UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006

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	**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)

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 National Market**

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

None.

Indicate by check mark it the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES x 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 x

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 x NO ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 ¨ Accelerated filer x Non-accelerated filer ¨

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

The aggregate market value of the registrant s common stock held by non-affiliates of the registrant as of June 30, 2006 was $697.3 million, based on the closing price of $55.51 per share on the Nasdaq National Market.

As of February 28, 2007, there were 12,733,511 shares of the registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Documents	**Part of Form 10-K**
Portions of the registrant s definitive Proxy Statement for the 2007 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, 2006	Part III

Table of Contents

FREIGHTCAR AMERICA, INC.

TABLE OF CONTENTS

Table of Contents

PART I

Item 1. Business.
OVERVIEW

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 coal-carrying railcars, which represented 96% of our deliveries of railcars in 2006 and 93% of our deliveries of railcars in 2005, 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 have currently chosen not to offer significant railcar leasing services, as we have made a strategic decision not to compete with our customers that provide railcar leasing services, which represent a significant portion of our revenue.

We are the leading North American manufacturer of coal-carrying railcars. We estimate that we have manufactured 81% of the coal-carrying railcars delivered over the three years ended December 31, 2006 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 manufacturing facilities are located in Danville, Illinois, Johnstown, Pennsylvania and Roanoke, Virginia. Each of our manufacturing facilities has 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.

Our primary customers are financial institutions, railroads and shippers, which represented 49%, 10%, and 41%, respectively, of our total sales attributable to each type of customer for the year ended December 31, 2006. In the year ended December 31, 2006, we delivered 18,764 new railcars, including 17,959 aluminum-bodied coal-carrying railcars. Our total backlog of firm orders for new railcars decreased from 20,729 railcars as of December 31, 2005 to 9,315 railcars as of December 31, 2006, representing estimated sales of $1.4 billion and $697 million, respectively, attributable to such backlog.

We and our predecessors have been manufacturing railcars since 1901. From 1923 to 1991, our business was owned and operated by Bethlehem Steel Corporation. In 1991, Transportation Technologies Industries, Inc., or TTII (then known as Johnstown America Industries, Inc.), purchased our business from Bethlehem Steel. In June 1999, TTII sold our railcar business to an investor group led by certain members of TTII s management who became our management. In December 2004, we changed our name from JAC Holdings International, Inc. to FreightCar America, Inc. to better reflect our business of manufacturing railcars.

Prior to April 1, 2005, our company was named FCA Acquisition Corp. On April 1, 2005, our former parent company, also named FreightCar America, Inc., merged with and into FCA Acquisition Corp., with FCA Acquisition Corp. being the surviving corporation. In connection with the merger, FCA Acquisition Corp. changed its name to FreightCar America, Inc. We refer to our former parent company s merger with FCA Acquisition Corp., the name change and related share exchanges as the merger. The surviving corporation of the merger is incorporated in Delaware.

On April 11, 2005, we completed an initial public offering of shares of our common stock. On September 27, 2005, we completed a secondary public offering of shares of our common stock by selling stockholders.

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 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.

Table of Contents

OUR PRODUCTS AND SERVICES

We design and manufacture aluminum-bodied and steel-bodied railcars that are used in various industries. In particular, we have expertise in the manufacture of aluminum-bodied coal-carrying railcars

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. We believe the BethGon railcar can carry more coal than traditional gondola railcars. 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. The BethGon railcar represented 45%, 33% and 48% of all the railcars we delivered in 2006, 2005 and 2004, respectively, and 41%, 28% and 37% of total revenue in 2006, 2005 and 2004, respectively.

We have continuously improved the BethGon s design since we began making this railcar. The improvements have been aimed at increasing carrying capacity and reducing weight while maintaining structural integrity. In 1986, we introduced the use of aluminum construction. The use of aluminum lowered each railcar s weight from approximately 60,000 pounds to approximately 42,000 pounds. We believe the new design increased hauling capacity by approximately nine tons per railcar over traditional flat-bottomed gondolas and lowered the railcar s center of gravity, providing a smoother ride with less wear on the railcar. In 1994, we introduced a higher payload aluminum gondola coal-carrying railcar, called the AeroFlo BethGon, which had redesigned sides for improved aerodynamics and greater fuel efficiency. In 2001, we introduced a new gondola coal-carrying railcar, the BethGon II, which has a 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 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, in 1996, we introduced the AutoFlood II . The AutoFlood II has smooth exterior sides that we believe maximize loading capacity and increase efficiency by reducing wind drag. The AutoFlood II s automatic rapid discharge system, the MegaFlo door system, incorporates a patented mechanism that uses an over-center locking design enabling the cargo door to close with tension rather than compression. The MegaFlo door system, which opens to its full width in only two seconds, provides a door opening which we believe is approximately 68% wider than any competing door system and does not require periodic door adjustments. In addition, the MegaFlo door system design reduces wear on the railcar. In 2002, we introduced the AutoFlood III , which has a smooth interior side that maintains the features of the MegaFlo door system while improving the railcar s flow characteristics for coal types that are difficult to unload. AutoFlood railcars can be equipped with rotary couplers to also permit rotary unloading. In 2006, our production of the AutoFlood III represented 34% of the total deliveries in the coal-carrying railcar market and 53% of the coal-carrying railcars we produced. The AutoFlood series represented 51%, 57% and 30% of all the railcars we delivered in 2006, 2005 and 2004, respectively, and 54%, 58% and 30% of total revenue in 2006, 2005 and 2004, respectively.

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.

Table of Contents

Our portfolio of other railcar types that we offer includes:

Aluminum Vehicle Carrier. In 2000, we designed and introduced our aluminum vehicle-carrying railcar, combining our expertise with aluminum-bodied railcars and our experience in building flat railcars. Our first aluminum vehicle carrier railcar design, the AVC , has a lightweight, integrated design and is used to transport automobiles, commercial and conversion vans, pickup trucks and sport utility vehicles from assembly plants and ports to rail distribution centers. An aluminum body eliminates the need to paint the railcar during its expected lifetime. Our design helps to ensure that vehicles are delivered damage-free. AVCs are purchased by financial institutions, shippers and railroads. We had our first sale of the AVC in 2003. The AVC series represented 15% of total revenue in 2004.

Articulated Bulk Container Railcar. Our articulated bulk container railcar has high strength and capacity and is designed to carry dense bulk products up to 59,000 pounds in 20 foot containers. We sell our articulated bulk container railcars primarily to shippers of high-density waste.

Intermodal Double Stack Railcar. Our intermodal double stack railcar is used to transport containers that may also be transported by truck or ship, allowing cargo to be transported through different modes without loading and unloading the containers.

Small Covered Hopper Railcar. Our small covered hopper railcar is used to transport high-density products such as roofing granules, fly ash, sand and cement. This railcar features our patented cold-rolled center sill, 30-inch diameter hatch covers and bottom-unloading outlets.

Mill Gondola Railcar. Our mill gondola railcar is used to transport steel products and scrap and features our one-piece cold-rolled center sill, cast draft sills, pinned side-to-end connections and a choice of welded or riveted sides.

Slab Railcar. We believe that our slab railcar is the first railcar manufactured specifically to transport steel slabs. The slab railcar is a spine-type flat railcar that is approximately 20,000 pounds lighter than a standard mill gondola railcar that is also used to transport steel slabs, allowing customers to haul more steel slabs per railcar and more railcars in a train.

Coil Steel Railcar. Our coil steel railcar has a transverse trough design that allows easy loading or unloading using overhead cranes or fork lifts. This feature allows railroads to compete with truck haulage for the transportation of steel coils.

Flat Railcar. We produce a variety of standard and heavy-duty flat railcars that can carry a variety of products, including machinery and equipment, steel and other bulky industrial products. Our high capacity flat railcar is used to transport, among other things, electrical transformers and generators.

Bulkhead Flat Railcar. Our bulkhead flat railcar has end bulkheads designed to retain the load, which can include forest products, steel and structural components.

Hybrid Center Beam Flat Railcar. Our FleXibeam center beam flat railcar is used to haul forest products, such as plywood, oriented strand board, dimensional lumber and steel products, such as structural steel and pipe. The FleXibeam hauls approximately 14,000 pounds of additional product than a conventional center beam flat railcar, and its short high-strength center beam partition allows easy loading of steel and other products with overhead cranes.

Woodchip Gondola Railcar. Our woodchip gondola railcar is used to haul woodchips and municipal waste or other high volume, low-density commodities. It has rotary couplers and incorporates our one-piece cold-rolled center sill and tub design.

Other Open-Top Hopper Railcars. We offer a variety of open-top hopper railcar designs to carry aggregates, iron ore, taconite pellets, petroleum coke and other bulk commodities. These railcars represented 4% of our railcar deliveries and total revenue in 2006.

Table of Contents

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 Colombia and have manufactured intermodal railcars for export to Saudi Arabia. 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. We are also exploring opportunities in other international markets.

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

We have added 18 new or redesigned products to our portfolio in the last five years, including the AutoFlood III, AVC, slab railcar, coil steel railcars, triple hopper railcars and hybrid aluminum/stainless steel railcars. We expect to continue introducing new or redesigned products.

MANUFACTURING

We operate railcar production facilities in Danville, Illinois, Johnstown, Pennsylvania, and Roanoke, Virginia. Our Danville, Johnstown 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.

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 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 railcar, inspect all railcars for adherence to specifications.

We have focused on making our manufacturing facilities more flexible and cost-efficient while at the same time reducing product change-over times and improving product quality. We developed many of these improvements with the participation of our manufacturing employees, management and customers. We have implemented manufacturing concepts, whereby various manufacturing steps are accomplished in one location within the facility to eliminate unnecessary movement of parts within the facility, improve production rates and reduce inventories. These improvements are intended to provide us with increased flexibility in scheduling the production of orders and to minimize down time resulting from railcar type change-overs, thereby increasing the efficiency and lowering costs of our manufacturing operations.

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 competitive pricing of our railcars have helped us maintain our long standing relationships with our customers.

In 2006, revenue from two customers, The CIT Group/Equipment Financing, Inc. and General Electric Capital Rail Services Corporation, accounted for approximately 12% and 11% of total revenue, respectively. In 2006, sales to our top ten customers accounted for approximately 77% of total revenue. Our sales to customers outside the United States were $43.5 million in 2006. 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.

Table of Contents

SALES AND MARKETING

Our direct sales group is organized geographically and consists of regional sales managers and product line managers, a manager of customer service and support staff. The regional sales managers are responsible for managing customer relationships. Our product line managers are responsible for product planning and contract administration. 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. We believe that we are a leader in introducing new and improved railcar designs that respond to the needs of our customers. Railcar designs have been historically slow to change in our industry. We have introduced 18 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 $0.9 million, $0.4 million and $0.3 million for the years ended December 31, 2006, 2005 and 2004, respectively.

BACKLOG

We define backlog as the value of products or services to which our customers have committed in writing to purchase from us, 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,		
	2006	**2005**	**2004**
Railcar backlog at start of period	20,729	11,397	6,444
New railcars delivered	(18,764)	(13,031)	(7,484)
New railcar orders	7,350	22,363	12,437
Railcar backlog at end of period	9,315	20,729	11,397
Estimated backlog at end of period (in thousands) [(1)]	$ 697,054	$ 1,412,424	$ 747,842

(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.

We expect that all of our reported backlog as of December 31, 2006 will be converted to sales by the end of 2007. However, 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

Table of Contents

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.   We currently do not have any backlog for rebuilt railcars.

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. As our products are made to order, we do not purchase materials or components until we receive an order and we time deliveries to minimize in-process inventory. We enjoy 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 center sill is formed into its final shape without heating by passing steel plate through a series of progressive rolls.

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 100% and 98% of our railcars produced in 2006 and 2005, 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 25% and 20% of our total purchases in 2006 and 2005, respectively. Our top ten suppliers accounted for 65% and 58% of our total purchases in 2006 and 2005, 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 compete with the four other principal manufacturers in the North American railcar market, which are Trinity Industries, Inc., National Steel Car Limited, The Greenbrier Companies, Inc. and American Railcar Industries, Inc. Trinity Industries is our only current competitor in the North American aluminum-bodied coal-carrying railcar market.

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.

We also use a proprietary software system that integrates our accounting and production systems, including quality control, purchasing, inventory control and accounts receivable. We have an experienced team in place to operate the hardware, software and communications platforms.

Table of Contents

EMPLOYEES

As of December 31, 2006, we had 1,429 employees, of whom 200 were salaried and 1,229 were hourly wage earners. As of December 31, 2006, approximately 841, or 59%, of our employees were members of unions.

While we consider our relations with our employees to be good at each of our facilities, they may not remain that way. 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 which 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 conditions 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 certain hazardous commodities being shipped, strict liability concepts may apply.

Table of Contents

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. 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 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. In 2005 and 2006, industry-wide railcar deliveries grew to 68,612 and 74,729, respectively, and our railcar production increased to 13,031 and 18,764 railcars, respectively. 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 cyclicality 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.

The current high cost 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. The prices for steel and aluminum, the primary raw material inputs of our railcars, increased in 2004 and have continued to increase in 2005 and 2006 as a result of strong demand, limited availability of production inputs for steel and aluminum, including scrap metal, industry consolidation and import trade barriers. In addition, the price and availability of other railcar components that are made of steel have been adversely affected by the increased cost and limited availability of steel. 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.

Substantially all of our customer contracts as of December 31, 2006 allow for variable pricing to protect us against future changes in the cost of raw materials. However, when material prices increase rapidly or to levels significantly higher than normal, we may not be able to pass price increases through to our customers in future contracts, which could adversely affect our operating margins and cash flows. Even if we are able to increase prices, any such price increases may reduce demand for our railcars. In addition, in the future, our customers may not be willing to accept contractual terms that provide for variable pricing and our competitors, in an effort to gain market share or otherwise, may agree to railcar supply arrangements that do not provide for variable pricing. As a result, we may lose railcar orders or we may be required to agree to supply railcars without variable pricing provisions or be subject to less favorable contract terms.

Table of Contents

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 52% of our total sales for the five-year period. In 2006, sales to our top three customers accounted for approximately 12%, 11% and 9%, respectively, of our total sales. In 2005, sales to our top three customers accounted for approximately 16%, 14% and 8%, 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.

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. In particular, we purchase, and we believe most of our competitors purchase, a substantial percentage of wheels and other railcar components from subsidiaries of Amsted Industries Inc. For the year ended December 31, 2004, due to a shortage of wheels and other railcar components from Amsted Industries, 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 and 2006. While the availability of railcar components has continued to improve during 2006, the railcar industry continues to be adversely impacted by shortages of wheels and other components as a result of reorganization and consolidation of domestic suppliers, increased demand for new railcars and railroad maintenance requirements. Amsted Industries and other suppliers of railcar components may be unable to meet the short-term or longer-term wheel and other railcar components supply demand of our industry. In the event that Amsted Industries or our other 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. 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, we may incur substantial delays and significant expense in doing so, the quality and reliability of these alternative sources for these components 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 which 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, Amsted Industries, 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.

Table of Contents

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.

RISKS RELATED TO OUR BUSINESS

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 95% of our sales in 2006 and 96% of the total railcars that we delivered in 2006. 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 oil 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 2006 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 manufacture our railcars at production facilities in Danville, Illinois, Johnstown, Pennsylvania 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. 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 by union agreements. For example, as of December 31, 2006, our postretirement benefit obligation, primarily governed by the Johnstown settlement (as described elsewhere in this Item 1A.), was $52.9 million, all of which is unfunded. Although the Johnstown settlement limits our future liabilities for health care coverage for our retired unionized Johnstown employees, we will continue to fund 100% of the health care coverage costs 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, 2006, our accumulated benefit obligation under our defined benefit pension plans exceeded the fair value of plan assets by $3.9 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 on November 15, 2004 as a result of the Johnstown settlement (as described elsewhere in this Item 1A.) and the reduction in our discount rate. We made contributions to our pension plans of $18.6 million during the year ended December 31, 2006. 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.

We have unrecognized costs related to our defined benefit pension plans and postretirement plan. Significant changes in future employment levels may cause a plan curtailment, which may negatively impact our results from operations.

We have qualified defined benefit pension plans and a postretirement plan covering substantially all of the employees of our subsidiaries JAC Operations, Inc., Johnstown America Corporation and JAIX Leasing Company. As of December 31, 2006, $42.5 million related to net actuarial loss and prior service cost for our defined benefit

Table of Contents

pension plans and postretirement plan was recorded on our consolidated balance sheet in accumulated other comprehensive loss, but not yet recognized in earnings. A significant change in future employment levels could result in a decrease in the estimated remaining future service years for the employees covered by the plans. Such decrease in the estimated remaining future service years could result in a plan curtailment, which would cause us to immediately recognize a substantial portion of the net actuarial loss and prior service cost relating to these plans that have not yet been recognized in earnings. Such a plan curtailment could negatively impact our results from operations.

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 which have not been recognized as sales. In this 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 would 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.

Our exclusive supplier agreement with TXU Generation Development Company may not result in additional backlog or future sales.

In October 2006, we announced an exclusive supplier agreement with TXU Generation Development Company LLC to provide up to 7,650 aluminum coal-carrying railcars to be delivered in the second half of 2008 through 2009. TXU s actual requirements for aluminum coal-carrying railcars may change at TXU s discretion. In February 2007, TXU s parent company, TXU Corp., announced a definitive merger agreement pursuant to which TXU will be acquired by a private investor group. Published reports have indicated that, if the transaction is consummated, TXU may not proceed with the construction of all of the coal-fired power plants that it was previously planning to build. As a result, TXU s demand for coal-carrying railcars may decline significantly.

As of December 31, 2006, no railcar orders from TXU have been entered into our backlog pursuant to this supplier agreement. We will enter specific railcar orders into our backlog as notice to proceed with production is received from TXU. However, there can be no assurance that we will enter any specific railcar orders into our backlog pursuant to this supplier agreement. Moreover, even if such railcar orders are entered into our backlog, this backlog may not be converted into sales in the expected period, if at all.

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 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. During the course of our evaluation, we may identify areas requiring improvement and may be required to design enhanced processes and controls to address issues identified through this review. This could result in significant delays and costs to us and require us to divert substantial resources, including management time, from other activities.

Table of Contents

If we fail to maintain the adequacy of our internal controls, 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.

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 with our company and within the railcar industry and other manufacturing 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, 2006, we had collective bargaining agreements with unions representing approximately 59% of our total active labor force as of December 31, 2006. We have previously been involved in labor disputes with The United Steelworkers of America, or the USWA, the union that represents approximately 76% of our employees at the Johnstown facility. In January 2002, the USWA filed charges against our subsidiary alleging unfair labor practices in violation of the National Labor Relations Act, or the NLRA, in connection with our practices during our negotiation of a new collective bargaining agreement. In addition, our subsidiary was a defendant in two class action lawsuits filed by the USWA on behalf of individual plaintiffs alleging violations of the NLRA and ERISA in connection with certain medical and life insurance benefits and pension supplements that were discontinued with respect to certain retirees. On November 15, 2004, our subsidiary entered into a settlement agreement setting forth the terms of a new collective bargaining agreement with the USWA and resolving the NLRB charges filed against our subsidiary relating to the collective bargaining agreement, the class action lawsuits and certain other outstanding workplace grievances matters. Although the disputes involving the USWA did not result in strikes or other labor protests, any future labor 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 our 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 business, financial condition or results of operations.

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

Table of Contents

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 2004 and 2005, we had losses of $8.9 million and $1.5 million, respectively, 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

Table of Contents

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.

We use and rely significantly on a proprietary software system to manage our accounting and production systems, the failure of which may lead to data loss, significant business interruption and financial loss.

We use and rely significantly on a proprietary software system that integrates our accounting and production systems, including production engineering, quality control, purchasing, inventory control and accounts receivable systems. In the future, we may discover significant errors or defects in this software system that we may not be able to correct. If this software system is disrupted or fails for any reason, or if our systems or facilities are infiltrated or damaged by unauthorized persons or a software virus, we could experience data loss, financial loss and significant business interruption. If that happens, we may be unable to meet production targets, our customers may terminate contracts, our reputation may be negatively affected, and there could be a material adverse effect on our business and financial results.

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

The agreement governing our revolving credit facility contains 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 facility 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 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 or 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.

Table of Contents

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 28, 2007, the trading price of our common stock ranged from a low of $16.51 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, 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 railcar production facilities in Danville, Illinois and Johnstown, Pennsylvania 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, 2006:

Use	Location	Size	Leased or Owned	Lease Expiration Date
Corporate headquarters	Chicago, Illinois	4,540 square feet	Leased	June 30, 2008
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*
Railcar assembly and component manufacturing	Johnstown, Pennsylvania	564,983 square feet on 31.9 acres of land	Owned	
Administrative	Johnstown, Pennsylvania	29,500 square feet on 1.02 acres of land	Owned	
Light storage	Johnstown, Pennsylvania	1,633 square feet on 14.26 acres of land	Owned	
Parts warehouse	Johnstown, Pennsylvania	86,000 square feet	Leased	December 31, 2016

* The lease agreement provides that we or Norfolk Southern, the lessor, can terminate this lease at any time after December 31, 2009.

As of December 31, 2006, our facilities in Danville, Illinois and Roanoke, Virginia operated two daily shifts, and our Johnstown, Pennsylvania facility operated one daily shift; we believe our capacity is suitable and adequate for our current operations. Our facilities have the capacity to operate additional shifts should the need arise for additional capacity.

Table of Contents

Item 3. Legal Proceedings.

We are involved in certain threatened and pending legal proceedings, including workers compensation and employee matters arising from the conduct of our business. Additionally, we are involved in various warranty and repair claims and related threatened and pending legal proceedings with our customers in the normal course of business. While the ultimate outcome of such legal proceedings cannot be determined at this time, it is the opinion of management that the resolution of these actions will not have a material adverse effect on our financial condition, results of operations or cash flows.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

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 National 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 28, 2007, there were approximately 36 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 National Market.

	Common stock price	
	High	**Low**
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.

We are a holding company and, as such, our ability to pay dividends is subject to the ability of our subsidiaries to generate earnings and cash flows and distribute them to us. 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 facility contains 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.

Table of Contents

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 National Market, through December 31, 2006 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.

	Dollar Value of $100 Invested on April 6, 2005				
	April 6, 2005	**June 30, 2005**	**Dec. 31, 2005**	**June 30, 2006**	**Dec. 31, 2006**
FreightCar America, Inc.	$ 100.00	$ 94.29	$ 228.96	$ 264.59	$ 264.72
Nasdaq Composite Index	$ 100.00	$ 103.48	$ 111.17	$ 110.07	$ 122.69
DJ Transportation Index	$ 100.00	$ 94.18	$ 113.89	$ 136.26	$ 129.07

20

Table of Contents

Item 6. Selected Financial Data.

The selected financial data presented for each of the years in the five-year period ended December 31, 2006 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,				
	2006	2005	2004	2003	2002
	(in thousands, except share and per share data)				
Statements of operations data:					
Sales	$ 1,444,800	$ 927,187	$ 482,180	$ 244,349	$ 225,497
Cost of sales	1,211,349	820,638	468,309	225,216	212,589
Gross profit	233,451	106,549	13,871	19,133	12,908
Selling, general and administrative expense (1)(2)	34,390	28,461	32,660	14,318	12,778
Operating income (loss)	199,061	78,088	(18,789)	4,815	130
Interest income	(5,860)	(1,225)	(282)	(128)	(162)
Interest expense	352	11,082	13,856	12,704	11,771
Amortization and write-off of deferred financing costs	306	776	459	977	702
Income (loss) before income taxes	204,263	67,455	(32,822)	(8,738)	(12,181)
Income tax provision (benefit)	75,530	21,762	(7,962)	(1,318)	(3,554)
Net income (loss)	128,733	45,693	(24,860)	(7,420)	(8,627)
Redeemable preferred stock dividends accumulated		311	1,062	1,063	1,062
Net income (loss) attributable to common stockholders	$ 128,733	$ 45,382	$ (25,922)	$ (8,483)	$ (9,689)
Weighted average common shares outstanding basic	12,586,889	11,135,440	6,888,750	6,875,000	6,875,000
Weighted average common shares outstanding diluted	12,785,015	11,234,075	6,888,750	6,875,000	6,875,000
Per share data:					
Net income (loss) per share attributable to common stockholders basic	$ 10.23	$ 4.08	$ (3.76)	$ (1.23)	$ (1.41)
Net income (loss) per share attributable to common stockholders diluted	$ 10.07	$ 4.04	$ (3.76)	$ (1.23)	$ (1.41)
Dividends declared per common share	$ 0.15	$ 0.06	$ 0.00	$ 0.00	$ 0.00
Other financial and operating data:					
Capital expenditures	$ 6,903	$ 7,520	$ 2,215	$ 369	$ 553
New railcars delivered	18,764	13,031	7,484	4,550	3,942
New railcar orders	7,350	22,363	12,437	9,927	2,831
New railcar backlog	9,315	20,729	11,397	6,444	1,067
Estimated backlog(4)	$ 697,054	$ 1,412,424	$ 747,842	$ 365,876	$ 55,887
Balance sheet data (at period end):					
Cash and cash equivalents	$ 212,026	$ 61,737	$ 11,213	$ 20,008	$ 19,725
Restricted cash(5)			12,955	11,698	4,116
Total assets	419,981	225,282	191,143	140,052	141,531
Total debt(6)	154	224	56,058	51,778	53,424
Rights to additional acquisition consideration, including accumulated accretion(3)(7)			28,581	22,865	18,292

Total redeemable preferred stock			12,182	11,120	10,057
Total stockholders equity (deficit)	203,869	92,199	(37,089)	(19,710)	(9,542)

(1) On December 7, 2004, in accordance with our then-existing shareholders agreement, our board of directors approved the grant of certain options to purchase an aggregate of 1,014 Units to certain of our directors and officers at an exercise price of $0.01 per Unit. The grant became effective on December 23, 2004. Each Unit consisted of 550 shares of our common stock and one share of our Series A voting preferred stock. We recorded a non-cash expense of $8.9 million based on the estimated value per Unit as of December 23, 2004. All of these options were exercised prior to April 11, 2005, pursuant to which we issued 557,700 shares of our common stock and 1,014 shares of our Series A voting preferred stock, and all of our Series A voting preferred stock was redeemed with the net proceeds from our initial public offering. On April 11, 2005, immediately following the completion of our initial public offering, we granted to certain of our executive officers certain options to purchase an aggregate of 329,808 shares of

Table of Contents

our common stock under the 2005 Long Term Incentive Plan. On December 6, 2005, our board of directors approved the award of 37,500 shares of restricted stock to certain of our employees pursuant to our 2005 Long Term Incentive Plan. In addition, on December 6, 2005, one of our officers was granted stock options pursuant to the 2005 Long Term Incentive Plan. We recorded a non-cash charge of $358,000 in the aggregate for the year ended December 31, 2005 in connection with the issuance of the foregoing stock options and restricted share awards. We recorded a non-cash charge of $2.1 million for the year ended December 31, 2006 in connection with the issuance of the foregoing options and restricted share awards and the issuance of additional restricted share awards in 2006.

(2) On November 15, 2004, we entered into the Johnstown settlement and recorded a $9.2 million charge with respect to the year ended December 31, 2004. As part of the Johnstown settlement, we agreed to pay back wages equal to $1.4 million to the covered employees and recorded a $0.8 million cash charge for expenses related to the Johnstown settlement in the year ended December 31, 2004. We also recorded $7.0 million of non-cash expense in the year ended December 31, 2004 related to pension and postretirement termination benefits accrued with respect to retired unionized employees at our Johnstown facility. For the year ended December 31, 2005, we recorded a charge of $370,000 relating to a change in estimate of the charge resulting from the Johnstown settlement consisting of a retroactive payment to unionized Johnstown employees for certain previously unpaid work hours. For the year ended December 31, 2006, we recorded a charge of $2.1 million in accordance with SFAS No. 123 (R), relating to compensation expense under stock option and restricted share award agreements.

(3) Rights to additional acquisition consideration refers to the additional acquisition consideration related to the acquisition of our business in 1999 that became due, and was paid, upon the completion of our initial public offering in April 2005.

(4) 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 or decreases under most of our customer contracts that provide for variable pricing based on changes in the cost of raw materials or the possibility that contracts may be canceled or railcar delivery dates delayed and does not reflect the effects of any cancellation or delay of railcar orders that may occur. See Item 1. Business Backlog.

(5) Our restricted cash for the year ended December 31, 2002 through the year ended December 31, 2004 included cash collateral of $3.8 million plus interest held in escrow for our participation in a residual support guarantee agreement with respect to railcars that we sold to a customer that are presently leased by the customer to a third party. Our restricted cash for the years ended December 31, 2004 and 2003 also includes $7.5 million held in a restricted cash account as additional collateral for our former revolving credit facility, which was released to us after we entered into our revolving credit facility agreement. Our restricted cash balance for the year ended December 31, 2004 also includes $1.2 million in escrow, representing security for workers compensation insurance. As of December 31, 2005, we no longer had any remaining restricted cash. Restricted cash in the amount of $13.0 million was released during the year ended December 31, 2005 as follows: the $7.5 million attributable to cash held as additional collateral under the former revolving credit facility was released upon signing the new credit facility agreement; $1.2 million held in escrow as security for worker s compensation insurance was replaced by a letter of credit; and $4.3 million held in escrow for a residual support guaranty relating to railcars we sold to a financial institution that are leased by a third-party customer was released by the financial institution.

(6) 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.

(7) Our recorded liability under the rights to additional acquisition consideration is based on the fair value of the rights to additional acquisition consideration at the time that we acquired our business from TTII in 1999, using a discount rate of 25% and an expected redemption period of seven years. As a result of our initial public offering, we were required to pay the additional acquisition consideration in the aggregate amount of $35.0 million.

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

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. We have chosen not to offer significant railcar leasing services, as we have made a strategic decision not to compete with our customers that provide railcar leasing services, which represent a significant portion of our revenue. Our primary customers are financial institutions, railroads, and shippers.

Our manufacturing facilities are located in Danville, Illinois, Johnstown, Pennsylvania and Roanoke, Virginia. All of our manufacturing facilities have the capability to manufacture a variety of types of railcars.

In the twelve months ended December 31, 2006, we delivered 18,764 new railcars, compared to our delivery of 13,031 new railcars in the twelve months ended December 31, 2005. Our total backlog of firm orders for new railcars decreased by approximately 55%, from 20,729 railcars as of December 31, 2005 to 9,315 railcars as of December 31, 2006. The backlog as of December 31, 2006 represented estimated sales of $697 million, while the backlog as of December 31, 2005 represented estimated sales of $1,412 million. Approximately 92% of our backlog as of December 31, 2006 consisted of coal-carrying railcars.

Table of Contents

Prices for steel and aluminum, the primary raw material components of our railcars, and surcharges on steel and railcar components remain at historically high levels. Notwithstanding fluctuations in the cost of raw materials, a significant majority of the contracts covering our current backlog include provisions that allow for variable pricing to protect us against future changes in the cost of raw materials. We were able to pass on increased material costs to our customers with respect to approximately 98% of our railcar deliveries in 2006.

With respect to the supply of components, while the availability of railcar components improved during 2006, the railcar industry continues to be adversely impacted by shortages of wheels and other components as a result of reorganization and consolidation of domestic suppliers, increased demand for new railcars and railroad maintenance requirements. Currently, we believe that these shortages will not significantly impact our ability to meet our delivery requirements as domestic suppliers have improved their delivery capabilities.

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 our long-term supply agreements, our expanding product portfolio, our operational efficiency in manufacturing railcars and our international opportunities. However, U.S. economic conditions may not continue to improve in the future or 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 April 2005, we completed an initial public offering of shares of our common stock. In connection with the offering, we offered and sold 5,100,000 shares of our common stock and certain selling stockholders offered and sold 4,675,000 shares (including 1,275,000 shares following the exercise of the underwriters over-allotment option) at a price of $19.00 per share. Our net proceeds from the initial public offering, after deducting underwriting discounts, commissions and estimated offering-related expenses payable by us, were approximately $85.3 million. We used the net proceeds from the offering and our available cash to repay our existing indebtedness, redeem all of our outstanding redeemable preferred stock, pay amounts due under the rights to additional acquisition consideration, pay amounts due in connection with the termination of certain management services and other agreements with certain of our stockholders and pay related fees and expenses. See Liquidity and Capital Resources.

In September 2005, we completed a secondary offering of our common stock whereby the selling stockholders, including all of our executive officers and certain of our directors, offered and sold 2,626,317 shares (including 342,563 shares following the exercise of the underwriters over-allotment option) at a price of $40.50 per share. We did not sell any shares and did not receive any proceeds from the sale of shares by the selling stockholders. We incurred $0.8 million of expenses in connection with the secondary offering.

In January 2007, our Board of Directors announced a share repurchase program of up to $50 million. These shares are to be purchased in the open market beginning in the first quarter of 2007.

FINANCIAL STATEMENT PRESENTATION

Sales

Our sales 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, such as coal, 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.

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. 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 less a normal profit margin. There were no sales of used railcars for the year ended December 31, 2006. Sales of used railcars for the years ended December 31, 2005 and 2004, were not material. 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 increases in the cost of steel and aluminum and our efforts to lower manufacturing costs in our Johnstown, Pennsylvania facility and to reduce the costs of new products that we have recently introduced.

We purchase, and we believe most of our competitors purchase, a substantial percentage of wheels and other railcar components from subsidiaries of Amsted Industries Inc. For the year ended December 31, 2004, due to a shortage of wheels and other railcar components from Amsted Industries, 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 and 2006. While the availability of railcar components has continued to improve during 2006, the railcar industry continues to be adversely impacted by shortages of wheels and other components as a result of reorganization and consolidation of domestic suppliers, increased demand for new railcars and railroad maintenance requirements. Currently, we believe that these shortages will not significantly impact our ability to meet our delivery requirements as domestic suppliers have improved their delivery capabilities. Customer orders may be subject to cancellation, customer requests for delays in railcar deliveries, inspection rights and other customary industry terms and conditions. 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.

The prices for steel and aluminum, the primary raw material inputs of our railcars, increased sharply in 2004 and have further increased in 2005 and 2006 as a result of strong demand, limited availability of production inputs for steel and aluminum, including scrap metal, industry consolidation and import trade barriers. The costs for raw steel and aluminum have increased by approximately 161% and 90%, respectively, during the period from October 2003 through December 31, 2006. The availability of scrap metal has been limited by exports of scrap metal to China, and as a result, steel producers have charged scrap metal surcharges in excess of agreed-upon prices. In addition, the price and availability of other railcar components that are made of steel have been adversely affected by the increased cost and limited availability of steel. During the year ended December 31, 2006, our gross profit was adversely impacted by non-recoverable increases in the cost of materials of approximately $1.8 million. During the years ended December 31, 2005 and 2004, our gross profit was adversely impacted by higher costs of approximately $1.5 million and $8.9 million, respectively, associated with increased material, labor and other costs related to a contract to manufacture box cars. For the years ended December 31, 2006 and 2005, we were able to pass on increases in raw material costs to our customers with respect to 98% and 96% of our railcar deliveries, respectively.

Operating income

Operating income represents total sales less cost of sales, selling, general and administrative expenses, intangible asset amortization expense, compensation expense under stock option and restricted share award agreements, and the provision for the settlement of labor disputes in 2005 and 2004.

Table of Contents

RESULTS OF OPERATIONS

Year Ended December 31, 2006 compared to Year Ended December 31, 2005

Sales

Our sales for the year ended December 31, 2006 were $1,444.8 million as compared to $927.2 million for the year ended December 31, 2005, representing an increase of $517.6 million. Included in our sales for the year ended December 31, 2005 was $5.5 million attributable to the recognition of deferred revenue related to a customer contract from a prior year. The increase in sales was primarily due to our delivery of an additional 5,733 railcars in the year ended December 31, 2006, compared to the same period in 2005, representing an increase of 44% in deliveries, and higher pricing. The increased volume of railcar deliveries reflects increased demand for our coal-carrying railcars. Deliveries of our BethGon® II and AutoFlood III coal-carrying railcars comprised 96% of our total railcar deliveries for the year ended December 31, 2006.

Gross Profit

Gross profit for the year ended December 31, 2006 was $233.5 million as compared to $106.5 million for the year ended December 31, 2005, representing an increase of $127.0 million. Included in our gross profit for the year ended December 31, 2005 was $5.5 million attributable to the recognition of deferred revenue. The increase in gross profit was primarily due to our increased sales volume, increased operating leverage attributable to higher volume, higher pricing and improved productivity. For the year ended December 31, 2006, we were able to pass on increases in raw material costs to our customers with respect to 98% of our railcar deliveries. During the year ended December 31, 2006, our gross profit was adversely impacted by non-recoverable materials costs of approximately $1.8 million. During the year ended December 31, 2005, our gross profit was adversely impacted by higher costs of approximately $1.5 million associated with increased material, labor and other costs related to a contract to manufacture box cars.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the year ended December 31, 2006 were $34.4 million as compared to $28.5 million for the year ended December 31, 2005, representing an increase of $5.9 million. Selling, general and administrative expenses were 2.4% of our sales for the year ended December 31, 2006 and 3.1% for 2005. The increase in expenses was primarily attributable to increased stock-based compensation expense of $1.7 million, increased public company expenses of $1.1 million primarily associated with the implementation of Sarbanes-Oxley requirements and legal fees, increased expenses of $1.5 million relating to our bonus and employee benefit programs, increased investments in product development programs, costs related to the transition of executive management and increased expenses related to the incremental business volume in 2006. The increased stock-based compensation is related to the full-year impact of restricted shares awarded in the fourth quarter of 2005 and the implementation of Statement of Financial Accounting Standards (SFAS) No. 123 (R). See Note 14 to the consolidated financial statements. Included in the December 31, 2005 expense was a provision for the settlement of labor disputes of $0.4 million. See Note 20 to the consolidated financial statements.

Interest Expense

Total interest expense for the year ended December 31, 2006 was $0.7 million as compared to $11.9 million for the year ended December 31, 2005, representing a decrease of $11.2 million. The decrease was a result of our initial public offering in April 2005 and the related changes in our financing structure which significantly reduced our outstanding debt. For the year ended December 31, 2006, interest expense consisted of third-party interest expense and the amortization of deferred financing costs. For the year ended December 31, 2005, interest expense consisted primarily of the accretion of additional interest on the rights to additional acquisition consideration of $6.4 million, related-party interest of $3.3 million and third-party interest expense of $1.4 million. Interest income for the year ended December 31, 2006 was $5.9 million as compared to $1.2 million for the year ended December 31, 2005. Interest income represents the proceeds of short-term investments of our cash balances, which increased substantially over the period.

Table of Contents

Income Taxes

The provision for income taxes was $75.5 million for the year ended December 31, 2006, as compared to a provision for income taxes of $21.8 million for the year ended December 31, 2005. The effective tax rates for the years ended December 31, 2006 and 2005, were 37.0% and 32.3%, respectively. The effective tax rate for the year ended December 31, 2006 was higher than the statutory U.S. federal income tax rate of 35% due to the addition of a 4.2% blended state rate less a 2.2% effect for other permanent differences. The effective tax rate for the year ended December 31, 2005 was lower than the statutory U.S. federal income tax rate of 35% due to the addition of a 2.1% blended state rate less a 0.3% effect for other permanent differences and a 4.5% effect for previously non-deductible interest expense on the rights to additional acquisition consideration which became deductible for income tax purposes upon payment of the additional acquisition consideration.

Net Income

As a result of the foregoing, net income was $128.7 million for the year ended December 31, 2006, reflecting an increase of $83.0 million from net income of $45.7 million for the year ended December 31, 2005. Net income attributable to common stockholders was $128.7 million for the year ended December 31, 2006, as compared to net income of $45.4 million attributable to common stockholders for the same period in 2005. For the year ended December 31, 2006, our basic and diluted net income per share were $10.23 and $10.07, respectively, on basic and diluted shares outstanding of 12,586,889 and 12,785,015, respectively. For the prior year, our basic and diluted net income per share were $4.08 and $4.04, respectively, on basic and diluted shares outstanding of 11,135,440 and 11,234,075, respectively. Net income for the year ended December 31, 2005 was favorably impacted by net income of $2.9 million applicable to the recognition of deferred revenue. Basic and diluted earnings per share were favorably impacted in 2005 by $0.27 per share attributable to the recognition of deferred revenue.

Year Ended December 31, 2005 compared to Year Ended December 31, 2004

Sales

Our sales for the year ended December 31, 2005 were $927.2 million as compared to $482.2 million for the year ended December 31, 2004, representing an increase of $445.0 million. Included in our sales for the year ended December 31, 2005 was $5.5 million attributable to the recognition of deferred revenue related to a customer contract from a prior year. The increase in sales was primarily due to our delivery of an additional 5,547 railcars in the year ended December 31, 2005, compared to the same period in 2004, representing an increase of 74% in deliveries. The increased volume of railcar deliveries reflects increased demand for our coal-carrying railcars. Deliveries of our BethGon II and AutoFlood III coal-carrying railcars comprised 89% of our total railcar deliveries for the year ended December 31, 2005.

Gross Profit

Gross profit for the year ended December 31, 2005 was $106.5 million as compared to $13.9 million for the year ended December 31, 2004, representing an increase of $92.6 million. Included in our gross profit for the year ended December 31, 2005 was $5.5 million attributable to the recognition of deferred revenue. The increase in gross profit was primarily due to our increased sales volume, operating leverage attributable to higher volume and the impact of the pass-through of increases in raw material costs to our customers with respect to a substantial majority of our railcar deliveries. For the year ended December 31, 2005, we were able to pass on increases in raw material costs to our customers with respect to 96% of our railcar deliveries. During the year ended December 31, 2005 and 2004, our gross profit was adversely impacted by higher costs of approximately $1.5 million and $8.9 million, respectively, associated with increased material, labor and other costs related to a contract to manufacture box cars.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the year ended December 31, 2005 were $28.5 million as compared to $32.7 million for the year ended December 31, 2004, representing a decrease of $4.2 million. Selling, general and administrative expenses were 3.1% of our sales for the year ended December 31, 2005 and 6.8% for 2004. The decrease in selling, general and administrative expenses is primarily attributable to decreased expenses of $8.5 million for the year ended December 31, 2005 related to the grant of options in December 2004 to certain of our directors and officers and decreased expenses of $8.8 million related to the Johnstown labor settlement charges. See Note 20 to the consolidated financial statements. The decrease in expenses is partially offset by increased expenses of $4.6 million relating to our bonus and employee incentive programs, expenses of $2.9 million associated with increased costs of being a public company, expenses of $1.4 million attributable to higher volume, charges of $0.9 million related to the termination of management services and other agreements, charges of $0.8 million related to the secondary offering of our common stock, and expenses of $0.7 million related to the new manufacturing facility in Roanoke, Virginia.

Interest Expense

Net interest expense for the year ended December 31, 2005 was $10.6 million as compared to $13.9 million for the year ended December 31, 2004. For the year ended December 31, 2005, interest expense consisted of the accretion of additional interest on the rights to additional acquisition consideration prior to the payment of the additional acquisition consideration with the proceeds of the initial public offering during the second quarter of 2005. Interest expense and related accretion on the rights to additional acquisition consideration, including a one-time final payment resulting from the initial public offering, totaled $6.4 million for the year ended December 31, 2005, while the interest expense on the rights to additional acquisition consideration for the year ended December 31, 2004 was $5.7 million. Related-party interest expense and third-party interest expense for the year ended December 31, 2005 were $3.3 million and $1.4 million, respectively, compared with $7.0 million and $1.1 million, respectively, for 2004. The reduction of related-party interest expense reflects the impact of the repayment of the senior notes, term loan and industrial revenue bonds with the proceeds of the initial public offering during the second quarter of 2005.

Income Taxes

The provision for income taxes was $21.8 million for the year ended December 31, 2005, as compared to an income tax benefit of $8.0 million for the year ended December 31, 2004. The effective tax rates for the years ended December 31, 2005 and 2004, were a provision of 32.3% and a benefit of 24.3%, respectively. The effective tax rate for the year ended December 31, 2005 was lower than the statutory U.S. federal income tax rate of 35% due to the addition of a 2.1% blended state rate less a 0.3% effect for other permanent differences and a 4.5% effect for previously non-deductible interest expense on the rights to additional acquisition consideration which became deductible for income tax purposes upon payment of the additional acquisition consideration. The effective tax rate for the year ended December 31, 2004 was lower than the statutory U.S. federal income tax rate of 35% due to the addition of a 4.4% blended state rate less a 2.2% effect for other permanent differences, a 6.1% effect for then-nondeductible interest expense on the rights to additional acquisition consideration and a 6.8% effect for non-deductible stock compensation expense.

Net Income

As a result of the foregoing, net income was $45.7 million for the year ended December 31, 2005, reflecting an increase of $70.6 million from the net loss of $24.9 million for the year ended December 31, 2004. Net income for the year ended December 31, 2005 was favorably impacted by net income of $2.9 million applicable to the recognition of deferred revenue. Net income for the year ended December 31, 2004 was unfavorably impacted by $9.2 million attributable to Johnstown labor settlement charges. Net income attributable to common stockholders was $45.4 million for the year ended December 31, 2005, as compared to a net loss of $25.9 million attributable to common stockholders for the same period in 2004. For the year ended December 31, 2005, our basic and diluted net income per share were $4.08 and $4.04, respectively, on basic and diluted shares outstanding of 11,135,440 and 11,234,075, respectively. Basic and diluted earnings per share were favorably impacted by $0.27 per share attributable to the recognition of deferred revenue. For the prior year, our basic and diluted net loss per share was $3.76 on basic and diluted shares outstanding of 6,888,750. Basic and diluted earnings per share for the year ended December 31, 2004 were unfavorably impacted by $1.01 per share attributable to the Johnstown labor settlement charges.

LIQUIDITY AND CAPITAL RESOURCES

Our primary source of liquidity for the year ended December 31, 2006 was cash flows generated from operations. For the year ended December 31, 2005, our primary source of liquidity was provided by proceeds from our initial public offering and cash flows generated from operations. From the year ended December 31, 2005 to the year ended December 31, 2006, the change in net cash provided by operating activities was an increase of $ 88.4 million. See Cash Flows.

On April 11, 2005, we entered into an Amended and Restated Credit Agreement (the revolving credit agreement) providing for the terms of our revolving credit facility (the revolving credit facility) with LaSalle Bank National Association, as administrative agent, and the lenders party thereto. The revolving credit facility replaced our former $20.0 million revolving credit facility with LaSalle Bank National Association. The revolving credit facility provides for a $50.0 million revolving credit line, including a letter of credit sub-facility that may not exceed $30.0 million. The revolving credit facility has a term of three years. Our assets and the assets of our subsidiaries serve as collateral for borrowings under the revolving credit facility. The Borrowing Base, as defined in the revolving credit agreement, is the lesser of the $50.0 million revolving commitment or an amount equal to a percentage of eligible accounts receivable plus percentages of eligible finished inventory and eligible semi-finished inventory, respectively. Borrowings under the revolving credit facility bear interest at the LIBOR rate plus an applicable margin of between 1.75% and 3.00%, which is determined based on the ratio of our consolidated senior debt to consolidated EBITDA (as defined in the revolving credit agreement). We pay a commitment fee of between 0.25% per year and 0.50% per year on the unused portion of the revolving credit facility. As of December 31, 2006, we had no outstanding borrowings under the revolving credit facility, $18.3 million in letters of credit under the letter of credit sub-facility and the ability to borrow $31.7 million under the revolving credit facility.

The revolving credit agreement has both affirmative and negative covenants, including, without limitation, a maximum senior debt leverage ratio, a maximum total debt leverage ratio, a minimum interest coverage ratio, a minimum tangible net worth and limitations on capital expenditures and dividends.

Based on our current level of operations, we believe that our proceeds from operating cash flows, together with amounts available under our revolving credit facility, will be sufficient to meet our anticipated liquidity needs for 2007. Our long-term liquidity is contingent upon future operating performance and our ability to continue to meet financial covenants under our revolving credit facility and any other indebtedness. We may also require additional capital in the future to fund 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 considering the addition of another manufacturing facility to increase our low-cost production capacity. We are also exploring product diversification initiatives and international and other opportunities. We expect that these additional business activities may result in capital requirements of approximately $60.0 million within the next 12 to 36 months, which we expect to fund through cash provided by operating activities. Additionally, we have undertaken a share repurchase program of up to $50 million that we expect to fund through available cash balances.

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. 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, 2006, our benefit obligation under our defined benefit pension plans and our postretirement benefit plan was $49.1 million and $52.9 million, respectively, which exceeded the fair value of plan assets by $9.6 million and $52.9 million, respectively. As disclosed in Note 12 to the consolidated financial statements, we expect to make contributions relating to our defined benefit pension plans of approximately $5.4 million in 2007. However, 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. In August 2006, President Bush signed the Pension Protection Act of 2006 into law. Included in this legislation are changes to the method of valuing pension plan assets and liabilities for funding purposes, as well as minimum funding levels required by 2008. We are determining the impact that these new requirements will have on our cash flow; however, initial estimates forecast that our defined benefit pension plans will be fully funded by 2008. This expectation will be affected by future contributions, investment returns on plan assets, growth in plan liabilities and interest rates. Assuming that 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.

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 business, results of operations and financial condition.

Table of Contents

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2006, and the effect that these obligations and commitments would be expected to have on our liquidity and cash flow in future periods:

	Payments Due by Period				
Contractual Obligations	Total	1 Year	2-3 Years	4-5 Years	After 5 Years
	(In thousands)				
Capital leases from long-term debt	$ 154	$ 61	$ 93		
Operating leases	14,608	1,809	3,178	3,542	$ 6,079
Wheel and axle purchases	145,082	37,101	71,101	36,880	
Aluminum purchases	1,646	1,646			
Total	$ 161,490	$ 40,617	$ 74,372	$ 40,422	$ 6,079

Wheel and axle purchase commitments consist of a non-cancelable agreement with one of our suppliers to purchase materials used in the manufacturing process. The quantity commitment is partially based on the aluminum coal car industry backlog published by the American Railway Car Institute and the pricing is based on the Producer Price Index. The estimated amounts above may vary based on the actual quantities and price.

Aluminum purchase commitments consist of non-cancelable agreements to purchase fixed amounts of materials used in the manufacturing process. Purchase commitments are made at a fixed price and are typically entered into after a customer places an order for railcars.

In addition to the contractual obligations set forth above, we also will have interest payment obligations on any borrowings under the revolving credit facility. See Note 8 to the consolidated financial statements.

We also pay consulting fees to one of our directors. The amount paid for his consulting services was $50,000 for each of the years ended December 31, 2004, 2005 and 2006. The agreement governing this arrangement will expire in 2008. See Note 21 to the consolidated financial statements.

We are a party to employment agreements with our President and Chief Executive Officer, our Chief Operating Officer, our Vice President, Finance, Chief Financial Officer, Treasurer and Secretary, our Vice President, Planning and Administration, and our Senior Vice President, Marketing and Sales. 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 2007.

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, 2006, 2005 and 2004:

	December 31, 2006	December 31, 2005	December 31, 2004
Net cash provided by (used in):			
Operating activities	$ 154,156	$ 65,814	$ (560)
Investing activities	(5,821)	5,435	(3,472)
Financing activities	1,954	(20,725)	(4,763)

Total	$	150,289	$	50,524	$	(8,795)

Table of Contents

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, 2006 was $154.2 million as compared to net cash provided by operating activities of $65.8 million for the year ended December 31, 2005. The increase of $88.4 million in net cash provided by operating activities was primarily due to the addition of $68.9 million in net income adjusted for non-cash items and an increase of $39.5 million generated by working capital accounts such as accounts receivable and inventories, net of accounts payable, partially offset by the use of $20.0 million in cash applicable to payroll, pensions and postretirement obligations.

Our net cash provided by operating activities for the year ended December 31, 2005 was $65.8 million as compared to net cash used in operating activities of $0.6 million for the year ended December 31, 2004. The increase of $66.4 million in net cash provided by operating activities was primarily due to the addition of $63.8 million in net income adjusted for non-cash items, the additional use of $9.3 million in cash for accounts receivable and inventories, net of accounts payable, an increase of $14.3 million in cash applicable to payroll, pensions and postretirement obligations, and the additional use of $2.4 million of cash for other working capital items.

Investing Activities. Net cash used in investing activities for the year ended December 31, 2006 was $5.8 million as compared to net cash provided by investing activities of $5.4 million for the year ended December 31, 2005. The $5.8 million of net cash used in investing activities for the year ended December 31, 2006 consisted of capital expenditures of $6.9 million partially offset by the proceeds of $1.1 million from the sale of property, plant and equipment, primarily $1.0 million from the sale of the Shell plant in Johnstown, PA. For the year ended December 31, 2006, $3.3 million of the $6.9 million of total capital expenditures were used for the expansion of production capacity at our manufacturing facility in Roanoke, Virginia. A second track is being added in Roanoke to accommodate the manufacture of hybrid stainless steel/aluminum coal-carrying railcars.

Net cash provided by investing activities for the year ended December 31, 2005 was $5.4 million as compared to net cash used in investing activities of $3.5 million for the year ended December 31, 2004. Net cash provided by investing activities for the year ended December 31, 2005 consisted of the release of restricted cash and capital expenditures, while net cash used in investing activities for the year ended December 31, 2004 consisted of restricted cash deposits and capital expenditures. The $5.4 million of net cash provided by investing activities for the year ended December 31, 2005 includes the release of $13.0 million of restricted cash, offset by capital expenditures of $7.5 million. For the year ended December 31, 2005, $5.7 million of the $7.5 million of total capital expenditures during the period was used for the expansion of production capacity at our manufacturing facility in Roanoke, Virginia.

Financing Activities. Net cash provided by financing activities for the year ended December 31, 2006 was $2.0 million as compared to net cash used in financing activities of $20.7 million for the year ended December 31, 2005. Net cash provided by financing activities for the year ended December 31, 2006 included $2.1 million in stock options exercised and $1.8 million in excess tax benefit from stock-based compensation. These were partially offset by the use of $1.9 million to pay cash dividends to our stockholders.

Net cash used in financing activities for the year ended December 31, 2005 was $20.7 million as compared to net cash used in financing activities of $4.8 million for the year ended December 31, 2004. Net cash used in financing activities for the year ended December 31, 2005 included net proceeds from the issuance of common stock of $87.3 million; payments on long-term debt of $59.3 million; redemption of redeemable preferred stock of $13.0 million; and payments of additional acquisition consideration of $35.0 million. The payments on long-term debt included $48.4 million for the repurchase of the senior notes; $5.7 million for the repayment of the term loan; and $5.2 million for the repayment of the industrial revenue bonds. Cash used in financing activities for the year ended December 31, 2004 consisted of long-term debt repayments applicable to our term loan and deferred offering costs.

Table of Contents

During the year ended December 31, 2004, in addition to the regular monthly payments of approximately $0.2 million per month, we made a $0.8 million balloon payment on our term loan in accordance with the agreement governing the term loan concerning the payment of proceeds from the sale of rebuilt railcars.

Capital Expenditures

Our capital expenditures were $6.9 million in the year ended December 31, 2006 as compared to $7.5 million in the year ended December 31, 2005. For the year ended December 31, 2006, $3.3 million of the $6.9 million total capital expenditures were used for the expansion of production capacity at our manufacturing facility in Roanoke, Virginia. A second track was added in Roanoke to accommodate the manufacture of hybrid stainless steel/aluminum coal-carrying railcars. The remaining $3.6 million of capital expenditures for the year ended December 31, 2006 were comprised primarily of expenditures for machinery and equipment and building improvements at our Danville, Johnstown and Roanoke production facilities.

Our capital expenditures were $7.5 million in the year ended December 31, 2005 as compared to $2.2 million in the year ended December 31, 2004. For the year ended December 31, 2005, $5.7 million of the $7.5 million total capital expenditures was used for the expansion of production capacity at our manufacturing facility in Roanoke, Virginia. The remaining $1.8 million of capital expenditures for the year ended December 31, 2005 was comprised primarily of expenditures for machinery and equipment at our Johnstown and Danville production facilities. Capital spending for the year ended December 31, 2004 primarily consisted of machinery and equipment expenditures.

Excluding unforeseen expenditures, management expects that capital expenditures will be approximately $7.2 million in 2007. These expenditures 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. We are considering the addition of another manufacturing facility to increase our low-cost production capacity. We are also exploring product diversification initiatives and international and other opportunities. We expect to fund our capital expenditures through cash provided by operating activities.

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 SFAS 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 routinely evaluate our manufacturing footprint to assess our manufacturing capacity and cost of production. To the extent that a change in our footprint is deemed to be warranted, we will evaluate the impact of this standard at the time of such a decision. There were no impairment losses on long-lived assets recorded during 2006, 2005 or 2004.

Impairment of goodwill and intangible assets

We have recorded on our balance sheet both goodwill and intangible assets, which consist primarily of patents and an intangible asset related to our defined benefit plans. On December 31, 2006 the adoption of SFAS No. 158 resulted in the derecognition of the intangible asset related to our defined benefit pension plans. See Note 12 to the consolidated financial statements. Historically, goodwill and intangible assets were reviewed for impairment when events or other changes in circumstances had indicated that the carrying amount of the assets may not be recoverable. We tested all goodwill and intangible assets for impairment on January 1, 2004, January 1, 2005, and January 1, 2006 in accordance with SFAS No. 142. We have not noted any such impairment.

We test goodwill for impairment at least annually based on management s assessment of the fair value of our assets as compared to the carrying value of our assets. 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 assets and liabilities were less than their carrying value. The process of assessing fair value involves management making estimates with respect to future sales volume, pricing, economic and industry data, anticipated cost environment and overall market conditions, and because these estimates form the basis for the determination of whether or not an impairment charge should be recorded, these estimates are considered to be critical accounting estimates.

Our method to determine fair value to test goodwill for impairment considers three valuation approaches: the discounted cash flow method, the guideline company method and the transaction method. The results of each of these three methods are reviewed by management and a fair value is then assigned. For our January 1, 2006 valuation date, management estimated that the fair value of our company exceeded the carrying value of our company by a substantial amount.

The discounted cash flow method involves significant judgment based on a market-derived rate of return to discount short-term and long-term projections of the future performance of our company. The major assumptions that influence future performance include:

- 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.

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. While a negative 1% adjustment to the volume projections used in the discounted cash flow method would reduce the excess of the fair value of our company compared to its carrying value by approximately 1%, management estimates that the fair value would still exceed the carrying value by a substantial amount.

Our estimated margins used in the discounted cash flow method are based primarily on historical margins. The price of raw materials has increased significantly since November 2003. Aluminum and steel prices have historically accounted for approximately 30% to 35% of our total cost of sales. Changes in aluminum and steel prices typically only affect margins on signed contracts for railcars forming part of our backlog as management historically has used aluminum and steel prices at the time a contract is signed as the basis for its selling price. At January 1, 2006, all of our contracts provided for raw material cost escalation and with respect to the year ended December 31, 2006, we were able to pass through to our customers raw material cost increases on 98% of railcar deliveries. However, there is no assurance that our customers will accept variable pricing in the future, which would subject our margins and performance to variability primarily in the event of changes in the price of aluminum and steel. While an increase of 1% in aluminum and steel prices for backlog and projected volume in the discounted cash flow method would reduce the excess of the fair value of our company compared to its carrying value by approximately 8%, management estimates that the fair value would still exceed the carrying value by a substantial amount.

The WACC used to discount our future performance in the discounted cash flow method is based on an estimated rate of return of 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 14% for the January 1, 2006 goodwill impairment

32

Table of Contents

valuation analysis based on our mix of equity and debt. While an increase of 1% in the WACC used in the discounted cash flow method would reduce the excess of the fair value of our company compared to its carrying value by approximately 3%, management estimates that the fair value would still exceed the carrying value by a substantial amount.

The assumptions supporting our estimated future cash flows, including the discount rate used and estimated terminal value, reflect our best estimates.

The guideline company method and transaction method use market valuation multiples of similar publicly traded companies for the guideline company method and recent transactions for the transaction method and, as a result, involve less judgment in their application.

Impairment of definite-lived intangibles is determined to exist when undiscounted cash flows related to the assets are less than the carrying value of the assets. These cash flow estimates are based on reasonable and supportable assumptions and consider all available evidence. However, there is inherent uncertainty in estimating future cash flows.

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 2006, we assumed that the expected long-term rate of return on pension plan assets would be 8.25%. As permitted under SFAS 87, 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	$ (262)	$ 262

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, 2006, we determined this rate to be 5.90%, an increase of 0.15% from the 5.75% rate used at December 31, 2005. 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	$ (690)	$ 770

For the years ended December 31, 2006, 2005 and 2004, we recognized consolidated pre-tax pension cost of $4.0 million, $4.7 million and $4.4 million, respectively. We currently expect to contribute approximately $5.4 million to our pension plans during 2007. 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. In August 2006, President Bush signed the Pension Protection Act of 2006 into law. Included in this legislation are changes to the method of valuing pension plan assets and liabilities for funding purposes, as well as minimum funding levels required by 2008. We are determining the impact that these new requirements will have on our cash flow; however, initial estimates forecast that our defined benefit pension plans will be fully funded by 2008. This expectation will be affected by future contributions, investment returns on plan assets, growth in plan liabilities and interest rates. Assuming that 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.

33

For the years ended December 31, 2006, 2005 and 2004, we recognized a consolidated pre-tax postretirement welfare benefit cost of $5.6 million, $5.9 million and $7.1 million, respectively. We currently expect to pay approximately $3.5 million during 2007 in postretirement welfare benefits.

Income taxes

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 evaluate quarterly the realizability of our net deferred tax assets and assess the valuation allowance, adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are our forecast of future taxable income and the availability of tax planning strategies that can be implemented to realize the net deferred tax assets. 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, 2006, we had total net deferred tax assets of $31.4 million. Although realization of our net deferred tax assets is not certain, management has concluded that we will more likely than not realize the full benefit of the deferred tax assets. At December 31, 2006, we had a valuation allowance of $2.9 million, based on our management s conclusion that it was more likely than not that certain of our net deferred tax assets in Pennsylvania would not be realized.

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 $0.4 million. A 1% change in the rate of Illinois income taxes would increase or decrease our deferred tax assets by $0.1 million. A 1% change in the rate of Virginia income taxes would increase or decrease our deferred tax assets by $23,000.

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 and rebuilt 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. Revenue from leasing is recognized ratably during the lease term. Pursuant to 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*, on transactions involving used railcar trades, we recognize revenue for the entire transaction 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 date of receipt less a normal profit margin.

Compensation expense under stock option agreements

Management judgment is required in estimating the compensation expense under stock option agreements. During the year ended December 31, 2004, compensation expense was recorded at the estimated fair value of the 2004

Table of Contents

Options to purchase Units, consisting of 550 shares of our common stock and one share of our Series A voting preferred stock. On April 11, 2005, we adopted the 2005 Long Term Incentive Plan, pursuant to which we granted options to purchase shares of our common stock to certain of our executive officers.

Determining the compensation expense under stock option agreements requires complex and subjective judgments. Our approach to valuation is based on using market multiples of comparable companies, our cash flows and other data which give management indicators of the fair value of the options. There is inherent uncertainty in making these estimates.

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.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board (the FASB) issued SFAS No. 123 (R), *Share-Based Payment,* which establishes the accounting for transactions in which an entity exchanges its equity instruments or certain liabilities based upon the entity s equity instruments for goods or services. The revision to SFAS No. 123 generally requires that publicly traded companies measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the grant date. That cost 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. We adopted SFAS No. 123 (R) effective January 1, 2006 using the modified prospective method and, as such, results for prior periods have not been restated.

In June 2006, 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. We are currently evaluating the requirements of FIN No. 48 and have not yet determined the impact on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans An amendment of FASB Statements No. 87, 88, 106 and 132(R)*. SFAS No. 158 requires the recognition of the funded status of a benefit plan in the balance sheet; the recognition in other comprehensive income of gains or losses and prior service costs or credits arising during the period but which are not included as components of periodic benefit cost; the measurement of defined benefit plan assets and obligations as of the balance sheet date; and disclosure of additional information about the effects on periodic benefit cost for the following fiscal year arising from delayed recognition of gains and losses in the current period. We adopted SFAS No. 158 as of December 31, 2006 on the prospective basis as required. See Note 12 to the consolidated financial statements for additional disclosures required by SFAS No. 158 and the effects of adoption.

In September 2006, the FASB issued 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 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, we do not expect the provisions of SFAS No. 157 to have a material impact on our financial statements.

In September 2006, the SEC staff issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.* SAB No. 108 was

Table of Contents

issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements. The SEC has stated that SAB No. 108 should be applied no later than for the annual financial statements for the first year ending after November 15, 2006, with earlier application encouraged. We adopted SAB No. 108 effective as of December 31, 2006. The application of SAB No. 108 did not have a material impact on our financial statements.

FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains certain forward-looking statements including, in particular, statements about our plans, strategies and prospects. We have used the words may, will, expect, anticipate, believe, estimate, plan, intend and similar expressions in this prosp 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 agreement 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 Disclosure About Market Risk.

We have a $50.0 million revolving credit facility which provides for financing of our working capital requirements and contains a $30.0 million sub-facility for letters of credit. As of December 31, 2006, there were no borrowings under the revolving credit facility and we had issued approximately $18.3 million in letters of credit under the sub-facility for letters of credit. We are exposed to interest rate risk on the borrowings under the revolving credit facility and do not plan to enter into swaps or other hedging arrangements to manage this risk, because we do not believe this interest rate risk to be significant. On an annual basis, a 1% change in the interest rate in our revolving credit facility will increase or decrease our interest expense by $10,000 for every $1.0 million of outstanding borrowings.

We are exposed to price risks associated with the purchase of raw materials, especially aluminum and steel. The cost of aluminum, steel and all other materials used in the production of our railcars represents a significant component of our direct manufacturing costs. Given the significant increases in the price of raw materials since November 2003, this exposure can affect our costs of production. We currently do not plan to enter into any hedging

Table of Contents

arrangements to manage the price risks associated with raw materials. Instead, we have either renegotiated existing contracts or entered into new contracts with substantially all of our customers that allow for variable pricing to protect us against future changes in the cost of raw materials. As a result, substantially all of our contracts for railcars in our backlog at December 31, 2006 permit us to pass through charges related to increases in the cost of raw materials to our customers. However, we may not always be able to pass on these increases in the future. In particular, 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. In the event that we are able to increase the prices of our railcars, any such price increases may reduce demand for our railcars. The current high cost 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.

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 $210 per railcar, which, for the year ended December 31, 2006, would have reduced income before income taxes by approximately $3.9 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.

Table of Contents

Item 8. Financial Statements and Supplementary Data.

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of FreightCar America, Inc. and its subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control over financial reporting is a process designed under the supervision of the Company s principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company s financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

As of the end of the Company s 2006 fiscal year, management conducted an evaluation of the effectiveness of the Company s internal control over financial reporting based on the framework established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company s internal control over financial reporting as of December 31, 2006 is effective.

Management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2006 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein.

Inherent Limitations on Effectiveness of Controls

The Company s management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

March 7, 2007

Table of Contents

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, 2006 and 2005, and the related consolidated statements of operations, stockholders equity (deficit), and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15. We also have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2006, based on the framework established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedule, an opinion on management s assessment, and an opinion on the effectiveness of the Company s internal control over financial reporting 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 and whether effective internal control over financial reporting was maintained in all material respects. Our audit of 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, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and 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 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, 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. Also, in our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of

Table of Contents

Sponsoring Organizations of the Treadway Commission. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Notes 2 and 12, on December 31, 2006, the Company adopted Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans.

DELOITTE & TOUCHE LLP

Pittsburgh, Pennsylvania

March 7, 2007

Table of Contents

FreightCar America, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(in thousands)

	December 31, 2006	December 31, 2005
Assets		
Current assets		
Cash and cash equivalents	$ 212,026	$ 61,737
Accounts receivable, net of allowance for doubtful accounts of $191 and $115, respectively	11,369	3,854
Inventories	106,643	75,089
Other current assets	5,045	4,033
Deferred income taxes	8,462	9,410
Total current assets	343,545	154,123
Property, plant and equipment, net	25,905	23,889
Deferred financing costs, net	382	688
Intangible assets, net	5,673	12,834
Goodwill	21,521	