production capacity to accommodate the manufacture of hybrid stainless steel/aluminum coal-carrying railcars.

Excluding unforeseen expenditures, management expects that capital expenditures will be approximately \$0.9 million in 2010 and will be used to maintain our existing facilities and update manufacturing equipment. Management continuously evaluates manufacturing facility requirements based upon market demand and may elect to make capital investments at higher levels in the future.

CRITICAL ACCOUNTING POLICIES

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

Long-lived assets

We evaluate long-lived assets, including property, plant and equipment, under the provisions of ASC 360 *Property, Plant and Equipment*, (formerly, Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*), which addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. For assets to be held or used, we group a long-lived asset or assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. An impairment loss for an asset group reduces only the carrying amounts of a long-lived asset or assets of the group being evaluated. Our estimates of future cash flows used to test the recoverability of a long-lived asset group include only the future cash flows that are directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the asset group. Our future cash flow estimates exclude interest charges.

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 value of an asset or the extent or manner in which an asset is used. We routinely evaluate our manufacturing footprint to assess our manufacturing capacity and cost of production in an effort to optimize production at our low-cost manufacturing facilities.

In December 2007, we announced our planned closure of our manufacturing facility located in Johnstown, Pennsylvania and, as a result, we tested long-lived assets at our Johnstown facility for recoverability using estimated fair values. We recorded impairment charges of \$950,000 for land, building and improvements during 2007.

In response to reduced industry demand for railcars, our manufacturing facility in Roanoke, Virginia ceased production of new railcars in July 2009. As a result, we tested long-lived assets at its Roanoke and Danville facilities for recoverability as of December 31, 2009 using estimated future cashflows derived from the Company's strategic plan. In connection with the analysis, management had to make estimates regarding future sales volumes,

gross margins and selling, general and administrative expenses, as well the split of future production levels between the Company's two plants. The analysis indicates that there was no impairment of the long-lived assets for the Roanoke, Virginia and Danville, Illinois facilities as of December 31, 2009. Because of the inherent uncertainty of its projections, management also performed sensitivity analyses around these estimates and determined that an impairment would not occur under a range of operating results, including shifts in the allocation of production, future railcar volumes and future gross margins.

We recorded impairment charges of \$597,000 for leased railcars held for sale during 2008 and \$800,000 during 2009 (see Note 6 to the consolidated financial statements).

Impairment of goodwill and intangible assets

We have recorded on our balance sheet both goodwill and intangible assets, which consist of patents. We perform the goodwill impairment test required by ASC 350, *Intangibles - Goodwill and Other*, (formerly SFAS No. 142, *Goodwill and Other Intangible Assets*), as of January 1 of each year. No adjustments to goodwill were required based on the annual impairment tests as of January 1, 2009, 2008 and 2007.

We test goodwill for impairment between annual tests if an event occurs or circumstances change that may reduce the fair value of our Company below its carrying amount. These events or circumstances include an impairment recorded under ASC 360. Accordingly, we tested goodwill for impairment as of December 31, 2007 in connection with our testing of long-lived assets at the Johnstown facility for recoverability, in addition to performing our annual test as of January 1, 2007. We also tested goodwill for impairment as of December 31, 2009 in connection with an extended downturn in the market for new coal-carrying railcars and our testing of long-lived assets at our Roanoke, Virginia and Danville, Illinois facilities for recoverability. No adjustments to goodwill were required based on the impairment tests as of December 31, 2007 or 2009.

Management estimates the valuation of the company (which consists of one reporting unit) using a combination of methods, as are considered appropriate in the circumstances, including discounted future cash flows, the prices of comparable businesses, recent transactions involving businesses similar to our company, and the company's market capitalization. As of December 31, 2009, the industry in which our Company operates is experiencing an extended cyclical downturn. As a result, our Company's recent and near-term future earnings are below normalized levels. However, our Company has a sizable liquidity position relative to its book and market capitalization, as well as substantially no indebtedness, which serve to provide a floor to its valuation. In light of these conditions, management does not believe that using the prices of comparable business or recent transactions that rely on earnings as a basis for the valuation provide a reasonable value for our Company's net assets as of December 31, 2009. Accordingly, management evaluated our Company's discounted cash flows and market capitalization to provide a basis for the valuation of our Company's net assets. We concluded that the estimated fair value of our Company's net assets exceeded the carrying value as of December 31, 2009. Additional steps, including an allocation of the estimated fair value to our assets and liabilities, would be necessary to determine the amount, if any, of goodwill impairment if the fair value of our net assets were less than their 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 based on an industry-specific outlook for railcar demand and specifically coal railcar demand;

- estimated margins on railcar sales; and

- weighted-average cost of capital (or 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 industry data to estimate volume projections in our discounted cash flow method. We believe that this independent industry data is the best indicator of expected future performance assuming that we maintain a consistent market share, which management believes is supportable based on historical performance. Our estimated margins used in the discounted cash flow method are based primarily on historical margins. The WACC used to discount our

future performance in the discounted cash flow method is based on an estimated rate of return of
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companies in our industry and interest rates for corporate debt rated Baa or the equivalent by Moody's Investors Service. Management estimated a WACC of 15% for our December 31, 2009 goodwill impairment valuation analysis based on a targeted mix of equity and debt.

During 2009 the outlook for railcar demand and specifically coal-carrying railcar demand worsened considerably. As a result, small changes in our assumptions used in the discounted cash flow method have a more significant impact on the estimated fair value of our net assets using the discounted cash flow method than in previous periods. We compared the estimated fair value of our net assets using the discounted cash flow method in the base case scenario to three alternate scenarios including the impact of a negative 1% adjustment to the volume projections, impact of a 1% negative adjustment to the margin projections and impact of a 1% increase in the WACC used in the discounted cash flow method. Each of these three alternate scenarios reduced the estimated fair value of our net assets using the discounted cash flow method by between 4% and 11% compared to the estimated fair value of our net assets in the base case. The discounted cash flow method is the lower range of management's estimate of the fair value of our net assets, therefore each of the alternate scenarios lowered the lower range of management's estimate of the fair value of our net assets as of December 31, 2009. As a result, the lower range of management's estimate of the fair value of our net assets in some of the alternate scenarios is slightly below the carrying amount of our net assets as of December 31, 2009. Although future results may differ from those used in the base case scenario, management believes that the discounted cash flow method using the base case scenario is the best estimate of the lower range of fair value of our net assets as of December 31, 2009.

Pensions and postretirement benefits

We provide pension and retiree welfare benefits to certain salaried and hourly employees upon their retirement. The most significant assumptions used in determining our net periodic benefit costs are the expected return on pension plan assets and the discount rate used to calculate the present value of our pension and postretirement welfare plan liabilities.

In 2009, we assumed that the expected long-term rate of return on pension plan assets would be 8.25%. As permitted under ASC 715 (*formerly SFAS No. 87, Employers' Accounting for Pensions*) 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 percentage point in the expected long-term rate of return on plan assets would have the following effect:

	1% Increase	1% Decrease
	(in thousands)	
Effect on net periodic benefit cost	\$ (357)	\$ 357

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, 2009, we determined this rate to be 5.76%, a decrease of 1.09% from the 6.85% rate used at December 31, 2008. A change of one percentage point in the discount rate would have the following effect:

	1% Increase	1% Decrease
	(in thousands)	
Effect on net periodic benefit cost	\$ (79)	\$ 28

For the years ended December 31, 2009, 2008 and 2007, we recognized consolidated pre-tax pension cost of \$2.7 million, \$10.8 million and \$17.1 million, respectively. Pension costs for 2009 include accelerated recognition of unrecognized prior service cost of \$0.8 million resulting from the suspension of our pension plan for salaried employees. Pension costs for 2008 include special termination benefit costs of \$10.1 million resulting from our plant closure decision while pension costs for 2007 include pension plan curtailment losses and special termination benefit costs of \$14.5 million resulting from our plant closure decision (See Note 3, Plant Closure Charges and Note

12, Employee Benefit Plans to our consolidated financial statements for a description of these actions). We currently expect to make no contributions to our pension plans during 2010. However, we may elect to adjust the level of contributions based on a number of factors, including performance of pension investments, changes in interest rates and changes in workforce compensation. 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 plans are 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, 2009, 2008 and 2007, we recognized a consolidated pre-tax postretirement welfare benefit cost of \$4.2 million, \$12.6 million and \$18.9 million, respectively. Postretirement welfare benefit costs for 2008 include contractual benefit charges of \$8.9 million resulting from our plant closure decision while postretirement welfare benefit costs for 2007 include plan curtailment losses and contractual benefit charges of \$13.2 million resulting from our plant closure decision (See Note 3, Plant Closure Charges and Note 12, Employee Benefit Plans to our consolidated financial statements for a description of these actions). We currently expect to pay approximately \$5.4 million during 2010 in postretirement welfare benefits.

Income taxes

On January 1, 2007, we adopted the Financial Accounting Standards Board (the FASB) Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Standard No. 109*. FIN No. 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements, uncertain tax positions that it has taken or expects to take on a tax return. This Interpretation requires that a company recognize in its financial statements the impact of tax positions that meet a more likely than not threshold, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement.

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 making such determinations, we consider all available positive and negative evidence. Positive evidence would include the projection of future taxable income, the reversals of existing taxable temporary differences and tax planning strategies. Negative evidence would include any recent historical losses and any projected losses. 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.

At December 31, 2009, we had total net deferred tax assets of \$28.7 million. In evaluating whether it is more likely than not that the net deferred tax assets will be realized, we considered both near-term and longer-term projections of operating results. The railcar industry is in the midst of an extended cyclical downturn. However, the railcar market has an established history of cyclicity based on significant swings in customer demand. Industry projections forecast this trend to continue, with a recovery in demand in 2011-2012 and continuing for several years thereafter. Although realization of our net deferred tax assets is not certain, management has concluded that, based on the expected improvement in railcar demand and, therefore, operating results, we will more likely than not realize the full benefit of the deferred tax assets except for our net deferred tax assets in Pennsylvania. At December 31, 2009, we had a valuation allowance of \$7.2 million against net operating losses in Pennsylvania.

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

deferred tax liabilities and assets that we record relate to the enacted federal, Illinois and Virginia tax rates, since net operating loss carryforwards and deferred tax assets arising under Pennsylvania state law have been fully reserved. A 1% change in the rate of federal income taxes would increase or decrease our deferred tax assets by \$0.6 million. A 1% change in the rate of Illinois income taxes would increase or decrease our deferred tax assets by \$0.3 million. A 1% change in the rate of Virginia income taxes would increase or decrease our deferred tax assets by \$50,000.

Product warranties

We establish a warranty reserve for railcars sold and estimate the amount of the warranty accrual based on the history of warranty claims for the type of railcar, adjusted for significant known claims in excess of established reserves. Warranty terms are based on the negotiated railcar sales contracts and typically are for periods of one to five years.

Revenue recognition

We generally manufacture railcars under firm orders from third parties. We recognize revenue on new railcars when we complete the individual railcars, the railcars are accepted by the customer following inspection, the risk for any damage or other loss with respect to the railcars passes to the customer and title to the railcars transfers to the customer. We do not record any returns or allowances against sales. We recognize service-related revenue from rebuilding and repairs when all significant rebuilding or repair services have been completed and accepted by the customer. We recognize revenue for the entire transaction on transactions involving used railcar trades when the cash consideration is in excess of 25% of the total transaction value and on a pro-rata portion of the total transaction value when the cash consideration is less than 25% of the total transaction value. We value used railcars received at their estimated fair market value at the date of receipt.

We recognize operating lease revenue on leased railcars on a straight-line basis over the life of the lease. We recognize revenue from the sale of railcars under operating leases on a gross basis in manufacturing sales and cost of sales if the railcars are sold within 12 months as the manufacture of the railcars and the sale is within the 12-month period specified by accounting guidance and represents the completion of the sales process. We recognize revenue from the sale of railcars under operating leases on a net basis in leasing revenue as a gain (loss) on sale (i.e. net) of leased railcars if the railcars are held in excess of 12 months as the sale represents the disposal of a long-term asset. We accrue for loss contracts when we have a contractual commitment to manufacture railcars at an estimated cost in excess of the contractual selling price.

We record amounts billed to customers for shipping and handling as part of sales and record related costs in cost of sales.

Compensation expense under stock option agreements and restricted stock awards

We have historically granted certain stock-based awards to employees and directors in the form of non-qualified stock options, incentive stock options and restricted stock. At the date that an award is granted, we determine the fair value of the award and recognize the compensation expense over the requisite service period, which typically is the period over which the award vests. The restricted stock units are valued at the fair market value of our stock on the grant date. The fair value of stock options is estimated using the Black-Scholes option-pricing model. Determining the fair value of stock options at the grant date requires us to apply judgment and use highly subjective assumptions, including expected stock-price volatility, expected exercise behavior, expected dividend yield and expected forfeitures. While the assumptions that we develop are based on our best expectations, they involve inherent uncertainties based on market conditions and employee behavior that are outside of our control. If actual results are not consistent with the assumptions used, the stock-based compensation expense reported in our financial statements could be impacted.

Contingencies and litigation

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

2007 we recorded contingency losses of \$3.9 million which are included in our Consolidated Statements of Income in Selling, general and administrative expense .

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2008, the FASB issued changes to ASC 715, *Compensation-Retirement Benefits* (formerly FASB Staff Position No. FAS 132 (R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*). ASC 715 now requires additional disclosures about plan assets for defined benefit pension and other postretirement benefit plans. The additional disclosures required by ASC 715 are effective for fiscal years ending after December 15, 2009. Upon initial application, the provisions of ASC 715 are not required for earlier periods that are presented for comparative purposes. Since ASC 715 requires enhanced disclosures without a change to existing standards relative to measurement and recognition, the adoption of ASC 715 will not have an impact on our results of operations or financial position.

As of January 1, 2009, we adopted the provisions of the FASB's changes to ASC 810 *Consolidation* (formerly, SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements: An amendment of ARB No. 51*). ASC 810 requires us to present our interest in less than 100% owned subsidiaries in which we retain control as a component of stockholders' equity in the balance sheet and recharacterize the component formerly known as minority interest as noncontrolling interest. ASC 810 also requires us to show the amount of net income attributable to both FreightCar America and the noncontrolling interest on the face of the statement of operations and in the summary of comprehensive income. The effect of adoption was an increase of \$101,000 to total stockholders' equity on our December 31, 2008 balance sheet, and a corresponding decrease to minority interests.

As of June 30, 2009, we adopted the provisions of the FASB's changes to ASC 855, *Subsequent Events* (SFAS No. 165, *Subsequent Events*). ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. Specifically, ASC 855 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of ASC 855 had no impact on our financial statements since management already followed a similar approach prior to the adoption of this standard.

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*, *intend* and similar expressions in this prospectus to identify forward-looking statements. We have based these forward-looking statements on our current views with respect to future events and financial performance. Our actual results could differ materially from those projected in the forward-looking statements.

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

- the cyclical nature of our business;

- adverse economic and market conditions;

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

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

- 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 acceptance of customer orders;

- the highly competitive nature of our industry;

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

our ability to manage our health care and pension costs;

our reliance on the sales of our aluminum-bodied coal-carrying railcars;

shortages of skilled labor;

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

the cost of complying with environmental laws and regulations;

the costs associated with being a public company;

potential significant warranty claims; and

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

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We have a \$50.0 million revolving credit facility, which provides for financing of our working capital requirements and contains a sub-facility for letters of credit and a \$5.0 million sub-facility for a swing line loan. As of December 31, 2009, there were no borrowings under the revolving credit facility and we had issued approximately \$1.2 million in letters of credit under the sub-facility for letters of credit.

We also have a \$60.0 million revolving credit facility, which provides for the financing of the production or acquisition of railcars to be leased. As of December 31, 2009, there were no borrowings under this credit facility. On an annual basis, a 1% change in the interest rate in our revolving credit facilities will increase or decrease our interest expense by \$10,000 for every \$1.0 million of outstanding borrowings.

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

To the extent that we are unsuccessful in passing on increases in the cost of aluminum and steel to our customers, a 1% increase in the cost of aluminum and steel would increase our average cost of sales by approximately \$182 per railcar, which, for the year ended December 31, 2009, would have reduced income before income taxes by approximately \$0.6 million.

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

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of FreightCar America, Inc. and subsidiaries (the Company) as of December 31, 2008 and 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of FreightCar America, Inc. and subsidiaries as of December 31, 2008 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
Pittsburgh, Pennsylvania
March 15, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of FreightCar America, Inc. and subsidiaries (the Company) as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's 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 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2009 of the Company and our report dated March 15, 2010 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP
Pittsburgh, Pennsylvania
March 15, 2010

FreightCar America, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(in thousands except share and per share data)

	December 31, 2009	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	\$ 98,015	\$ 129,192
Restricted cash	1,420	
Securities available for sale, at fair value	29,976	
Accounts receivable, net of allowance for doubtful accounts of \$240 and \$330, respectively	3,728	73,120
Inventories	40,800	31,096
Leased railcars held for sale	2,200	11,490
Property, plant and equipment held for sale	2,478	
Other current assets	9,467	6,789
Deferred income taxes, net	15,315	16,003
Total current assets	203,399	267,690
Long-term inventory	5,611	
Property, plant and equipment, net	28,170	30,582
Railcars on operating leases	58,771	34,735
Goodwill	21,521	21,521
Deferred income taxes, net	13,404	23,281
Other long-term assets	4,690	5,484
Total assets	\$ 335,566	\$ 383,293
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	\$ 16,948	\$ 47,328
Accrued payroll and employee benefits	7,958	9,530
Accrued postretirement benefits	5,329	5,364
Accrued warranty	9,146	11,476
Customer deposits	4,631	7,367
Other current liabilities	5,332	7,939
Total current liabilities	49,344	89,004
Accrued pension costs	15,675	26,763
Accrued postretirement benefits, less current portion	57,962	55,293
Other long-term liabilities	6,332	7,407
Total liabilities	129,313	178,467

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, 2009 and 2008)		
Common stock, \$0.01 par value, 50,000,000 shares authorized, 12,731,678 and 12,731,678 shares issued at December 31, 2009 and 2008, respectively	127	127
Additional paid in capital	97,979	98,253
Treasury stock, at cost, 790,865 and 821,182 shares at December 31, 2009 and 2008, respectively	(37,123)	(38,871)
Accumulated other comprehensive loss	(18,578)	(16,471)
Retained earnings	163,761	161,687
Total FreightCar America stockholders' equity	206,166	204,725
Noncontrolling interest in India JV	87	101
Total stockholders' equity	206,253	204,826
Total liabilities and stockholders' equity	\$ 335,566	\$ 383,293

See notes to the consolidated financial statements.

FreightCar America, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share data)

	Year Ended December 31,		
	2009	2008	2007
Revenues	\$ 248,462	\$ 746,390	\$ 817,025
Cost of sales	211,940	679,597	712,124
Gross profit	36,522	66,793	104,901
Selling, general and administrative expense	31,316	31,717	38,914
Plant closure charges (income)	(495)	20,037	30,836
Operating income	5,701	15,039	35,151
Interest income	124	3,827	8,349
Interest expense	523	396	420
Amortization and write-off of deferred financing costs	270	281	232
Income before income taxes	5,032	18,189	42,848
Income tax provision	248	6,769	15,389
Net income	4,784	11,420	27,459
Less: Net income attributable to noncontrolling interest in India JV	(156)		
Net income attributable to FreightCar America	\$ 4,940	\$ 11,420	\$ 27,459
Net income per common share attributable to FreightCar America basic	\$ 0.42	\$ 0.97	\$ 2.27
Net income per common share attributable to FreightCar America diluted	\$ 0.42	\$ 0.97	\$ 2.25
Weighted average common shares outstanding basic	11,861,366	11,788,400	12,115,712
Weighted average common shares outstanding diluted	11,870,350	11,833,132	12,188,901
Dividends declared per common share	\$ 0.24	\$ 0.24	\$ 0.24

See notes to the consolidated financial statements.

FreightCar America, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except for share data)

	FreightCar America Shareholders								
	Common Stock		Additional Paid In Capital	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrol- ling Interest	Total Stockholders' Equity
	Shares	Amount		Shares	Amount				
Balance, January 1, 2007	12,681,511	\$ 127	\$ 99,981			\$ (26,774)	\$ 130,535		\$ 203,869
Net income							27,459		27,459
Pension liability activity, net of tax						6,868			6,868
Postretirement liability activity, net of tax						10,049			10,049
Comprehensive income									44,376
Adjustment for adoption of changes in ASC 740							(1,936)		(1,936)
Stock repurchases				(1,048,300)	(50,000)				(50,000)
Stock options exercised			(3,322)	109,936	5,410				2,088
Restricted stock awards	52,000		(1,030)	20,940	1,030				
Forfeiture of restricted stock awards	(1,833)		37	(833)	(37)				
Stock-based compensation recognized			2,804						2,804
Excess tax benefit from stock-based compensation			800						800
Cash dividends							(2,938)		(2,938)

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Balance, December 31, 2007	12,731,678	\$ 127	\$ 99,270	(918,257)	\$ (43,597)	\$ (9,857)	\$ 153,120		\$ 199,063
Net income							11,420		11,420
Pension liability activity, net of tax						(7,503)			(7,503)
Postretirement liability activity, net of tax						889			889
Comprehensive income									4,806
Investment in noncontrolling interest by joint venture partner								101	101
Stock options exercised			(1,564)	54,968	2,609				1,045
Restricted stock awards			(2,305)	48,547	2,305				
Forfeiture of restricted stock awards			188	(6,440)	(188)				
Stock-based compensation recognized			2,852						2,852
Deficiency of tax benefit from stock-based compensation			(188)						(188)
Cash dividends							(2,853)		(2,853)
Balance, December 31, 2008	12,731,678	\$ 127	\$ 98,253	(821,182)	\$ (38,871)	\$ (16,471)	\$ 161,687	\$ 101	\$ 204,826
Net income							4,940	(156)	4,784
Pension liability activity, net of tax						785			785
Postretirement liability activity, net of tax						(2,896)			(2,896)
Unrealized holding gain on available-for						2			2

-sale securities, net of reclassification adjustment, net of tax Foreign currency translation adjustments						2			2
Comprehensive income									2,677
Investment in noncontrolling interest by joint venture partner								142	142
Restricted stock awards	(1,969)	41,589	1,969						
Forfeiture of restricted stock awards	221	(11,272)	(221)						
Stock-based compensation recognized	1,829								1,829
Deficiency of tax benefit from stock-based compensation	(355)								(355)
Cash dividends						(2,866)			(2,866)
Balance, December 31, 2009	12,731,678	\$ 127	\$ 97,979	(790,865)	\$ (37,123)	\$ (18,578)	\$ 163,761	\$ 87	\$ 206,253

See notes to the consolidated financial statements.

FreightCar America, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2009	2008	2007
Cash flows from operating activities			
Net income	\$ 4,784	\$ 11,420	\$ 27,459
Adjustments to reconcile net income to net cash flows (used in) provided by operating activities			
Plant closure		20,037	30,836
Depreciation and amortization	5,658	4,380	3,910
Other non-cash items, net	4,231	589	2,160
Deferred income taxes	11,830	(516)	(11,895)
Compensation expense under stock option and restricted share award agreements	1,829	2,852	2,804
Changes in operating assets and liabilities:			
Accounts receivable	69,392	(60,052)	(1,699)
Inventories	(18,314)	17,522	56,093
Leased railcars held for sale	(1,420)	(11,490)	
Other current assets	591	2,346	(312)
Accounts payable	(29,910)	10,148	(65,498)
Accrued payroll and employee benefits	(1,572)	(4,475)	(2,004)
Income taxes receivable/payable	(5,271)	(4,936)	(11,391)
Accrued warranty	(2,330)	925	(1,500)
Customer deposits and other current liabilities	(5,310)	(11,871)	11,448
Deferred revenue, non-current	(711)	1,800	
Accrued pension costs and accrued postretirement benefits	(10,613)	(1,744)	987
Net cash flows provided by (used in) operating activities	22,864	(23,065)	41,398
Cash flows from investing activities			
Restricted cash deposits	(5,658)		
Restricted cash withdrawals	4,238		
Purchase of securities available for sale	(49,933)		
Sale of securities available for sale	19,986		
Purchases of property, plant and equipment	(4,317)	(6,991)	(6,073)
Cost of railcars on operating leases produced or acquired	(15,603)	(35,201)	
Proceeds from sale of property, plant and equipment	3	18	11
Net cash flows used in investing activities	(51,284)	(42,174)	(6,062)
Cash flows from financing activities			
Payments on long-term debt	(28)	(65)	(60)
Deferred financing costs paid	(5)	(838)	(211)
Stock repurchases		1,045	(50,000)
			2,089

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Issuance of common stock (net of issuance costs and deferred offering costs)			
Investment in noncontrolling interest by joint venture partner	142	101	
Excess tax benefit from stock-based compensation			800
Cash dividends paid to stockholders	(2,866)	(2,854)	(2,938)
Net cash flows used in financing activities	(2,757)	(2,611)	(50,320)
Net decrease in cash and cash equivalents	(31,177)	(67,850)	(14,984)
Cash and cash equivalents at beginning of year	129,192	197,042	212,026
Cash and cash equivalents at end of year	\$ 98,015	\$ 129,192	\$ 197,042
Supplemental cash flow information			
Cash paid for:			
Interest	\$ 265	\$ 311	\$ 515
Income tax refunds received	\$ 7,750	\$ 1,737	\$ 70
Income taxes paid	\$ 175	\$ 9,740	\$ 37,147
Non-cash transactions:			
Increase (decrease) in balance of property, plant and equipment on account	\$ (470)	\$ 235	\$ (771)

See notes to the consolidated financial statements.

FreightCar America, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2009, 2008 and 2007

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

Note 1 Description of the Business

FreightCar America, Inc. (America), through its direct and indirect subsidiaries, JAC Intermedco, Inc. (Intermedco), JAC Operations, Inc. (Operations), Johnstown America Corporation (JAC), Freight Car Services, Inc. (FCS), JAIX Leasing Company (JAIX), JAC Patent Company (JAC Patent), FreightCar Roanoke, Inc. (FCR), Titagarh FreightCar Private Limited, Inc. and FreightCar Mauritius Ltd. (Mauritius) (herein collectively referred to as the Company) manufactures, rebuilds, repairs, sells and leases freight cars used for hauling coal, other bulk commodities, steel and other metals, forest products and automobiles. The Company has facilities in Danville, Illinois, Roanoke, Virginia and Johnstown, Pennsylvania. The Company s operations comprise one operating segment. The Company and its direct and indirect subsidiaries are all Delaware corporations except Titagarh FreightCar Private Limited, Inc. which is incorporated in India and FreightCar Mauritius Ltd. which is incorporated in Mauritius. The Company s direct and indirect subsidiaries are all wholly owned except Titagarh FreightCar Private Limited, Inc. for which the Company (through Mauritius) has a 51% ownership interest.

Note 2 Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of America, Intermedco, Operations, JAC, FCS, JAIX, JAC Patent and FCR. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 and workers compensation accruals, pension and postretirement benefit assumptions, stock compensation, evaluation of goodwill for impairment and the valuation reserve on the net deferred tax asset. Actual results could differ from those estimates.

Cash Equivalents

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

On a daily basis, cash in excess of current operating requirements is invested in various highly liquid investments having a typical maturity date of three months or less at the date of acquisition. These investments are carried at cost, which approximates market value, and are classified as cash equivalents.

Restricted Cash

During 2009 the Company established restricted cash balances in lieu of standby letters of credit for purchase price payment guarantees and performance guarantees. The restrictions expire upon the Company s delivery of railcars to customers.

Financial Instruments

Management estimates that all financial instruments (including cash equivalents, restricted cash, securities available for sale, accounts receivable, accounts payable and long-term debt) as of December 31, 2009 and 2008, 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.

During 2009, the Company invested in securities *available-for-sale* which, are recorded at fair value on the Company's consolidated balance sheet. The Company has not invested in securities held to maturity or trading securities.

Inventories

Inventories are stated at the lower of first-in, first-out cost or market and include material, labor and manufacturing overhead. The Company's inventory consists of raw materials, work in progress and finished goods for individual customer contracts. Management established a reserve of \$1,168 and \$150 relating to slow-moving inventory for raw materials and work in progress at December 31, 2009 and 2008, respectively.

Leased Railcars

In response to competitive market conditions and the deterioration of the financial markets, the Company began offering railcar leasing to its customers on a selective and limited basis beginning in 2008. The Company offers railcar leases to its customers generally at market rates with terms and conditions that have been negotiated with the customers. Railcar leases generally have terms of up to seven years. It is the Company's strategy to generally offer these leased assets for sale to leasing companies and financial institutions as market opportunities arise, rather than holding them to maturity.

Initially as of the date of manufacture and on a quarterly basis thereafter the Company evaluates leased railcars to determine if the leased railcars qualify as assets held for sale. If all of the held for sale criteria are met, including the determination by management that the sale of the railcars is probable, and transfer of the railcars is expected to qualify for recognition as a completed sale within one year, then the leased railcars are treated as assets held for sale and classified as current assets on the balance sheet (leased assets held for sale). In determining whether it is probable that the leased railcars will be sold within one year, management considers general market conditions for similar railcars and considers whether those market conditions are indicative of a potential sales price that will be acceptable to the Company to sell the cars within one year. Leased railcars held for sale are carried at the lower of carrying value or fair value less cost to sell and are not depreciated.

Leased railcars that do not meet all of the held for sale criteria are included in railcars on operating leases on the balance sheet and are depreciated over 40 years.

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 estimated useful lives of the assets, which are as follows:

Description of Assets

Buildings and improvements

Life

10-40 years

Machinery and equipment

3-12 years

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

Long-Lived Assets

The Company evaluates long-lived assets under the provisions of ASC 360, *Property, Plant and Equipment*, (formerly Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*), which addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. For assets to be held or used, 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. An impairment loss for an asset group reduces only the carrying amounts of a long-lived asset or assets of the group being evaluated. 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. The future cash flow estimates used by the Company exclude interest charges.

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 value of an asset or the extent or manner in which an asset is used. The Company routinely evaluates its manufacturing footprint to assess its manufacturing capacity and cost of production in an effort to optimize production at its low-cost manufacturing facilities.

In December 2007, the Company announced the planned closure of its manufacturing facility located in Johnstown, Pennsylvania, and as a result, it tested long-lived assets at the Johnstown facility for recoverability using estimated fair values. Fair values were estimated using the cost approach based on the assumption that the reproduction or replacement cost normally sets the upper limit of value and the sales comparison approach which relies on the assumption that value can be measured by the selling prices of similar assets. Impairment charges of \$950 were recorded for land, building and improvements during 2007.

In response to reduced industry demand for railcars the Company's manufacturing facility in Roanoke, Virginia ceased production of new railcars in July 2009. As a result, the Company tested long-lived assets at its Roanoke and Danville facilities for recoverability as of December 31, 2009 using estimated future cashflows derived from the Company's strategic plan. In connection with the analysis, the Company had to make estimates regarding future sales volumes, gross margins and selling, general and administrative expenses, as well as the split of future production levels between the Company's two plants. The analysis indicates that there was no impairment of the long-lived assets for the Roanoke, Virginia and Danville, Illinois facilities as of December 31, 2009. Because of the inherent uncertainties of its projections, the Company also performed sensitivity analysis around these estimates and determined that an impairment would not occur under a range of operating results, including shifts in the allocation of production, future railcar volumes and future gross margins.

The Company recorded impairment charges of \$800 for leased railcars held for sale during 2009 and \$597 during 2008 (see note 6).

Research and Development

Costs associated with research and development are expensed as incurred and totaled approximately \$842, \$1,959 and \$1,966 for the years ended December 31, 2009, 2008 and 2007, respectively. Such costs are reflected within selling, general and administrative expenses in the consolidated statements of income.

Goodwill and Intangible Assets

The Company performs the goodwill impairment test required by ASC 350 *Intangibles – Goodwill and Other*, (formerly, SFAS No. 142, *Goodwill and Other Intangible Assets*), as of January 1 of each year. Management estimates the valuation of the company (which consists of one reporting unit) using a combination of methods, as are considered appropriate in the circumstances, including discounted future cash flows, the prices of comparable businesses, recent transactions involving businesses similar to our company, and the company's market capitalization. There was no adjustment required based on the annual impairment tests for 2009, 2008 and 2007.

The Company tests goodwill for impairment between annual tests if an event occurs or circumstances change that may reduce the fair value of the Company below its carrying amount. These events or circumstances include an impairment recorded under ASC 360, *Property, Plant and Equipment*. Accordingly, the Company tested goodwill for impairment as of December 31, 2007 in connection with its testing of long-lived assets at the Johnstown facility for recoverability, in addition to performing its annual test as of January 1, 2007. The Company also tested goodwill for impairment as of December 31, 2009 in connection with the economic downturn for new coal-carrying railcars and our testing of long-lived assets at its Roanoke, Virginia and Danville, Illinois facilities for recoverability. There was no adjustment required based on these interim impairments test as of December 31, 2007 or 2009.

Patents are amortized on a straight-line method over their remaining legal life from the date of acquisition.

Income Taxes

For Federal income tax purposes, the Company files a consolidated federal tax return. JAC files separately in Pennsylvania and FCR files separately in Virginia. The Company files a combined return in Illinois. The Company's operations are not significant in any states other than Illinois, Pennsylvania and Virginia. In conformity with ASC 740, *Income Taxes*, (formerly, SFAS No. 109, *Accounting for 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.

Management evaluates 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 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 historical losses and any projected losses. 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 as necessary.

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 their examination even 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.

Product Warranties

The Company establishes a warranty reserve for new railcar sales at the time of sale, estimates the amount of the warranty accrual for new railcars sold based on the history of warranty claims for the type of railcar, and adjusts the reserve for significant known claims in excess of established reserves.

Revenue Recognition

Revenues on new and rebuilt railcars are recognized when individual cars are completed, the railcars are accepted by the customer following inspection, the risk for any damage or other loss with respect to the railcars passes to the customer and title to the railcars transfers to the customer. There are no returns or allowances recorded against sales.

Pursuant to ASC 845, *Nonmonetary Transactions* (formerly Accounting Principles Board (APB) Opinion No. 29, *Accounting for Non-Monetary Transactions*, and Emerging Issues Task Force (EITF) Issue No. 01-2, *Interpretations of APB No. 29*, revenue is recognized for the entire transaction on transactions involving used railcar trades when the cash consideration is in excess of 25% of the total transaction value and on a pro-rata portion of the total transaction value when the cash consideration is less than 25% of the total transaction value. Used railcars received are valued at their estimated fair market value at the date of receipt less a normal profit margin. Revenue from leasing is recognized ratably during the lease term.

The Company recognizes service-related revenue from rebuilding and repairs when all significant rebuilding or repair services have been completed and accepted by the customer.

The Company recognizes operating lease revenue on leased railcars on a straight-line basis over the life of the lease. The Company recognizes revenue from the sale of railcars under operating leases on a gross basis in manufacturing sales and cost of sales if the railcars are sold within 12 months as the manufacture of the railcars and the sale is within the 12-month period specified by accounting guidance and represents the completion of the sales process. The Company recognizes revenue from the sale of railcars under operating leases on a net basis in leasing revenue as a gain (loss) on sale (i.e. net) of leased railcars if the railcars are held in excess of 12 months as the sale represents the disposal of a long-term asset.

The Company's sales to customers outside the United States were \$43,104, \$84,784 and \$85,980 in 2009, 2008 and 2007, respectively.

The Company accrues for loss contracts when it has a contractual commitment to manufacture railcars at an estimated cost in excess of the contractual selling price.

The Company records amounts billed to customers for shipping and handling as part of sales in accordance with ASC 605-45, *Revenue Recognition - Principal Agent Considerations* (formerly EITF 00-10, *Accounting for Shipping and Handling Fees and Costs*), and records related costs in cost of sales.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income (loss) consists of net income (loss), unrecognized pension and postretirement benefit cost, foreign currency translation adjustments and unrealized holding gains on securities available-for-sale. All components of comprehensive income (loss) are shown net of tax.

Earnings Per Share

Basic earnings per share are calculated as net income attributable to common stockholders divided by the weighted-average number of common shares outstanding during the respective period. The Company includes contingently issuable shares in its calculation of the weighted average number of common shares outstanding. Contingently issuable shares are shares subject to options which require little or no cash consideration. Diluted earnings per share are calculated by dividing net income attributable to common stockholders by the weighted-average number of shares outstanding plus dilutive potential common shares outstanding during the year.

Stock-Based Compensation

The Company applies the provisions of ASC 718, *Compensation - Stock Compensation* (formerly SFAS No. 123 (R), *Share-Based Payment*), for its stock-based compensation plan based on the modified prospective basis. As a result, the Company recognizes stock-based compensation expense for stock awards based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award, which is usually the vesting period. See Note 14.

Recent Accounting Pronouncements

In December 2008, the FASB issued changes to ASC 715, *Compensation-Retirement Benefits* (formerly FASB Staff Position No. FAS 132 (R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*). ASC 715 now requires additional disclosures about plan assets for defined benefit pension and other postretirement benefit plans. The additional disclosures required by ASC 715 are effective for fiscal years ending after December 15, 2009. Upon initial application, the provisions of ASC 715 are not required for earlier periods that are presented for comparative purposes. Since ASC 715 requires enhanced disclosures without a change to existing standards relative to measurement and recognition, the adoption of ASC 715 did not have an impact on the Company's results of operations or financial position.

As of January 1, 2009, the Company adopted the provisions of the FASB's changes to ASC 810 *Consolidation* (formerly, SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements: An amendment of ARB No. 51*). ASC 810 requires the Company to present its interest in less than 100% owned subsidiaries in which it retains control as a component of stockholders' equity in the balance sheet and recharacterize the component formerly known as minority interest as noncontrolling interest. ASC 810 also requires the Company to show the amount of net income attributable to both the Company and the noncontrolling interest on the face of the statement of operations and in the summary of comprehensive income. The effect of adoption was an increase of \$101 to total stockholders' equity on the Company's December 31, 2008 balance sheet, and a corresponding decrease to minority interests.

As of June 30, 2009, the Company adopted the provisions of the FASB's changes to ASC 855, *Subsequent Events* (SFAS No. 165, *Subsequent Events*). ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. Specifically, ASC 855 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of ASC 855 had no impact on the Company's financial statements since management already followed a similar approach prior to the adoption of this standard.

Note 3 Plant Closure Charges

In December 2007, the Company announced that it planned to close its manufacturing facility located in Johnstown, Pennsylvania. This action was taken to further the Company's strategy of optimizing production at its low-cost facilities and continuing its focus on cost control. The Company had entered into decisional bargaining with the USWA, but did not reach an agreement with the USWA that would have allowed the Company to continue to operate the facility in a cost-effective way. In December 2007, the Company recorded curtailment and impairment charges of \$30,836 related to these actions.

On May 6, 2008, an arbitrator issued a ruling in a grievance proceeding brought against the Company by the USWA. The grievance proceeding, which was first filed by the USWA on April 1, 2007, surrounded the interpretation of provisions in the collective bargaining agreement (CBA) covering employees at the Johnstown facility. The dispute involved the interpretation of language regarding the classification of employees' years of service and the Company's obligations to employees based on their years of service. The arbitrator's ruling held the Company responsible for providing back pay and appropriate benefits to affected employees, a group that included over one-half of the workers who were employed at the Johnstown facility at the time the grievance was filed. As a result of the ruling, the Company recorded an additional amount for the Company's estimate of the probable cost of the back pay and benefits under the ruling during the three months ended March 31, 2008. On June 4, 2008 the Company filed a lawsuit against the USWA asking the court to vacate the arbitrator's ruling.

On June 24, 2008, the Company announced a tentative global settlement that would resolve all legal disputes relating to the Johnstown facility and its workforce, including the Sowers/Hayden class action litigation, the above-mentioned contested arbitration ruling and other pending grievance proceedings. The settlement, with the USWA and the plaintiffs in the Sowers/Hayden lawsuit, was ratified by the Johnstown USWA membership on June 26, 2008 and approved by the court on November 19, 2008. The time for an appeal of the court's order has now expired

and the settlement is final. As a consequence, all existing legal disputes relating to the Company's Johnstown, Pennsylvania manufacturing facility and its workforce, including the Sowers/Hayden class action litigation and contested grievance ruling, are now resolved and closed. Under the terms of the settlement, the collective bargaining agreement between the Company and the USWA was terminated effective May 15, 2008 and the Johnstown facility was closed. The settlement provided special pension benefits to certain workers at the Johnstown facility and deferred vested benefits to other workers, as well as health care benefits, severance pay and/or settlement bonus payments to workers depending on their years of service at the facility. During 2008, the Company recorded plant closure charges of \$20,037 related to these actions. Plant closure income for the year ended December 31, 2009 represents insurance recoveries and adjustments related to employment termination benefits, bringing total plant closure charges through December 31, 2009 to \$50,378.

The components of the plant closure charges incurred for the years ended December 31, 2009, 2008 and 2007 are as follows

	2009	2008	2007
Pension plan curtailment loss and special termination benefit costs	\$	\$10,112	\$14,478
Postretirement plan curtailment loss and contractual benefit charges		8,866	13,204
Employee termination benefits	(166)	11	2,204
Insurance recoveries and other related costs	(329)	1,048	
Impairment charge for plant building and land			950
Total plant closure (income) charges	\$(495)	\$20,037	\$30,836

Note 4 Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures* (formerly SFAS No. 157), defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Under ASC 820, fair value is an exit price and that exit price should reflect all the assumptions that market participants would use in pricing the asset or liability.

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 included within Level 1 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.

The following table sets forth by level within the ASC 820 fair value hierarchy the Company's financial assets and liabilities that were recorded at fair value on a recurring basis.

Recurring Fair Value Measurements	As of December 31, 2009			Total
	Level 1	Level 2	Level 3	
ASSETS:				
Securities available for sale – fixed income government obligations	\$29,976	\$	\$	\$29,976

During the third quarter of 2009, the Company purchased a fixed income government obligation with a par value of \$20,000 and a maturity date of March 15, 2010. The security was classified as available-for-sale at September 30, 2009 and recorded at fair value on the Company's consolidated balance sheet. The Company subsequently sold the security during the fourth quarter of 2009. During the fourth quarter of 2009 the Company purchased two fixed income government obligations with par values of \$20,000 and \$10,000, respectively, and maturity dates of April 10, 2010 and August 10, 2010, respectively. The securities were classified as available-for-sale at December 31, 2009 and recorded at fair value on the Company's consolidated balance sheet.

Note 5 Inventories

Inventories consist of the following:

	December 31,	
	2009	2008
Work in progress	\$ 30,803	\$ 23,618
Finished new railcars		5,513
Used railcars acquired upon trade-in	9,997	1,965
Total inventories	\$ 40,800	\$ 31,096

The above table excludes long-term inventory of \$5,611 and \$0 as of December 31, 2009 and 2008, respectively.

Note 6 Leased Railcars

Leased railcars at December 31, 2009 included leased railcars classified as held for sale of \$2,200 and railcars on operating leases classified as long-term assets of \$58,771. Due to a decline in asset values in the current market, an impairment write-down of \$800 related to railcars on operating leases was recorded during the year ended December 31, 2009. Leased railcars at December 31, 2008 included leased railcars classified as held for sale of \$11,490 and railcars on operating leases classified as long-term assets of \$34,735. Due to a decline in asset values, an impairment write-down of \$597 related to railcars on operating leases was recorded during the year ended December 31, 2008. Depreciation expense on leased railcars was \$1,291, \$369 and \$0, for the years ended December 31, 2009, 2008 and 2007, respectively.

Leased railcars at December 31, 2009 are subject to lease agreements with external customers with terms of up to four years.

Future minimum rental revenues on leases at December 31, 2009 are as follows:

Year ending December 31, 2010	\$ 4,572
Year ending December 31, 2011	3,066
Year ending December 31, 2012	615
Year ending December 31, 2013	104
Thereafter	\$ 8,357

Note 7 Property, Plant and Equipment

Property, plant and equipment consists of the following:

	December 31,	
	2009	2008
Land	\$ 151	\$ 701
Buildings and improvements	19,056	20,918
Machinery and equipment	31,175	42,352
Cost of buildings, improvements, machinery and equipment	50,231	63,270
Less: Accumulated depreciation and amortization	(22,599)	(38,996)
Buildings, improvements, machinery and equipment net of accumulated depreciation and amortization	27,632	24,274
Construction in process	387	5,607
Total property, plant and equipment	\$ 28,170	\$ 30,582

Depreciation expense for the years ended December 31, 2009, 2008 and 2007, was \$3,777, \$3,420 and \$3,320, respectively.

The Company monitors its long-lived assets for impairment indicators on an ongoing basis in accordance with the provisions of ASC 360, *Property, Plant and Equipment* (formerly SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*). If impairment indicators exist, the Company performs the required analysis and records impairment charges in accordance with ASC 360. In conducting its analysis, the Company compares undiscounted cash flows expected to be generated from the long-lived assets to the related net book values. If assets are found to be impaired, the amount of the impairment loss is measured by comparing the net book values and the fair values of the long-lived assets. In December 2007, the Company announced the planned closure of its manufacturing facility located in Johnstown, Pennsylvania and, as a result it tested long-lived assets at the Johnstown facility for recoverability using estimated fair values. Fair values were estimated using the cost approach based on the assumption that the reproduction or replacement cost normally sets the upper limit of value and the sales comparison approach, which relies on the assumption that value can be measured by the selling prices of similar assets. Impairment charges of \$21 were recorded for land and \$929 for building and improvements during 2007 and are reported in *Plant closure charges* in the consolidated statements of income. In response to reduced industry demand for railcars, the Company's manufacturing facility in Roanoke, Virginia ceased production of new railcars in July 2009 and as a result the Company tested long-lived assets at its Roanoke and Danville facilities for recoverability using estimated future cashflows derived from the Company's strategic plan. There was no impairment identified for the Roanoke, Virginia and Danville, Illinois facilities as of December 31, 2009.

During the second quarter of 2009, land, building and equipment at the Company's Johnstown manufacturing facility, were classified as available for sale. The facility had a net book value of \$2,478 at December 31, 2009, which included land, building and equipment in the amounts of \$550, \$1,468 (cost basis of \$1,980) and \$460 (cost basis of \$20,050), respectively. During the fourth quarter of 2009 the Company entered into an agreement for the sale of the facility. The Company received \$500 as a down payment on the sales price of \$2,900 during December of 2009 and is scheduled to receive the remaining \$2,400 in monthly installments of \$200 beginning in January 2010. The Company accounted for the transaction under the deposit method as prescribed by ASC 360-20-40 as the buyers initial investment is less than 20% of sales price and other recognition criteria were not satisfied. As a result, the Company did not recognize any profit during 2009 or record the notes receivable and the property remains recorded within the Company's financial statements as of December 31, 2009. The \$500 down payment is included in Customer deposits on the Company's consolidated balance sheet as of December 31, 2009. The estimated gain from the sale of the facility is \$422 and is expected to be recognized during 2010.

Note 8 Intangible Assets

Intangible assets consist of the following:

	December 31,	
	2009	2008
Patents	\$ 13,097	\$ 13,097
Accumulated amortization	(9,195)	(8,604)
Patents, net of accumulated amortization	\$ 3,902	\$ 4,493

Patents are being amortized on a straight-line method over their remaining legal life from the date of acquisition. The weighted average remaining life of the Company's patents is 7 years. Amortization expense related to patents, which is included in cost of sales, was \$591 for each of the years ended December 31, 2009, 2008 and 2007. The Company estimates amortization expense for the year ending December 31, 2010 will be approximately \$590, for each of the two years ending December 31, 2012 will be \$586, for the year ending December 31, 2013 will be \$582 and for the year ending December 31, 2014 will be \$581.

Note 9 Product Warranties

Warranty terms are based on the negotiated railcar sales contracts and typically are for periods of one to five years. The changes in the warranty reserve for the years ended December 31, 2009, 2008 and 2007, are as follows:

	December 31,		
	2009	2008	2007
Balance at the beginning of the year	\$ 11,476	\$ 10,551	\$ 12,051
Warranties issued during the year	376	4,621	3,353
Reductions for payments, costs of repairs and other	(2,706)	(3,696)	(4,853)
Balance at the end of the year	\$ 9,146	\$ 11,476	\$ 10,551

Note 10 Revolving Credit Facilities

On August 24, 2007, the Company entered into the Second Amended and Restated Credit Agreement with the lenders party thereto (collectively, the Lenders) and LaSalle Bank National Association (LaSalle) as administrative agent (as amended by the First Amendment to Second Amended and Restated Credit Agreement dated as of September 30, 2008 and the Second Amendment to Second Amended and Restated Credit Agreement dated as of March 11, 2009, the Credit Agreement). The proceeds of the revolving credit facility under the Credit Agreement can be used to finance the working capital requirements of the Company through direct borrowings and the issuance of stand-by letters of credit. The Credit Agreement consists of a total facility of \$50,000 senior secured revolving credit facility, including: (i) a sub-facility for letters of credit in an amount not to exceed \$50,000; and (ii) a sub-facility for a swing

line loan in an amount not to exceed \$5,000. The amount available under the revolving credit facility is based on the lesser of (i) \$50,000 or (ii) the borrowing base representing a portion of working capital calculated as a percentage of eligible accounts receivable plus percentages of eligible finished and semi-

finished inventory, less a \$20,000 borrowing base reserve. Since the Company's accounts receivable and inventory balances fluctuate considerably based on the cyclical nature of the business and the timing of orders, the amount available for borrowing also fluctuates considerably. Under the borrowing base calculation, the amount available for borrowing was \$3,181 and \$38,510 as of December 31, 2009 and December 31, 2008, respectively.

The Credit Agreement has a term ending on May 31, 2012 and bears interest at a rate of LIBOR plus an applicable margin of between 1.50% and 2.25% depending on Revolving Loan Availability (as defined in the Credit Agreement). The Company is required to pay a commitment fee of between 0.175% and 0.250% based on Revolving Loan Availability. Borrowings under the Credit Agreement are collateralized by substantially all of the assets of the Company and guaranteed by an unsecured guarantee made by JAIX in favor of LaSalle for the benefit of the Lenders. The Credit Agreement has both affirmative and negative covenants, including a minimum fixed charge coverage ratio and limitations on debt, liens, dividends, investments, acquisitions and capital expenditures. The Credit Agreement also provides for customary events of default.

As of December 31, 2009 and 2008, the Company had no borrowings under the Credit Agreement. The Company had \$1,154 and \$11,490 in outstanding letters of credit under the letter of credit sub-facility as of December 31, 2009 and December 31, 2008, respectively. Under the revolving credit facility, the Company's subsidiaries are permitted to pay dividends and transfer funds to the Company without restriction.

JAIX Revolving Credit Facility

On September 30, 2008, JAIX entered into a Credit Agreement (as amended by the First Amendment to Credit Agreement dated as of March 11, 2009, the JAIX Credit Agreement) with the lenders party thereto. The JAIX Credit Agreement consists of a \$60,000 senior secured revolving credit facility. The JAIX Credit Agreement has a term ending on March 31, 2012 and bears interest at the Eurodollar Loan Rate (as defined in the JAIX Credit Agreement) plus 2.00% for the first two years of the JAIX Credit Agreement (the Revolving Period) and plus 2.50% for the remainder of the term until the termination date. JAIX is required to pay an annual commitment fee of 0.30% during the Revolving Period. Borrowings under the JAIX Credit Agreement are collateralized by substantially all of the assets of JAIX. Additionally, America guaranteed the JAIX Credit Agreement.

Availability under the JAIX Credit Agreement is based on a percentage of the Eligible Railcar Leases (as defined in the agreement) held under the JAIX Credit Agreement. For the first two years the facility requires interest only payments, thereafter the amount drawn on each group of Eligible Railcars under lease is required to be repaid in equal installments at the 6, 12 and 18 month anniversaries of such leases. The JAIX Credit Agreement has both affirmative and negative covenants, including, without limitation, a minimum fixed charge coverage ratio, a minimum tangible net worth, a requirement to deposit restricted cash and limitations on debt, liens, dividends, investments, acquisitions and capital expenditures. The JAIX Credit Agreement also provides for customary events of default. As of December 31, 2009 and 2008, the Company had no borrowings under the JAIX Credit Agreement.

As of December 31, 2009, the Company was in compliance with all covenant requirements under its revolving credit facilities.

Note 11 Accumulated Other Comprehensive Income (Loss)

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

	Pre-Tax	Tax	After-Tax
December 31, 2006	\$ (33,566)	\$ 12,348	\$ (21,218)
Year ended December 31, 2007			
Pension liability activity	\$ 10,905	\$ (4,037)	\$ 6,868
Postretirement liability activity	15,954	(5,905)	10,049
	\$ 26,859	(9,942)	\$ 16,917
Year ended December 31, 2008			
Pension liability activity	\$ (12,141)	\$ 4,638	\$ (7,503)
Postretirement liability activity	1,299	(410)	889
	\$ (10,842)	\$ 4,228	\$ (6,614)
Year ended December 31, 2009			
Pension liability activity	\$ 1,266	\$ (481)	\$ 785
Postretirement liability activity	(4,643)	1,747	(2,896)
Change in foreign currency translation adjustments	2		2
Change in unrealized holding gains on securities available-for-sale, net of reclassification adjustment	3	(1)	2
	\$ (3,372)	\$ 1,265	\$ (2,107)

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

	December 31,	
	2009	2008
Unrecognized pension cost, net of tax of \$6,681 and \$7,162	\$ (11,055)	\$ (11,840)
Unrecognized postretirement cost, net of tax of \$4,549 and \$2,801	(7,527)	(4,631)
Foreign currency translation adjustments, net of tax of \$0	2	
Unrealized holding gains on securities available-for-sale, net of reclassification adjustment of \$9, net of tax of \$1	2	
	\$ (18,578)	\$ (16,471)

Note 12 Employee Benefit Plans

The Company has qualified, defined benefit pension plans covering substantially all of the employees of JAC, Operations and JAIX. The Company uses a measurement date of December 31 for all of its employee benefit plans. Generally, contributions to the plans are not less than the minimum amounts required under the Employee Retirement Income Security Act and not more than the maximum amount that can be deducted for federal income tax purposes. The plans' assets are held by independent trustees and consist primarily of equity and fixed income securities.

Pension benefits that accrued as a result of employee service before June 4, 1999 remained the responsibility of TTII, the former owner of JAC, FCS, JAIX and JAC Patent (for employee service during the period October 28, 1991 through June 3, 1999), or Bethlehem Steel Corporation (Bethlehem) (for employee service prior to October 28, 1991 through June 3, 1999), or Bethlehem Steel Corporation (Bethlehem) (for employee service prior to October

28, 1991), the owner of JAC prior to TTII. The Company initiated new pension plans for such employees for service subsequent to June 3, 1999, which essentially provide benefits similar to the former plans.

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

Costs of benefits relating to current service for those employees to whom the Company is responsible to provide benefits are expensed currently. The changes in benefit obligation, change in plan assets and funded status as of December 31, 2009 and 2008, are as follows:

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
Change in benefit obligation				
Benefit obligation Beginning of year	\$ 59,688	\$ 55,393	\$ 60,657	\$ 53,078
Service cost	408	1,128	58	69
Interest cost	3,843	3,370	3,949	3,231
Plan amendment			364	
Actuarial loss (gain)	4,223	(6,884)	4,520	(913)
Special termination benefit loss		10,111		8,866
Benefits paid	(6,700)	(3,430)	(6,257)	(3,674)
Benefit obligation End of year	61,462	59,688	63,291	60,657
Change in plan assets				
Plan assets Beginning of year	32,999	44,973		
Actual return on plan assets	7,051	(15,294)		
Employer contributions	12,566	6,750	6,257	3,674
Benefits paid	(6,700)	(3,430)	(6,257)	(3,674)
Plan assets at fair value End of year	45,916	32,999		
Funded status of plans End of year	\$ (15,546)	\$ (26,689)	\$ (63,291)	\$ (60,657)

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
Amounts recognized in the Consolidated Balance Sheets				
Noncurrent assets	\$ 129	\$ 75	\$	\$
Current liabilities			(5,329)	(5,364)
Noncurrent liabilities	(15,675)	(26,764)	(57,962)	(55,293)
Net amount recognized at December 31	\$ (15,546)	\$ (26,689)	\$ (63,291)	\$ (60,657)

The accumulated benefit obligation for the Company's defined benefit pension plans was \$61,462 and \$57,361 at December 31, 2009 and 2008, respectively.

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Amounts recognized in accumulated other comprehensive loss but not yet recognized in earnings at December 31, 2009 and 2008, are as follows:

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
Net actuarial loss	\$ 17,736	\$ 18,113	\$ 10,588	\$ 6,067
Prior service cost		889	1,488	1,365
	\$ 17,736	\$ 19,002	\$ 12,076	\$ 7,432

The estimated net loss and prior service cost for the defined benefit pension plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost in 2010 are \$401 and \$0, respectively. The estimated net loss and prior service cost for the postretirement benefit plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost in 2010 are \$185 and \$241, respectively. The Company's decision in December 2007 to close its manufacturing facility in Johnstown, Pennsylvania significantly affected current and future employment levels and resulted in a decrease in the estimated remaining future service years for the employees covered by the plans. The decrease in the estimated remaining future service years resulted in plan curtailments for the defined benefit pension plans and the postretirement benefit plan and caused the Company to immediately recognize a substantial portion of the net actuarial loss and prior service cost relating to these plans that had not yet been recognized in earnings. Curtailment charges of \$5,526 and \$10,175 were recognized for the Company's pension and postretirement plans, respectively during 2007. In addition, the plant closure decision triggered contractual special pension benefits of \$10,111 and \$8,952 that were recognized for the Company's pension plan during 2008 and 2007, respectively, and contractual termination benefits of \$8,866 and \$3,028 that were recognized for the Company's postretirement plan during 2008 and 2007, respectively. These pension and postretirement benefit costs are included in "Plant closure charges" on the consolidated statements of income. As of December 31, 2009, the Company suspended its pension plan for salaried employees who are not part of a collective bargaining unit. As a result of this decision, the Company immediately recognized a substantial portion of the net actuarial loss and prior service cost relating to this plan that had not yet been recognized in earnings. Additional pension costs of \$786 were recognized during 2009 related to this action. Components of net periodic benefit cost for the years ended December 31, 2009, 2008 and 2007, are as follows:

	Pension Benefits			Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
Components of net periodic benefit cost						
Service cost	\$ 408	\$ 1,128	\$ 2,229	\$ 58	\$ 69	\$ 683
Interest cost	3,843	3,370	2,771	3,949	3,231	2,946
Expected return on plan assets	(2,943)	(3,758)	(3,508)			
Amortization of unrecognized prior service cost	103		712	241	224	1,725
Amortization of unrecognized net loss	492	27	441		162	374
Curtailment recognition	786		5,526			10,176
Contractual benefit charge		10,112	8,952		8,866	3,028
Total net periodic benefit cost	\$ 2,689	\$ 10,879	\$ 17,123	\$ 4,248	\$ 12,552	\$ 18,932

The increase (decrease) in accumulated other comprehensive loss (pre-tax) for the years ended December 31, 2009 and 2008, are as follows:

	2009		2008	
	Pension Benefits	Postretirement Benefits	Pension Benefits	Postretirement Benefits
Net actuarial gain	\$ 115	\$ 4,520	\$ 12,168	\$ (913)
Amortization of net actuarial gain	(492)		(27)	(162)
Amortization of prior service cost	(103)	(241)		(224)
Prior service cost recognized through curtailment	(786)			
Prior service cost arising during measurement period		364		

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Total recognized in accumulated other comprehensive loss (gain)	\$ (1,266)	\$	4,643	\$ 12,141	\$	(1,299)
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The following benefit payments, which reflect expected future service, as appropriate, were expected to be paid as of December 31, 2009:

	Pension Benefits	Postretirement Benefits
2010	\$5,756	\$ 5,400
2011	5,604	5,300
2012	5,462	5,300
2013	5,140	5,200
2014	4,768	5,100

The Company expects to make no contributions to its pension plans in 2010.

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

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
Discount rate	5.76%	6.85%	5.76%	6.85%
Rate of compensation increase	N/A	3.00%		

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. Certain corporate bonds that are deemed not to be representative of equivalent yields on high-quality fixed income investments (outliers) are also excluded.

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

	Pension Benefits			Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
Discount rate	6.85%	6.40%	5.90%	6.85%	6.40%	5.90%
Expected return on plan assets	8.25%	8.25%	8.25%			
Rate of compensation increase	3.00%	3.00%-4.00%	3.00%-4.00%			

Assumed health care cost trend rates at December 31 are set forth below:

	2009	2008	2007
Health care cost trend rate assigned for next year	9.00%	9.00%	9.00%
Rate to which cost trend is assumed to decline	5.50%	5.50%	5.50%
Year the rate reaches the ultimate trend rate	2016	2015	2014

As benefits under these 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 plans' investment policy, weighted average asset allocations at December 31, 2009 and 2008, and target allocations for 2010, by asset category, are as follows:

Asset Category	Plan Assets at December 31,		Target Allocation
	2009	2008	2010
Equity securities	48%	56%	60%
Debt securities	46%	40%	40%
Real estate	6%	4%	N/A
Other	0%	0%	N/A
	100%	100%	100%

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 the Employee Retirement Income Security Act of 1974 (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. During 2008, and in particular the fourth quarter of the year, equity market returns declined rapidly in general and in relation to debt market returns, causing a significant deviation in the actual allocation of assets from target. The Company is working with its advisors to address appropriate actions for the rebalancing of the investment portfolio.

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.

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 4 for a description of the fair value hierarchy) as of December 31, 2009:

Pension Plan Assets	As of December 31, 2009			Total
	Level 1	Level 2	Level 3	
Equity securities	\$ 21,887	\$	\$	\$ 21,887
Debt securities	21,437	\$	\$	21,437
Real estate	2,563	\$	\$	2,563
Other (cash and cash equivalents)	29	\$	\$	29
Total	\$ 45,916	\$	\$	\$ 45,916

The Company also maintains qualified defined contribution plans, which provide benefits to their employees based on employee contributions, years of service, employee earnings or certain subsidiary earnings, with discretionary contributions allowed. Expenses related to these plans were \$1,007, \$1,628 and \$1,421 for the years ended December 31, 2009, 2008 and 2007, respectively.

Note 13 Income Taxes

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

	Year Ended December 31,		
	2009	2008	2007
Current taxes			
Federal	\$ (10,729)	\$ 3,234	\$ 22,244
State	(769)	2,046	4,848
	(11,498)	5,280	27,092
Deferred taxes			
Federal	12,358	1,823	(10,363)
State	(572)	(992)	(1,533)
	11,786	831	(11,896)
Interest and penalties expense, gross of related tax effects	(40)	658	193
Total	\$ 248	\$ 6,769	\$ 15,389

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,		
	2009	2008	2007
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	(13.9)%	(2.8)%	1.9%
Valuation allowance	3.2%	7.7%	2.8%
Goodwill amortization for tax reporting purposes	(12.1)%	(3.3)%	(1.4)%
Manufacturing deduction		(0.4)%	(3.4)%
Nondeductible expenses	0.7%	0.3%	
Rate change on deferred taxes	(8.7)%		
Other	0.7%	0.7%	1.0%
Effective income tax rate	4.9%	37.2%	35.9%

Deferred income taxes result from temporary differences in the financial and tax basis of assets and liabilities. Components of deferred tax assets (liabilities) consisted of the following:

Description	December 31, 2009		December 31, 2008	
	Assets	Liabilities	Assets	Liabilities
Accrued post-retirement and pension benefits-long-term	\$ 32,868	\$	\$ 33,909	\$
Intangible assets		(212)	533	
Accrued workers compensation costs	747		1,137	
Accrued warranty costs	3,941		5,302	
Accrued bonuses	103		130	
Accrued vacation	491		811	
Accrued contingencies	4,289		4,580	
Accrued severance	1,206		999	
Inventory valuation	2,847		1,667	
Property, plant and equipment and railcars on operating leases		(16,240)		(8,249)
State net operating loss carryforwards	4,545		2,595	
Stock compensation expense	1,014		961	
Other	319		1,944	
	52,370	(16,452)	54,568	(8,249)
Valuation allowance	(7,195)		(7,037)	
Deferred tax assets (liabilities)	\$ 45,175	\$ (16,452)	\$ 47,531	\$ (8,249)
Increase (decrease) in valuation allowance	\$ 158		\$ 3,452	

In the consolidated balance sheets, these deferred tax assets and liabilities are classified as current or noncurrent, based on the classification of the related asset or liability for financial reporting. A deferred tax asset or liability that is not related to an asset or liability for financial reporting, including deferred tax assets related to carryforwards, is classified according to the expected reversal date of the temporary differences as of the end of the year. 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.

In evaluating whether it is more likely than not that the net deferred tax assets will be realized, we considered both near-term and longer-term projections of operating results. The railcar industry is in the midst of an extended cyclical downturn. However, the railcar market has an established history of cyclicity based on significant swings in customer demand. Industry projections forecast this trend to continue, with a recovery in demand in 2011-2012 and continuing for several years thereafter. Although realization of our net deferred assets is not certain, management has concluded that, based on the expected improvement in railcar demand and, therefore, operating results, we will more likely than not realize the full benefit of the deferred tax assets except for our deferred tax assets in Pennsylvania. A valuation allowance of \$7,195 and \$7,037 has been recorded at December 31, 2009 and 2008, respectively. The Company had Pennsylvania net operating loss carryforwards of \$42,076, which will expire between 2021 and 2028. The Company also has provided a valuation allowance against net operating losses associated with its ventures in India and Mauritius, the foreign jurisdictions in which it operates. These are early stage operations for which it cannot yet be demonstrated that it is more likely than not the deferred tax assets will be realized. The losses associated with these jurisdictions will begin to expire in 2017 and 2014 respectively.

A reconciliation of the beginning and ending gross amounts of unrecognized tax benefits for the years ended December 31, 2009 and 2008, were as follows:

	2009	2008	2007
Beginning of year balance	\$ 4,352	\$ 2,821	\$ 2,638
Increases in prior period tax positions	17	163	
Decreases in prior period tax positions	(361)		(80)
Increases in current period tax positions		1,368	263
Settlements			
End of year balance	\$ 4,008	\$ 4,352	\$ 2,821

The total estimated unrecognized tax benefit that, if recognized, would affect the Company's effective tax rate was approximately \$2,643 and \$2,736 as of December 31, 2009 and 2008 respectively. It is expected that the amount of unrecognized tax benefits will change in the next twelve months. 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. A change in the period of deductibility would not affect the effective tax rate but would impact the timing of cash payments to the taxing authorities and the calculation of interest and penalties. The Company's income tax provision included \$23 of benefit (net of a federal tax expense of \$17) and \$411 of expense (net of a federal tax benefit of \$247) related to interest and penalties for the years ended December 31, 2009 and 2008, respectively. Such expenses brought the balance of accrued interest and penalties to \$1,476 and \$1,526 at December 31, 2009 and 2008, respectively.

The Company and/or one of its subsidiaries files income tax returns with the U.S. Federal government and in various state and foreign jurisdictions. A summary of tax years that remain subject to examination is as follows:

Jurisdiction	Earliest Year Open To Examination
U.S. Federal States:	2006
Pennsylvania	2003
Virginia	2006
Illinois	2006
Foreign:	
India	2008
Mauritius	2009

Note 14 Stock-Based Compensation

On April 11, 2005, the Company adopted a stock option plan titled "The 2005 Long Term Incentive Plan" (the "Plan"). The Plan is intended to provide incentives to attract, retain and motivate employees and directors. The Company believes that such awards better align the interests of its employees and directors with those of its stockholders. The Plan provides for the grant to eligible persons of stock options, share appreciation rights, or SARs, restricted shares, restricted share units, or RSUs, performance shares, performance units, dividend equivalents and other share-based awards, referred to collectively as the awards. 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 Plan). The Plan was effective April 11, 2005 and will terminate as to future awards on April 11, 2015. Under the Plan, 1,659,616 shares of common stock have been reserved for issuance, of which 1,068,003 were available for issuance at December 31, 2009.

The Company recognizes stock-based compensation expense for stock awards based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange

for the award, which is usually the vesting period.

Stock-based compensation expense of \$1,829, \$2,852 and \$2,804 is included within selling, general and administrative expense for the years ended December 31, 2009, 2008 and 2007, respectively. The total income tax benefit recognized on the income statement for share-based compensation arrangements was \$689, \$1,070 and \$1,049 for the years ended December 31, 2009, 2008 and 2007, respectively.

On May 12, 2009, the Company awarded 1,000 non-qualified stock options to an employee of the Company pursuant to its 2005 Long Term Incentive Plan. The stock options will vest in three equal annual installments beginning on May 12, 2010 and have a contractual term of 10 years. The exercise price of each option is \$17.84, which was the fair market value of the Company's stock on the date of the grant. The Company recognizes stock compensation expense based on the fair value of the award on the grant date using the Black-Scholes option valuation model. The estimated fair value of \$8.13 per option will be recognized over the period during which an employee is required to provide service in exchange for the award, which is usually the vesting period. The following assumptions were used to value the 2009 stock options: expected lives of the options of 6 years; expected volatility of 53.17%; risk-free interest rate of 2.02%; and expected dividend yield of 1.37%. Expected life in years was determined using the simplified method because the Company did not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term due to the limited period of time its shares have been publicly traded and the limited number of stock option grants to date. The Company believes that its option awards in 2009, which vest ratably over a three year period, qualify for use of the simplified method for plain vanilla options granted after December 31, 2007 as described in ASC 718 (formerly Staff Accounting Bulletin No. 110). 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.

On January 13, 2008, the Company awarded 190,100 non-qualified stock options to certain employees of the Company pursuant to its 2005 Long Term Incentive Plan. The stock options will vest in three equal annual installments beginning on January 13, 2009 and have a contractual term of 10 years. The exercise price of each option is \$30.47, which was the fair market value of the Company's stock on the date of the grant. The Company recognizes stock compensation expense based on the fair value of the award on the grant date using the Black-Scholes option valuation model. The estimated fair value of \$12.36 per option will be recognized over the period during which an employee is required to provide service in exchange for the award, which is usually the vesting period. The following assumptions were used to value the 2008 stock options: expected lives of the options of 6 years; expected volatility of 40.78%; risk-free interest rate of 3.08%; and expected dividend yield of 0.79%. Expected life in years was determined using the simplified method because the Company did not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term due to the limited period of time its shares have been publicly traded and the limited number of stock option grants to date. The Company believes that its option awards in 2008, which vest ratably over a three-year period, qualify for use of the simplified method for plain vanilla options granted after December 31, 2007 as described in ASC 718 (formerly Staff Accounting Bulletin No. 110). 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.

No stock options were issued in 2007 and 2006. The following assumptions were used to value the 2005 stock options: expected lives of the options ranging between 5.5 and 6.5 years, expected volatility of 35%, risk-free interest rates ranging between 4.17% and 4.24% and an expected dividend yield of 0.5%. Expected life in years is determined by using the simplified method allowed by the Securities and Exchange Commission in accordance with Staff Accounting Bulletin No. 107. Expected volatility is based on the historical volatility of stock for comparable public companies and the implied volatility is derived from current publicly traded call option prices of comparable public companies. The risk-free interest rate is based on the U.S. Treasury bond rate for the expected life of the option. The expected dividend yield is based on the latest annualized dividend rate and the current market price of the underlying common stock.

Stock Option Activity

A summary of the Company's stock options activity and related information at December 31, 2009 and 2008, and changes during the years then ended is presented below:

	2009		December 31,		2008	
	Options	Weighted-Average Exercise Price (per share)	Options	Weighted-Average Exercise Price (per share)	Options	Weighted-Average Exercise Price (per share)
Outstanding at the beginning of the year	159,240	\$ 31.69	64,968	\$ 23.76		
Granted	1,000	17.84	190,100	30.47		
Exercised			(54,968)	19.00		
Forfeited or expired	(91,580)	30.47	(40,860)	30.47		
Outstanding at the end of the year	68,660	\$ 33.12	159,240	\$ 31.69		
Exercisable at the end of the year	29,227	\$ 37.12	10,000	\$ 49.90		

A summary of the Company's stock options outstanding as of December 31, 2009 is presented below:

	Options	Weighted-Average Remaining Contractual Term (in years)	Weighted-Average Exercise Price (per share)	Aggregate Intrinsic Value
Options outstanding	68,660	7.8	\$33.12	\$ 2
Vested or expected to vest	68,660	7.8	\$33.12	\$ 2
Options exercisable	29,227	7.3	\$37.12	

There were no stock options exercised during the year ended December 31, 2009. The total intrinsic value of stock options exercised during the year ended December 31, 2008 was \$767. The cash received from exercise of stock option awards was \$1,045 during the year ended December 31, 2008. The actual tax benefit realized for the tax deductions from exercise of the stock option awards was \$289 for the year ended December 31, 2008, of which \$87 was recorded to additional paid in capital as excess tax benefit from stock-based compensation. As of December 31, 2009, there was \$204 of total unrecognized compensation expense related to nonvested options, which will be recognized over the average remaining requisite service period of 1.1 years.

Nonvested Stock Activity

A summary of the Company's nonvested shares as of December 31, 2009 and 2008, and changes during the years then ended is presented below:

	December 31,				2008	
	2009	Weighted- Average Grant Date Fair Value	(per share)		Shares	Weighted- Average Grant Date Fair Value (per share)
Nonvested at the beginning of the year	78,774	\$ 42.25		82,853	\$ 53.38	
Granted	41,589	17.95		48,547	31.47	
Vested	(35,592)	44.29		(46,186)	52.51	
Forfeited or expired	(11,272)	28.57		(6,440)	30.47	
Nonvested at the end of the year	73,499	33.4	32.6	32.7		
Other operating costs and expenses	23.7	23.8	24.2			
General and administrative expenses	6.4	6.5	6.0			
Depreciation and amortization expenses	3.9	4.1	4.2			
Impairment of assets and lease terminations		0.3				
Preopening costs	0.6	0.8	0.7			
Total costs and expenses	91.2	92.1	92.7			
Income from operations	8.8	7.9	7.3			
Interest and other expense, net	(0.4)	(0.3)	(0.3)			
Income before income taxes	8.4	7.6	7.0			
Income tax provision	2.3	2.1	1.9			
Net income	6.1%	5.5%	5.1%			

Fiscal 2016 Compared to Fiscal 2015

Revenues

Revenues increased 8.3% to \$2,275.7 million for fiscal 2016, including approximately \$54.7 million contributed by the 53rd week, compared to \$2,100.6 million for fiscal 2015.

Comparable sales at The Cheesecake Factory restaurants increased by 1.2%, or \$22.8 million, from fiscal 2015 on a 53-week basis, outperforming the casual dining industry which experienced a comparable sales decline of 1.4%, as measured by Knapp Track. Our comparable sales increase was driven by average check growth of 2.8% (based on an increase of 2.7% in menu pricing and a 0.1% positive change in mix), partially offset by a decrease in customer traffic of 1.6%. We implemented effective menu price increases of approximately 1.4% and 1.1% during the first and third quarters of fiscal 2016, respectively. We plan to target menu price increases of approximately 2% annually going

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forward. Total operating weeks at The Cheesecake Factory restaurants increased 7.4% to 10,031 in fiscal 2016 compared to the prior year. Excluding the impact of the 53rd week in fiscal 2016, total operating weeks increased 5.3% to 9,837. The Cheesecake Factory average sales per restaurant operating week increased 1.1% to \$207,166 in fiscal 2016 compared to fiscal 2015.

Comparable sales at our Grand Lux Cafe restaurants increased by 2.2% from fiscal 2015 on a 53-week basis driven by an increase in average check and customer traffic. We implemented effective menu price increases of approximately 1.0% and 1.3% during the second and fourth quarters of fiscal 2016, respectively. We plan to target menu price increases of approximately 2% annually going forward.

Restaurants become eligible to enter our comparable sales base in their 19th month of operation. At January 3, 2017, there were 15 The Cheesecake Factory restaurants and one Grand Lux Cafe not yet in our comparable sales base. International licensed locations and restaurants that are no longer in operation, including those which we have relocated, are excluded from our comparable sales calculations. Factors outside of our control, such as macroeconomic conditions, weather patterns, timing of holidays, competition and other factors, including those referenced in Part I, Item 1A, Risk Factors, can impact comparable sales.

We generally update and reprint our menus twice a year. As part of these menu updates, we evaluate the need for price increases based on those operating cost increases of which we are aware or that we can reasonably expect. While menu price increases can contribute to higher comparable restaurant sales in addition to offsetting margin pressure, we carefully consider all potential price increases in light of the extent to which we believe they may impact customer traffic.

External bakery sales were \$53.6 million for fiscal 2016 compared to \$52.8 million in fiscal 2015.

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Cost of Sales

Cost of sales consists of food, beverage, retail and bakery production supply costs incurred in conjunction with our restaurant and bakery revenues, and excludes depreciation, which is captured separately in depreciation and amortization expenses. As a percentage of revenues, cost of sales was 23.2% for fiscal 2016 compared to 24.0% for fiscal 2015, primarily driven by lower seafood, grocery, dairy and poultry costs.

The Cheesecake Factory restaurant menus are among the most diversified in the foodservice industry and, accordingly, are not overly dependent on a few select commodities. Changes in costs for one commodity sometimes can be offset by cost changes in other commodity categories. The principal commodity categories for our restaurants include general grocery items, dairy, produce, fish and seafood, poultry, meat and bread. See the discussion of our contracting activities in Part II, Item 7A Quantitative and Qualitative Disclosures about Market Risk.

As has been our past practice, we will carefully consider opportunities to introduce new menu items and implement selected menu price increases to help offset any expected cost increases for key commodities and other goods and services. For new restaurants, cost of sales will typically be higher for a period of time after opening until our management team becomes more accustomed to predicting, managing and servicing the sales volumes at these restaurants.

Labor Expenses

As a percentage of revenues, labor expenses, which include restaurant-level labor costs and bakery direct production labor, including associated fringe benefits, were 33.4% and 32.6% in fiscal 2016 and fiscal 2015, respectively. This variance was driven primarily by higher hourly wage rates due to minimum wage increases mandated under state and local laws. For new restaurants, labor expenses will typically be higher for a period of time after opening until our management team becomes more accustomed to predicting, managing and servicing the sales volumes at the new restaurants.

Other Operating Costs and Expenses

Other operating costs and expenses consist of restaurant-level occupancy expenses (rent, common area expenses, insurance, licenses, taxes and utilities), other operating expenses (excluding food costs and labor expenses, which are reported separately) and bakery production overhead and distribution expenses. As a percentage of revenues, other operating costs and expenses decreased to 23.7% for fiscal 2016 from 23.8% for fiscal 2015.

General and Administrative Expenses

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General and administrative (G&A) expenses consist of the restaurant management recruiting and training program, as well as the restaurant field supervision, corporate support and bakery administrative organizations. As a percentage of revenues, G&A expenses decreased to 6.4% for fiscal 2016 versus 6.5% for fiscal 2015.

Depreciation and Amortization Expenses

As a percentage of revenues, depreciation and amortization expenses were 3.9% and 4.1% in fiscal 2016 and fiscal 2015, respectively. This decrease was primarily due to benefits from extending the depreciable life of restaurant assets in conjunction with recently extended/renewed leases and from certain restaurant assets being fully depreciated.

Impairment of Assets and Lease Terminations

In fiscal 2016, we recorded \$0.1 million of accelerated depreciation expense related to the planned relocation of one The Cheesecake Factory restaurant and we expect to incur an additional \$1.2 million of accelerated depreciation and impairment expense related to this relocation in fiscal 2017. In fiscal 2015, we recorded a \$6.0 million impairment charge against the carrying value of our Rock Sugar Pan Asian Kitchen restaurant assets.

Preopening Costs

Preopening costs were \$13.6 million for fiscal 2016 compared to \$16.9 million in fiscal 2015. We opened seven The Cheesecake Factory restaurants and one Grand Lux Cafe in fiscal 2016 compared to ten The Cheesecake Factory restaurants and one Grand Lux Cafe in fiscal 2015. Preopening costs include all costs to relocate and compensate restaurant management employees during the preopening period, costs to recruit and train hourly restaurant employees, and wages, travel and lodging costs for our opening training team and other support staff members. Also included are expenses for maintaining a roster of trained managers for pending openings, the associated temporary housing and other costs necessary to relocate managers in alignment with future restaurant opening and operating needs, and corporate travel and support activities. Preopening costs can fluctuate significantly from period to period based on the number and timing of restaurant openings and the specific preopening costs incurred for each restaurant.

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Interest and Other Expense, Net

Interest and other expense, net was \$9.2 million in fiscal 2016 compared to \$5.9 million in fiscal 2015. This increase was primarily due to higher expense on our deemed landlord financing liability and asset disposals, and decreased income due to an insurance claim received in fiscal 2015. Interest expense on our deemed landlord financing liability was \$5.6 million in fiscal 2016 compared to \$3.5 million in fiscal 2015.

Income Tax Provision

Our effective income tax rate was 27.3% in fiscal 2016 compared to 26.9% in fiscal 2015. A lower proportion of Federal Insurance Contributions Act (FICA) tip credit in relation to pre-tax income was partially offset by non-taxable gains in fiscal 2016 as compared to non-deductible losses in fiscal 2015 on our investments in variable life insurance contracts used to support our Executive Savings Plan (ESP), a non-qualified deferred compensation plan. See Note 14 of Notes to Consolidated Financial Statements in Part IV, Item 15 of this report for further information on our income tax provision.

Fiscal 2015 Compared to Fiscal 2014

Revenues

Revenues increased 6.3% to \$2,100.6 million for fiscal 2015 compared to \$1,976.6 million for fiscal 2014.

Comparable sales at The Cheesecake Factory restaurants increased by 2.6%, or \$44.2 million, from the prior fiscal year, outperforming the casual dining industry which experienced a comparable sales increase of 1.0%, as measured by Knapp Track. Our comparable sales increase was driven by average check growth of 3.0% (based on an increase of 2.2% in menu pricing and a 0.8% positive change in mix), partially offset by a decrease in customer traffic of 0.4%. We implemented effective menu price increases of approximately 1.0% and 1.5% during the first and third quarters of fiscal 2015, respectively. Total operating weeks at The Cheesecake Factory restaurants increased 5.1% to 9,341 in fiscal 2015 compared to the prior year. The Cheesecake Factory average sales per restaurant operating week increased 1.5% to \$204,877 in fiscal 2015 compared to fiscal 2014.

Comparable sales at our Grand Lux Cafe restaurants decreased by 2.3% from the prior fiscal year driven by a decrease in customer traffic, partially offset by average check growth. We implemented effective menu price increases of approximately 1.5% and 1.1% during the second and fourth quarters of fiscal 2015, respectively.

External bakery sales were \$52.8 million for fiscal 2015 compared to \$53.2 million in fiscal 2014.

Cost of Sales

As a percentage of revenues, cost of sales was 24.0% for fiscal 2015 compared to 24.9% for fiscal 2014. Higher meat costs were more than offset by lower dairy and seafood costs.

Labor Expenses

As a percentage of revenues, labor expenses, which include restaurant-level labor costs and bakery direct production labor, including associated fringe benefits, were 32.6% and 32.7% in fiscal 2015 and fiscal 2014, respectively. Decreased group medical costs due to lower large claims activity and enrollment were partially offset by higher hourly labor rates.

Other Operating Costs and Expenses

As a percentage of revenues, other operating costs and expenses decreased to 23.8% for fiscal 2015 from 24.2% for fiscal 2014 primarily due to lower natural gas prices and some favorability across other categories.

General and Administrative Expenses

As a percentage of revenues, G&A expenses increased to 6.5% for fiscal 2015 versus 6.0% for fiscal 2014 primarily due to a higher fiscal 2015 accrual for corporate performance bonuses and an increase in stock-based compensation expense.

Depreciation and Amortization Expenses

As a percentage of revenues, depreciation and amortization expenses were 4.1% and 4.2% in fiscal 2015 and fiscal 2014, respectively.

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Impairment of Assets and Lease Terminations

During fiscal 2015, we recorded a \$6.0 million impairment charge against the carrying value of our Rock Sugar Pan Asian Kitchen restaurant assets. During fiscal 2014, we incurred \$0.7 million of accelerated depreciation, future rent and other closing costs related to the relocation of one The Cheesecake Factory restaurant.

Preopening Costs

Preopening costs were \$16.9 million for fiscal 2015 compared to \$14.4 million in fiscal 2014. We opened ten The Cheesecake Factory restaurants and one Grand Lux Cafe in fiscal 2015 compared to ten The Cheesecake Factory restaurants in fiscal 2014.

Interest and Other Expense, Net

Interest and other expense, net was \$5.9 million in fiscal 2015 compared to \$6.2 million in fiscal 2014. This decrease was primarily due to income from an insurance claim and lower interest expense on our deemed landlord financing liability, partially offset by higher expense on asset disposals. Interest expense on our deemed landlord financing liability was \$3.5 million in fiscal 2015 compared to \$3.8 million in fiscal 2014.

Income Tax Provision

Our effective income tax rate was 26.9% in both fiscal 2015 and fiscal 2014. A higher proportion of enterprise zone credits in relation to pre-tax income was offset by non-deductible losses in fiscal 2015 as compared to non-taxable gains in fiscal 2014 on our investments in variable life insurance contracts used to support our ESP. See Note 14 of Notes to Consolidated Financial Statements in Part IV, Item 15 of this report for further information on our income tax provision.

Non-GAAP Measures

Adjusted net income and adjusted diluted net income per share are supplemental measures of our performance that are not required by or presented in accordance with GAAP. These non-GAAP measures may not be comparable to similarly titled measures used by other companies and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. We calculate these non-GAAP measures by eliminating from net income and diluted net income per share the impact of items we do not consider indicative of our ongoing operations. We believe these adjusted measures provide additional information to facilitate the comparison of our past and present financial results. We utilize results that both include and exclude the identified items in evaluating business performance. Our inclusion of these adjusted measures should not be construed as an indication that our future results will be unaffected by unusual or infrequent items. In the

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future, we may incur expenses or generate income similar to the adjusted items.

Following is a reconciliation from net income and diluted net income per share to the corresponding adjusted measures (in thousands, except per share data):

	2016	Fiscal Year		2014
	2015	2015	2015	2014
Net income	\$ 139,494	\$ 116,523	\$ 116,523	\$ 101,276
After-tax impact from:				
Impairment of assets and lease terminations (1)	68	3,607	3,607	418
Adjusted net income	\$ 139,562	\$ 120,130	\$ 120,130	\$ 101,694
Diluted net income per share	\$ 2.83	\$ 2.30	\$ 2.30	\$ 1.96
After-tax impact from:				
Impairment of assets and lease terminations (1)	0.00	0.07	0.07	0.01
Adjusted diluted net income per share	\$ 2.83	\$ 2.37	\$ 2.37	\$ 1.97

(1) Fiscal year 2016 includes \$0.1 million of pre-tax accelerated depreciation expense related to the planned relocation of one The Cheesecake Factory restaurant and we expect to incur an additional \$1.2 million of pre-tax accelerated depreciation and impairment expense related to this relocation in fiscal 2017. Fiscal year 2015 includes \$6.0 million of pre-tax impairment expense related to our Rock Sugar Pan Asian Kitchen restaurant. Fiscal year 2014 includes \$0.7 million of pre-tax accelerated depreciation, future rent and other closing costs related to the relocation of one The Cheesecake Factory restaurant. These amounts were recorded in impairment of assets and lease terminations in the consolidated statements of income. (See Note 1 of Notes to Consolidated Financial Statements in Part IV, Item 15 of this report for further discussion of these charges.)

Fiscal 2017 Outlook

This discussion contains forward-looking statements and should be read in conjunction with our consolidated financial statements and related notes in Part IV, Item 15 of this report, the Risk Factors included in Part I, Item 1A of this report and the cautionary statements included throughout this report.

We estimate adjusted diluted net income per share for fiscal 2017 will be between \$2.95 and \$3.07 based on an assumed comparable sales increase of between 1.0% and 2.0% at The Cheesecake Factory restaurants, as well as certain cost assumptions. We currently expect commodity cost inflation of about 1.0% to 2.0% for fiscal 2017 as we anticipate higher prices in seafood and dairy costs, partially offset by lower meat costs. In fiscal 2017, we are estimating wage inflation of approximately 5% and a corporate tax rate of 23% to 24%, reflecting the adoption of new accounting guidance related to stock-based compensation. Adjusted diluted net income per share excludes \$1.2 million of accelerated depreciation and impairment expense related to the planned relocation of one The Cheesecake Factory. (See Recent Accounting Pronouncements in Note 1 of Notes to Consolidated Financial Statements in Part IV, Item 15 of this report for further discussion of this change.)

We estimate adjusted diluted net income per share for the first quarter of fiscal 2017 will be between \$0.71 and \$0.74 based on an assumed comparable sales increase of between flat and 1.0% at The Cheesecake Factory restaurants. First quarter total revenues are expected to be approximately \$565 million at the mid-point of the comparable sales range. Adjusted diluted net income per share excludes \$0.8 million of accelerated depreciation expense related to the planned relocation of one The Cheesecake Factory.

In fiscal 2017, we plan to open as many as eight new restaurants, including one The Cheesecake Factory relocation and our second RockSugar Southeast Asian Kitchen. In addition to these Company-owned locations, we expect as many as four to five restaurants to open internationally under licensing agreements.

We expect fiscal 2017 cash capital expenditures to range between \$125 million and \$140 million and anticipate utilizing substantially all of our free cash flow, plus proceeds received from employee stock option exercises, for dividends and share repurchases. (See Liquidity and Capital Resources for further discussion of expected 2017 capital expenditures.)

Liquidity and Capital Resources

Our corporate financial objectives are to maintain a sufficiently strong and conservative balance sheet to support our operating initiatives and unit growth while maintaining financial flexibility to provide the financial resources necessary to protect and enhance the competitiveness of our restaurant and bakery brands and to provide a prudent level of financial capacity to manage the risks and uncertainties of conducting our business operations under various economic and industry cycles. Our ongoing capital requirements are principally related to our restaurant expansion plans, ongoing maintenance of our restaurants and bakery facilities, investment in our corporate and information technology infrastructures and growth capital commitments to North Italia and Flower Child.

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Similar to many restaurant and retail chain store operations, we utilize operating lease arrangements for all of our restaurant locations. We believe our operating lease arrangements continue to provide appropriate leverage for our capital structure in a financially efficient manner. However, we are not limited to the use of lease arrangements as our only method of opening new restaurants. While most of our operating lease obligations are not required to be reflected as indebtedness on our consolidated balance sheet, the minimum base rents and related fixed obligations under our lease agreements must be satisfied by cash flows from our ongoing operations. Accordingly, our lease arrangements reduce, to some extent, our capacity to utilize funded indebtedness in our capital structure.

Historically, we have obtained capital from our ongoing operations, public stock offerings, lines of credit, employee stock option exercises and construction contributions from our landlords. Our requirement for working capital is not significant, since our restaurant customers pay for their food and beverage purchases in cash or cash equivalents at the time of sale, and we are able to sell many of our food inventory items before payment is due to the suppliers of such items.

The following table presents, for the periods indicated, a summary of our key cash flows from operating, investing and financing activities (in millions):

	2016	Fiscal Year 2015	2014
Cash provided by operating activities	\$ 302.5	\$ 235.4	\$ 239.6
Capital expenditures	\$ (115.8)	\$ (153.9)	\$ (114.0)
Investments in unconsolidated affiliates	\$ (42.0)	\$	\$
Deemed landlord financing proceeds	\$ 17.2	\$ 14.3	\$ 14.1
Proceeds from exercise of stock options	\$ 28.4	\$ 28.0	\$ 22.9
Borrowings on credit facility	\$ 35.0	\$ 60.0	\$ 25.0
Repayments on credit facility	\$ (35.0)	\$ (60.0)	\$ (25.0)
Treasury stock purchases	\$ (146.5)	\$ (109.4)	\$ (140.5)
Cash dividends paid	\$ (42.4)	\$ (36.0)	\$ (30.3)

During fiscal 2016, our cash and cash equivalents increased by \$10.0 million to \$53.8 million at January 3, 2017. This increase was primarily attributable to cash provided by operating activities, proceeds from exercises of employee stock options and deemed landlord financing proceeds, partially offset by treasury stock purchases, capital expenditures, dividend payments and our investment in North Italia and Flower Child. (See Note 1 of Notes to Consolidated Financial Statements in Part IV, Item 15 of this report for further discussion of cash and cash equivalents.)

Capital expenditures for new restaurants, including locations under development as of each fiscal year end were \$84.4 million, \$104.5 million and \$80.5 million for fiscal 2016, 2015 and 2014, respectively. Capital expenditures also included \$26.8 million, \$28.5 million and \$26.9 million for our existing restaurants and \$4.6 million, \$20.9 million and \$6.6 million for bakery and corporate capacity and infrastructure investments in fiscal 2016, 2015 and 2014, respectively, including construction of a training center that was completed in January 2016.

For fiscal 2017, we currently estimate our cash outlays for capital expenditures to range between \$125 million and \$140 million, net of agreed-upon up-front cash landlord construction contributions and excluding \$13.6 million of expected non-capitalizable preopening costs for new restaurants. The amount reflected as additions to property and equipment in the consolidated statements of cash flows may vary from this estimate based on the accounting treatment of each lease. (See Note 1 of Notes to Consolidated Financial Statements in Part IV, Item 15 of this

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report.) Our estimate for capital expenditures for fiscal 2017 contemplates a net outlay of \$65 million to \$75 million for as many as eight restaurants expected to be opened during fiscal 2017 and estimated construction-in-progress disbursements for anticipated early fiscal 2018 openings. Expected fiscal 2017 capital expenditures also include \$35 million to \$40 million for replacements, enhancements and capacity additions to our existing restaurants and approximately \$25 million for bakery and corporate infrastructure investments, including the commencement of an infrastructure upgrade of our California bakery.

During fiscal 2016, we entered into a strategic relationship with Fox Restaurant Concepts LLC (FRC) with respect to two of its brands, North Italia and Flower Child, that share a number of parallels with us in terms of culture and philosophy, and that we believe have significant opportunity for growth. FRC, or its affiliates, will continue to own the intellectual property, manage day-to-day operations and provide infrastructure support to facilitate the near-term growth of both of these concepts.

We made initial minority equity investments in these concepts during fiscal 2016 and will provide ongoing growth capital over time. We have the right, and an obligation if certain financial, legal and operational conditions are met, to acquire the remaining interest in either or both of these concepts in the next three to five years. These transactions are not expected to have a material impact on our financial condition over the next several years, and we do not anticipate that we will need to incur debt to fund our ongoing growth capital commitments during the investment period. Should we ultimately acquire one or both concepts, we would evaluate the appropriate capital structure at that time. (See Item 1A Risk Factors Our strategic relationship with Fox Restaurant Concepts LLC (FRC) might not yield anticipated benefits and could result in a loss of investment, which could materially adversely affect our financial performance.)

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On November 10, 2016, we entered into a loan agreement (Facility) which amended and restated in its entirety our prior loan agreement dated October 16, 2013. This Facility, which matures on December 22, 2020, provides us with revolving loan commitments totaling \$200 million, of which \$50 million may be used for issuances of letters of credit. Availability under the Facility is reduced by outstanding letters of credit, which are used to support our self-insurance programs. The Facility contains a commitment increase feature that could provide for an additional \$100 million in available credit upon our request and subject to the lenders electing to increase their commitments or by means of the addition of new lenders. At January 3, 2017, we had net availability for borrowings of \$178.0 million, based on a zero outstanding debt balance and \$22.0 million in standby letters of credit. The Facility also limits cash distributions with respect to our equity interests, such as cash dividends and share repurchases, based on a defined ratio. We were in compliance with the financial covenants in effect at January 3, 2017. We borrowed on these credit facilities during fiscal 2016 to fund a portion of our investment in North Italia and Flower Child and our stock repurchases. We borrowed on these credit facilities during fiscal 2015 to fund a portion of our stock repurchases. Balances were repaid within each fiscal year. (See Note 8 of Notes to Consolidated Financial Statements in Part IV, Item 15 of this report for further discussion of our long-term debt.)

In July 2012, our Board approved the initiation of a cash dividend to our stockholders, which is subject to quarterly Board approval. Cash dividends have been declared during every quarter since initiation. Future decisions to pay or to increase or decrease dividends are at the discretion of the Board and will be dependent on our operating performance, financial condition, capital expenditure requirements, limitations on cash distributions pursuant to the terms and conditions of our Facility and other such factors that the Board considers relevant.

On July 21, 2016, our Board increased the authorization to repurchase our common stock by 7.5 million shares to 56.0 million shares. Under this and all previous authorizations, we have cumulatively repurchased 47.0 million shares at a total cost of \$1,409.9 million through January 3, 2017. During fiscal 2016, 2015 and 2014, we repurchased 2.9 million, 2.1 million and 3.1 million shares of our common stock at a cost of \$146.5 million, \$104.8 million and \$143.2 million, respectively. Our share repurchase authorization does not have an expiration date, does not require us to purchase a specific number of shares and may be modified, suspended or terminated at any time. We make the determination to repurchase shares based on several factors, including an evaluation of current and future capital needs associated with new restaurant development, current and forecasted cash flows, including dividend payments and growth capital contributions to North Italia and Flower Child, a review of our capital structure and cost of capital, our share price and current market conditions. Our objectives with regard to share repurchases are to offset the dilution to our shares outstanding that results from equity compensation grants and to supplement our earnings per share growth. (See Note 11 of Notes to Consolidated Financial Statements in Part IV, Item 15 of this report for further discussion of our repurchase authorization and methods.)

Based on our current expansion objectives, we believe that during the upcoming 12 months our cash and cash equivalents, combined with expected cash flows provided by operations, available borrowings under our Facility and expected landlord construction contributions should be sufficient in the aggregate to finance our capital allocation strategy, including capital expenditures, share repurchases, cash dividends and growth capital contributions to North Italia and Flower Child, and allow us to consider additional possible capital allocation strategies, such as developing, investing in or acquiring other growth vehicles. We continue to plan to return substantially all of our free cash flow plus proceeds received from employee stock option exercises to stockholders in the form of dividends and share repurchases.

As of January 3, 2017, we had no financing transactions, arrangements or other relationships with any unconsolidated entities or related parties other than the arrangement with Fox Restaurant Concepts LLC that we entered into in fiscal 2016. (See Investments in North Italia® and Flower Child® in Part I, Item 1 for further discussion of this investment.) Additionally, we had no financing arrangements involving synthetic leases or trading activities involving commodity contracts.

Contractual Obligations and Commercial Commitments

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The following table summarizes our contractual obligations and commercial commitments as of January 3, 2017 (amounts in millions):

	Total	Payment Due by Period			
		Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
<u>Contractual obligations</u>					
Leases (1)	\$ 1,021.2	\$ 87.9	\$ 177.5	\$ 170.1	\$ 585.7
Long-term debt					
Purchase obligations (2)	142.1	94.3	25.2	12.9	9.7
Uncertain tax positions (3)	0.8		0.8		
Total	\$ 1,164.1	\$ 182.2	\$ 203.5	\$ 183.0	\$ 595.4
<u>Other commercial commitments</u>					
Standby letters of credit	\$ 22.0	\$	\$	\$ 22.0	\$

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- (1) Represents aggregate minimum lease payments for our restaurant operations, automobiles and certain equipment, including amounts characterized as deemed landlord financing payments in accordance with accounting guidance. (See Note 1 in Notes to Consolidated Financial Statements in Part IV, Item 15 of this report.) Most of our leases also require contingent rent in addition to the minimum base rent based on a percentage of revenues ranging from 3% to 10% and require various expenses incidental to the use of the property.
- (2) Purchase obligations represent commitments for the purchase of goods and estimated construction commitments, net of agreed-upon up-front landlord construction contributions. Amounts exclude agreements that are cancelable without significant penalty.
- (3) Represents liability for uncertain tax positions. (See Note 14 of Notes to Consolidated Financial Statements in Part IV, Item 15 of this report for further discussion of income taxes.)

In addition to the items listed above, we are obligated to provide up to \$42 million in combined growth capital to North Italia and Flower Child. These contributions will result in an increased minority interest in the related concept. The right, and obligation to provide growth capital and to acquire the remaining interest in either or both of these concepts in the next three to five years, assumes certain financial, legal and operational conditions are met. (See *Liquidity and Capital Resources* of this report for further discussion.)

We expect to fund our contractual obligations primarily with operating cash flows generated in the normal course of business.

Critical Accounting Policies

Critical accounting policies are those we believe are most important to portraying our financial condition and results of operations and also require the greatest amount of subjective or complex judgments by management. Judgments and uncertainties regarding the application of these policies may result in materially different amounts being reported under various conditions or using different assumptions. We consider the following policies to be the most critical in understanding the judgment that is involved in preparing our consolidated financial statements.

Property and Equipment

We record property and equipment at cost less accumulated depreciation. Improvements are capitalized while repairs and maintenance costs are expensed as incurred. The useful life of property and equipment and the determination as to what constitutes a capitalized cost versus a repair and maintenance expense involve judgment by management, which may produce materially different amounts of repairs and maintenance or depreciation expense than if different assumptions were used.

Impairment of Long-Lived Assets

We assess the potential impairment of our long-lived assets whenever events or changes in circumstances indicate that the carrying value of the assets or asset group may not be recoverable. Factors considered include, but are not limited to, significant underperformance relative to historical or projected future operating results, significant changes in the manner in which an asset is being used, an expectation that an asset will be disposed of significantly before the end of its previously estimated useful life and significant negative industry or economic trends. We regularly review restaurants that are cash flow negative for the previous four quarters and those that are being considered for closure or relocation to determine if impairment testing is warranted.

Assessing whether impairment testing is warranted and, if so, determining the amount of expense require the use of estimates and assumptions regarding future cash flows and estimated useful lives, which are subject to a significant degree of judgment based on our experience and knowledge. These estimates can be significantly impacted by changes in the economic environment, real estate market conditions and capital spending decisions.

Gift Card Revenue Recognition

We recognize a liability upon the sale of our gift cards and recognize revenue when these gift cards are redeemed in our restaurants. Based on our historical redemption patterns, we can reasonably estimate the amount of gift cards for which redemption is remote, which is referred to as breakage. Breakage is recognized over a three-year period in proportion to historical redemption trends and is classified as revenues in our consolidated statements of income. Utilizing this method, we estimate both the amount of breakage and the time period of redemption. If actual redemption amounts or patterns vary from our estimates, actual gift card breakage income may differ from the amounts recorded.

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Leases

We currently lease all of our restaurant locations. We evaluate each lease to determine its appropriate classification as an operating or capital lease for financial reporting purposes. All of our restaurant leases are classified as operating leases. Minimum base rent, which generally escalates over the term of the lease, is recorded on a straight-line basis over the lease term. The initial lease term includes the build-out, or rent holiday, period for our leases, where no rent payments are typically due under the terms of the lease. Contingent rent expense, which is based on a percentage of revenues, is recorded as incurred to the extent it exceeds minimum base rent per the lease agreement.

We expend cash for leasehold improvements and FF&E to build out and equip our leased premises. We may also expend cash for structural additions that we make to leased premises. Generally a portion of the leasehold improvements and building costs are reimbursed to us by our landlords as construction contributions. If obtained, landlord construction contributions usually take the form of up-front cash, full or partial credits against our future minimum or percentage rents, or a combination thereof. Depending on the specifics of the leased space and the lease agreement, amounts paid for structural components are recorded during the construction period as either prepaid rent or property and equipment and the landlord construction contributions are recorded as either an offset to prepaid rent or as a deemed landlord financing liability.

For those leases for which we are deemed the owner of the property during construction, upon completion, we perform an analysis to determine if they qualify for sale-leaseback treatment. For those qualifying leases, the deemed landlord financing liability and the associated property and equipment are removed and the difference is reclassified to either prepaid or deferred rent and amortized over the lease term as an increase or decrease to rent expense. If the lease does not qualify for sale-leaseback treatment, the deemed landlord financing liability is amortized over the lease term based on the rent payments designated in the lease agreement.

Self-Insurance Liabilities

We retain the financial responsibility for a significant portion of our risks and associated liabilities with respect to workers' compensation, general liability, employee health benefits, employment practices and other insurable risks. The accrued liabilities associated with our self-insured programs are based on our estimate of the ultimate costs to settle known claims as well as claims incurred but not yet reported to us (IBNR) as of the balance sheet date. Our estimated liabilities are based on information provided by our insurance brokers and insurers, combined with our judgment regarding a number of assumptions and factors, including the frequency and severity of claims, claims development history, case jurisdiction, applicable legislation and our claims settlement practices. We maintain stop-loss coverage with third-party insurers to limit our individual claim exposure for many of our programs. Significant judgment is required to estimate IBNR amounts, as parties have yet to assert such claims. If actual claims trends, including the severity or frequency of claims, differ from our estimates, our financial results could be impacted.

Stock-Based Compensation

We apply the Black-Scholes valuation model in determining the fair value of stock option grants, which requires the use of assumptions, including the volatility of our common stock price and the length of time staff members will retain their vested stock options prior to exercise. Additionally, we estimate the expected forfeiture rate related to stock options, restricted shares and restricted share units in determining the amount of stock-based compensation expense for each period. For restricted share units with performance-based vesting conditions, we estimate

the level of expected performance. Significant judgment is required in determining the valuation factors and forfeiture rate estimates. Changes in these assumptions or differences between our estimates and actual results could materially affect our results of operations.

Income Taxes

We provide for income taxes based on our estimate of federal, state and foreign tax liabilities. Our estimates include, but are not limited to, effective state and local income tax rates, allowable tax credits for items such as FICA taxes paid on reported tip income and depreciation expense allowable for tax purposes. Our estimates are made based on the best available information at the time we prepare our income tax provision. In making our estimates, we consider the impact of legislative and judicial developments. As these developments evolve, we update our estimates, which, in turn, may result in adjustments to our effective tax rate. We generally file our income tax returns within ten months after our fiscal year-end. All tax returns are subject to audit by the applicable taxing authorities, usually years after the returns are filed, and could be subject to differing interpretations of the tax laws.

We account for uncertain tax positions under Financial Accounting Standards Board guidance, which requires that a position taken or expected to be taken in a tax return be recognized (or derecognized) in the financial statements when it is more likely than not (i.e., a likelihood of more than 50%) that the position would be sustained on its technical merits upon examination by tax authorities, taking into account available administrative remedies and litigation. A recognized tax position is then measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate resolution. Assessment of uncertain tax positions requires significant judgments relating to the amounts, timing and likelihood of resolution. Our actual results could differ materially from these estimates.

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Recent Accounting Pronouncements

See Note 1 of Notes to Consolidated Financial Statements in Part IV, Item 15 of this report for a summary of new accounting standards.

Impact of Inflation

The impact of inflation on food costs, labor, and other supplies and services can adversely impact our financial results. While we attempt to at least partially offset increases in the costs of key operating resources by gradually raising prices for our menu items and bakery products, and employing more efficient purchasing practices, productivity improvements and greater economies of scale, there can be no assurance that we will be effective in doing so.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion of market risks contains forward-looking statements. Actual results may differ materially from the following discussion based on general conditions in the commodity and financial markets.

We purchase food and other commodities for use in our operations, based on market prices established with our suppliers. Many of the commodities purchased by us can be subject to volatility due to market supply and demand factors outside of our control. Substantially all of our ingredients and supplies are available from multiple qualified suppliers, which helps mitigate our risk of commodity availability and obtain competitive prices. We negotiate short-term and long-term agreements for some of our principal commodity, supply and equipment requirements, such as cream cheese, depending on market conditions and expected demand. Historically, we were unable to contract directly for extended periods of time for certain of our commodities such as certain produce items, wild-caught fresh fish and certain dairy products. During 2015, we began entering into longer-term fixed pricing agreements for additional dairy items, and we continue to evaluate the possibility of entering into similar arrangements for additional commodities. We also periodically evaluate hedging vehicles, such as direct financial instruments, to assist us in managing our risk and variability in these categories. Although these vehicles and markets may be available to us, we may choose not to enter into contracts due to pricing volatility, excessive risk premiums, hedge inefficiencies or other factors. Where we had not entered into long-term contracts, commodities can be subject to unforeseen supply and cost fluctuations, which at times may be significant. Additionally, the cost of commodities subject to governmental regulation, such as dairy and corn, can be even more susceptible to price fluctuation than other products. We may or may not have the ability to increase menu prices, or vary menu items, in response to food commodity price increases. For fiscal years 2016 and 2015, a hypothetical increase of 1% in commodities costs would have a negative impact of \$5.3 million and \$5.0 million, respectively, on cost of sales.

We are exposed to market risk from interest rate changes on our funded debt. This exposure relates to the component of the interest rate on our Facility that is indexed to market rates. As of January 3, 2017 and December 29, 2015, we had no debt outstanding under our Facility. Therefore, we had no exposure to interest rate fluctuations on funded debt at those dates. (See Note 8 of Notes to Consolidated Financial Statements in Part IV, Item 15 of this report for further discussion of our long-term debt.)

We are also subject to market risk related to our investments in variable life insurance contracts used to support our ESP, to the extent these investments are not equivalent to the related liability. In addition, because changes in these investments are not taxable, the full impact of gains or losses directly affects net income. Based on balances at January 3, 2017 and December 29, 2015, a hypothetical 10% decline in the market value of our deferred compensation asset and related liability would not have impacted income before income taxes. However, net income would have declined by \$2.0 million at January 3, 2017 and \$1.6 million at December 29, 2015.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements required to be filed hereunder are set forth in Part IV, Item 15 of this report.

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

None.

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ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have established and maintain disclosure controls and procedures that are designed to ensure that material information relating to the Company and our subsidiaries required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only a reasonable assurance of achieving the desired control objectives, and management was necessarily required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of January 3, 2017.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Exchange Act Rule 13a-15(f), internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our 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 purposes in accordance with accounting principles generally accepted in the United States of America (GAAP) and includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) 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.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of the effectiveness of our internal control over financial reporting as of January 3, 2017 on the criteria in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of January 3, 2017.

The effectiveness of our internal control over financial reporting as of January 3, 2017 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in Part IV, Item 15 of this report.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during our most recent fiscal quarter ended January 3, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We have adopted a code of ethics which applies to our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, who are the Company's principal executive, financial and accounting officers, respectively, and the Company's other executive officers and members of the Board of Directors, entitled Code of Ethics for Executive Officers, Senior Financial Officers and Directors. The Code of Ethics is available on our corporate website at www.thecheesecakefactory.com in the Corporate Governance section of our Investors page. The contents of our website are *not* incorporated by reference into this Form 10-K. We intend to satisfy disclosure requirements under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of the Code of Ethics by posting such information on our website, at the address and location specified above, or as otherwise required by the NASDAQ Global Market.

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Information with respect to our executive officers is included in Part I, Item 1 of this report. Other information required by this item is hereby incorporated by reference from the sections entitled Election of Directors, Board of Directors and Corporate Governance, Designation of Audit Committee Financial Experts, Committees of the Board of Directors, and Section 16(a) Beneficial Ownership Reporting Compliance in our definitive proxy statement for the annual meeting of stockholders to be held on June 8, 2017 (the Proxy Statement).

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is hereby incorporated by reference to the sections entitled Board of Directors Compensation and Executive Compensation in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is hereby incorporated by reference to the section entitled Beneficial Ownership of Principal Stockholders and Management in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is hereby incorporated by reference to the sections entitled Policies Regarding Review, Approval or Ratification of Transactions with Related Persons and Board of Directors and Corporate Governance in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is hereby incorporated by reference to the section entitled Independent Registered Public Accounting Firm Fees and Services (in the proposal entitled Ratification of Selection of Independent Registered Public Accounting Firm) in the Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following documents are filed as a part of this Report:

(a) 1. Financial statements:

The consolidated financial statements required to be filed hereunder are listed in the Index to Consolidated Financial Statements on page 44 of this report.

2. Financial statement schedules:

All schedules have been omitted because they are not applicable, not required or the information has been otherwise supplied in the financial statements or notes to the financial statements.

3. Exhibits:

The Exhibits required to be filed hereunder are listed in the exhibit index included herein at page 66.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of The Cheesecake Factory Incorporated

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of The Cheesecake Factory Incorporated and its subsidiaries at January 3, 2017 and December 29, 2015, and the results of their operations and their cash flows for each of the three years in the period ended January 3, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 3, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

PricewaterhouseCoopers LLP

Los Angeles, California

March 2, 2017

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	January 3, 2017	December 29, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 53,839	\$ 43,854
Accounts receivable	15,632	14,159
Income tax receivable		18,739
Other receivables	64,592	72,658
Inventories	34,926	34,010
Prepaid expenses	52,438	41,976
Total current assets	221,427	225,396
Property and equipment, net	910,134	892,191
Other assets:		
Intangible assets, net	23,054	21,972
Prepaid rent	42,162	46,881
Other	96,542	46,906
Total other assets	161,758	115,759
Total assets	\$ 1,293,319	\$ 1,233,346
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 41,564	\$ 47,770
Income taxes payable	2,299	
Gift card liability	153,629	144,143
Other accrued expenses	179,034	158,313
Total current liabilities	376,526	350,226
Deferred income taxes	82,401	82,524
Deferred rent	71,575	72,911
Deemed landlord financing liability	100,576	87,841
Other noncurrent liabilities	59,034	51,305
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, \$.01 par value, 5,000,000 shares authorized; none issued		
Common stock, \$.01 par value, 250,000,000 shares authorized; 94,672,037 and 93,126,667 shares issued at January 3, 2017 and December 29, 2015, respectively	947	931
Additional paid-in capital	774,137	710,242
Retained earnings	1,238,012	1,140,788
Treasury stock 46,979,659 and 44,064,322 shares at cost at January 3, 2017 and December 29, 2015, respectively	(1,409,889)	(1,263,422)
Total stockholders' equity	603,207	588,539

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Total liabilities and stockholders' equity	\$	1,293,319	\$	1,233,346
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See the accompanying notes to the consolidated financial statements.

Table of Contents**THE CHEESECAKE FACTORY INCORPORATED****CONSOLIDATED STATEMENTS OF INCOME****(In thousands, except per share data)**

	2016	Fiscal Year		2014
		2015		
Revenues	\$ 2,275,719	\$ 2,100,609		\$ 1,976,624
Costs and expenses:				
Cost of sales	526,628	504,031		490,306
Labor expenses	759,998	684,818		646,102
Other operating costs and expenses	540,365	500,640		478,504
General and administrative expenses	146,042	137,402		119,094
Depreciation and amortization expenses	88,010	85,563		82,835
Impairment of assets and lease terminations	114	6,011		696
Preopening costs	13,569	16,898		14,356
Total costs and expenses	2,074,726	1,935,363		1,831,893
Income from operations	200,993	165,246		144,731
Interest and other expense, net	(9,225)	(5,894)		(6,187)
Income before income taxes	191,768	159,352		138,544
Income tax provision	52,274	42,829		37,268
Net income	\$ 139,494	\$ 116,523		\$ 101,276
Net income per share:				
Basic	\$ 2.91	\$ 2.39		\$ 2.04
Diluted	\$ 2.83	\$ 2.30		\$ 1.96
Weighted average shares outstanding:				
Basic	47,981	48,833		49,567
Diluted	49,372	50,605		51,584
Cash dividends declared per common share	\$ 0.88	\$ 0.73		\$ 0.61

See the accompanying notes to the consolidated financial statements.

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THE CHEESECAKE FACTORY INCORPORATED
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands)

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance, December 31, 2013	90,632	\$ 906	\$ 602,469	\$ 989,451	\$ (1,015,473)	\$ 577,353
Net income				101,276		101,276
Cash dividends declared				(30,516)		(30,516)
Tax impact of stock options exercised, net of cancellations			8,906			8,906
Stock-based compensation			17,033			17,033
Common stock issued under stock-based compensation plans	1,158	12	22,929			22,941
Treasury stock purchases			2,696		(143,179)	(140,483)
Balance, December 30, 2014	91,790	918	654,033	1,060,211	(1,158,652)	556,510
Net income				116,523		116,523
Cash dividends declared				(35,946)		(35,946)
Tax impact of stock options exercised, net of cancellations			12,501			12,501
Stock-based compensation			20,325			20,325
Common stock issued under stock-based compensation plans	1,337	13	27,984			27,997
Treasury stock purchases			(4,601)		(104,770)	(109,371)
Balance, December 29, 2015	93,127	931	710,242	1,140,788	(1,263,422)	588,539
Net income				139,494		139,494
Cash dividends declared				(42,270)		(42,270)
Tax impact of stock options exercised, net of cancellations			13,722			13,722
Stock-based compensation			21,811			21,811
Common stock issued under stock-based compensation plans	1,545	16	28,362			28,378
Treasury stock purchases					(146,467)	(146,467)
Balance, January 3, 2017	94,672	\$ 947	\$ 774,137	\$ 1,238,012	\$ (1,409,889)	\$ 603,207

See the accompanying notes to the consolidated financial statements.

Table of Contents**THE CHEESECAKE FACTORY INCORPORATED****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

	2016	Fiscal Year 2015		2014
Cash flows from operating activities:				
Net income	\$ 139,494	\$ 116,523	\$ 101,276	
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization expenses	88,010	85,563	82,835	
Deferred income taxes	(1,005)	1,184	204	
Impairment of assets and lease terminations	114	6,011	245	
Stock-based compensation	21,473	20,053	16,817	
Tax impact of stock options exercised, net of cancellations	13,722	12,501	8,906	
Excess tax benefit related to stock options exercised	(13,861)	(12,309)	(8,861)	
Other	3,592	2,615	2,059	
Changes in assets and liabilities:				
Accounts receivable	(1,473)	1,011	(5,079)	
Other receivables	8,066	(10,331)	(6,867)	
Inventories	(916)	(755)	2,223	
Prepaid expenses	(10,462)	(3,743)	4,362	
Other assets	(2,818)	(5,799)	(3,645)	
Accounts payable	752	(12,931)	(18,180)	
Income taxes receivable/payable	21,837	(1,356)	(12,854)	
Other accrued expenses	35,995	37,186	39,848	
Cash provided by operating activities	302,520	235,423	239,649	
Cash flows from investing activities:				
Additions to property and equipment	(115,821)	(153,941)	(113,982)	
Additions to intangible assets	(1,640)	(1,760)	(1,879)	
Investments in unconsolidated affiliates	(42,000)			
Cash used in investing activities	(159,461)	(155,701)	(115,861)	
Cash flows from financing activities:				
Deemed landlord financing proceeds	17,246	14,266	14,143	
Deemed landlord financing payments	(3,721)	(3,118)	(2,650)	
Borrowings on credit facility	35,000	60,000	25,000	
Repayments on credit facility	(35,000)	(60,000)	(25,000)	
Proceeds from exercise of stock options	28,378	27,997	22,940	
Excess tax benefit related to stock options exercised	13,861	12,309	8,861	
Cash dividends paid	(42,371)	(35,969)	(30,332)	
Treasury stock purchases	(146,467)	(109,371)	(140,483)	
Cash used in financing activities	(133,074)	(93,886)	(127,521)	
Net change in cash and cash equivalents	9,985	(14,164)	(3,733)	
Cash and cash equivalents at beginning of period	43,854	58,018	61,751	
Cash and cash equivalents at end of period	\$ 53,839	\$ 43,854	\$ 58,018	
Supplemental disclosures:				
Interest paid	\$ 6,038	\$ 6,057	\$ 5,430	
Income taxes paid	\$ 17,932	\$ 30,410	\$ 41,074	

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Construction payable	\$	6,541	\$	13,500	\$	10,124
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See the accompanying notes to the consolidated financial statements.

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THE CHEESECAKE FACTORY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Description of Business

As of March 2, 2017, The Cheesecake Factory Incorporated operated 208 Company-owned upscale casual dining restaurants under The Cheesecake Factory ®, Grand Lux Cafe ® and Rock Sugar Pan Asian Kitchen ® marks. Internationally, 15 The Cheesecake Factory branded restaurants operated in the Middle East, China and Mexico under licensing agreements. We also operated two bakery production facilities that produce desserts for our restaurants, international licensees and third-party bakery customers. We are selectively pursuing other means to leverage our competitive strengths, including developing, investing in or acquiring new restaurant concepts and expanding The Cheesecake Factory brand to other retail opportunities.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of The Cheesecake Factory Incorporated and its wholly owned subsidiaries (referred to herein as the Company, we, us and our) prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All intercompany accounts and transactions for the periods presented have been eliminated in consolidation.

We utilize a 52/53-week fiscal year ending on the Tuesday closest to December 31 for financial reporting purposes. Fiscal years 2015 and 2014 each consisted of 52 weeks, while fiscal 2016 consisted of 53 weeks. Fiscal year 2017 will consist of 52 weeks.

In fiscal 2016, we separately disclosed our gift card liability on the consolidated balance sheet. To conform to the current year presentation, we reclassified the prior year balance that was previously combined in other accrued expenses.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions for the reporting periods covered by the financial statements. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities. Actual results could differ from these estimates.

Cash and Cash Equivalents

Amounts receivable from credit card processors, totaling \$12.2 million and \$10.3 million at January 3, 2017 and December 29, 2015, respectively, are considered cash equivalents because they are both short-term and highly liquid in nature and are typically converted to cash within three days of the sales transaction. Checks issued, but not yet presented for payment to our bank, are reflected as a reduction of cash and cash equivalents.

Accounts and Other Receivables

Our accounts receivable principally result from credit sales to bakery customers. Other receivables consist of various amounts due from our gift card resellers, insurance providers, landlords and others in the ordinary course of business.

Concentration of Credit Risk

Financial instruments that potentially subject us to a concentration of credit risk are cash and cash equivalents and receivables. We maintain our day-to-day operating cash balances in non-interest-bearing transaction accounts, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. We invest our excess cash in a money market deposit account, which is insured by the FDIC up to \$250,000. Although we maintain balances that exceed the federally insured limit, we have not experienced any losses related to this balance, and we believe credit risk to be minimal.

We consider the concentration of credit risk for accounts receivable to be minimal due to the payment histories and general financial condition of our larger bakery customers. Concentration of credit risk related to other receivables is limited as this balance is comprised primarily of amounts due from our gift card resellers, insurance providers and landlords for the reimbursement of tenant improvements.

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Fair Value of Financial Instruments

For cash and cash equivalents, the carrying amount approximates fair value because of the short maturity of these instruments. The fair value of deemed landlord financing liabilities is determined using current applicable rates for similar instruments as of the balance sheet date in accordance with Level 2 of a three-level hierarchy established by accounting standards. Level 2 inputs are observable for the asset or liability, either directly or indirectly, including quoted prices in active markets for similar assets or liabilities. At January 3, 2017, the fair value of our deemed landlord financing liabilities is \$102.2 million versus a carrying value of \$104.9 million.

Inventories

Inventories consist of restaurant food and other supplies, bakery raw materials, and bakery finished goods and are stated at the lower of cost or market on an average cost basis at the restaurants and on a first-in, first-out basis at the bakeries.

Property and Equipment

We record property and equipment at cost less accumulated depreciation. Improvements are capitalized while repairs and maintenance costs are expensed as incurred. Depreciation and amortization are calculated using the straight-line method over the estimated useful life of the assets or the lease term, whichever is shorter. Leasehold improvements include the cost of our internal development and construction department. Depreciation and amortization periods are as follows:

Buildings and land improvements	25 to 30 years
Leasehold improvements	10 to 30 years
Furnishings, fixtures and equipment	3 to 15 years
Computer software and equipment	5 years

Gains and losses related to property and equipment disposals are recorded in interest and other expenses, net.

Indefinite-Lived Assets

Our trademarks and transferable alcoholic beverage licenses have indefinite lives and, therefore, are not subject to amortization. At January 3, 2017 and December 29, 2015, the amounts included in intangibles, net for these items were \$14.6 million and \$13.8 million, respectively. We test these assets for impairment at least annually by comparing the fair value of each asset with its carrying amount.

Impairment of Long-Lived Assets and Lease Terminations

We assess the potential impairment of our long-lived assets whenever events or changes in circumstances indicate the carrying value of the assets or asset group may not be recoverable. Factors considered include, but are not limited to, significant underperformance relative to historical or projected future operating results, significant changes in the manner in which an asset is being used, an expectation that an asset will be disposed of significantly before the end of its previously estimated useful life and significant negative industry or economic trends. We regularly review restaurants that are cash flow negative for the previous four quarters and those that are being considered for closure or relocation to determine if impairment testing is warranted. At any given time, we may be monitoring a small number of locations, and future impairment charges could be required if individual restaurant performance does not improve or we make the decision to close or relocate a restaurant.

We have determined that our asset group for impairment testing is comprised of the assets and liabilities of each of our individual restaurants, as this is the lowest level of identifiable cash flows. We have identified leasehold improvements as the primary asset because it is the most significant component of our restaurant assets, it is the principal asset from which our restaurants derive their cash flow generating capacity and it has the longest remaining useful life. The recoverability is assessed in most cases by comparing the carrying value of the assets to the undiscounted cash flows expected to be generated by these assets. Impairment losses are measured as the amount by which the carrying values of the assets exceed their fair values.

During fiscal 2016, we incurred \$0.1 million of accelerated depreciation expense related to the planned relocation of one The Cheesecake Factory restaurant and we expect to incur an additional \$1.2 million of accelerated depreciation and impairment expense related to this relocation in fiscal 2017. During fiscal 2015, we incurred \$6.0 million of impairment expense against the carrying value of our Rock Sugar Pan Asian Kitchen restaurant assets. In fiscal 2014, we incurred \$0.7 million of accelerated depreciation, future rent and other closing costs related to the relocation of one The Cheesecake Factory restaurant. These amounts were recorded in impairment of assets and lease terminations.

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Investments in Unconsolidated Affiliates

During the fourth quarter of fiscal 2016, we made initial minority equity investments in two restaurant concepts, North Italia and Flower Child. Since we hold a number of rights with regard to participation in policy-making processes, but do not control these entities, we account for these investments under the equity method. We recognize our proportionate share of the reported earnings or losses of these entities in interest and other expense, net on the consolidated statements of income and as an adjustment to other assets on the consolidated balance sheets.

Revenue Recognition

Our revenues consist of sales from our restaurant operations, sales from our bakery operations to our licensees and other third-party customers and royalties on our licensees' restaurant sales. Revenues from restaurant sales are recognized when payment is tendered at the point of sale. Revenues from bakery sales are recognized upon transfer of title and risk to customers. Royalties from international licensees are accrued as revenues when earned. Revenues are presented net of sales taxes. Sales tax collected is included in other accrued expenses until the taxes are remitted to the appropriate taxing authorities.

We recognize a liability upon the sale of our gift cards and recognize revenue when these gift cards are redeemed in our restaurants. Based on our historical redemption patterns, we can reasonably estimate the amount of gift cards for which redemption is remote, which is referred to as breakage. Breakage is recognized over a three-year period in proportion to historical redemption trends and is classified as revenues in our consolidated statements of income. We recognized \$7.6 million, \$6.6 million and \$5.4 million of gift card breakage in fiscal years 2016, 2015 and 2014, respectively. Incremental direct costs related to gift card sales, including commissions and credit card fees, are deferred and recognized in earnings in the same pattern as the related gift card revenue.

Certain of our promotional programs include multiple element arrangements that incorporate both delivered and undelivered components. We allocate revenue using the relative selling price of each deliverable and recognize it upon delivery of each component.

Leases

We currently lease all of our restaurant locations. We evaluate each lease to determine its appropriate classification as an operating or capital lease for financial reporting purposes. All of our restaurant leases are classified as operating leases. Minimum base rent, which generally escalates over the term of the lease, is recorded on a straight-line basis over the lease term. The initial lease term includes the build-out, or rent holiday, period for our leases, where no rent payments are typically due under the terms of the lease. Contingent rent expense, which is based on a percentage of revenues, is recorded as incurred to the extent it exceeds minimum base rent per the lease agreement.

We expend cash for leasehold improvements and furnishings, fixtures and equipment to build out and equip our leased premises. We may also expend cash for structural additions that we make to leased premises. Generally a portion of the leasehold improvements and building costs are reimbursed to us by our landlords as construction contributions. If obtained, landlord construction contributions usually take the form of up-front cash, full or partial credits against our future minimum or percentage rents, or a combination thereof. Depending on the specifics of the

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leased space and the lease agreement, amounts paid for structural components are recorded during the construction period as either prepaid rent or property and equipment and the landlord construction contributions are recorded as either an offset to prepaid rent or as a deemed landlord financing liability.

For those leases for which we are deemed the owner of the property during construction, upon completion, we perform an analysis to determine if they qualify for sale-leaseback treatment. For those qualifying leases, the deemed landlord financing liability and the associated property and equipment are removed and the difference is reclassified to either prepaid or deferred rent and amortized over the lease term as an increase or decrease to rent expense. If the lease does not qualify for sale-leaseback treatment, the deemed landlord financing liability is amortized over the lease term based on the rent payments designated in the lease agreement.

Self-Insurance Liabilities

We retain the financial responsibility for a significant portion of our risks and associated liabilities with respect to workers' compensation, general liability, employee health benefits, employment practices and other insurable risks. The accrued liabilities associated with our self-insured programs are based on our estimate of the ultimate costs to settle known claims as well as claims incurred but not yet reported to us (IBNR) as of the balance sheet date and are recorded in other accrued expenses. Our estimated liabilities are not discounted and are based on information provided by our insurance brokers and insurers, combined with our judgment regarding a number of assumptions and factors, including the frequency and severity of claims, claims development history, case jurisdiction, applicable legislation and our claims settlement practices. We maintain stop-loss coverage with third-party insurers to limit our individual claim exposure for many of our programs. The estimated amounts receivable from our third-party insurers under this coverage are recorded in other receivables.

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Stock-Based Compensation

We maintain stock-based incentive plans under which equity awards may be granted to employees and consultants. We account for the awards based on fair value measurement guidance and amortize to expense over the vesting period using a straight-line or graded-vesting schedule, as applicable. We reclassify the excess tax benefit resulting from the exercise of stock options out of cash flows from operating activities and into cash flows from financing activities on the consolidated statements of cash flows. See Note 12 for further discussion of our stock-based compensation.

Advertising Costs

We expense advertising production costs at the time the advertising first takes place. All other advertising costs are expensed as incurred. Most of our advertising costs are included in other operating costs and expenses and were \$7.4 million, \$5.0 million and \$6.2 million in fiscal 2016, 2015 and 2014, respectively.

Preopening Costs

Preopening costs include all costs to relocate and compensate restaurant management employees during the preopening period, costs to recruit and train hourly restaurant employees, and wages, travel and lodging costs for our opening training team and other support staff members. Also included are expenses for maintaining a roster of trained managers for pending openings, the associated temporary housing and other costs necessary to relocate managers in alignment with future restaurant opening and operating needs, and corporate travel and support activities. We expense preopening costs as incurred.

Income Taxes

We provide for federal, state and foreign income taxes currently payable and for deferred taxes that result from differences between financial accounting rules and tax laws governing the timing of recognition of various income and expense items. We recognize deferred income tax assets and liabilities for the future tax effects of such temporary differences based on the difference between the financial statement and tax bases of existing assets and liabilities using the statutory rates expected in the years in which the differences are expected to reverse. The effect on deferred taxes of any enacted change in tax rates is recognized in income in the period that includes the enactment date. Income tax credits are recorded as a reduction of tax expense.

We account for uncertain tax positions under Financial Accounting Standards Board (FASB) guidance, which requires that a position taken or expected to be taken in a tax return be recognized (or derecognized) in the financial statements when it is more likely than not (i.e., a likelihood of more than 50%) that the position would be sustained on its technical merits upon examination by tax authorities, taking into account available administrative remedies and litigation. A recognized tax position is then measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate resolution. We recognize interest related to uncertain tax positions in income tax expense. Penalties related to uncertain tax positions are recorded in general and administrative expenses.

Net Income per Share

Basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. At January 3, 2017, December 29, 2015 and December 30, 2014, 1.9 million, 1.9 million and 1.8 million shares, respectively, of restricted stock issued to employees were unvested and, therefore, excluded from the calculation of basic earnings per share for the fiscal years ended on those dates. Diluted net income per share includes the dilutive effect of outstanding equity awards, calculated using the treasury stock method. Assumed proceeds from the in-the-money options include the windfall tax benefits, net of shortfalls, calculated under the as-if method as prescribed by FASB Accounting Standards Codification 718, Compensation Stock Option Compensation.

	2016	Fiscal Year 2015		2014
	(In thousands, except per share data)			
Net income	\$ 139,494	\$ 116,523	\$ 101,276	
Basic weighted average shares outstanding	47,981	48,833	49,567	
Dilutive effect of equity awards	1,391	1,772	2,017	
Diluted weighted average shares outstanding	49,372	50,605	51,584	
Basic net income per share	\$ 2.91	\$ 2.39	\$ 2.04	
Diluted net income per share	\$ 2.83	\$ 2.30	\$ 1.96	

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Shares of common stock equivalents of 1.4 million, 1.3 million and 1.0 million for fiscal 2016, 2015 and 2014, respectively, were excluded from the diluted calculation due to their anti-dilutive effect.

Comprehensive Income

Comprehensive income includes all changes in equity during a period except those resulting from investment by and distribution to owners. For fiscal years 2016, 2015 and 2014, our comprehensive income consisted solely of net income.

Recent Accounting Pronouncements

In March 2016, the FASB issued guidance affecting all entities that issue share-based payment awards to their employees. This update covers such areas as the recognition of excess tax benefits and deficiencies, the classification of those excess tax benefits on the statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification and the classification of those taxes paid on the statement of cash flows. This guidance is effective for annual and interim periods beginning after December 15, 2016. Although early adoption is permitted, we will adopt these provisions prospectively in the first quarter of fiscal 2017. These changes will impact our tax provision, cash flows from operating activities and cash flows from financing activities. We will continue to estimate forfeitures each period, so there will be no change associated with forfeitures. Excess tax benefits and deficiencies are heavily impacted by factors outside of our control such as the number of stock options exercised and the market price of our stock. For purposes of our Fiscal 2017 Outlook in Part II, Item 7 of this report, we estimated the implementation of this guidance to reduce our annual effective tax rate by a range of 3% to 4%.

In February 2016, the FASB issued guidance that requires a lessee to recognize on the balance sheet a liability to make lease payments and a corresponding right-of-use asset. The standard also requires certain qualitative and quantitative disclosures about the amount, timing and uncertainty of cash flows arising from leases. This update is effective for annual and interim periods beginning after December 15, 2018 and requires a modified retrospective approach. Although early adoption is permitted, we will adopt these provisions in the first quarter of fiscal 2019. This guidance will have a material effect on our consolidated financial statements.

In July 2015, the FASB issued guidance that requires inventory within the scope of the standard to be measured at the lower of cost or net realizable value. Previous guidance required inventory to be measured at the lower of cost or market (where market was defined as replacement cost, with a ceiling of net realizable value and floor of net realizable value less a normal profit margin). The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. We expect the adoption of this guidance to have no material impact on our consolidated financial statements.

In April 2015, the FASB issued guidance regarding a customer's accounting for fees paid in a cloud computing arrangement. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This guidance was effective for fiscal years beginning after December 15, 2015, with early adoption permitted. Our adoption of this guidance in the first quarter of fiscal 2016 had no impact on our consolidated financial statements.

In April 2015, the FASB issued updated guidance intended to simplify, and provide consistency to, the presentation of debt issuance costs. The new standard requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. In August 2015, the FASB provided additional guidance for presentation of debt issuance costs related to line-of-credit arrangements. The updated guidance was effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. Our adoption of this guidance in the first quarter of fiscal 2016 had no impact on our consolidated financial statements.

In February 2015, the FASB issued updated guidance that changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The updated guidance was effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. Our adoption of this guidance in the first quarter of fiscal 2016 had no impact on our consolidated financial statements.

In June 2014, the FASB issued updated guidance intended to eliminate the diversity in practice regarding share-based payment awards that include terms which provide for a performance target that affects vesting being achieved after the requisite service period. The new standard requires that a performance target which affects vesting and could be achieved after the requisite service period be treated as a performance condition that affects vesting and should not be reflected in estimating the grant-date fair value. The updated guidance was effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. Our adoption of this guidance in the first quarter of fiscal 2016 had no impact on our consolidated financial statements.

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In May 2014, the FASB issued accounting guidance that provides a comprehensive new revenue recognition model that supersedes most of the existing revenue recognition requirements and require entities to recognize revenue at an amount that reflects the consideration to which a company expects to be entitled in exchange for transferring goods or services to a customer. In August 2015, the FASB deferred the effective date of this standard by one year with early adoption permitted no earlier than the original effective date. The guidance is now effective for us beginning in the first quarter of fiscal 2018. In March and April 2016, the FASB provided additional guidance related to implementation. This standard is not expected to have a material impact on our consolidated financial statements.

2. Other Receivables

Other receivables consisted of (in thousands):

	January 3, 2017	December 29, 2015
Gift card resellers	\$ 42,719	\$ 40,245
Insurance providers	6,458	7,225
Landlord construction contributions	4,807	13,619
Other	10,608	11,569
Total	\$ 64,592	\$ 72,658

3. Inventories

Inventories consisted of (in thousands):

	January 3, 2017	December 29, 2015
Restaurant food and supplies	\$ 16,555	\$ 16,127
Bakery finished goods and work in progress	12,121	12,104
Bakery raw materials and supplies	6,250	5,779
Total	\$ 34,926	\$ 34,010

4. Prepaid Expenses

Prepaid expenses consisted of (in thousands):

	January 3, 2017	December 29, 2015
Gift card costs	\$ 23,786	\$ 23,362

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Rent		16,072	5,236
Other		12,580	13,378
Total	\$	52,438	\$ 41,976

5. Property and Equipment

Property and equipment consisted of (in thousands):

	January 3, 2017	December 29, 2015
Land and related improvements	\$ 15,852	\$ 15,852
Buildings	37,607	20,610
Leasehold improvements	1,187,178	1,126,529
Furnishings, fixtures and equipment	428,652	387,779
Computer software and equipment	49,490	49,917
Restaurant smallwares	29,275	47,363
Construction in progress	20,836	28,732
Property and equipment, total	1,768,890	1,676,782
Less: Accumulated depreciation	(858,756)	(784,591)
Property and equipment, net	\$ 910,134	\$ 892,191

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Depreciation expenses related to property and equipment for fiscal 2016, 2015 and 2014 were \$88.0 million, \$85.6 million and \$82.4 million, respectively. Repair and maintenance expenses for fiscal 2016, 2015 and 2014 were \$50.1 million, \$44.9 million and \$42.7 million, respectively. Net expense on property and equipment disposals of \$3.6 million, \$2.1 million and \$2.0 million in fiscal 2016, 2015 and 2014, respectively, is recorded in interest and other expense, net in our consolidated statements of income.

6. Other Assets

Other assets consisted of (in thousands):

	January 3, 2017	December 29, 2015
Executive Savings Plan assets trust	\$ 49,025	\$ 41,463
Investments in unconsolidated affiliates	42,000	
Deposits	5,517	5,443
Total	\$ 96,542	\$ 46,906

7. Other Accrued Expenses

Other accrued expenses consisted of (in thousands):

	January 3, 2017	December 29, 2015
Self-insurance	\$ 64,135	\$ 60,033
Salaries and wages	39,401	31,570
Employee benefits	20,607	19,980
Payroll and sales taxes	20,197	14,633
Other	34,694	32,097
Total	\$ 179,034	\$ 158,313

8. Long-Term Debt

On November 10, 2016, we entered into a loan agreement (Facility) which amended and restated in its entirety our prior loan agreement dated October 16, 2013. This Facility, which matures on December 22, 2020, provides us with revolving loan commitments totaling \$200 million, of which \$50 million may be used for issuances of letters of credit. Availability under the Facility is reduced by outstanding letters of credit, which are used to support our self-insurance programs. The Facility contains a commitment increase feature that could provide for an additional \$100 million in available credit upon our request and subject to the lenders electing to increase their commitments or by means of the addition of new lenders. Our obligations under the Facility are unsecured. Certain of our material subsidiaries have guaranteed our obligations under the Facility. We borrowed on these credit facilities during fiscal 2016 to fund a portion of our investment in North Italia and Flower Child and our stock repurchases. We borrowed on these credit facilities during fiscal 2015 to fund a portion of our stock repurchases. Balances were repaid within each fiscal year. At January 3, 2017, we had net availability for borrowings of \$178 million, based on a zero outstanding debt balance

and \$22.0 million in standby letters of credit.

We are subject to certain financial covenants under the Facility requiring us to maintain (i) a maximum Net Adjusted Leverage Ratio of 4.0, comprised of debt plus eight times rent minus unrestricted cash and cash equivalents in excess of \$25 million divided by EBITDAR (trailing 12-month earnings before interest, taxes, depreciation, amortization, noncash stock option expense, rent and permitted acquisition costs) and (ii) a trailing 12-month minimum EBITDAR to interest and rental expense ratio (EBITDAR Ratio) of 1.9. Our Net Adjusted Leverage and EBITDAR Ratios were 2.4 and 3.1, respectively, at January 3, 2017, and we were in compliance with the financial covenants in effect at that date. The Facility also limits cash distributions with respect to our equity interests, such as cash dividends and share repurchases, based on the Net Adjusted Leverage Ratio.

Borrowings under the Facility bear interest, at our option, at a rate equal to either (i) the Adjusted LIBO Rate plus a margin ranging from 1.00% to 1.75% based on our Net Adjusted Leverage Ratio or (ii) the sum of (a) the highest of (1) the rate of interest publicly announced by JP Morgan Chase Bank as its prime rate in effect, (2) the greater of the Federal Funds Effective Rate or the Overnight Bank Funding Rate, in either case plus 0.5%, and (3) the one-month Adjusted LIBO Rate plus 1.0%, plus (b) a margin ranging from 0.00% to 0.75% based on our Net Adjusted Leverage Ratio. Under the Facility, we paid certain customary loan origination fees and will pay a fee on the unused portion of the Facility ranging from 0.125% to 0.25% also based on our Net Adjusted Leverage Ratio.

We capitalized interest expense related to new restaurant openings and major remodels totaling \$0.6 million, \$1.6 million and \$0.8 million in fiscal 2016, 2015 and 2014, respectively.

Table of Contents**9. Other Noncurrent Liabilities**

Other noncurrent liabilities consisted of (in thousands):

	January 3, 2017	December 29, 2015
Executive Savings Plan	\$ 49,232	\$ 41,281
Other	9,802	10,024
Total	\$ 59,034	\$ 51,305

See Note 13 for further discussion of our Executive Savings Plan.

10. Commitments and Contingencies

We currently lease all of our restaurant locations under operating leases, with remaining terms ranging from less than one year to 20 years, excluding unexercised renewal options. Our restaurant leases typically include land and building shells, require contingent rent above the minimum base rent payments based on a percentage of revenues ranging from 3% to 10%, have escalating minimum rent requirements over the term of the lease and require various expenses incidental to the use of the property. A majority of our leases provide for a reduced level of overall rent obligation should specified co-tenancy requirements not be satisfied. Most leases have renewal options. Many of our leases also provide early termination rights permitting us to terminate the lease prior to expiration in the event our revenues are below a stated level for a period of time, generally conditioned upon repayment of the unamortized allowances contributed by landlords to the build-out of the leased premises. We also lease automobiles and certain equipment under operating lease agreements. Rent expense is included in other operating costs and expenses in the consolidated statements of income.

As of January 3, 2017, the aggregate minimum annual lease payments under operating leases, including amounts characterized as deemed landlord financing payments are as follows (in thousands):

2017	\$ 87,907
2018	88,418
2019	89,087
2020	86,742
2021	83,314
Thereafter	585,737
Total	\$ 1,021,205

Rent expense on all operating leases was as follows (in thousands):

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	Fiscal Year		
	2016	2015	2014
Straight-lined minimum base rent	\$ 80,276	\$ 74,981	\$ 71,828
Contingent rent	22,408	21,160	19,895
Common area maintenance and taxes	36,252	34,602	31,074
Total	\$ 138,936	\$ 130,743	\$ 122,797

We enter into various obligations for the purchase of goods and for the construction of restaurants. At January 3, 2017, these obligations approximated \$142.1 million, \$94.3 million of which is due in fiscal 2017. In addition, we are obligated to provide up to \$42 million in combined growth capital to North Italia and Flower Child. These contributions will result in an increased minority interest in the related concept. The right, and obligation to provide growth capital and to acquire the remaining interest in either or both of these concepts in the next three to five years, assumes certain financial, legal and operational conditions are met.

As credit guarantees to insurers, we have \$22.0 million in standby letters of credit related to our self-insurance liabilities. All standby letters of credit are renewable annually.

We retain the financial responsibility for a significant portion of our risks and associated liabilities with respect to workers' compensation, general liability, employee health benefits, employment practices and other insurable risks. The accrued liabilities associated with these programs are based on our estimate of the ultimate costs to settle known claims as well as claims incurred but not yet reported to us (IBNR) as of the balance sheet date. Our estimated liabilities are not discounted and are based on information provided by our insurance brokers and insurers, combined with our judgment regarding a number of assumptions and factors, including the frequency and severity of claims, claims development history, case jurisdiction, applicable legislation and our claims settlement practices. We maintain stop-loss coverage with third-party insurers to limit our individual claim exposure for many of our programs. Significant judgment is required to estimate IBNR amounts, as parties have yet to assert such claims. If actual claims trends, including the severity or frequency of claims, differ from our estimates, our financial results could be impacted. At January 3, 2017, the total accrued liability for our self-insured plans was \$64.1 million.

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On April 11, 2013, a former restaurant hourly employee filed a class action lawsuit in the California Superior Court, Placer County, alleging that the Company violated the California Labor Code and California Business and Professions Code, by requiring employees to purchase uniforms for work (Sikora v. The Cheesecake Factory Restaurants, Inc., et al; Case No SCV0032820). A similar lawsuit covering a different time period was also filed in Placer County (Reed v. The Cheesecake Factory Restaurants, Inc. et al; Case No. SCV27073). By stipulation the parties agreed to transfer the Reed and Sikora cases to Los Angeles County. Both cases were subsequently coordinated together in Los Angeles County by order of the Judicial Council. On November 15, 2013, the Company filed a motion to enforce judgment and to preclude the prosecution of certain claims under the California Private Attorney General Act (PAGA) and California Business and Professions Code Section 17200. On March 11, 2015, the court granted the Company s motion in Case No. SCV0032820. The parties participated in voluntary mediation on June 25, 2015 and have executed a memorandum of understanding with respect to the terms of settlement, which is subject to court approval and is intended to be a full and final resolution of the actions. We expensed an immaterial amount for this settlement in the second quarter of fiscal 2015. On January 29, 2016, the court granted the parties Motion for Preliminary Approval of Class Action Settlement for Case Nos. SCV0032820 and SCV27073. On June 10, 2016, the court entered the order and judgment granting final approval of the class action settlement. Final payments under the settlement agreement were made in September 2016 following the end of the claims period.

On November 26, 2014, a former restaurant hourly employee filed a class action lawsuit in the San Diego County Superior Court, alleging that the Company violated the California Labor Code and California Business and Professions Code, by failing to pay overtime, to permit required rest breaks and to provide accurate wage statements, among other claims (Masters v. The Cheesecake Factory Restaurants, Inc., et al; Case No 37-2014-00040278). By stipulation, the parties agreed to transfer Case No. 37-2014-00040278 to the Orange County Superior Court. On March 2, 2015, Case No. 37-2014-00040278 was officially transferred and assigned a new Case No. 30-2015-00775529 in the Orange County Superior Court. On June 27, 2016, we gave notice to the court that Case Nos. CIV1504091 and BC603620 described below may be related. The lawsuit seeks unspecified amounts of fees, penalties and other monetary payments on behalf of the Plaintiff and other purported class members. We intend to vigorously defend this action. Based on the current status of this matter, we have not reserved for any potential future payments.

On May 28, 2015, a group of current and former restaurant hourly employees filed a class action lawsuit in the U.S. District Court for the Eastern District of New York, alleging that the Company violated the Fair Labor Standards Act and New York Labor Code, by requiring employees to purchase uniforms for work and violated the State of New York s minimum wage and overtime provisions (Guglielmo v. The Cheesecake Factory Restaurants, Inc., et al; Case No 2:15-CV-03117). On September 8, 2015, the Company filed its response to the complaint, requesting the court to compel arbitration against opt-in plaintiffs with valid arbitration agreements. On July 21, 2016, the court issued an order confirming the agreement of the parties to dismiss all class claims with prejudice and to allow the case to proceed as a collective action at a limited number of the Company s restaurants in the State of New York. The plaintiffs are seeking unspecified amounts of penalties and other monetary payments. We intend to vigorously defend this action. Based upon the current status of this matter, we have not reserved for any potential future payments.

On November 10, 2015, a current restaurant hourly employee filed a class action lawsuit in the Marin County Superior Court alleging that the Company failed to provide complete and accurate wage statements as set forth in the California Labor Code. On January 26, 2016, the plaintiff filed a First Amended Complaint. The lawsuit seeks unspecified penalties under PAGA in addition to other monetary payments (Brown v. The Cheesecake Factory Restaurants, Inc.; Case No. CIV1504091). On April 18, 2016, the court granted our motion to compel individual arbitration of plaintiff s wage statement claim and stayed the PAGA claim until completion of the individual arbitration. On June 28, 2016, we gave notice to the court that Case Nos. 30-2015-00775529 and BC603620 may be related. On September 6, 2016, the parties engaged in settlement discussion and are negotiating the terms of a final settlement agreement. On February 21, 2017, the court granted the parties motion for preliminary approval of class action settlement, and preliminarily enjoined the plaintiffs in Case Nos. 30-2015-00775529 and 37-2014-00040278 from prosecuting any claims released in Case No. CIV1504091. The final settlement agreement will be subject to court approval and is intended to be a full and final resolution of Case No. CIV150491. Based on the current status of this matter, we have reserved an immaterial amount in anticipation of settlement.

On December 10, 2015, a former restaurant management employee filed a class action lawsuit in the Los Angeles County Superior Court alleging that the Company improperly classified its managerial employees, failed to pay overtime, and failed to provide accurate wage

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statements, in addition to other claims. The lawsuit seeks unspecified penalties under PAGA in addition to other monetary payments (Tagalagon v. The Cheesecake Factory Restaurants, Inc., Case No. BC603620). On March 23, 2016, the parties issued their joint status conference statement at which time we gave notice to the court that Case Nos. 30-2015-00775529 and CIV1504091 may be related. On April 29, 2016, the Company filed its response to the complaint. We intend to vigorously defend against this action. Based upon the current status of this matter, we have not reserved for any potential future payments.

On April 24, 2016, a class action lawsuit was filed in the United States District Court for the Eastern District of New York alleging that the Company violated the New York deceptive business practices statute by improperly calculating suggested gratuities on split payment checks (Rodriguez v. The Cheesecake Factory Restaurants, Inc., Case No. 2:16-cv-02006-JFB-AKT). The lawsuit seeks unspecified penalties in addition to other monetary payments. On September 1, 2016, the Company filed a motion to dismiss the plaintiff's complaint. On October 10, 2016, the plaintiff filed an amended complaint to limit the scope of the complaint to the State of New York only. The parties are waiting for a ruling on the Company's motion to dismiss. We intend to vigorously defend against this action. Based upon the current status of this matter, we have not reserved for any potential future payments.

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On December 13, 2016, the Internal Revenue Service (IRS) issued a Notice of Proposed Adjustment (NPA) in which the IRS proposed a disallowance of a total of \$12.9 million of our §199 Domestic Production Activity Deductions for tax years 2010, 2011 and 2012. On January 18, 2017, we responded to the NPA indicating we disagreed with the proposed adjustments, and we intend to request administrative review of the NPA by the IRS 's Appeals Division. We intend to vigorously defend our position and, based on our analysis of the law, regulations and relevant facts, we believe our position will be sustained. Based upon the current status of this matter, we have not reserved for any potential future payments.

On February 3, 2017, a class action lawsuit was filed in the United States District Court for the Southern District of Florida alleging that the Company violated the Fair and Accurate Credit Transaction Act by failing to properly censor consumer credit or debit card information. (Muransky v. The Cheesecake Factory Incorporated, Case No. 0:17-cv-60229-JEM). The lawsuit seeks unspecified penalties in addition to other monetary payments. We intend to vigorously defend against this action. Based upon the current status of this matter, we have not reserved for any potential future payments.

On February 3, 2017, five present and former restaurant hourly employees filed a class action lawsuit in the San Diego County Superior Court alleging that the Company violated the California Labor Code and California Business and Professions Code by failing to permit required meal and rest breaks and failing to provide accurate wage statements, among other claims. (Abdelaziz v. The Cheesecake Factory Restaurants, Inc., et al; Case No 37-2016-00039775-CU-OE-CTL). The lawsuit seeks unspecified penalties under PAGA in addition to other monetary payments on behalf of the plaintiffs and other purported class members. We intend to vigorously defend this action. Based on the current status of this matter, we have not reserved for any potential future payments.

On February 22, 2017, a group of present and former restaurant hourly employees filed a class action lawsuit in the San Diego County Superior Court alleging that the Company violated the California Labor Code and California Business and Professions Code by failing to pay overtime, furnish proper wage statements, and maintain accurate payroll records, among other claims. (Rodriguez v. The Cheesecake Factory Restaurants, Inc., et al; Case No 37-2017-00006571-CU-OE-CTL). The lawsuit seeks unspecified penalties under PAGA in addition to other monetary payments on behalf of the plaintiffs and other purported class members. We intend to vigorously defend this action. Based on the current status of this matter, we have not reserved for any potential future payments.

Within the ordinary course of our business, we are subject to private lawsuits, government audits, administrative proceedings and other claims. These matters typically involve claims from customers, staff members and others related to operational and employment issues common to the foodservice industry. A number of these claims may exist at any given time, and some of the claims may be pled as class actions. From time to time, we are also involved in lawsuits with respect to infringements of, or challenges to, our registered trademarks and other intellectual property, both domestically and abroad. We could be affected by adverse publicity and litigation costs resulting from such allegations, regardless of whether they are valid or whether we are legally determined to be liable. At this time, we believe that the final disposition of any pending lawsuits, audits, proceedings and claims will not have a material adverse effect individually or in the aggregate on our financial position, results of operations or liquidity. It is possible, however, that our future results of operations for a particular quarter or fiscal year could be impacted by changes in circumstances relating to lawsuits, audits, proceedings or claims. Legal costs related to such claims are expensed as incurred.

We have employment agreements with certain of our executive officers that provide for payments to those officers in the event of an actual or constructive termination of their employment, including in the event of a termination without cause, an acquirer failure to assume or continue equity awards following a change in control of the Company or, otherwise, in the event of death or disability as defined in those agreements. Aggregate payments totaling approximately \$2.2 million, excluding accrued potential bonuses of \$3.1 million, which are subject to approval by the Compensation Committee, would have been required by those agreements had all such officers terminated their employment for reasons requiring such payments as of January 3, 2017. In addition, the employment agreement with our Chief Executive Officer, specifies an annual

founder's retirement benefit of \$650,000 for ten years, commencing six months after termination of his full time employment.

11. Stockholders' Equity

Cash dividends of \$0.88, \$0.73 and \$0.61 were declared during fiscal 2016, 2015 and 2014, respectively. Future decisions to pay or to increase or decrease dividends are at the discretion of the Board and will be dependent on our operating performance, financial condition, capital expenditure requirements, limitations on cash distributions pursuant to the terms and conditions of our Facility and such other factors that the Board considers relevant.

On July 21, 2016, our Board increased the authorization to repurchase our common stock by 7.5 million shares to 56.0 million shares. Under this and all previous authorizations, we have cumulatively repurchased 47.0 million shares at a total cost of \$1,409.9 million through January 3, 2017. During fiscal 2016, 2015 and 2014, we repurchased 2.9 million, 2.1 million and 3.1 million shares of our common stock at a cost of \$146.5 million, \$104.8 million and \$143.2 million, respectively. Repurchased common stock is reflected as a reduction of stockholders' equity. Our share repurchases have included repurchases under Rule 10b5-1 plans adopted from time to time by our Board in furtherance of its repurchase authorization. Repurchases made during fiscal 2016 were made under a Rule 10b5-1 plan that was adopted by our Board on November 3, 2015 that was effective from January 4, 2016 through June 30, 2016 and a 10b5-1 Plan approved on April 21, 2016, which was effective from July 1, 2016 through December 30, 2016. On October 20, 2016, our Board approved a 10b5-1 Plan, which is effective from January 3, 2017 through June 30, 2017.

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Our share repurchase authorization does not have an expiration date, does not require us to purchase a specific number of shares and may be modified, suspended or terminated at any time. Shares may be repurchased in the open market or through privately negotiated transactions at times and prices considered appropriate by us. Purchases in the open market are made in compliance with Rule 10b-18 under the Securities Exchange Act of 1934 (the "Act"). We make the determination to repurchase shares based on several factors, including an evaluation of current and future capital needs associated with new restaurant development, current and forecasted cash flows, including dividend payments and growth capital contributions to North Italia and Flower Child, a review of our capital structure and cost of capital, our share price and current market conditions. The timing and number of shares repurchased are also subject to legal constraints and financial covenants under our Facility that limit share repurchases based on a defined ratio. (See Note 8 for further discussion of our long-term debt.) Our objectives with regard to share repurchases are to offset the dilution to our shares outstanding that results from equity compensation grants and to supplement our earnings per share growth.

On February 27, 2015, we entered into an accelerated stock repurchase ("ASR") program with a financial institution to repurchase \$75 million of our common stock. The minimum number of shares to be repurchased, 1.5 million, was delivered during March 2015. The program concluded on July 27, 2015 with no additional shares delivered. On February 27, 2014, we entered into an ASR agreement with a financial institution to repurchase \$75 million of our common stock. The minimum number of shares to be repurchased, 1.4 million, was delivered in March 2014. Upon settlement of the 2014 ASR program, we received an additional 0.2 million shares on July 21, 2014.

12. Stock-Based Compensation

We maintain stock-based incentive plans under which incentive stock options, non-qualified stock options, stock appreciation rights, restricted shares and restricted share units may be granted to employees and consultants. Our current practice is to issue new shares, rather than treasury shares, upon stock option exercises and for restricted share grants. To date, we have only granted non-qualified stock options, restricted shares and restricted share units of common stock under these plans. Non-employee directors have received only non-qualified stock options under a non-employee director equity plan, which expired in May 2007. Currently, we do not have a plan under which non-employee directors may be granted stock options or other equity interests in the Company.

On April 2, 2015, our Board approved an amendment to our 2010 Stock Incentive Plan to increase the number of shares of common stock available for grant under the plan to 9.2 million shares from 6.8 million shares. This amendment was approved by our stockholders at our annual meeting held on May 28, 2015. This is our only active stock-based incentive plan, and approximately 1.5 million of these shares were available for grant as of January 3, 2017.

Stock options generally vest at 20% per year and expire eight to ten years from the date of grant. Restricted shares and restricted share units generally vest between three to five years from the date of grant and require that the staff member remains employed in good standing with the Company as of the vesting date. Certain restricted share units granted to executive officers contain performance-based vesting conditions. Performance goals are determined by the Board of Directors. The quantity of units that will vest ranges from 0% to 125% based on the level of achievement of the performance conditions. Equity awards for certain executive officers may vest earlier in the event of a change of control in which the acquirer fails to assume or continue such awards, as defined in the plan, or under certain circumstances described in such executive officers' respective employment agreements.

Since restricted shares and restricted share units provide strong retention power through economic value to our staff members even when our stock price remains flat or declines, and they also reduce our total share usage, we have generally increased the proportion of restricted shares and restricted share units versus stock option grants over the past several years. Compensation expense is recognized only for those options,

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restricted shares and restricted share units expected to vest, with forfeitures estimated based on our historical experience and future expectations.

The following table presents information related to stock-based compensation, net of forfeitures (in thousands):

	2016	Fiscal Year 2015	2014
Labor expenses	\$ 6,023	\$ 5,748	\$ 5,245
Other operating costs and expenses	251	268	216
General and administrative expenses	15,199	14,037	11,356
Total stock-based compensation	21,473	20,053	16,817
Income tax benefit	8,213	7,670	6,433
Total stock-based compensation, net of taxes	\$ 13,260	\$ 12,383	\$ 10,384
Capitalized stock-based compensation (1)	\$ 338	\$ 272	\$ 216

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(1) It is our policy to capitalize the portion of stock-based compensation costs for our internal development and construction, legal, and facilities departments that relates to capitalizable activities such as the design and construction of new restaurants, remodeling existing locations, lease, intellectual property and liquor license acquisition activities and equipment installation. Capitalized stock-based compensation is included in property and equipment, net and other assets on the consolidated balance sheets.

Stock Options

The weighted average fair value at the grant date for options issued during fiscal 2016, 2015 and 2014 was \$12.10, \$14.17 and \$15.48 per option, respectively. The fair value of options was estimated utilizing the Black-Scholes valuation model with the following weighted average assumptions for fiscal 2016, 2015 and 2014, respectively: (a) an expected option term of 6.8 years, 6.6 years and 6.5 years, (b) expected stock price volatility of 26.3%, 31.3% and 32.9%, (c) a risk-free interest rate of 1.6%, 1.9% and 2.2%, and (d) a dividend yield on our stock of 1.6%, 1.4% and 1.2%.

The expected option term represents the estimated period of time until exercise and is based on historical experience of similar options, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. Expected stock price volatility is based on a combination of the historical volatility of our stock and the implied volatility of actively traded options on our common stock. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant with an equivalent remaining term. The dividend yield is based on anticipated cash dividend payouts.

Stock option activity during fiscal 2016 was as follows:

	Shares (In thousands)	Weighted Average Exercise Price (Per share)	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value(1) (In thousands)
Outstanding at beginning of year	3,066	\$ 30.00	3.6	\$ 52,416
Granted	225	\$ 50.26		
Exercised	(1,304)	\$ 21.76		
Forfeited or cancelled	(32)	\$ 40.86		
Outstanding at end of year	1,955	\$ 37.65	4.0	\$ 42,592
Exercisable at end of year	1,064	\$ 31.69	2.8	\$ 29,505

(1) Aggregate intrinsic value is calculated as the difference between our closing stock price at fiscal year end and the exercise price, multiplied by the number of in-the-money options and represents the pre-tax amount that would have been received by the option holders, had they all exercised their options on the fiscal year end date.

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The total intrinsic value of options exercised during fiscal 2016, 2015 and 2014 was \$40.4 million, \$37.0 million and \$28.2 million, respectively. As of January 3, 2017, total unrecognized stock-based compensation expense related to unvested stock options was \$8.0 million, which we expect to recognize over a weighted average period of approximately 2.6 years.

Restricted Shares and Restricted Share Units

Restricted share and restricted share unit activity during fiscal 2016 was as follows:

	Shares (In thousands)		Weighted Average Fair Value (Per share)
Outstanding at beginning of year	1,891	\$	41.31
Granted	458	\$	50.89
Vested	(368)	\$	33.07
Forfeited	(120)	\$	43.40
Outstanding at end of year	1,861	\$	45.11

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Fair value of our restricted shares and restricted share units is based on our closing stock price on the date of grant. The weighted average fair value for restricted shares and restricted share units issued during fiscal 2016, 2015 and 2014 was \$50.89, \$49.70 and \$47.16, respectively. The fair value of shares that vested during fiscal 2016, 2015 and 2014 was \$12.2 million, \$7.5 million and \$4.5 million, respectively. As of January 3, 2017, total unrecognized stock-based compensation expense related to unvested restricted shares and restricted share units was \$40.5 million, which we expect to recognize over a weighted average period of approximately 2.6 years.

13. Employee Benefit Plans

We have a defined contribution benefit plan in accordance with section 401(k) of the Internal Revenue Code (401(k) Plan) that is open to our staff members who meet certain compensation and eligibility requirements. Participation in the 401(k) Plan is currently open to staff members from our three restaurant concepts, our bakery facilities and our corporate offices. The 401(k) Plan allows participating staff members to defer the receipt of a portion of their compensation and contribute such amount to one or more investment options. Our executive officers and a select group of management and/or highly compensated staff members are not eligible to participate in the 401(k) Plan. We currently match in cash a certain percentage of the employee contributions to the 401(k) Plan and also pay a portion of the administrative costs. Expense recognized in fiscal 2016, 2015 and 2014 was \$0.9 million, \$0.7 million and \$0.6 million, respectively.

We have also established The Cheesecake Factory Incorporated Executive Savings Plan (ESP), a non-qualified deferred compensation plan for our executive officers and a select group of management and/or highly compensated staff members as defined in the plan document. The ESP allows participating staff members to defer the receipt of a portion of their base compensation and up to 100% of their eligible bonuses. Non-employee directors may also participate in the ESP and defer the receipt of their earned director fees. We currently match in cash a certain percentage of the base compensation and bonus deferred by participating staff members and also pay for the ESP administrative costs. We do not match any contributions made by non-employee directors. Expense recognized in fiscal 2016, 2015 and 2014 was \$1.0 million, \$0.9 million and \$0.8 million, respectively.

ESP deferrals and matching funds are deposited into a rabbi trust, and are generally invested in individual variable life insurance contracts owned by us that are specifically designed to informally fund savings plans of this nature. These contracts are recorded at their cash surrender value as determined by the insurance carrier. The measurement of these contracts is considered a Level 2 measurement within the fair value hierarchy. Our consolidated balance sheets reflect our investment in variable life insurance contracts in other assets and our obligation to participants in the ESP in other noncurrent liabilities. All income and expenses related to the rabbi trust are reflected in our consolidated statements of income.

We maintain self-insured medical and dental benefit plans for our staff members and utilize stop-loss coverage to limit our financial exposure from any individual claim. The accrued liabilities associated with these programs are based on our estimate of the ultimate costs to settle known claims as well as claims incurred but not yet reported to us as of the balance sheet date. The accrued liability for our self-insured benefit plans, which is included in other accrued expenses was \$7.8 million and \$7.3 million as of January 3, 2017 and December 29, 2015, respectively. See Note 1 for further discussion of accounting for our self-insurance liabilities.

14. Income Taxes

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The provision for income taxes consisted of the following (in thousands):

	2016	Fiscal Year 2015	2014
Income before income taxes	\$ 191,768	\$ 159,352	\$ 138,544
Income tax provision/(benefit):			
Current:			
Federal	\$ 42,665	\$ 32,765	\$ 28,687
State	10,614	8,880	8,377
Total current	53,279	41,645	37,064
Deferred:			
Federal	(564)	2,659	480
State	(441)	(1,475)	(276)
Total deferred	(1,005)	1,184	204
Total provision	\$ 52,274	\$ 42,829	\$ 37,268

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The following reconciles the U.S. federal statutory rate to the effective tax rate:

	2016	Fiscal Year 2015	2014
U.S. federal statutory rate	35.0%	35.0%	35.0%
State and district income taxes, net of federal benefit	3.5	3.0	3.8
FICA tip credit	(7.0)	(8.0)	(8.4)
Other credits and incentives	(1.3)	(1.0)	(0.7)
Manufacturing deduction	(2.5)	(2.8)	(2.9)
Deferred compensation	(0.5)	0.3	(0.4)
Other	0.1	0.4	0.5
Effective tax rate	27.3%	26.9%	26.9%

Following are the temporary differences that created our deferred tax assets and liabilities (in thousands):

	January 3, 2017		December 29, 2015	
Deferred tax assets:				
Employee benefits	\$	32,258	\$	28,856
Insurance reserves		20,932		19,399
Accrued rent		20,583		21,504
Stock-based compensation		15,384		16,100
Deferred income		14,409		11,406
Tax credit carryforwards		2,247		2,694
Other		957		794
Subtotal		106,770		100,753
Less: Valuation allowance		(457)		(618)
Total	\$	106,313	\$	100,135
Deferred tax liabilities:				
Property and equipment	\$	(166,183)	\$	(160,764)
Inventory		(10,339)		(10,154)
Prepaid expenses		(12,192)		(11,741)
Total	\$	(188,714)	\$	(182,659)
Net deferred tax liability	\$	(82,401)	\$	(82,524)

At January 3, 2017 and December 29, 2015, we had \$3.5 million and \$4.1 million, respectively, of state tax credit carryforwards, consisting of hiring and investment credits, which began to expire in 2013. We assess the available evidence to estimate if sufficient future taxable income will be generated to use these carryforwards. Based on this evaluation, we recorded a valuation allowance of \$0.5 million and \$0.6 million at January 3, 2017 and December 29, 2015, respectively, relating to the portion of these credits that we will likely not realize. This assessment could change if estimates of future taxable income during the carryforward period are revised. The earliest tax year still subject to examination by a significant taxing jurisdiction is 2010.

At January 3, 2017, we had a reserve of \$0.8 million for uncertain tax positions. If recognized, this amount would impact our effective income tax rate. A reconciliation of the beginning and ending amount of our uncertain tax positions is as follows (in thousands):

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	2016		Fiscal Year 2015		2014
Balance at beginning of year	\$ 1,067	\$	875	\$	802
Additions related to current period tax positions	139		192		233
Reductions related to settlements with taxing authorities and lapses of statutes of limitations	(377)		(0)		(160)
Balance at end of year	\$ 829	\$	1,067	\$	875

None of the balance of uncertain tax positions at January 3, 2017 relates to tax positions for which it is reasonably possible that the total amount could decrease during the next twelve months based on the lapses of statutes of limitations. At both January 3, 2017 and December 29, 2015, we had approximately \$0.1 million of accrued interest and penalties related to uncertain tax positions.

Table of Contents**15. Stockholder Rights Plan**

We have a stockholder rights plan that provides for the distribution to stockholders of one right to purchase a unit equal to 1/100th of a share of junior participating cumulative preferred stock. The rights are evidenced by our common stock certificates and automatically trade with our common stock. The rights are not exercisable unless a person or group acquires (or commences a tender or exchange offer or announces an intention to acquire) 15% or more of our common stock (or 20% or more if such person or group was beneficial owner of 10% or more of our common stock on August 4, 1998) without the approval of our Board. When declared exercisable, holders of the rights (other than the acquiring person or group) would have the right to purchase units of junior participating cumulative preferred stock having a market value equal to two times the exercise price of each right, which is \$110. Additionally, if we are thereafter merged into another entity, or if more than 50% of our consolidated assets or earnings power is sold or transferred, holders of the rights will be entitled to buy common stock of the acquiring person or group equal to two times the exercise price of each right. These rights expire on August 4, 2018, unless redeemed earlier by us.

16. Segment Information

For decision-making purposes, our management reviews discrete financial information for The Cheesecake Factory, Grand Lux Cafe and Rock Sugar Pan Asian Kitchen restaurants, our bakery division and our international licensing operations. Based on quantitative thresholds set forth in ASC 280, Segment Reporting, The Cheesecake Factory is our only business that meets the criteria of a reportable operating segment. Grand Lux Cafe, Rock Sugar Pan Asian Kitchen, bakery and international licensing are combined in Other. Unallocated corporate expenses, assets and capital expenditures are presented below as reconciling items to the amounts presented in the consolidated financial statements.

Segment information is presented below (in thousands):

	2016	Fiscal Year 2015		2014
Revenues:				
The Cheesecake Factory restaurants	\$ 2,078,083	\$ 1,913,758		\$ 1,792,796
Other	197,636	186,851		183,828
Total	\$ 2,275,719	\$ 2,100,609		\$ 1,976,624
Income/(loss) from operations:				
The Cheesecake Factory restaurants (1)	\$ 308,058	\$ 275,686		\$ 240,774
Other (2)	27,623	18,047		14,983
Corporate	(134,688)	(128,487)		(111,026)
Total	\$ 200,993	\$ 165,246		\$ 144,731
Depreciation and amortization:				
The Cheesecake Factory restaurants	\$ 74,861	\$ 71,821		\$ 68,504
Other	8,469	9,690		10,337
Corporate	4,680	4,052		3,994
Total	\$ 88,010	\$ 85,563		\$ 82,835
Capital expenditures:				
The Cheesecake Factory restaurants	\$ 99,817	\$ 122,358		\$ 104,525

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Other		13,783		13,644		3,713
Corporate		2,221		17,939		5,744
Total	\$	115,821	\$	153,941	\$	113,982
Total assets:						
The Cheesecake Factory restaurants	\$	950,372	\$	934,606	\$	861,697
Other		157,842		152,243		154,033
Corporate		185,105		146,497		145,646
Total	\$	1,293,319	\$	1,233,346	\$	1,161,376

(1) Fiscal year 2016 includes \$0.1 million of accelerated depreciation expense related to the planned relocation of one The Cheesecake Factory restaurant. Fiscal year 2014 includes \$0.7 million of impairment and lease termination expenses related to the relocation of one The Cheesecake Factory restaurant. These amounts were recorded in impairment of assets and lease terminations in the consolidated statements of income. (See Note 1 for further discussion of these charges.)

(2) Fiscal year 2015 includes \$6.0 million of impairment expense related to our Rock Sugar Pan Asian Kitchen restaurant. This amount was recorded in impairment of assets and lease terminations in the consolidated statements of income. (See Note 1 for further discussion of these charges.)

Table of Contents**17. Quarterly Financial Data (unaudited)**

Summarized unaudited quarterly financial data for fiscal 2016 and 2015, is as follows (in thousands, except per share data):

Quarter Ended:	March 29, 2016		June 28, 2016		September 27, 2016		January 3, 2017	
Revenues	\$	553,693	\$	558,862	\$	560,018	\$	603,146
Income from operations (1)	\$	48,594	\$	55,190	\$	50,063	\$	47,146
Net income	\$	33,954	\$	38,585	\$	34,574	\$	32,381
Basic net income per share (2)	\$	0.70	\$	0.80	\$	0.72	\$	0.68
Diluted net income per share (2)	\$	0.68	\$	0.78	\$	0.70	\$	0.66
Cash dividends declared per common share	\$	0.20	\$	0.20	\$	0.24	\$	0.24

Quarter Ended:	March 31, 2015		June 30, 2015		September 29, 2015		December 29, 2015	
Revenues	\$	517,973	\$	529,107	\$	526,688	\$	526,841
Income from operations (1)	\$	41,054	\$	49,753	\$	35,644	\$	38,795
Net income	\$	28,423	\$	34,724	\$	26,176	\$	27,200
Basic net income per share (2)	\$	0.58	\$	0.72	\$	0.54	\$	0.56
Diluted net income per share (2)	\$	0.56	\$	0.69	\$	0.52	\$	0.54
Cash dividends declared per common share	\$	0.165	\$	0.165	\$	0.20	\$	0.20

(1) Income from operations included \$0.1 million of accelerated depreciation expense in the fourth quarter of fiscal 2016 related to the planned relocation of one The Cheesecake Factory restaurant and \$6.0 million of impairment expense in the third quarter of fiscal 2015 related to our Rock Sugar Pan Asian Kitchen restaurant. The impact to net income of these items was \$0.1 million and \$3.6 million, respectively. (See Note 1 for further discussion of impairment of assets and lease terminations.)

(2) Net income per share calculations for each quarter are based on the weighted average diluted shares outstanding for that quarter and may not total to the full year amount.

While seasonal fluctuations generally do not have a material impact on our quarterly results, the year-over-year comparison of our quarterly results can be significantly impacted by the number and timing of new restaurant openings and associated preopening costs, the calendar days of the week on which holidays occur, the impact from inclement weather and other climatic conditions, the additional week in a 53-week fiscal year and other variations in revenues and expenses. As a result of these factors, our financial results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

18. Subsequent Event*Dividends*

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On February 16, 2017, our Board approved a quarterly cash dividend of \$0.24 per share to be paid on March 21, 2017 to the stockholders of record on March 8, 2017.

On February 16, 2017, our Board approved the adoption of a 10b-18 Plan, which will be effective from February 27, 2017 through March 3, 2017.

Table of Contents**EXHIBIT INDEX**

Exhibit No.	Item	Form	File Number	Incorporated by Reference from Exhibit Number	Filed with SEC
2.1	Form of Reorganization Agreement	Amend. No. 1 to Form S-1	33-479336	2.1	8/17/92
3.1	Restated Certificate of Incorporation including Certificate of Designation of Series A Junior Participating Cumulative Preferred Stock	10-K	000-20574	3.1	2/23/11
3.2	Amended and Restated Bylaws as of May 20, 2009	8-K	000-20574	3.8	5/27/09
4.1	Rights Agreement dated as of August 4, 1998, between The Cheesecake Factory Incorporated and U.S. Stock Transfer Corporation	8-A	000-20574	1	8/18/98
4.2	Amendment No. 1 to Rights Agreement dated as of November 4, 2003, between The Cheesecake Factory Incorporated and U.S. Stock Transfer Corporation	Amend. No. 1 to Form 8-A	000-20574	2	11/13/03
4.3	Amendment No. 2 to Rights Agreement dated as of August 1, 2008, between The Cheesecake Factory Incorporated and Computershare Trust Company	Amend. No 2 to Form 8-A	000-25074	3	8/1/08
10.1	Employment Agreement effective June 30, 2009, between The Cheesecake Factory Incorporated and David M. Overton*	8-K	000-20574	10.1	7/20/09
10.2	First Amendment to Employment Agreement effective as of February 29, 2012, between The Cheesecake Factory Incorporated and David M. Overton*	8-K	000-20574	10.1	3/6/12
10.3	Second Amendment to Employment Agreement dated as of November 11, 2013, between The Cheesecake Factory Incorporated and David M. Overton*	8-K	000-20574	99.1	11/12/13
10.4	Third Amendment to Employment Agreement dated as of April 2, 2015, between The Cheesecake Factory Incorporated and David M. Overton.*	8-K	000-20574	99.1	4/2/15
10.5	Fourth Amendment to Employment Agreement dated as of February 11, 2016, between The Cheesecake Factory Incorporated and David M. Overton*	8-K	000-20574	99.2	2/16/16
10.5.1	Employment Agreement between The Cheesecake Factory Incorporated and David M. Overton effective as of April, 2017*	8-K	000-25074	99.2	2/22/16

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Exhibit No.	Item	Form	File Number	Incorporated by Reference from Exhibit Number	Filed with SEC
10.6	Employment Agreement effective May 3, 2016, between The Cheesecake Factory Incorporated and David M. Gordon*				Filed herewith
10.7	Employment Agreement effective May 3, 2016, between The Cheesecake Factory Incorporated and W. Douglas Benn*				Filed herewith
10.8	Employment Agreement effective May 3, 2016, between The Cheesecake Factory Incorporated and Debby R. Zurzolo*				Filed herewith
10.9	Employment Agreement effective May 3, 2016, between The Cheesecake Factory Incorporated and Max Byfuglin*				Filed herewith
10.10	The Cheesecake Factory Incorporated 1997 Non-Employee Director Stock Option Plan (as amended)*	S-8	333-118757	99.3	9/2/04
10.11	Form of Nonqualified Stock Option Agreement under the Company's 1997 Non-Employee Director Stock Option Plan*	10-Q	000-25074	99.1	10/26/04
10.12	Amended and Restated Year 2000 Omnibus Performance Stock Incentive Plan*	S-8	333-118757	99.1	9/2/04
10.13	First Amendment to Amended and Restated Year 2000 Omnibus Performance Stock Incentive Plan*	10-Q	000-25074	10.2	12/8/06
10.14	Second Amendment to Amended and Restated Year 2000 Omnibus Performance Stock Incentive Plan*	10-K	000-25074	10.10	2/22/07
10.15	Third Amendment to Amended and Restated Year 2000 Omnibus Performance Stock Incentive Plan*	8-K	000-25074	99.1	7/25/08
10.16	Amended and Restated 2001 Omnibus Stock Incentive Plan*	S-8	333-118757	99.2	9/2/04
10.17	First Amendment to Amended and Restated Year 2001 Omnibus Performance Stock Incentive Plan*	8-K	000-25074	99.2	7/25/08
10.18	Form of Notice of Grant of Stock Option and/or Restricted Share Award *	8-K	000-25074	99.1	1/5/07
10.19	Amended Form of Notice of Grant of Stock Option and/or Restricted Share Award*	10-K	000-25074	10.17	2/27/09

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Exhibit No.	Item	Form	File Number	Incorporated by Reference from Exhibit Number	Filed with SEC
10.20	Amended and Restated The Cheesecake Factory Incorporated Executive Savings Plan*				Filed herewith
10.21	Form of Indemnification Agreement*	8-K	000-25074	99.1	12/14/07
10.22	Inducement Agreement dated as of July 27, 2005	8-K	000-25074	99.3	8/2/05
10.23	First Amendment to Inducement Agreement dated as of March 1, 2010	10-K	000-25074	10.36	2/23/11
10.24	Second Amendment to Inducement Agreement dated as of May 7, 2015				Filed herewith
10.25	2010 Stock Incentive Plan as amended April 7, 2011*	DEF 14A	000-20574	Appendix A	4/21/11
10.26	The Cheesecake Factory 2010 Stock Incentive Plan as amended effective as of February 27, 2013*	DEF 14A	000-20574	Appendix A	04/19/13
10.27	The Cheesecake Factory 2010 Stock Incentive Plan as amended April 3, 2014*	DEF 14A	000-20574	Appendix A	4/17/14
10.28	2010 Stock Incentive Plan as amended May 28, 2015*	DEF 14A	000-20574	Appendix A	4/17/15
10.29	Form of Grant Agreement for Executive Officers under 2010 Stock Incentive Plan*	10-Q	000-20574	10.1	11/4/10
10.30	Form of Grant Agreement for Executive Officers under the 2010 Stock Incentive Plan, for equity grants made after August 2, 2012*	10-Q	000-20574	10.1	8/10/12
10.31	Form of Grant Agreement for Executive Officers under the 2010 Stock Incentive Plan*	8-K	000-20574	99.1	3/7/14
10.32	Form of Notice of Grant and Stock Option Agreement*	8-K	000-20574	99.2	3/4/16
10.33	2015 Amended and Restated Annual Performance Incentive Plan, as amended and restated May 28, 2015*	DEF 14A	000-20574	Appendix B	4/17/15
10.34	Second Amended and Restated Loan Agreement with JPMorgan Chase Bank, National Association dated as of December 22, 2015	8-K	000-20574	99.1	12/24/15
10.35	Amendment No. 1 dated as of November 10, 2016 to Second Amended and Restated Loan Agreement dated as of December 22, 2015	8-K	000-20574	99.1	11/14/16

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Exhibit No.	Item	Form	File Number	Incorporated by Reference from Exhibit Number	Filed with SEC
10.36	Joinder of Guaranty dated November 10, 2016 by TCF California Holding Company of Second Amended and Restated Loan Agreement dated as of December 22, 2015	8-K	000-20574	99.2	11/14/16
21.0	List of Subsidiaries				Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm				Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification of the Principal Executive Officer				Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Principal Financial Officer				Filed herewith
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Principal Executive Officer				Filed herewith
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Principal Financial Officer				Filed herewith
Exhibit 101	XBRL (Extensible Business Reporting Language) The following materials from The Cheesecake Factory Incorporated's Annual Report on Form 10-K for the years ended January 3, 2017, formatted in Extensive Business Reporting Language (XBRL), (i) consolidated balance sheets, (ii) consolidated statements of operations, (iii) consolidated statement of stockholders' equity, (iv) consolidated statements of cash flows, and (v) the notes to the consolidated financial statements.				Filed herewith

* Management contract or compensatory plan or arrangement required to be filed as an exhibit.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 2nd day of March 2017.

THE CHEESECAKE FACTORY INCORPORATED

By: **/s/ DAVID OVERTON**
David Overton
*Chairman of the Board and
Chief Executive Officer (principal executive officer)*

By: **/s/ W. DOUGLAS BENN**
W. Douglas Benn
*Executive Vice President and Chief Financial
Officer
(principal financial officer)*

By: **/s/ CHERYL M. SLOMANN**
Cheryl M. Slomann
*Senior Vice President, Controller and Chief
Accounting Officer
(principal accounting officer)*

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KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints David Overton and W. Douglas Benn, and each of them, as his true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

SIGNATURES

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 in the capacities and on the dates indicated.

Name	Title	Date
/s/ DAVID OVERTON David Overton	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 2, 2017
/s/ W. DOUGLAS BENN W. Douglas Benn	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 2, 2017
/s/ CHERYL M. SLOMANN Cheryl M. Slomann	Senior Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)	March 2, 2017
/s/ EDIE A. AMES Edie A. Ames	Director	March 2, 2017
/s/ ALEXANDER L. CAPPELLO Alexander L. Cappello	Director	March 2, 2017
/s/ JEROME I. KRANSDORF Jerome I. Kransdorf	Director	March 2, 2017
/s/ LAURENCE B. MINDEL Laurence B. Mindel	Director	March 2, 2017
/s/ DAVID B. PITTAWAY David B. Pittaway	Director	March 2, 2017
/s/ HERBERT SIMON Herbert Simon	Director	March 2, 2017

