FreightCar America, Inc.
Form 10-Q
November 08, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended September 30, 2007

or

o **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	**25-1837219**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
Two North Riverside Plaza, Suite 1250	
Chicago, Illinois	**60606**
(Address of principal executive offices)	**(Zip Code)**

(800) 458-2235

(Registrant s telephone number, including area code)

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

YES þ NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO þ

As of October 31, 2007, there were 11,813,421 shares of the registrant s common stock outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

FreightCar America, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

	September 30, 2007	December 31, 2006
	(In thousands)	
Assets		
Current assets		
Cash and cash equivalents	$ 175,338	$ 212,026
Accounts receivable, net of allowance for doubtful accounts of $175 and $191, respectively	14,290	11,369
Inventories	64,144	106,643
Deferred income taxes and other current assets	15,542	13,507
Total current assets	269,314	343,545
Property, plant and equipment, net	27,732	25,905
Goodwill and intangible assets, net	26,751	27,194
Deferred income taxes and other assets	22,863	23,337
Total assets	$ 346,660	$ 419,981
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 44,528	$ 103,038
Income taxes payable	6,095	9,816
Accrued warranty	11,778	12,051
Other current liabilities	26,883	32,083
Total current liabilities	89,284	156,988
Accrued postretirement benefits, less current portion	50,075	49,455
Other long-term liabilities	7,982	9,669
Total liabilities	147,341	216,112
Commitments and contingencies		
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 September 30, 2007 and December 31, 2006		
Common stock, $0.01 par value; 50,000,000 shares authorized, 12,731,678 and 12,681,511 shares issued at September 30, 2007 and December 31, 2006,	127	127

respectively		
Additional paid in capital	98,547	99,981
Treasury stock, at cost, 918,257 shares at September 30, 2007	(43,597)	
Accumulated other comprehensive loss	(25,214)	(26,774)
Retained earnings	169,456	130,535
Total stockholders equity	199,319	203,869
Total liabilities and stockholders equity	$ 346,660	$ 419,981

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
	(In thousands, except share and per share data)			
Sales	$ 162,112	$ 395,759	$ 679,923	$ 1,053,969
Cost of sales	142,714	330,542	591,699	882,025
Gross profit	19,398	65,217	88,224	171,944
Selling, general and administrative expense (including non-cash stock-based compensation expense of $725, $457, $2,080 and $1,674, respectively)	7,565	8,585	26,535	25,113
Operating income	11,833	56,632	61,689	146,831
Interest income	(1,899)	(1,720)	(6,568)	(3,652)
Interest expense	138	94	352	262
Amortization of deferred financing costs	57	76	210	229
Income before income taxes	13,537	58,182	67,695	149,992
Income tax provision	4,856	21,388	24,609	55,224
Net income	$ 8,681	$ 36,794	$ 43,086	$ 94,768
Net income per common share basic	$ 0.73	$ 2.92	$ 3.52	$ 7.54
Net income per common share diluted	$ 0.73	$ 2.88	$ 3.49	$ 7.41
Weighted average common shares outstanding basic	11,918,890	12,601,522	12,245,504	12,570,279
Weighted average common shares outstanding diluted	11,955,827	12,782,562	12,332,345	12,780,828
Dividends declared per common share	$ 0.06	$ 0.03	$ 0.18	$ 0.09

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2007	**2006**
	(In thousands)	
Cash flows from operating activities		
Net income	$ 43,086	$ 94,768
Adjustments to reconcile net income to net cash flows provided by operating activities		
Depreciation and amortization	2,890	4,583
Other non-cash items	1,908	3,030
Stock-based compensation expense	2,080	1,674
Changes in operating assets and liabilities:		
Accounts receivable	(2,921)	(9,499)
Inventories	39,877	(49,180)
Accounts payable	(57,603)	79,571
Income tax payable	(4,215)	5,339
Other accrued liabilities	(7,013)	(5,692)
Net cash flows provided by operating activities	18,089	124,594
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment		1,082
Purchases of property, plant and equipment	(5,181)	(3,760)
Net cash flows used in investing activities	(5,181)	(2,678)
Cash flows from financing activities		
Payments on long-term debt	(45)	(53)
Deferred financing costs paid	(211)	
Stock repurchases	(50,000)	
Issuance of common stock	2,089	1,044
Excess tax benefit from stock-based compensation	800	1,196
Cash dividends paid to stockholders	(2,229)	(1,135)
Net cash flows (used in) provided by financing activities	(49,596)	1,052
Net (decrease) increase in cash and cash equivalents	(36,688)	122,968
Cash and cash equivalents at beginning of period	212,026	61,737
Cash and cash equivalents at end of period	$ 175,338	$ 184,705

Supplemental cash flow information

Income taxes paid	$ 28,984	$ 45,771

See Notes to Condensed Consolidated Financial Statements.

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FreightCar America, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
(In thousands except share and per share data)

Note 1 Description of the Business

FreightCar America, Inc. (America), through its direct and indirect wholly owned 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) and FreightCar Roanoke, Inc. (FCR) (herein collectively referred to as the Company), manufactures, rebuilds, repairs, sells and leases railroad freight cars used for hauling coal, other bulk commodities, steel and other metals, forest products, intermodal containers and automobiles and trucks. The Company has manufacturing facilities in Danville, Illinois, Roanoke, Virginia and Johnstown, Pennsylvania. The Company s operations comprise one operating segment. The Company and its direct and indirect wholly owned subsidiaries are all Delaware corporations.

Note 2 Basis of Presentation

The accompanying condensed 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 in consolidation. The foregoing financial information has been prepared in accordance with the accounting principles generally accepted in the United States of America (GAAP) and rules and regulations of the Securities and Exchange Commission (the SEC) for interim financial reporting. The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. The results of operations for the three months and nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the full year. The accompanying interim financial information is unaudited; however, the Company believes the financial information reflects all adjustments (consisting of items of a normal recurring nature) necessary for a fair presentation of financial position, results of operations and cash flows in conformity with GAAP. Certain information and note disclosures normally included in the Company s annual financial statements prepared in accordance with GAAP have been condensed or omitted. These interim financial statements should be read in conjunction with the audited financial statements contained in the Company s Form 10-K for the year ended December 31, 2006.

Note 3 Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (the FASB) issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Standard No. 109*. FIN No. 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted the provisions of FIN No. 48 on January 1, 2007. As a result of the implementation of FIN No. 48, the Company recorded an increase in gross unrecognized tax benefits of $2,638 and a decrease to retained earnings and accumulated other comprehensive loss of $1,936 and $94, respectively. If recognized, $1,454 of the gross unrecognized tax benefits would impact the Company s effective tax rate. The amount of unrecognized tax benefits did not materially change as of September 30, 2007. It is expected that the amount of unrecognized tax benefits will change in the next twelve months. However, the Company does not expect the change to have a significant impact on its results of operations or financial position. The Company recognizes accrued interest related to unrecognized tax benefits and penalties in income tax expense in the condensed consolidated statements of operations. As of January 1, 2007, the Company recorded a liability of $681 for the payment of interest and penalties. The liability for the payment of interest and penalties did not materially change as of September 30, 2007. As of January 1, 2007, the Company is subject to U.S. Federal income tax examinations for the tax years 2003 through 2006. The Company operates in a number of state tax jurisdictions and generally is subject to state income tax examinations for the tax years 2003 through 2006, with limited exceptions in certain states that may require examinations for years prior to 2003.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 requires companies to disclose the fair value of their financial instruments according to a fair value hierarchy as defined in the standard. Additionally, companies are required to provide enhanced disclosure regarding financial instruments in one of the categories, including a separate reconciliation of the beginning and

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ending balances for each major category of assets and liabilities. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Other than the enhanced disclosures required, the Company does not expect the provisions of SFAS No. 157 to have a material impact on the Company s financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* SFAS No. 159 permits companies to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, although earlier adoption is permitted. The Company is in the process of evaluating the financial impact of adopting SFAS No. 159.

Note 4 Inventories

Inventories are stated at the lower of first-in, first-out cost or market and include material, labor and manufacturing overhead. The components of inventories are as follows:

	September 30, 2007	December 31, 2006
Raw materials and purchased components	$ 5,839	$ 70
Work in process	53,309	102,445
Finished new railcars	4,996	4,128
Total inventories	$ 64,144	$ 106,643

Note 5 Property, Plant and Equipment

Property, plant and equipment consists of the following:

	September 30, 2007	December 31, 2006
Land	$ 722	$ 722
Buildings and improvements	28,222	24,743
Machinery and equipment	39,918	36,098
Cost of buildings, improvements, machinery and equipment	68,140	60,841
Less: Accumulated depreciation and amortization	(42,817)	(40,397)
Buildings, improvements, machinery and equipment, net of accumulated depreciation and amortization	25,323	20,444
Construction in process	1,687	4,739
Total property, plant and equipment, net	$ 27,732	$ 25,905

Note 6 Goodwill and Intangible Assets

In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets,* which became effective for the Company on January 1, 2002. This standard requires that goodwill and intangible assets with indefinite useful lives shall not be amortized but shall be tested for impairment at least annually by comparing the fair value of the asset to its related carrying value.

The Company performs the goodwill impairment test required by SFAS No. 142 as of January 1 of each year. The valuation uses a combination of methods to determine the fair value of the Company (which consists of one reporting unit) including prices of comparable businesses, a present value technique and recent transactions involving businesses similar to the Company. There was no adjustment required based on the annual impairment tests for 2006 and 2007.

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Intangible assets consist of the following:

	September 30, 2007	December 31, 2006
Patents	$ 13,097	$ 13,097
Accumulated amortization	(7,867)	(7,424)
Patents, net of accumulated amortization	5,230	5,673
Goodwill	21,521	21,521
Total intangible assets	$ 26,751	$ 27,194

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 10 years. Amortization expense related to patents, which is included in cost of sales, was $148 for the three months ended September 30, 2007 and 2006, and $443 for the nine months ended September 30, 2007 and 2006. The Company estimates amortization expense for each of the four years in the period ending December 31, 2010 will be approximately $590 and for the year ending December 31, 2011 will be approximately $586.

Note 7 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 three and nine months ended September 30, 2007 and 2006, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Balance at the beginning of the period	$ 12,617	$ 10,551	$ 12,051	$ 7,878
Warranties issued during the period	680	1,422	2,779	4,499
Reductions for payments, cost of repairs and other	(1,519)	(402)	(3,052)	(806)
Balance at the end of the period	$ 11,778	$ 11,571	$ 11,778	$ 11,571

Note 8 Revolving Credit Facility

On August 24, 2007, the Company entered into a Second Amended and Restated Credit Agreement (the Revolving Credit Agreement) with LaSalle Bank National Association (LaSalle) and the lenders party thereto (collectively, the Lenders) amending and restating the terms of the Company s revolving credit facility (the revolving credit facility). The proceeds of the revolving credit facility are used to finance the working capital requirements of the Company through direct borrowings and the issuance of stand-by letters of credit. The Revolving Credit Agreement amends and restates the Amended and Restated Credit Agreement, dated as of April 11, 2005, by and among the Company, LaSalle and the lenders party thereto (the previous credit agreement). The Revolving Credit Agreement consists of a total facility of $100,000 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 $10,000. The amount available under revolving credit facility is based on the lesser of (i) $100,000 or (ii) an amount equal to a percentage of eligible accounts receivable plus a percentage of eligible finished inventory plus a percentage of semi-finished inventory. The previous credit agreement had a total revolving credit facility of the lesser of (i) $50,000 or (ii) an amount equal to a percentage of eligible accounts receivable plus a percentage of eligible finished inventory plus a percentage of semi-finished inventory with a sub-facility for letters of credit totaling $30,000.

The Revolving Credit Agreement has a term ending on May 31, 2012 and bears interest at a rate of LIBOR plus an applicable margin of between 0.875% and 1.500% depending on Revolving Loan Availability (as defined in the Revolving Credit Agreement). The Company is required to pay a commitment fee of between 0.175% and 0.250% based on Revolving Loan Availability. The previous credit agreement had a three-year term ending on April 11, 2008 and bore interest at a rate of LIBOR plus an applicable margin of between 1.75% and 3.00% depending on the Company s ratio of consolidated senior debt to consolidated EBITDA (as defined in the previous credit agreement). Borrowings under the Revolving Credit Agreement are collateralized by substantially all of the assets of the Company. The Revolving Credit Agreement has both affirmative and negative covenants, including, without limitation, 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 September 30, 2007, the Company was in compliance with all covenant requirements under the Revolving Credit Agreement. As of September 30, 2007 and December 31, 2006, the Company had no borrowings under the revolving credit facility. The Company had $21,007 and $18,321 in outstanding letters of credit under the letter of credit sub-facility as of September 30, 2007 and December 31, 2006, respectively, and the ability to borrow $34,528 under the revolving credit facility as of September 30, 2007. Under the revolving credit facility, the Company s subsidiaries are permitted to pay dividends and transfer funds to the Company without restriction.

Note 9 Stock Repurchase Program

The Company s stock repurchase program was approved by the Company s Board of Directors in January 2007. The program authorizes the repurchase of up to $50,000 in shares in open market purchases at prevailing prices. The Company began repurchasing shares of its common stock in the open market beginning in March 2007 and completed purchasing shares under the stock repurchase program in August 2007. As of September 30, 2007, the Company had repurchased 1,048,300 shares of common stock for an aggregate of $50,000.

Note 10 Comprehensive Income

Comprehensive income 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 consists of net income and the unrecognized pension and postretirement costs, which are shown net of tax.

Net income reported in the Condensed Consolidated Statement of Operations to total comprehensive income is reconciled as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income	$ 8,681	$ 36,794	$ 43,086	$ 94,768
Other comprehensive income:				
Amortization of prior service costs and actuarial losses, net of tax	518		1,560	
Total comprehensive income	$ 9,199	$ 36,794	$ 44,646	$ 94,768

Note 11 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.

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

The components of net periodic benefit cost for the three months and nine months ended September 30, 2007 and 2006, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Pension Benefits	**2007**	**2006**	**2007**	**2006**
Service cost	$ 557	$ 625	$ 1,671	$ 1,876
Interest cost	693	658	2,078	1,973
Expected return on plan assets	(879)	(493)	(2,637)	(1,479)
Amortization of prior service cost	178	177	534	531
Amortization of unrecognized net loss	110	169	331	508

	$ 659	$ 1,136	$ 1,977	$ 3,409

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Postretirement Benefit Plan	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Service cost	$ 170	$ 173	$ 512	$ 520
Interest cost	737	716	2,210	2,148
Amortization of prior service cost	431	409	1,293	1,226
Amortization of unrecognized net loss	94	126	281	379
	$ 1,432	$ 1,424	$ 4,296	$ 4,273

The Company made contributions to the Company s defined benefit pension plans of $3,511 and $13,874 for the three months ended September 30, 2007 and 2006, respectively, and $5,373 and $16,721 for the nine months ended September 30, 2007 and 2006, respectively. Currently, the Company does not plan to make any additional contributions to its defined benefit pension plans in 2007. The Company made payments to the Company s postretirement benefit plan of approximately $710 and $554 for the three months ended September 30, 2007 and 2006, respectively, and $2,103 and $2,302 for the nine months ended September 30, 2007 and 2006, respectively. Total payments to the Company s postretirement benefit plan in 2007 are expected to be approximately $3,191. As of December 31, 2006, the Company s benefit obligation under its defined benefit pension plans and its postretirement benefit plan were $49,065 and $52,936, respectively, which exceeded the fair value of plan assets by $9,576 and $52,936, respectively.

The Company also maintains qualified defined contribution plans which provide benefits to employees ba