FreightCar America, Inc.
Form 10-Q
May 12, 2008

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

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

For the Quarterly Period Ended March 31, 2008

or

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

Commission file number: 000-51237
FREIGHTCAR AMERICA, INC.
(Exact name of registrant as specified in its charter)

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

(800) 458-2235
(Registrant s telephone number, including area code)

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of April 30, 2008, there were 11,854,846 shares of the registrant s common stock outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 31, 2008	December 31, 2007
	(In thousands)	
Assets		
Current assets		
Cash and cash equivalents	$ 161,747	$ 197,042
Accounts receivable, net of allowance for doubtful accounts of $274 and $223, respectively	6,295	13,068
Inventories	84,141	49,845
Leased railcars held for sale	7,723	
Other current assets	11,331	7,223
Deferred income taxes	10,863	13,520
Total current assets	282,100	280,698
Property, plant and equipment, net	27,292	26,921
Goodwill	21,521	21,521
Deferred income taxes	25,838	21,035
Other long-term assets	5,541	5,709
Total assets	$ 362,292	$ 355,884
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 60,851	$ 39,525
Accrued payroll and employee benefits	19,286	13,320
Accrued postretirement benefits	5,188	5,188
Accrued warranty	10,173	10,551
Customer deposits		19,836
Other current liabilities	8,222	7,100
Total current liabilities	103,720	95,520
Accrued pension costs	15,367	10,685
Accrued postretirement benefits, less current portion	51,941	47,890
Other long-term liabilities	3,700	3,717
Total liabilities	174,728	157,812
Commitments and contingencies		
Stockholders equity		

Preferred stock, $0.01 par value; 2,500,000 shares authorized (100,000 shares each designated as Series A voting and Series B non-voting); 0 shares issued and outstanding at March 31, 2008 and December 31, 2007		
Common stock, $0.01 par value; 50,000,000 shares authorized, 12,731,678 shares issued at March 31, 2008 and December 31, 2007	127	127
Additional paid in capital	98,268	99,270
Treasury stock, at cost, 876,832 and 918,257 shares at March 31, 2008 and December 31, 2007, respectively	(41,630)	(43.597)
Accumulated other comprehensive loss	(9,691)	(9,857)
Retained earnings	140,490	152,129
Total stockholders equity	187,564	198,072
Total liabilities and stockholders equity	$ 362,292	$ 355,884

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31, 2008		Three Months Ended March 31, 2007	
	(In thousands, except share and per share data)			
Sales	$	95,098	$	322,451
Cost of sales		85,815		278,318
Gross profit		9,283		44,133
Selling, general and administrative expense (including non-cash stock-based compensation expense of $964 and $668, respectively)		8,586		10,286
Charges related to labor arbitration ruling		18,263		
Operating (loss) income		(17,566)		33,847
Interest income		1,344		2,409
Interest expense		82		106
Amortization of deferred financing costs		20		77
Operating (loss) income before income taxes		(16,324)		36,073
Income tax (benefit) provision		(6,108)		13,121
Net (loss) income	$	(10,216)	$	22,952
Net (loss) income per common share basic	$	(0.87)	$	1.82
Net (loss) income per common share diluted	$	(0.87)	$	1.80
Weighted average common shares outstanding basic		11,739,799		12,597,791
Weighted average common shares outstanding diluted		11,739,799		12,744,575
Dividends declared per common share	$	0.12	$	0.06

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Cash flows from operating activities		
Net (loss) income	$ (10,216)	$ 22,952
Adjustments to reconcile net (loss) income to net cash flows used in operating activities		
Charges related to labor arbitration ruling	18,263	
Depreciation and amortization	993	868
Other non-cash items	(507)	77
Deferred income taxes	(2,085)	558
Compensation expense under stock option and restricted share award agreements	964	668
Changes in operating assets and liabilities:		
Accounts receivable	6,773	(56,306)
Inventories	(33,599)	27,362
Leased railcars held for sale	(7,723)	
Other current assets	15	(1,165)
Accounts payable	20,635	741
Accrued payroll and employee benefits	(3,665)	(4,258)
Income taxes receivable/payable	(4,184)	7,005
Accrued warranty	(378)	747
Customer deposits and other current liabilities	(18,715)	109
Accrued pension costs and accrued postretirement benefits	267	(71)
Net cash flows used in operating activities	(33,162)	(713)
Cash flows from investing activities		
Purchases of property, plant and equipment	(1,424)	(2,621)
Proceeds from sale of property, plant and equipment	18	
Net cash flows used in investing activities	(1,406)	(2,621)
Cash flows from financing activities		
Payments on long-term debt	(16)	(16)
Stock repurchases		(23,457)
Cash dividends paid to stockholders	(711)	(764)
Net cash flows used in financing activities	(727)	(24,237)
Net decrease in cash and cash equivalents	(35,295)	(27,571)
Cash and cash equivalents at beginning of period	197,042	212,026

Cash and cash equivalents at end of period	$ 161,747	$ 184,455
Supplemental cash flow information:		
Income taxes paid	$ 105	$ 5,566

See Notes to Condensed Consolidated Financial Statements.

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

Note 1 Description of the Business

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

Note 2 Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of America, Intermedco, Operations, JAC, FCS, JAIX, JAC Patent and FCR. All significant intercompany accounts and transactions have been eliminated in consolidation. The foregoing financial information has been prepared in accordance with the accounting principles generally accepted in the United States of America (GAAP) and rules and regulations of the Securities and Exchange Commission (the SEC) for interim financial reporting. The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year. The accompanying interim financial information is unaudited; however, the Company believes the financial information reflects all adjustments (consisting of items of a normal recurring nature) necessary for a fair presentation of financial position, results of operations and cash flows in conformity with GAAP. Certain information and note disclosures normally included in the Company s annual financial statements prepared in accordance with GAAP have been condensed or omitted. These interim financial statements should be read in conjunction with the audited financial statements contained in the Company s Form 10-K for the year ended December 31, 2007.

Note 3 Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 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 financial assets and financial liabilities for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The FASB deferred the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis, until January 1, 2009 for calendar year-end entities. Implementation of the provisions of SFAS No. 157 did not have a material impact on the Company s financial statements, as the Company does not currently hold financial assets and liabilities that are required to be marked to fair value.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* SFAS No. 159 permits companies to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. The Company implemented SFAS No. 159 effective January 1, 2008. but elected not to apply the provisions of SFAS No. 159 to any of its existing financial assets or liabilities, therefore the provisions of SFAS No. 159 did not have an impact on the Company s financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations,* which retains the fundamental requirements in SFAS No. 141, including that the purchase method be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141 (R) defines the acquirer as the entity that obtains control of one or more businesses in a business combination and establishes the acquisition date as the date that the acquirer achieves control instead of the date that the consideration is transferred. This standard requires an acquirer in a business combination to recognize the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. It also requires the recognition of assets acquired and liabilities assumed arising from certain contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. SFAS No. 141 (R) is effective for any business combination with an acquisition date on or after January 1, 2009. The Company is in the process of evaluating the requirements of SFAS No. 141 (R) but expects only prospective impact on the Company s financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51*. SFAS No. 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This standard defines a noncontrolling interest, sometimes called minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly to a parent. SFAS No. 160 requires, among other items, that a noncontrolling interest be included in the consolidated statement of financial position within equity separate from the parent s equity, consolidated net income be reported at amounts inclusive of both the parent s and the noncontrolling interest s shares and, separately, the amounts of consolidated net income attributable to the parent and the noncontrolling interest all on the consolidated statement of income. If a subsidiary is deconsolidated, SFAS No. 160 requires any retained noncontrolling equity investment in the former subsidiary be measured at fair value and a gain or loss to be recognized in net income based on such fair value. The Company implemented SFAS No.160 effective January 1, 2008, but currently does not have any noncontrolling interests in subsidiaries, therefore the provisions of SFAS No. 160 did not have an impact on the Company s financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133.* SFAS No. 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. The Company currently does not utilize derivative instruments or hedging activities. Other than the enhanced disclosures required if the Company engages in these activities in the future, the Company does not expect the provisions of SFAS No. 161 to have a material impact on the Company s financial statements.

Note 4 Charges Related to Labor Arbitration Ruling

On May 6, 2008, an arbitrator issued a ruling in a grievance proceeding brought by the United Steelworkers of America (USWA). The grievance proceeding, which was first filed by the USWA on April 1, 2007, surrounded the interpretation of provisions in the collective bargaining agreement (CBA) covering employees at the Company s Johnstown, Pennsylvania plant. The Company announced in December 2007 that it planned to close the Johnstown facility. This action was taken to further the Company s strategy of optimizing production at its low-cost facilities and continuing its focus on cost control to maintain competitive position. The Company had entered into decisional bargaining with the union representing its Johnstown employees regarding labor costs at the Johnstown facility, but did not reach an agreement with the union that would have allowed the Company to continue to operate the facility in a cost-effective way. The CBA was entered into in February 2005 and is effective until May 15, 2008. The dispute involves the interpretation of language regarding the classification of employees years of service and the Company s obligations to employees based on their years of service.

The arbitrator s ruling holds the Company responsible for providing back pay and appropriate benefits to affected employees, a group that includes over one-half of the workers who were employed at the Johnstown plant at the time the grievance was filed. For the three months ended March 31, 2008, the Company accrued charges related to the labor arbitration ruling of $18,263 which are reported as a separate line item on the Company s Condensed Consolidated Statements of Operations. It is anticipated that payments for employee salaries and benefits will be made during 2008, while pension benefits will be funded through plan assets and future Company contributions to the pension plans. Payments for postretirement benefits will be made from future operating cash flows.

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The components of the charges related to the labor arbitration ruling for the three months ended March 31, 2008 are as follows:

Pension plan costs	$ 4,527
Postretirement plan costs	4,105
Employee salary and benefit costs	9,631
Total charges related to labor arbitration ruling, pre-tax	$ 18,263

Note 5 Inventories

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

	March 31, 2008	December 31, 2007
Work in progress	$ 64,862	$ 48,088
Finished new railcars	19,279	1,757
Total inventories	$ 84,141	$ 49,845

Management established a reserve of $477 and $1,177 relating to slow-moving inventory for raw materials or work in progress at March 31, 2008 and December 31, 2007, respectively.

Note 6 Leased Railcars Held for Sale

During the quarter ended March 31, 2008, the Company re-entered the leasing business. The Company believes that it is probable that the railcars held for sale will be sold within one year and accordingly has treated the railcars as held for sale assets. Leased railcars held for sale are carried at the lower of cost or market value and are not depreciated. The Company recognizes operating lease revenue on a straight-line basis over the life of the lease. The Company recognizes revenue from the sale of railcars under operating leases on a gross basis as manufacturing sales and cost of sales if the railcars are sold within 12 months and on a net basis in leasing revenue as a gain(loss) on sale of leased railcars if the railcars are held in excess of 12 months.

Leased railcars held for sale in the amount of $7,723 at March 31, 2008 have lease agreements with external customers with terms of approximately 2.25 years. The Company had no leased railcars held for sale at December 31, 2007.

Future minimum rental revenues on leases at March 31, 2008 are as follows:

Nine months ending December 31, 2008	$ 369
Year ending December 31, 2009	491
Year ending December 31, 2010	246
Thereafter	
	$ 1,106

Note 7 Property, Plant and Equipment

Property, plant and equipment consists of the following:

	March 31, 2008	December 31, 2007

Land	$	701	$	701
Buildings and improvements		20,507		20,559
Machinery and equipment		39,546		40,228
Cost of buildings, improvements, machinery and equipment		60,053		60,787
Less: Accumulated depreciation and amortization		(35,854)		(35,697)
Buildings, improvements, machinery and equipment, net of accumulated depreciation and amortization		24,199		25,090
Construction in process		2,392		1,130
Total property, plant and equipment, net	$	27,292	$	26,921

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Note 8 Goodwill and Intangible Assets

The Company performs the goodwill impairment test required by SFAS No. 142, *Goodwill and Other Intangible Assets*, as of January 1 of each year. The valuation uses a combination of methods to determine the fair value of the Company (which consists of one reporting unit) including prices of comparable businesses, a present value technique and recent transactions involving businesses similar to the Company. There was no adjustment required based on the annual impairment tests for 2008 and 2007.

Goodwill and intangible assets consist of the following:

	March 31, 2008	December 31, 2007
Patents	$ 13,097	$ 13,097
Accumulated amortization	(8,163)	(8,014)
Patents, net of accumulated amortization	4,934	5,083
Goodwill	21,521	21,521
Total goodwill and intangible assets	$ 26,455	$ 26,604

Patents are being amortized on a straight-line method over their remaining legal life from the date of acquisition. The weighted average remaining life of the Company s patents is 9 years. Amortization expense related to patents, which is included in cost of sales, was $148 and $148 for the three months ended March 31, 2008 and 2007, respectively. The Company estimates amortization expense for each of the three years in the period ending December 31, 2010 will be approximately $590 and for each of the two years in the period ending December 31, 2012 will be approximately $586.

Note 9 Product Warranties

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Balance at the beginning of the period	$ 10,551	$ 12,051
Warranties issued during the period	498	1,532
Reductions for payments, cost of repairs and other	(876)	(785)
Balance at the end of the period	$ 10,173	$ 12,798

Note 10 Revolving Credit Facility

On August 24, 2007, the Company entered into a Second Amended and Restated Credit Agreement (the Revolving Credit Agreement) with LaSalle Bank National Association (LaSalle) and the lenders party thereto (collectively, the Lenders) amending and restating the terms of the Company s revolving credit facility (the revolving credit facility). The proceeds of the revolving credit facility are available to finance the working capital requirements of the Company through direct borrowings and the issuance of stand-by letters of credit. The Revolving Credit Agreement amends and restates the Amended and Restated Credit Agreement, dated as of April 11, 2005, by and among the Company, LaSalle and the lenders party thereto (the previous credit agreement). The Revolving Credit Agreement provides for a $100,000 senior secured revolving credit facility, including (i) a sub-facility for letters of credit in an amount not to exceed $50,000 and (ii) a sub-facility for a swing line loan in an amount not to exceed $10,000. The amount available under the revolving credit facility is based on the lesser of (i) $100,000 or (ii) an amount equal to a percentage of eligible accounts receivable plus a percentage of eligible finished inventory plus a percentage of semi-finished inventory.

The Revolving Credit Agreement has a term ending on May 31, 2012 and bears interest at a rate of LIBOR plus an applicable margin of between 0.875% and 1.500% depending on Revolving Loan Availability (as defined in the Revolving Credit Agreement). The Company is required to pay a commitment fee of between 0.175% and 0.250% based on Revolving Loan Availability. The previous credit agreement had a three-year term ending on April 11, 2008 and bore interest at a rate of

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LIBOR plus an applicable margin of between 1.75% and 3.00% depending on the Company s ratio of consolidated senior debt to consolidated EBITDA (as defined in the previous credit agreement). Borrowings under the Revolving Credit Agreement are collateralized by substantially all of the assets of the Company. The Revolving Credit Agreement has both affirmative and negative covenants, including, without limitation, a minimum fixed charge coverage ratio and limitations on debt, liens, dividends, investments, acquisitions and capital expenditures. The Revolving Credit Agreement also provides for customary events of default. As a result of the charges related to the labor arbitration ruling, the Company was not in compliance with one of the covenant requirements under the Revolving Credit Agreement as of March 31, 2008. The Company received a waiver of this covenant violation from the lenders under the Revolving Credit Agreement on May 9, 2008. As of March 31, 2008 and December 31, 2007, the Company had no borrowings under the revolving credit facility. The Company had $8,828 in outstanding letters of credit under the letter of credit sub-facility as of March 31, 2008 and December 31, 2007 and the ability to borrow $56,861 under the revolving credit facility as of March 31, 2008. Under the revolving credit facility, the Company s subsidiaries are permitted to pay dividends and transfer funds to the Company without restriction.

Note 11 Stock-Based Compensation

On January 10, 2008 and January 13, 2008 the Company awarded 11,500 and 29,925 shares of restricted stock to certain employees of the Company pursuant to its 2005 Long Term Incentive Plan. The restricted stock awarded on January 10, 2008 will vest in five equal annual installments beginning on January 10, 2009 while the restricted stock awarded on January 13, 2008 will vest in three equal annual installments beginning on January 13, 2009, with the continued vesting of each award subject to the recipient s continued employment with the Company. Stock compensation expense will be recognized over the vesting period based on the fair market value of the stock on the date of the award based on traded market prices for the Company s stock.

On January 13, 2008, the Company awarded 190,100 non-qualified stock options to certain employees of the Company pursuant to its 2005 Long Term Incentive Plan. The stock options will vest in three equal annual installments beginning on January 13, 2009 and have a contractual term of 10 years. The exercise price of each option is $30.47, which was the fair market value of the Company s stock on the date of the grant. The Company recognizes stock compensation expense based on the fair value of the award on the grant date using the Black-Scholes option valuation model. The fair value of $12.36 per option will be recognized over the period during which an employee is required to provide service in exchange for the award, which is usually the vesting period. The following assumptions were used to value the 2008 stock options: expected lives of the options of 6 years; expected volatility of 40.78%; risk-free interest rate of 3.08%; and expected dividend yield of 0.79%. Expected life in years was determined using the simplified method allowed by the Securities and Exchange Commission in accordance with Staff Accounting Bulletin No. 110. Expected volatility was based on the historical volatility of the Company s stock. The risk-free interest rate was based on the U.S. Treasury bond rate for the expected life of the option. The expected dividend yield was based on the latest annualized dividend rate and the current market price of the underlying common stock on the date of the grant. As of March 31, 2008, there was $3,360 of unearned compensation expense related to the stock options and restricted stock granted during the quarter ended March 31, 2008, which will be recognized over the average remaining requisite service period of 34.7 months.

Note 12 Comprehensive (Loss) Income

Comprehensive (loss) income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive (loss) income consists of net operating (loss) income and the unrecognized pension and postretirement costs, which are shown net of tax.

Net operating (loss) income reported in the Condensed Consolidated Statements of Operations to total comprehensive (loss) income is reconciled as follows:

	Three Months Ended March 31,	
	2008	**2007**
Net operating (loss) income	$ (10,216)	$ 22,952
Other comprehensive income:		

Amortization of prior service costs and actuarial losses, net of tax	166	94
Total comprehensive (loss) income	$ (10,050)	$ 23,046

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Note 13 Employee Benefit Plans

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

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

The components of net periodic benefit cost for the three months ended March 31, 2008 and 2007, are as follows:

	Three Months Ended March 31,	
	2008	**2007**
Pension Benefits		
Service cost	$ 282	$ 703
Interest cost	842	699
Labor arbitration ruling cost	4,527	
Expected return on plan assets	(939)	(835)
Amortization of prior service cost		178
Amortization of unrecognized net loss	7	219
	$ 4,719	$ 964

	Three Months Ended March 31,	
	2008	**2007**
Postretirement Benefit Plan		
Service cost	$ 17	$ 198
Interest cost	808	730
Labor arbitration ruling cost	4,105	
Amortization of prior service cost	56	431
Amortization of unrecognized net loss	41	163
	$ 5,027	$ 1,522

On May 6, 2008, an arbitrator issued a ruling in a grievance proceeding brought by the USWA involving the interpretation of language regarding the classification of employees years of service and the Company s obligations to employees based on their years of service. The arbitrator s ruling holds the Company responsible for providing back pay and appropriate benefits to affected employees, a group that includes over one-half of the workers who were employed at the Johnstown plant at the time the grievance was filed on April 1, 2007. As a result of the arbitrator s ruling, certain employees of the Company s Johnstown facility became entitled to additional service credit and contractual termination benefits for pension and postretirement purposes which resulted in the Company recording additional pension and postretirement benefit costs under SFAS No. 88 and SFAS No. 106 of $4,527 and $4,105, respectively during the three months ended March 31, 2008.

The Company made contributions to the Company s defined benefit pension plans of $0 and $1,862, respectively, for the three months ended March 31, 2008 and 2007. Total contributions to the Company s defined benefit pension plans in 2008 are expected to be approximately $6,750. The Company made payments to the Company s postretirement benefit plan of approximately $879 and $694, respectively, for the three months ended March 31, 2008 and 2007. Total payments to the Company s postretirement benefit plan in 2008 are expected to be approximately $5,188. As of December 31, 2007, the Company s benefit obligations under its defined benefit pension plans and its postretirement benefit plan were $55,393 and $53,078, respectively, which exceeded the fair value of plan assets by $10,420 and $53,078, respectively.

The Company also maintains qualified defined contribution plans which provide benefits to employees based on employee contributions, years of service, employee earnings or certain subsidiary earnings, with discretionary contributions allowed. Expenses related to these plans were $483 and $559 for the three months ended March 31, 2008 and 2007, respectively.

Note 14 Risks and Contingencies

The Company is involved in various warranty and repair claims and related threatened and pending legal proceedings with its customers in the normal course of business. In the opinion of management, the Company s potential losses in excess of the accrued warranty provisions, if any, are not expected to be material to the Company s financial condition, results of operations or cash flows.

The Company relies upon third-party suppliers for railcar heavy castings, wheels and other components for its railcars. In particular, it purchases a substantial percentage of its railcar heavy castings and wheels from subsidiaries of one entity. The Company also relies upon a single supplier to manufacture all of its cold-rolled center sills for its railcars. Any inability by these suppliers to provide the Company with components for its railcars, any significant decline in the quality of these components or any failure of these suppliers to meet the Company s planned requirements for such components may have a material adverse impact on the Company s financial condition and results of operations. While the Company believes that it could secure alternative manufacturing sources for these components, the Company may incur substantial delays and significant expense in doing so, the quality and reliability of these alternative sources may not be the same and the Company s operating results may be significantly affected.

On August 15, 2007, a lawsuit (the Pension Lawsuit) was filed against the Company in the U.S. District Court for the Western District of Pennsylvania by certain members of the United Steelworkers of Ame