

FreightCar America, Inc.
Form 10-Q
November 08, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2013

or

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

Commission file number: 000-51237

FREIGHTCAR AMERICA, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	25-1837219 (I.R.S. Employer Identification No.)
Two North Riverside Plaza, Suite 1300 Chicago, Illinois (Address of principal executive offices)	60606 (Zip Code)
(800) 458-2235 (Registrant's telephone number, including area code)	

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of November 7, 2013, there were 12,048,750 shares of the registrant's common stock outstanding.

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FREIGHTCAR AMERICA, INC.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****FreightCar America, Inc.****Condensed Consolidated Balance Sheets****(Unaudited)**

	September 30, 2013	December 31, 2012
	<i>(In thousands, except share and per share data)</i>	
Assets		
Current assets		
Cash and cash equivalents	\$ 58,997	\$ 98,509
Restricted cash and certificates of deposit	4,430	14,700
Marketable securities	38,993	41,978
Accounts receivable, net of allowance for doubtful accounts of \$238 and \$299, respectively	20,610	12,987
Inventories, net	66,884	73,842
Inventory on lease	16,955	
Other current assets	6,533	7,130
Deferred income taxes, net	12,079	12,079
Total current assets	225,481	261,225
Property, plant and equipment, net	49,740	39,343
Railcars available for lease, net	36,370	43,435
Goodwill	22,128	22,128
Deferred income taxes, net	18,240	18,940
Other long-term assets	3,253	3,494
Total assets	\$ 355,212	\$ 388,565
Liabilities and Stockholders Equity		
Current liabilities		
Accounts and contractual payables	\$ 20,888	\$ 33,453
Accrued payroll and employee benefits	3,691	6,548
Accrued postretirement benefits	791	4,978
Accrued warranty	6,968	7,625
Customer deposits	7,162	36,087
Customer advance	19,180	
Other current liabilities	9,016	7,885
Total current liabilities	67,696	96,576
Accrued pension costs	11,305	12,193
Accrued postretirement benefits, less current portion	67,557	64,322

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Accrued taxes and other long-term liabilities	4,190	4,143
Total liabilities	150,748	177,234
Stockholders' equity		
Preferred stock, \$0.01 par value, 2,500,000 shares authorized (100,000 shares each designated as Series A voting and Series B non-voting, 0 shares issued and outstanding at September 30, 2013 and December 31, 2012)		
Common stock, \$0.01 par value, 50,000,000 shares authorized, 12,731,678 shares issued at September 30, 2013 and December 31, 2012	127	127
Additional paid in capital	98,842	100,402
Treasury stock, at cost, 685,302 and 752,167 shares at September 30, 2013 and December 31, 2012, respectively	(31,290)	(34,488)
Accumulated other comprehensive loss	(25,470)	(26,139)
Retained earnings	162,255	171,429
Total stockholders' equity	204,464	211,331
Total liabilities and stockholders' equity	\$ 355,212	\$ 388,565

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	<i>(In thousands, except share and per share data)</i>			
Revenues	\$ 75,946	\$ 160,598	\$ 210,670	\$ 560,870
Cost of sales	69,764	144,506	197,242	504,004
Gross profit	6,182	16,092	13,428	56,866
Selling, general and administrative expenses	7,691	8,230	19,971	24,565
Gain on sale of railcars available for lease	(563)	(14)	(590)	(976)
Operating (loss) income	(946)	7,876	(5,953)	33,277
Interest expense	(238)	(99)	(481)	(290)
Other income	15		59	5
(Loss) income before income taxes	(1,169)	7,777	(6,375)	32,992
Income tax (benefit) provision	(243)	3,020	633	12,938
Net (loss) income	\$ (926)	\$ 4,757	\$ (7,008)	\$ 20,054
Net (loss) income per common share basic	\$ (0.08)	\$ 0.40	\$ (0.59)	\$ 1.68
Net (loss) income per common share diluted	\$ (0.08)	\$ 0.40	\$ (0.59)	\$ 1.67
Weighted average common shares outstanding basic	11,957,548	11,936,780	11,950,593	11,930,943
Weighted average common shares outstanding diluted	11,957,548	11,943,558	11,950,593	11,976,272
Dividends declared per common share	\$ 0.06	\$ 0.06	\$ 0.18	\$ 0.18

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents**FreightCar America, Inc.****Condensed Consolidated Statements of Comprehensive (Loss) Income****(Unaudited)**

	Three Months Ended		Nine Months	
	September 30,		Ended	
	2013	2012	2013	2012
	<i>(In thousands)</i>			
Net (loss) income	\$ (926)	\$ 4,757	\$ (7,008)	\$ 20,054
Other comprehensive income, net of tax:				
Pension liability reclassified to net income (net of taxes of \$46, \$49, \$138 and \$145, respectively)	85	77	255	233
Postretirement liability reclassified to net income (net of taxes of \$75, \$59, \$226 and \$177, respectively)	138	95	414	284
Other comprehensive income	223	172	669	517
Comprehensive (loss) income	\$ (703)	\$ 4,929	\$ (6,339)	\$ 20,571

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents**FreightCar America, Inc.****CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (Unaudited)***(in thousands, except for share data)*

	Common Stock		Additional	Treasury Stock		Accumulated	Retained	Total
	Shares	Amount	Paid In	Shares	Amount	Other	Earnings	Stockholders
			Capital			Comprehensiv		Equity
						Loss		
Balance, December 31, 2011	12,731,678	\$ 127	\$ 100,204	(780,320)	\$(35,904)	\$ (22,302)	\$ 155,209	\$ 197,334
Net income							20,054	20,054
Other comprehensive income						517		517
Restricted stock awards			(1,446)	31,446	1,446			
Employee restricted stock settlement				(2,166)	(48)			(48)
Stock-based compensation recognized			1,409					1,409
Cash dividends							(2,155)	(2,155)
Balance, September 30, 2012	12,731,678	\$ 127	\$ 100,167	(751,040)	\$(34,506)	\$ (21,785)	\$ 173,108	\$ 217,111
Balance, December 31, 2012	12,731,678	\$ 127	\$ 100,402	(752,167)	\$(34,488)	\$ (26,139)	\$ 171,429	\$ 211,331
Net loss							(7,008)	(7,008)
Other comprehensive income						669		669
Restricted stock awards			(3,327)	72,635	3,327			
Employee restricted stock settlement				(2,794)	(65)			(65)
			64	(2,976)	(64)			

Forfeiture of restricted stock awards									
Stock-based compensation recognized			1,703						1,703
Cash dividends						(2,166)			(2,166)
Balance, September 30, 2013	12,731,678	\$ 127	\$ 98,842	(685,302)	\$ (31,290)	\$ (25,470)	\$ 162,255		\$ 204,464

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

	Nine Months Ended September,	
	2013	2012
	<i>(In thousands)</i>	
Cash flows from operating activities		
Net (loss) income	\$ (7,008)	\$ 20,054
Adjustments to reconcile net (loss) income to net cash flows (used in) provided by operating activities		
Depreciation and amortization	7,289	6,170
Gain on sale of railcars available for lease	(590)	(976)
Other non-cash items, net	108	770
Deferred income taxes	337	11,176
Stock-based compensation recognized	1,703	1,409
Changes in operating assets and liabilities:		
Accounts receivable	(7,623)	(4,260)
Inventories	7,156	16,199
Inventory on lease	(16,955)	(7,248)
Other assets	614	(2,507)
Accounts and contractual payables	(12,710)	663
Accrued payroll and employee benefits	(2,857)	375
Income taxes receivable/payable	77	200
Accrued warranty	(657)	(85)
Customer deposits and other current liabilities	(27,418)	162
Deferred revenue, non-current	(39)	(206)
Accrued pension costs and accrued postretirement benefits	(1,171)	(3,368)
Net cash flows (used in) provided by operating activities	(59,744)	38,528
Cash flows from investing activities		
Restricted cash deposits	(3,675)	(15,525)
Restricted cash withdrawals	14,240	1,810
Purchase of restricted certificates of deposit	(295)	
Purchase of securities held to maturity	(38,976)	
Proceeds from securities held to maturity	42,000	
Proceeds from sale of property, plant and equipment and railcars available for lease	6,741	10,526
Purchases of property, plant and equipment	(16,282)	(6,334)
Net cash flows provided by (used in) investing activities	3,753	(9,523)
Cash flows from financing activities		

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Deferred financing costs	(138)	
Employee restricted stock settlement	(65)	(48)
Cash dividends paid to stockholders	(2,166)	(2,155)
Customer advance for leased railcars delivered	19,400	
Repayment of customer advance	(552)	
Net cash flows provided by (used in) financing activities	16,479	(2,203)
Net (decrease) increase in cash and cash equivalents	(39,512)	26,802
Cash and cash equivalents at beginning of period	98,509	101,870
Cash and cash equivalents at end of period	\$ 58,997	\$ 128,672
Supplemental cash flow information:		
Interest paid	\$ 106	\$ 209
Income taxes paid	\$ 581	\$ 2,658
Income tax refunds received	\$	\$ 752
Lease incentive for leasehold improvements	\$	\$ 624

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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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. (FreightCar) operates primarily in North America through its direct and indirect subsidiaries, JAC Operations, Inc. (Operations), Johnstown America, LLC (JA LLC), Freight Car Services, Inc. (FCS), JAIX Leasing Company (JAIX), FreightCar Roanoke, LLC (FCR), FreightCar Mauritius Ltd. (Mauritius), FreightCar Rail Services, LLC (FCRS), FreightCar Rail Management Services, LLC (FCRMS), FreightCar Short Line, Inc. (Short Line) and FreightCar Alabama, LLC (FCAL) (herein collectively referred to as the Company), and manufactures freight cars, supplies railcar parts, leases freight cars and provides railcar maintenance, repairs and management. The Company designs and builds coal cars, bulk commodity cars, flat cars, mill gondola cars, intermodal cars, coil steel cars and motor vehicle carriers. The Company is headquartered in Chicago, Illinois and has facilities in the following locations: Clinton, Indiana; Cherokee, Alabama; Danville, Illinois; Lakewood, Colorado; Grand Island, Nebraska; Hastings, Nebraska; Johnstown, Pennsylvania; and Roanoke, Virginia. The Company and its direct and indirect subsidiaries are all Delaware corporations or Delaware limited liability companies except Mauritius, which is incorporated in Mauritius. The Company s direct and indirect subsidiaries are all wholly owned.

Note 2 Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of FreightCar America, Inc. and subsidiaries. All 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 and nine months ended September 30, 2013 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. The 2012 year-end balance sheet data was derived from the audited financial statements as of December 31, 2012. 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 annual report on Form 10-K for the year ended December 31, 2012.

Note 3 Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board issued ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income (ASU 2013-02). ASU 2013-02 requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other

comprehensive income by the respective line items of net income but only if the amount is required to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures that provide additional detail on these amounts. This standard is effective prospectively for reporting periods beginning after December 31, 2012. The adoption of these changes had no impact on the consolidated financial position, results of operations or cash flows of the Company.

Note 4 Segment Information

The Company's operations comprise two reportable segments, Manufacturing and Services. The Company's Manufacturing segment includes new railcar manufacturing, used railcar sales, railcar leasing and major railcar rebuilds. The Company's Services segment includes general railcar repair and maintenance, inspections, parts sales and railcar fleet management services. Corporate includes selling, general and administrative expenses not related to production of goods and services, retiree pension and other postretirement benefit costs, and all other non-operating activity.

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Segment operating income is an internal performance measure used by the Company's Chief Operating Decision Maker to assess the performance of each segment in a given period. Segment operating income includes all external revenues attributable to the segments as well as operating costs and income that management believes are directly attributable to the current production of goods and services. The Company's management reporting package does not include interest revenue, interest expense or income taxes allocated to individual segments and these items are not considered as a component of segment operating income. Segment assets represent operating assets and exclude intersegment accounts, deferred tax assets and income tax receivables. The Company does not allocate cash and cash equivalents to its operating segments as the Company's treasury function is managed at the corporate level. Intersegment revenues were not material in any period presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Manufacturing	\$ 66,943	\$ 152,486	\$ 181,722	\$ 534,706
Services	9,003	8,112	28,948	26,164
Consolidated revenues	\$ 75,946	\$ 160,598	\$ 210,670	\$ 560,870
Operating (loss) income:				
Manufacturing	\$ 4,298	\$ 13,880	\$ 5,376	\$ 51,746
Services	706	595	3,607	2,050
Corporate	(5,950)	(6,599)	(14,936)	(20,519)
Consolidated operating (loss) income	(946)	7,876	(5,953)	33,277
Consolidated interest expense and deferred financing costs	(238)	(99)	(481)	(290)
Consolidated other income	15		59	5
Consolidated (loss) income before income taxes	\$ (1,169)	\$ 7,777	\$ (6,375)	\$ 32,992
Depreciation and amortization:				
Manufacturing	\$ 1,790	\$ 1,140	\$ 4,614	\$ 3,590
Services	520	525	1,561	1,570
Corporate	396	340	1,114	1,010
Consolidated depreciation and amortization	\$ 2,706	\$ 2,005	\$ 7,289	\$ 6,170
Capital expenditures:				
Manufacturing	\$ 829	\$ 2,854	\$ 14,960	\$ 4,642
Services	88	250	287	1,255
Corporate	311	73	1,035	437
Consolidated capital expenditures	\$ 1,228	\$ 3,177	\$ 16,282	\$ 6,334

	September 30, 2013	December 31, 2012
Assets:		
Manufacturing	\$ 183,746	\$ 165,090
Services	26,645	24,230
Corporate	113,506	167,266
Total operating assets	323,897	356,586
Consolidated income taxes receivable	996	960
Consolidated deferred income taxes, current	12,079	12,079
Consolidated deferred income taxes, long-term	18,240	18,940
Consolidated assets	\$ 355,212	\$ 388,565

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The Company's current investment policy is to invest in cash, certificates of deposit, U.S. Treasury securities, U.S. government agency obligations and money market funds invested in U.S. government securities. Investments as of September 30, 2013 have remaining maturities of up to 11 months.

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

Recurring Fair Value Measurements	As of September 30, 2013			
	Level 1	Level 2	Level 3	Total
ASSETS:				
Cash equivalents	\$ 49	\$	\$	\$ 49
Restricted certificates of deposit	\$ 295	\$	\$	\$ 295
U.S. Treasury securities held to maturity	\$ 38,993	\$	\$	\$ 38,993

Recurring Fair Value Measurements	As of December 31, 2012			
	Level 1	Level 2	Level 3	Total
ASSETS:				
Cash equivalents	\$ 11,933	\$	\$	\$ 11,933
U.S. Treasury securities held to maturity	\$ 41,978	\$	\$	\$ 41,978

Note 6 Inventories

Inventories are stated at the lower of first-in, first-out cost or market and include material, labor and manufacturing overhead. Inventories, net of reserve for excess and obsolete items, consist of the following:

	September 30, 2013	December 31, 2012
Work in progress	\$ 55,882	\$ 68,171
Finished new railcars	4,144	
Used railcars acquired upon trade-in	105	105
Parts and service inventory	6,753	5,566
Total inventories	\$ 66,884	\$ 73,842

Inventory on the Company's condensed consolidated balance sheets includes reserves of \$1,367 and \$1,565 relating to excess or obsolete inventory at September 30, 2013 and December 31, 2012, respectively.

Note 7 Leased Railcars

Leased railcars at September 30, 2013 included Railcars available for lease, net classified as long-term assets of \$36,370 (cost of \$41,389 and accumulated depreciation of \$5,019) and Inventory on lease of \$16,955. Customer advance at September 30, 2013 included a customer advance of \$19,400 for leased railcars delivered for which

revenue cannot be recognized until all contingencies have been met. The proceeds of the customer advance have been accounted for as a financing transaction per ASC 840, *Leases*. The customer advance has been reduced by aggregate payments of \$552 made since the inception of the lease and increased by imputed interest of \$332. Leased railcars at December 31, 2012 included Railcars available for lease, net classified as long-term assets of \$43,435 (cost of \$48,234 and accumulated depreciation of \$4,799). The Company's lease utilization rate for railcars in its lease fleet was 100% at each of September 30, 2013 and December 31, 2012.

Leased railcars at September 30, 2013 are subject to lease agreements with external customers with remaining terms of up to eight years and are accounted for as operating leases.

Future minimum rental revenues on leased railcars at September 30, 2013 are as follows:

Three months ending December 31, 2013	\$ 1,389
Year ending December 31, 2014	3,985
Year ending December 31, 2015	1,313
Year ending December 31, 2016	1,256
Year ending December 31, 2017	1,256
Thereafter	2,045
	\$ 11,244

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Property, plant and equipment consists of the following:

	September 30, 2013	December 31, 2012
Buildings and improvements	\$ 25,271	\$ 25,192
Machinery and equipment	52,717	36,672
Software	8,884	8,383
Leasehold improvements	5,350	5,350
Cost of buildings and improvements, leasehold improvements, machinery, equipment and software	92,222	75,597
Less: Accumulated depreciation and amortization	(45,088)	(39,269)
Buildings and improvements, leasehold improvements, machinery, equipment and software, net of accumulated depreciation and amortization	47,134	36,328
Land (including easements)	2,203	2,203
Construction in process	403	812
Total property, plant and equipment, net	\$ 49,740	\$ 39,343

Note 9 Intangible Assets and Goodwill

Intangible assets consist of the following:

	September 30, 2013	December 31, 2012
Patents	\$ 13,097	\$ 13,097
Accumulated amortization	(11,409)	(10,966)
Patents, net of accumulated amortization	1,688	2,131
Customer-related intangibles	1,300	1,300
Accumulated amortization	(325)	(213)
Customer-related intangibles, net of accumulated amortization	975	1,087
Total amortizing intangibles	\$ 2,663	\$ 3,218

Manufacturing segment goodwill	\$	21,521	\$	21,521
Services segment goodwill		607		607
Total goodwill	\$	22,128	\$	22,128

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 4 years. Amortization expense related to patents, which is included in cost of sales, was \$148 for each of the three months ended September 30, 2013 and 2012, and \$443 for each of the nine months ended September 30, 2013 and 2012. Customer-related intangibles are being amortized from the date of acquisition and have a remaining life of 17 years. Amortization expense related to customer intangibles, which is included in selling, general and administrative expenses, was \$37 for each of the three months ended September 30, 2013 and 2012, and \$111 for each of the nine months ended September 30, 2013 and 2012.

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The estimated future intangible amortization at September 30, 2013 is as follows:

Three months ending December 31, 2013	\$ 184
Year ending December 31, 2014	744
Year ending December 31, 2015	720
Year ending December 31, 2016	476
Year ending December 31, 2017	108
Thereafter	431
	\$ 2,663

The Company assesses the carrying value of goodwill for impairment annually or more frequently whenever events occur and circumstances change indicating potential impairment. During the quarter ended September 30, 2013, the Company performed its annual assessment and concluded that the estimated fair value of the Company's reporting units exceeded the carrying value as of the testing date.

Management determines the fair value of the reporting units using a combination of the income approach, utilizing the discounted cash flow method, and the market approach, utilizing the guideline company method.

Note 10 Product Warranties

Warranty terms are based on the negotiated railcar sales contracts. The Company typically warrants that new railcars produced by it will be free from defects in material and workmanship under normal use and service identified for a period of up to five years from the time of sale. The changes in the warranty reserve for the three and nine months ended September 30, 2013 and 2012, are as follows:

	Three Months Ended		Nine Months	
	September 30,		Ended	
	2013	2012	2013	2012
Balance at the beginning of the period	\$ 6,776	\$ 7,773	\$ 7,625	\$ 7,795
Provision for warranties issued during the period	73	378	372	2,216
Reductions for payments, cost of repairs and other	(271)	(192)	(764)	(410)
Adjustments to prior warranties	390	(249)	(265)	(1,891)
Balance at the end of the period	\$ 6,968	\$ 7,710	\$ 6,968	\$ 7,710

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

Note 11 Revolving Credit Facility

The Company entered into a new \$50,000 senior secured revolving credit facility (the Revolving Credit Facility) pursuant to a Credit Agreement dated as of July 26, 2013 (the Credit Agreement) by and among FreightCar and

certain of its subsidiaries, as borrowers and guarantors (together the Borrowers), and Bank of America, N.A., as lender, and cancelled its previous credit facility. The Revolving Credit Facility can be used for general corporate purposes, including working capital. As of September 30, 2013, the Company had no borrowings under the Revolving Credit Facility. The Revolving Credit Facility also contains a sub-facility for letters of credit not to exceed the lesser of \$30,000 and the amount of the senior secured revolving credit facility at such time. As of September 30, 2013, the Company had \$795 in outstanding letters of credit under the Revolving Credit Facility and therefore had \$49,205 available under the Revolving Credit Facility. The Credit Agreement has a term ending on July 26, 2016 and revolving loans outstanding thereunder will bear interest at a rate of LIBOR plus an applicable margin of 1.50% or at a base rate, as selected by the Company. Base rate loans will bear interest at the highest of (a) the Federal Funds Rate plus 0.50%, (b) the prime rate or (c) LIBOR plus 1.00%. The Company is required to pay a non-utilization fee of between 0.10% and 0.30% on the unused portion of the revolving loan commitment depending on the Company's quarterly average balance of unrestricted cash and the Company's consolidated leverage ratio. Borrowings under the Revolving Credit Facility are secured by a first priority perfected security interest in substantially all of the Company's assets excluding railcars held by its railcar leasing subsidiary, JAIX. The Borrowers also have pledged all of the equity interests in the Company's direct and indirect domestic subsidiaries. The Credit Agreement has both affirmative and negative covenants, including, without limitation, a minimum consolidated net liquidity requirement of \$35,000 and limitations on indebtedness, liens and investments. The Credit Agreement also provides for customary events of default.

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The Revolving Credit Facility replaces the Company's prior revolving credit facility pursuant to a Loan and Security Agreement dated as of July 29, 2010 among FreightCar and certain of its subsidiaries, as borrowers, and Fifth Third Bank, as lender (the "Prior Credit Agreement"), which was terminated and cancelled effective July 26, 2013.

As of December 31, 2012, the Company had no borrowings under the prior credit facility and therefore had \$30,000 available under the Prior Credit Agreement. The Company had no outstanding letters of credit under the Prior Credit Agreement as of December 31, 2012.

Note 12 Stock-Based Compensation

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

Total stock-based compensation for the three months ended September 30, 2013 and 2012, was \$629 and \$457, respectively. Total stock-based compensation for the nine months ended September 30, 2013 and 2012, was \$1,703 and \$1,409, respectively.

As of September 30, 2013, there was \$2,721 of unearned compensation expense related to stock options and restricted stock awards, which will be recognized over the remaining requisite service period of 31 months.

Note 13 Employee Benefit Plans

The Company has qualified, defined benefit pension plans that were established to provide benefits to certain employees. These plans are frozen and participants are no longer accruing benefits. 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.

A substantial portion of the Company's postretirement benefit plan obligation relates to a settlement with the union representing employees at the Company's and its predecessors' Johnstown manufacturing facilities. The terms of that settlement agreement (the "2005 Settlement Agreement") required the Company to pay until November 30, 2012 certain monthly amounts toward the cost of retiree health care coverage. The Company engaged in voluntary negotiations for two years in an effort to reach a consensual agreement related to the expired 2005 Settlement Agreement but no agreements were reached. In July 2013, the Company provided notice of its intent to terminate its contributions for medical coverage and life insurance benefits to affected retirees. On July 8, 2013, the Company filed a complaint seeking declaratory relief from the United States District Court for the Northern District of Illinois to confirm its rights to reduce or terminate retiree medical coverage and life insurance benefits pursuant to the plans that were the subject of the 2005 Settlement Agreement, and on July 9, 2013, the union and certain retiree defendants filed suit in the United States District Court for the Western District of Pennsylvania regarding the same dispute (see Note 14).

The outcome of the pending litigation and the impact on the Company's postretirement benefit plan obligation cannot be determined at this time. The Company's recorded postretirement benefit plan obligation assumes for accounting purposes a continuation of those monthly payments after November 30, 2012 (as permitted under the settlement). However, the Company's postretirement benefit plan obligation could significantly increase or decrease as a result of the litigation or if the parties agree to an alternative settlement agreement.

Generally, contributions to the plans are not less than the minimum amounts required under the Employee Retirement Income Security Act of 1974 (ERISA) 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.

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The components of net periodic benefit cost (benefit) for the three and nine months ended September 30, 2013 and 2012, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Pension Benefits				
Interest cost	\$ 632	\$ 725	\$ 1,896	\$ 2,175
Expected return on plan assets	(887)	(862)	(2,661)	(2,586)
Amortization of unrecognized net loss	131	126	393	378
	\$ (124)	\$ (11)	\$ (372)	\$ (33)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Postretirement Benefit Plan				
Service cost	\$ 18	\$ 16	\$ 54	\$ 48
Interest cost	657	755	1,971	2,265
Amortization of prior service cost	60	60	180	180
Amortization of unrecognized net loss	153	94	460	281
	\$ 888	\$ 925	\$ 2,665	\$ 2,774

Amortization of unrecognized net loss for the Company's defined benefit pension plans was reclassified to income, from accumulated other comprehensive income, of which \$118 and \$13 was recognized in cost of sales and selling, general and administrative expenses, respectively for the three months ended September 30, 2013, and \$77 and \$49 was recognized in cost of sales and selling, general and administrative expenses, respectively, for the three months ended September 30, 2012. Amortization of unrecognized net loss for the Company's defined benefit pension plans was reclassified to income, from accumulated other comprehensive income, of which \$354 and \$39 was recognized in cost of sales and selling, general and administrative expenses, respectively, for the nine months ended September 30, 2013 and \$231 and \$147 was recognized in cost of sales and selling, general and administrative expenses, respectively, for the nine months ended September 30, 2012. The Company made contributions to the Company's defined benefit pension plans of \$61 and \$513 for the three months ended September 30, 2013 and 2012, respectively, and \$122 and \$2,069 for the nine months ended September 30, 2013 and 2012, respectively. The Company expects to make \$759 in contributions to its pension plans in 2013 to meet its minimum funding requirements.

Amortization of prior service cost for the Company's postretirement benefit plan was reclassified to income, from accumulated other comprehensive income, of which \$57 and \$3 was recognized in cost of sales and selling, general and administrative expenses, respectively, for the three months ended September 30, 2013 and \$56 and \$4 was recognized in cost of sales and selling, general and administrative expenses, respectively, for the three months ended September 30, 2012. Amortization of unrecognized net loss for the Company's postretirement benefit plan was reclassified to income, from accumulated other comprehensive income, of which \$145 and \$8 was recognized in cost

of sales and selling, general and administrative expenses, respectively, for the three months ended September 30, 2013 and \$88 and \$6 was recognized in cost of sales and selling, general and administrative expenses, respectively, for the three months ended September 30, 2012. Amortization of prior service cost for the Company's postretirement benefit plan was reclassified to income, from accumulated other comprehensive income, of which \$171 and \$9 was recognized in cost of sales and selling, general and administrative expenses, respectively, for the nine months ended September 30, 2013 and \$169 and \$11 was recognized in cost of sales and selling, general and administrative expenses, respectively, for the nine months ended September 30, 2012. Amortization of unrecognized net loss for the Company's postretirement benefit plan was reclassified to income, from accumulated other comprehensive income, of which \$437 and \$23 was recognized in cost of sales and selling, general and administrative expenses, respectively, for the nine months ended September 30, 2013 and \$264 and \$17 was recognized in cost of sales and selling, general and administrative expenses, respectively, for the nine months ended September 30, 2012. The Company made payments to the Company's postretirement benefit plan of approximately \$508 and \$1,188 for the three months ended September 30, 2013 and 2012, respectively, and \$2,977 and \$3,719 for the nine months ended September 30, 2013 and 2012, respectively. When the Company terminates, effective November 1, 2013, its contributions to fund its postretirement benefit plan, then the Company would make approximately \$3,453 in payments to the plan in 2013. The Company would have made approximately \$4,946 in payments to the plan in 2013 based on the 2005 Settlement Agreement.

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The Company also maintains qualified defined contribution plans, which provide benefits to employees based on employee contributions, employee earnings or certain subsidiary earnings, with discretionary contributions allowed. Expenses related to these plans were \$310 and \$402 for the three months ended September 30, 2013 and 2012, respectively, and \$1,190 and \$1,369 for the nine months ended September 30, 2013 and 2012, respectively.

Note 14 Contingencies

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

On July 8, 2013, the Company filed a Complaint for Declaratory Judgment (the "Complaint") in the United States District Court for the Northern District of Illinois, Eastern Division (the "Illinois Court"). The case names as defendants the United Steel, Paper & Forestry, Rubber, Manufacturing, Energy, Allied Industrial & Services Workers International Union, AFL-CIO, CLC (the "USW"), as well as approximately 650 individual Retiree Defendants (as defined in the Complaint), and has been assigned Case No 1:13-cv-4889.

As described in the Complaint, pursuant to the 2005 Settlement Agreement among the Company, the USW and the Retiree Defendants, the Company agreed to make certain levels of contributions to medical coverage for the Retiree Defendants and to continue to provide life insurance benefits at their amount at that time under certain of the Company's employee welfare benefit plans. The 2005 Settlement Agreement expressly provided that, as of November 30, 2012, the Company could cease making these contributions. In June 2011, the Company and the USW began discussing the possibility of an extension beyond November 30, 2012 for the Company's contributions to retiree medical coverage and life insurance benefits at a reduced amount and on other mutually acceptable terms. The Company engaged in voluntary negotiations for two years with the USW and counsel for the Retiree Defendants in an effort to reach a consensual agreement regarding such medical and life insurance benefits, but the parties were unable to reach a final agreement. The Company terminated, effective November 1, 2013, its contributions for medical coverage provided to the Retiree Defendants and the provision of life insurance benefits and is seeking declaratory relief from the Illinois Court to confirm its rights under the Employee Retirement Income Security Act of 1974, as amended, to reduce or terminate retiree medical coverage and life insurance benefits pursuant to the plans that were the subject of the 2005 Settlement Agreement.

On July 9, 2013, the USW and certain Retiree Defendants filed a putative class action in the United States District Court for the Western District of Pennsylvania (the "Pennsylvania Court"), captioned as *Zanghi, et al. v. FreightCar America, Inc., et al.*, Case No. 3:13-cv-146. The complaint filed with the Pennsylvania Court alleges that the Company does not have the right to terminate welfare benefits previously provided to the Retiree Defendants and requests, among other relief, entry of a judgment finding that the Retiree Defendants have a vested right to specified welfare benefits.

On July 26, 2013, the USW filed with the Illinois Court a Motion to Dismiss Pursuant to Fed. R. Civ. P. 12(b) or in the Alternative, to Transfer Pursuant to 28 U.S.C. 1404(a), as well as a Motion to Stay and/or Prevent Plaintiff from Obtaining Defaults against the Retiree Defendants. On August 5, 2013, the Company filed with the Pennsylvania Court a Motion to Dismiss Pursuant to Fed. R. Civ. P. 12(b) or in the Alternative, to Transfer Pursuant to 28 U.S.C. 1404(a). Both the Illinois Court and the Pennsylvania Court have established briefing schedules and the parties have filed briefs relating to the respective motions to dismiss and/or transfer venue. Neither the Illinois Court nor the Pennsylvania Court have ruled on such motions.

On September 5, 2013, the USW and certain putative class representatives filed a Plaintiffs' Motion for Temporary Restraining Order and Preliminary Injunction (the "TRO Motion") with the Pennsylvania Court. In the TRO Motion, the plaintiffs requested that the Pennsylvania Court enter an injunction requiring the Company to continue to make monthly contributions at the same rate established by the 2005 Settlement Agreement until the parties' dispute is fully adjudicated on the merits. On September 18, 2013, the Company filed its response in opposition to the TRO Motion.

On September 20, 2013, the parties filed stipulations with both the Illinois Court and the Pennsylvania Court mutually consenting to a stay of both actions until October 25, 2013, during which period the parties agreed to engage in private mediation relating to the dispute that is the subject of both actions. On October 25, 2013, the parties notified the Illinois Court and the Pennsylvania Court that a consensual resolution of the dispute was not achieved via mediation. Accordingly, both the Illinois Court and the Pennsylvania Court lifted their stays of the actions pending before them.

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As noted in the Company's audited financial statements contained in the Company's annual report on Form 10-K for the year ended December 31, 2012, the Company has recorded postretirement benefit plan obligations, a substantial portion of which relates to the dispute now before the Illinois Court and the Pennsylvania Court (see Note 13).

On September 29, 2008, Bral Corporation, a supplier of certain railcar parts to the Company, filed a complaint against the Company in the U.S. District Court for the Western District of Pennsylvania (the Pennsylvania Lawsuit). The complaint alleged that the Company breached an exclusive supply agreement with Bral by purchasing parts from CMN Components, Inc. (CMN) and sought damages in an unspecified amount, attorneys' fees and other legal costs. On December 14, 2007, Bral sued CMN in the U.S. District Court for the Northern District of Illinois, alleging among other things that CMN interfered in the business relationship between Bral and the Company (the Illinois Lawsuit) and seeking damages in an unspecified amount, attorneys' fees and other legal costs. On October 22, 2008, the Company entered into an Assignment of Claims Agreement with CMN under which CMN assigned to the Company its counterclaims against Bral in the Illinois Lawsuit and the Company agreed to defend and indemnify CMN against Bral's claims in that lawsuit. On March 4, 2013, Bral Corporation and the Company agreed to settle the Illinois Lawsuit and the Pennsylvania Lawsuit. The settlement resulted in a \$3,884 reduction in litigation reserves, which favorably impacted the Company's results of operations for the nine months ended September 30, 2013.

On a quarterly basis, the Company evaluates the potential outcome of all significant contingencies and estimates the likelihood that a future event or events will confirm the loss of an asset or incurrence of a liability. When information available prior to issuance of the Company's financial statements indicates that in management's judgment, it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements and the amount of loss can be reasonably estimated, the contingency is accrued by a charge to income.

In addition to the foregoing, the Company is involved in certain other pending and threatened legal proceedings, including commercial disputes and workers' compensation and employee matters arising out of the conduct of its business. While the ultimate outcome of these other legal proceedings cannot be determined at this time, it is the opinion of management that the resolution of these other actions will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Note 15 - Other Commitments

The Company leases certain property and equipment under long-term operating leases expiring at various dates through 2024. On February 19, 2013, the Company subleased space at a production facility located in the Shoals region of Alabama. The Company operates approximately 543,399 square feet of a 2,150,000-square foot facility located on approximately 700 acres of land. The subleased premises includes production lines, an assembly area, storage and fabrication areas and office space. The initial term of the sublease expires on December 31, 2021 and, at the Company's option, subject to satisfaction of certain conditions, may be extended for an additional 120 months.

Future minimum lease payments at September 30, 2013 are as follows:

Three months ending December 31, 2013	\$ 2,569
Year ending December 31, 2014	10,290
Year ending December 31, 2015	10,007
Year ending December 31, 2016	9,074
Year ending December 31, 2017	8,772
Thereafter	44,534

\$ 85,246

The Company is liable for maintenance, insurance and similar costs under most of its leases and such costs are not included in the future minimum lease payments. Total rental expense for the three months ended September 30, 2013 and 2012, was approximately \$2,334 and \$808, respectively. Total rental expense for the nine months ended September 30, 2013 and 2012, was approximately \$6,551 and \$2,398, respectively.

In addition, the Company has other non-cancelable agreements with its suppliers to purchase certain materials used in the manufacturing process. The commitments may vary based on the actual quantities ordered and be subject to the actual price when ordered. At September 30, 2013, the Company had purchase commitments under these agreements of \$8,243 for the three months ending December 31, 2013 and \$17,312 for the year ending December 31, 2014.

Table of Contents**Note 16 Earnings Per Share**

Shares used in the computation of the Company's basic and diluted earnings per common share are reconciled as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Weighted average common shares outstanding	11,957,548	11,936,780	11,950,593	11,930,943
Dilutive effect of employee stock options and nonvested share awards		6,778		45,329
Weighted average diluted common shares outstanding	11,957,548	11,943,558	11,950,593	11,976,272

Weighted average diluted common shares outstanding include the incremental shares that would be issued upon the assumed exercise of stock options and the assumed vesting of nonvested share awards. Because the Company had a net loss for the three and nine months ended September 30, 2013, all stock options and shares of nonvested share awards were anti-dilutive and not included in the above calculation for that period. For the three and nine months ended September 30, 2012, there were 586,448 and 363,694 share-based payment awards, respectively, that were anti-dilutive and not included in the above calculation.

Note 17 Income Taxes

The income tax provision was \$633 for the nine months ended September 30, 2013, compared to \$12,938 for the nine months ended September 30, 2012. The addition of the Company's Shoals facility changed the mix of projected income from states in which it operates, resulting in changes to the Company's estimated state tax apportionment and effective state tax rates. The income tax provision for the nine months ended September 30, 2013 included a provision of \$1,538 resulting from applying these changes in effective state tax rates on the Company's deferred tax balances. Additionally, projected taxable income in certain states in which the Company operates may not be sufficient to realize the full value of net operating loss carryforwards. As a result, the income tax provision also includes the recognition of a valuation allowance of \$2,503 against deferred tax assets related to net operating loss carryforwards in certain states in which the Company operates. These discrete tax provisions during the nine months ended September 30, 2013 were partially offset by \$891 of discrete tax benefits recorded during the period associated with tax-deductible goodwill. Excluding these discrete items, the Company's forecasted full-year effective tax rate applied against pre-tax income for the nine months ended September 30, 2013 was 40.1%. The effective tax rate for the nine months ended September 30, 2012 was 39.2% and was higher than the statutory U.S. federal income tax rate of 35% primarily due to a 4.6% blended state tax rate and other permanent items.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

You should read the following discussion in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this quarterly report on Form 10-Q. 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 Cautionary Statement Regarding Forward-Looking Statements.

We believe we are the leading manufacturer of aluminum-bodied railcars and coal cars in North America, based on the number of railcars delivered. Our railcar manufacturing facilities are located in Danville, Illinois; Roanoke, Virginia; and Cherokee, Alabama. Additionally, we 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 provide railcar repair and maintenance, inspections and railcar fleet management services for all types of freight railcars through our FCRS and FCRMS subsidiaries. FCRS has repair and maintenance and inspection facilities in Clinton, Indiana, Grand Island, Nebraska and Hastings, Nebraska and services freight cars and unit coal trains utilizing key rail corridors in the Midwest and Western regions of the United States. We also lease freight cars through our JAIX Leasing Company subsidiary. Our primary customers are financial institutions, shippers and railroads.

In February 2013, we subleased approximately 25% of a state-of-the-art production facility located in the Shoals region of Alabama. Our Shoals production facility was designed to efficiently build a wide variety of railcar types and is an important part of our long-term growth strategy as we continue to expand our railcar product and service offerings outside of our traditional coal car market. While our Danville, Illinois and Roanoke, Virginia facilities will continue to support our coal car products, our Shoals facility will allow us to produce a broader variety of railcars in a cost-effective and efficient manner. In addition, the facility layout, automated production equipment, proximity to key suppliers and new supply agreements will increase our flexibility and make us more competitive in the marketplace.

We have two reportable segments, Manufacturing and Services. Our Manufacturing segment includes new railcar manufacturing, used railcar sales, railcar leasing and major railcar rebuilds. Our Services segment includes general railcar repair and maintenance, inspections, parts sales and railcar fleet management services. Corporate includes administrative activities and all other non-operating costs.

Total orders for railcars in the third quarter of 2013 were 6,001 units, consisting of 1,714 new railcars, 75 leased railcars and 4,212 rebuilt railcars, compared to 693 units, all of which were new railcars, ordered in the second quarter of 2013 and 225 units, all of which were new railcars, ordered in the third quarter of 2012. Railcar deliveries totaled 937 units, consisting of 194 new railcars and 743 rebuilt railcars, in the third quarter of 2013, compared to 710 units, consisting of 160 new railcars, 200 leased railcars and 350 rebuilt railcars, in the second quarter of 2013, and 1,618 units, consisting of 998 new railcars and 620 rebuilt railcars, in the third quarter of 2012. Total backlog of unfilled orders was 7,129 units, consisting of 2,560 new railcars, 75 leased railcars and 4,494 rebuilt railcars, at September 30, 2013, compared to 2,881 units, consisting of 981 new railcars and 1,900 rebuilt railcars, at December 31, 2012.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2013 compared to Three Months Ended September 30, 2012

Revenues

Our consolidated revenues for the three months ended September 30, 2013 were \$75.9 million compared to \$160.6 million for the three months ended September 30, 2012. Manufacturing segment revenues for the three months ended September 30, 2013 were \$66.9 million compared to \$152.5 million for the three months ended September 30, 2012. The decrease in Manufacturing segment revenues for the 2013 period compared to the 2012 period reflects the decrease in the number of railcars delivered and a product mix with a greater number of rebuilt railcars. Services segment revenues for the three months ended September 30, 2013 were \$9.0 million compared to \$8.1 million for the three months ended September 30, 2012. The increase in Services segment revenues for the 2013 period compared to the 2012 period reflects higher repair volumes, partially offset by lower parts sales revenue.

Table of Contents**Gross Profit**

Our consolidated gross profit for the three months ended September 30, 2013 was \$6.2 million compared to \$16.1 million for the three months ended September 30, 2012, representing a decrease of \$9.9 million. The decrease in our consolidated gross profit for the third quarter of 2013 compared to the third quarter of 2012 reflects a decrease in gross profit from our Manufacturing segment of \$10.1 million. The decrease in gross profit for our Manufacturing segment for the third quarter of 2013 compared to the third quarter of 2012 reflects the decrease in deliveries and the impact of \$3.3 million related to the start-up of our Shoals facility and carrying costs associated with our idled Danville facility incurred during the third quarter of 2013. Gross profit from our Services segment of \$1.6 million for the third quarter of 2013 was flat compared to gross profit from our Services segment for the third quarter of 2012. Our consolidated gross margin rate was 8.1% for the three months ended September 30, 2013 compared to 10.0% for the three months ended September 30, 2012.

Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses for the three months ended September 30, 2013 were \$7.7 million compared to \$8.2 million for the three months ended September 30, 2012, representing a decrease of \$0.5 million. Incentive compensation and consulting costs decreased by \$2.3 million and were partially offset by Shoals start-up costs, higher legal fees associated with the postemployment benefit plan dispute (see Note 14 to our condensed consolidated financial statements) and higher costs related to the development of new products in the third quarter of 2013. Manufacturing segment selling, general and administrative expenses for each of the three months ended September 30, 2013 and 2012 were \$1.9 million. Services segment selling, general and administrative expenses for the three months ended September 30, 2013 were \$0.9 million compared to \$1.0 million for the three months ended September 30, 2012. Corporate selling, general and administrative expenses for the three months ended September 30, 2013 were \$4.8 million compared to \$5.4 million for the three months ended September 30, 2012. Corporate incentive compensation and consulting cost decreases were partially offset by higher legal fees associated with the postemployment benefit plan dispute and higher costs related to the development of new products in the third quarter of 2013. Corporate selling, general and administrative expenses for the three months ended September 30, 2013 included \$0.4 million related to the start-up of our Shoals facility.

Gain on Sale of Railcars Available for Lease

Gain on sale of railcars available for lease for the three months ended September 30, 2013 was \$0.6 million and primarily represented the gain on sale of leased railcars with a net book value of \$6.2 million.

Operating (Loss) Income

Our consolidated operating loss for the three months ended September 30, 2013 was \$0.9 million, compared to operating income of \$7.9 million for the three months ended September 30, 2012. Operating income for the Manufacturing segment was \$4.3 million for the three months ended September 30, 2013 compared to operating income of \$13.9 million for the three months ended September 30, 2012. The reduction in operating income for the Manufacturing segment reflects the decrease in deliveries and the impact of \$3.3 million related to the start-up of our Shoals facility and the carrying costs associated with our idled Danville facility incurred during the third quarter of 2013. Services segment operating income was \$0.7 million for the three months ended September 30, 2013 compared to \$0.6 million for the three months ended September 30, 2012. The increase in Services segment operating income was primarily due to higher volume of repairs for the 2013 period compared to the 2012 period, partially offset by lower parts sales volume. Corporate costs were \$6.0 million for the three months ended September 30, 2013 compared to \$6.6 million for the three months ended September 30, 2012. Corporate incentive compensation and consulting cost

decreases were partially offset by higher legal fees associated with the postemployment benefit plan dispute and higher costs related to the development of new products in the current quarter. Corporate costs for the three months ended September 30, 2013 included \$0.4 million related to the start-up of our Shoals facility.

Interest Expense

Interest expense was \$0.2 million for the three months ended September 30, 2013 compared to \$0.1 million for the three months ended September 30, 2012. In addition to commitment fees on our revolving credit facility and letter of credit fees, the 2013 period include non-cash imputed interest on a customer advance for leased railcars delivered for which revenue cannot be recognized until all contingencies have been met.

Table of Contents**Income Taxes**

The income tax benefit was \$0.2 million for the three months ended September 30, 2013, compared to an income tax provision of \$3.0 million for the three months ended September 30, 2012. The effective tax rate for the three months ended September 30, 2013 was 20.8% compared to an effective tax rate of 38.8% for the three months ended September 30, 2012. The income tax benefit for the three months ended September 30, 2013 includes the impact of applying the slight change in the Company's full year forecasted effective tax rate since the end of the previous quarter to the pre-tax loss recorded in the first half of the 2013. The effective tax rate for the three months ended September 30, 2012 was higher than the statutory U.S. federal income tax rate of 35% primarily due to a 4.6% blended state tax rate and other permanent adjustments.

Net (Loss) Income

As a result of the foregoing, the net loss was \$0.9 million for the three months ended September 30, 2013, reflecting a decrease of \$5.7 million from net income of \$4.8 million for the three months ended September 30, 2012. For the three months ended September 30, 2013, our basic and diluted net loss per share was \$0.08 on basic and diluted shares outstanding of 11,957,548. For the three months ended September 30, 2012, our basic and diluted net income per share was \$0.40, on basic and diluted shares outstanding of 11,936,780 and 11,943,558, respectively.

Nine Months Ended September 30, 2013 compared to Nine Months Ended September 30, 2012**Revenues**

Our consolidated revenues for the nine months ended September 30, 2013 were \$210.7 million compared to \$560.9 million for the nine months ended September 30, 2012. Manufacturing segment revenues for the first nine months of 2013 were \$181.7 million compared to \$534.7 million for the first nine months of 2012. The decrease in Manufacturing segment revenues for the 2013 period compared to the 2012 period reflects the decrease in the number of railcars delivered and a product mix with a greater number of rebuilt railcars. Our Manufacturing segment delivered 2,720 units, consisting of 802 new railcars, 200 leased railcars and 1,718 rebuilt railcars, in the first nine months of 2013, compared to 7,017 units, consisting of 4,959 new railcars, 441 used railcars sold, 997 leased railcars and 620 rebuilt railcars, in the first nine months of 2012. Manufacturing segment revenues for the first nine months of 2012 also included the sale of 128 leased railcars that were delivered in the prior year. Services segment revenues for the nine months ended September 30, 2013 were \$28.9 million compared to \$26.2 million for the nine months ended September 30, 2012. The increase in Services segment revenues for the 2013 period compared to the 2012 period reflects higher parts sales revenue and higher repair volumes.

Gross Profit

Our consolidated gross profit for the nine months ended September 30, 2013 was \$13.4 million compared to \$56.9 million for the nine months ended September 30, 2012, representing a decrease of \$43.5 million. The decrease in our consolidated gross profit for the first nine months of 2013 compared to the first nine months of 2012 reflects a decrease in gross profit from our Manufacturing segment of \$45.3 million, which was partially offset by an increase in gross profit from our Services segment of \$1.6 million. The decrease in gross profit for our Manufacturing segment for the first nine months of 2013 compared to the nine months of 2012 reflects the decrease in deliveries and the impact of \$5.8 million related to the start-up of our Shoals facility and the carrying costs associated with our idled Danville facility in the first nine months of 2013. The increase in gross profit for our Services segment for the first nine months of 2013 compared to the first nine months of 2012 reflects higher parts sales and an increase in higher margin program repairs. Our consolidated gross margin rate was 6.4% for the nine months ended September 30, 2013

compared to 10.1% for the nine months ended September 30, 2012.

Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses for the nine months ended September 30, 2013 were \$20.0 million compared to \$24.6 million for the nine months ended September 30, 2012, representing a decrease of \$4.6 million. During the nine months ended September 30, 2013, we settled the Bral litigation (see Note 14 to our condensed consolidated financial statements), which resulted in a \$3.9 million reduction in litigation reserves. Incentive compensation and consulting costs for the nine months ended September 30, 2013 also decreased by \$4.0 million but were partially offset by Shoals start-up costs, higher legal fees associated with the postemployment benefit plan dispute (see Note 14 to our condensed consolidated financial statements) and higher costs related to the development of new products. Manufacturing segment selling, general and administrative expenses for the nine months ended September 30, 2013 were \$5.5 million compared to \$4.8 million for the nine months ended September 30, 2012. Services segment selling, general and administrative expenses

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for the nine months ended September 30, 2013 were \$2.8 million compared to \$2.7 million for the nine months ended September 30, 2012. Corporate selling, general and administrative expenses for the nine months ended September 30, 2013 were \$11.7 million compared to \$17.0 million for the nine months ended September 30, 2012, reflecting the reduction in the litigation reserve and decreases in incentive compensation and consulting, costs which were partially offset by higher legal fees associated with the postemployment benefit plan dispute and higher costs related to the development of new products. Corporate selling, general and administrative expenses for the nine months ended September 30, 2013 included \$1.2 million related to the start-up of our Shoals facility.

Gain on Sale of Railcars Available for Lease

Gain on sale of railcars available for lease for the nine months ended September 30, 2013 was \$0.6 million and primarily represented the gain on sale of leased railcars with a net book value of \$6.2 million. Gain on sale of railcars available for lease for the nine months ended September 30, 2012 was \$1.0 million and represented the gain on sale of leased railcars with a net book value of \$10.4 million.

Operating (Loss) Income

Our consolidated operating loss for the nine months ended September 30, 2013 was \$6.0 million, compared to consolidated operating income of \$33.3 million for the nine months ended September 30, 2012. Operating income for the Manufacturing segment was \$5.4 million for the nine months ended September 30, 2013 compared to \$51.7 million for the nine months ended September 30, 2012. The reduction in operating income for the Manufacturing segment reflects the decrease in deliveries and the impact of \$5.9 million related to the start-up of our Shoals facility and the carrying costs associated with our idled Danville facility incurred during the nine months ended September 30, 2013. Services segment operating income was \$3.6 million for the nine months ended September 30, 2013 compared to \$2.1 million for the nine months ended September 30, 2012. The increase in Services segment operating income was primarily due to higher parts sales volume and higher volume of program repairs for the 2013 period compared to the 2012 period. Corporate costs were \$14.9 million for the nine months ended September 30, 2013 compared to \$20.5 million for the nine months ended September 30, 2012. The decrease in Corporate costs was primarily due to the reduction in the litigation reserve and decreases in incentive compensation and consulting costs which were partially offset by higher legal fees associated with the postemployment benefit plan dispute and higher costs related to the development of new products. Corporate costs for the nine months ended September 30, 2013 included \$1.2 million related to the start-up of our Shoals facility.

Interest Expense

Interest expense was \$0.5 million for the nine months ended September 30, 2013 compared to \$0.3 million for the nine months ended September 30, 2012. In addition to commitment fees on our revolving credit facility and letter of credit fees, the 2013 period included non-cash imputed interest on a customer advance for leased railcars delivered for which revenue cannot be recognized until all contingencies have been met.

Income Taxes

The income tax provision was \$0.6 million for the nine months ended September 30, 2013, compared to \$12.9 million for the nine months ended September 30, 2012. The addition of our Shoals facility changed the mix of projected income from states in which we operate, resulting in changes in our estimated state tax apportionment and effective state tax rates. The income tax provision for the nine months ended September 30, 2013 included a provision of \$1.5 million resulting from applying these changes in effective state tax rates on our deferred tax balances. Additionally, projected taxable income in certain states in which we operate may not be sufficient to realize the full value of net

operating loss carryforwards. As a result, the income tax provision also includes the recognition of a valuation allowance of \$2.5 million against deferred tax assets related to net operating loss carryforwards in certain states in which we operate. These discrete tax provisions during the nine months ended September 30, 2013 were partially offset by \$0.9 million of discrete tax benefits recorded during the period associated with tax-deductible goodwill. Excluding these discrete items, our forecasted full-year effective tax rate applied against pre-tax income for the nine months ended September 30, 2013 was 40.1%. The effective tax rate for the nine months ended September 30, 2012 was 39.2% and was higher than the statutory U.S. federal income tax rate of 35% primarily due to a 4.6% blended state tax rate and other permanent items.

Table of Contents**Net (Loss) Income**

As a result of the foregoing, net loss was \$7.0 million for the nine months ended September 30, 2013, reflecting a decrease of \$27.1 million from net income of \$20.1 million for the nine months ended September 30, 2012. For the nine months ended September 30, 2013, our basic and diluted net loss per share was \$0.59 on basic and diluted shares outstanding of 11,950,593. For the nine months ended September 30, 2012, our basic and diluted net income per share was \$1.68 and \$1.67, respectively on basic and diluted shares outstanding of 11,930,943 and 11,976,272 respectively.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity for the nine months ended September 30, 2013 and 2012, were our cash and cash equivalent balances on hand, our securities held to maturity, our lease fleet and our revolving credit facility.

We entered into a new \$50.0 million senior secured revolving credit facility (the **Revolving Credit Facility**) pursuant to a Credit Agreement dated as of July 26, 2013 (the **Credit Agreement**) by and among FreightCar and certain of its subsidiaries, as borrowers and guarantors (together, the **Borrowers**), and Bank of America, N.A., as lender, and cancelled our previous credit facility. The Revolving Credit Facility can be used for general corporate purposes, including working capital. As of September 30, 2013, we had no borrowings under the Revolving Credit Facility. The Revolving Credit Facility also contains a sub-facility for letters of credit not to exceed the lesser of \$30.0 million and the amount of the senior secured revolving credit facility at such time. As of September 30, 2013, we had \$0.8 million in outstanding letters of credit under the Revolving Credit Facility and therefore had \$49.2 million available under the Revolving Credit Facility. The Credit Agreement has a term ending on July 26, 2016 and revolving loans outstanding thereunder will bear interest at a rate of LIBOR plus an applicable margin of 1.50% or at a base rate, as selected by the Company. Base rate loans will bear interest at the highest of (a) the Federal Funds Rate plus 0.50%, (b) the prime rate or (c) LIBOR plus 1.00%. We are required to pay a non-utilization fee of between 0.10% and 0.30% on the unused portion of the revolving loan commitment depending on our quarterly average balance of unrestricted cash and the our consolidated leverage ratio. Borrowings under the Revolving Credit Facility are secured by a first priority perfected security interest in substantially all of our assets excluding railcars held by our railcar leasing subsidiary, JAIX. We also have pledged all of the equity interests in our direct and indirect domestic subsidiaries. The Credit Agreement has both affirmative and negative covenants, including, without limitation, a minimum consolidated net liquidity of \$35.0 million and limitations on indebtedness, liens and investments. The Credit Agreement also provides for customary events of default.

The Revolving Credit Facility replaces our prior revolving credit facility pursuant to a Loan and Security Agreement dated as of July 29, 2010 among FreightCar and certain of its subsidiaries, as borrowers, and Fifth Third Bank, as lender (the **Prior Credit Agreement**), which was terminated and cancelled effective July 26, 2013 and otherwise would have matured on July 29, 2013. As of December 31, 2012, we had no borrowings or outstanding letters of credit under the Prior Credit Agreement.

Our restricted cash balance was \$4.1 million as of September 30, 2013 and \$14.7 million as of December 31, 2012, and consisted of cash used to collateralize standby letters of credit with respect to performance guarantees and to support our worker's compensation insurance claims. The decrease in restricted cash balances as of September 30, 2013 compared to December 31, 2012 was a result of decreases in standby letters of credit with respect to performance guarantees and our corresponding obligation to collateralize them. The standby letters of credit outstanding as of September 30, 2013 are scheduled to expire at various dates through October 2018. We expect to establish restricted cash balances and restricted certificates of deposit in future periods to minimize bank fees related to standby letters of credit.

As of September 30, 2013, the book value of leased railcars was \$53.3 million. We may continue to offer railcars for lease to certain customers and pursue opportunities to sell leased railcars in our portfolio.

Based on our current level of operations and known changes in planned volume based on our backlog, we believe that our cash balances and our marketable securities, together with amounts available under our revolving credit facility, will be sufficient to meet our expected liquidity needs. Our long-term liquidity is contingent upon future operating performance and our ability to continue to meet financial covenants under our revolving credit facility and any other indebtedness. We may also require additional capital in the future to fund working capital as demand for railcars increases, organic growth opportunities, including new plant and equipment and development of railcars, joint ventures, international expansion and acquisitions, and these capital requirements could be substantial.

Our long-term liquidity needs also depend to a significant extent on our obligations related to our pension and welfare benefit plans. We provide pension and retiree welfare benefits to certain salaried and hourly employees upon their retirement. Benefits under our pension plans are now frozen and will not be impacted by increases due to future service. The most significant assumptions used in determining our net periodic benefit costs are the discount rate used on our pension and postretirement welfare obligations and expected return on pension plan assets. As of December 31, 2012, our benefit

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obligation under our defined benefit pension plans and our postretirement benefit plan was \$65.0 million and \$69.3 million, respectively, which exceeded the fair value of plan assets by \$12.2 million and \$69.3 million, respectively. We made \$0.1 million in contributions to our defined benefit pension plans during the first nine months of 2013 and expect to make approximately \$0.8 million in total contributions to our defined benefit pension plans during 2013. The Pension Protection Act of 2006 provides for changes to the method of valuing pension plan assets and liabilities for funding purposes as well as minimum funding levels. Our defined benefit pension plans are in compliance with the minimum funding levels established in the Pension Protection Act. Funding levels will be affected by future contributions, investment returns on plan assets, growth in plan liabilities and interest rates. Assuming that the plans are fully funded as that term is defined in the Pension Protection Act, we will be required to fund the ongoing growth in plan liabilities on an annual basis.

We made payments to our postretirement benefit plan of \$3.0 million during the nine months ended September 30, 2013. A substantial portion of our postretirement benefit plan obligation relates to a settlement with the union representing employees at the Company's and its predecessors' Johnstown manufacturing facilities. The terms of that settlement agreement (the 2005 Settlement Agreement) required us to pay until November 30, 2012 certain monthly amounts toward the cost of retiree health care coverage. We engaged in voluntary negotiations for two years in an effort to reach a consensual agreement related to the expired 2005 Settlement Agreement but no agreements were reached. The Company terminated, effective November 1, 2013, our contributions for medical coverage and life insurance benefits to affected retirees. On July 8, 2013, we filed a complaint seeking declaratory relief from the United States District Court for the Northern District of Illinois to confirm our right to reduce or terminate retiree medical coverage and life insurance benefits pursuant to our plans that were the subject of the 2005 Settlement Agreement and, on July 9, 2013, the union and certain retiree defendants filed suit in the United States District Court for the Western District of Pennsylvania regarding the same dispute (see Note 14 to the Condensed Consolidated Financial Statements). The outcome of the pending litigation and the impact on our postretirement benefit plan obligation cannot be determined at this time. When we terminate, effective November 1, 2013 our contributions to fund our postretirement benefit plan, then we would make approximately \$3.5 million in payments to the plan in 2013. We would have made approximately \$4.9 million in payments to the plan in 2013 based on the expired 2005 Settlement Agreement. However, the Company's postretirement benefit plan obligation could significantly increase or decrease as a result of the litigation or if the parties agree to an alternative settlement agreement. We anticipate funding pension plan contributions and postretirement benefit plan payments with cash from operations and available cash.

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

Contractual Obligations

The following table summarizes our contractual obligations as of September 30, 2013 and the effect that these obligations and commitments would be expected to have on our liquidity and cash flow in future periods:

Contractual Obligations	Total	Payments Due by Period
		1 Year

			2-3 Years	4-5 Years	After 5 Years
			<i>(In thousands)</i>		
Operating leases	\$ 85,246	\$ 10,273	\$ 19,415	\$ 17,659	\$ 37,899
Material and component purchases	25,555	21,227	4,328		
Total	\$ 110,801	\$ 31,500	\$ 23,743	\$ 17,659	\$ 37,899

Material and component purchases consist of non-cancelable agreements with suppliers to purchase materials used in the manufacturing process. The estimated amounts above may vary based on the actual quantities and price.

The above table excludes \$3.6 million related to a reserve for unrecognized tax benefits and accrued interest and penalties at September 30, 2013 because the timing of the payout of these amounts cannot be determined.

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We are also required to make minimum contributions to our pension plans and postretirement welfare plans as discussed above.

Cash Flows

The following table summarizes our net cash (used in) provided by operating activities, investing activities and financing activities for the nine months ended September 30, 2013 and 2012:

	Nine Months Ended September 30,	
	2013	2012
	<i>(In thousands)</i>	
Net cash (used in) provided by:		
Operating activities	\$ (59,744)	\$ 38,528
Investing activities	3,753	(9,523)
Financing activities	16,479	(2,203)
Total	\$ (39,512)	\$ 26,802

Operating Activities. Our net cash provided by or used in operating activities reflects net income or loss adjusted for non-cash charges and changes in operating assets and liabilities. Cash flows from operating activities are affected by several factors, including fluctuations in business volume, contract terms for billings and collections, the timing of collections on our contract receivables, processing of payroll and associated taxes, and payments to our suppliers. 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. Cash flows from operating activities are also affected by customer deposits for production of railcars whereby we receive payments before railcars are produced.

Our net cash used in operating activities for the nine months ended September 30, 2013 was \$59.7 million compared to net cash provided by operating activities of \$38.5 million for the nine months ended September 30, 2012. Net cash used in operating activities for the nine months ended September 30, 2013 included decreases in cash related to changes in accounts receivable of \$7.6 million, inventory on lease of \$17.0 million, accounts and contractual payables of \$12.7 million and customer deposits of \$27.4 million, which were partially offset by increases in cash related to changes in inventory of \$7.2 million. Net cash provided by operating activities for the nine months ended September 30, 2012 included our income from operations and increases in cash due to changes in inventory of \$16.2 million, which were partially offset by decreases in cash due to changes in accounts receivable of \$4.3 million and the cost of inventory on lease of \$7.2 million.

Investing Activities. Net cash provided by investing activities for the nine months ended September 30, 2013 was \$3.8 million compared to net cash used in investing activities of \$9.5 million for the nine months ended September 30, 2012. Net cash provided by investing activities for the nine months ended September 30, 2013 included maturities of securities (net of purchases) of \$3.0 million, restricted cash withdrawals (net of deposits) of \$10.6 million related to decreases in collateralization obligations with respect to letters of credit for performance guarantees and proceeds from the sale of railcars available for lease of \$6.7, million which were partially offset by purchases of restricted certificates of deposit of \$0.3 million and purchases of property, plant and equipment of \$16.3 million. Net cash used in investing activities for the nine months ended September 30, 2012 included restricted cash deposits for

collateralization of letters of credit of \$15.5 million and purchases of property, plant and equipment of \$6.3 million, which were partially offset by proceeds from the sale of railcars on operating leases of \$10.4 million.

Financing Activities. Net cash provided by financing activities for the nine months ended September 30, 2013 was \$16.5 million compared to net cash used in financing activities of \$2.2 million for the nine months ended September 30, 2012. Net cash provided by financing activities for the nine months ended September 30, 2013 included proceeds of a \$19.4 million customer advance for leased railcars delivered for which revenue cannot be recognized until all contingencies have been met, partially offset by advance repayments of \$0.6 million. The proceeds of the customer advance have been accounted for as a financing transaction per ASC 840, *Leases*. Financing activities for each of the nine months ended September 30, 2013 and 2012, included \$2.2 million of cash dividends paid to our stockholders.

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Capital Expenditures

Our capital expenditures were \$16.3 million in the nine months ended September 30, 2013 compared to \$6.3 million in the nine months ended September 30, 2012. Capital expenditures for the nine months ended September 30, 2013 were primarily purchases of equipment for our Shoals facility. Capital expenditures for the nine months ended September 30, 2012 were primarily cash outlays to maintain our existing facilities. Excluding unforeseen expenditures, management expects that total capital expenditures will be approximately \$20.0 million for 2013, including capital expenditures for our Shoals facility.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q 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 report to identify forward-looking statements. We have based these forward-looking statements on our current views with respect to future events and financial performance. Our actual results could differ materially from those projected in the forward-looking statements.

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

the cyclical nature of our business;

adverse economic and market conditions;

the highly competitive nature of our industry;

our reliance upon a small number of customers that represent a large percentage of our sales;

the variable purchase patterns of our customers and the timing of completion, delivery and customer acceptance of orders;

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

our reliance on the sales of our coal cars;

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

our reported backlog may not indicate what our future sales will be;

potential significant warranty claims;

30, 2013, representing growth of 36%. Average monthly revenue per agent increased by 32% to \$349 for the three months ended September 30, 2014 from \$264 for the three months ended September 30, 2013. We calculate our average monthly revenue per agent by dividing the revenue generated by our Premier Agent products in the period by the average number of Premier Agent advertisers in the period, divided again by the number of months in the period. The average number of Premier Agent advertisers is derived by calculating the average of the beginning and ending number of Premier Agent advertisers for the period. The increase in average monthly revenue per agent was primarily driven by an increase in inventory which led to an increase in sales to existing Premier Agent advertisers looking to expand their presence on our platform.

The increase in marketplace revenue was also attributable to growth in mortgages revenue, which increased \$1.4 million for the three months ended September 30, 2014 compared to the three months ended September 30, 2013, or 24%. The increase was primarily a result of an increase in the number of loan requests submitted by consumers in Zillow Mortgages. There were approximately 7.0 million mortgage loan requests submitted by consumers for the three months ended September 30, 2014 compared to 5.9 million mortgage loan requests submitted by consumers for the three months ended September 30, 2013, an increase of 18%.

Display revenue was \$16.0 million for the three months ended September 30, 2014 compared to \$12.3 million for the three months ended September 30, 2013, an increase of \$3.6 million. Display revenue represented 18% of total revenue for the three months ended September 30, 2014 compared to 23% of total revenue for the three months ended September 30, 2013. The increase in display revenue was primarily the result of an increase in the number of unique users to our mobile applications and websites, which increased to 86.0 million average monthly unique users for the three months ended September 30, 2014 from 61.1 million average monthly unique users for the three months ended September 30, 2013, representing growth of 41%. The growth in unique users increased the number of graphical display impressions available for sale and advertiser demand for graphical display inventory. Although there is a relationship between the number of average monthly unique users and display revenue, there is not a direct correlation, as the Company does not sell its entire display inventory each period and some of the inventory is sold through networks and not directly through our sales team which impacts the cost per impression we charge to customers.

Cost of Revenue

	Three Months Ended September 30,		2013 to 2014
	2014	2013	% Change
	(in thousands, unaudited)		
Cost of revenue	\$ 7,679	\$ 5,116	50%

Cost of revenue was \$7.7 million for the three months ended September 30, 2014 compared to \$5.1 million for the three months ended September 30, 2013, an increase of \$2.6 million, or 50%. The increase in cost of revenue was attributable to increased headcount-related expenses of \$0.9 million, including share-based compensation expense, driven by growth in headcount, increased credit card and ad serving fees of \$0.7 million, a \$0.5 million increase in revenue share costs, and a \$0.5 million increase in various miscellaneous expenses, including data center costs and royalties. We expect our cost of revenue to increase in absolute dollars in future years as we continue to incur more expenses that are associated with growth in revenue.

Sales and Marketing

	Three Months Ended		2013 to 2014
	September 30,		%
	2014	2013	Change
	(in thousands, unaudited)		
Sales and marketing	\$ 46,934	\$ 31,195	50%

Sales and marketing expenses were \$47.0 million for the three months ended September 30, 2014 compared to \$31.2 million for the three months ended September 30, 2013, an increase of \$15.7 million, or 50%. The increase in sales and marketing expenses was primarily due to an \$8.7 million increase in marketing and advertising expenses, primarily related to advertising spend to attract users across online and offline channels, which supports our growth initiatives, and a \$0.7 million increase in consulting costs to support our marketing and advertising spend. We believe we have considerable opportunity to increase brand awareness and grow traffic through targeted advertising programs. As such, we plan to continue to selectively advertise to consumers and professionals in various online and offline channels that have tested well for us to drive traffic and brand awareness for Zillow.

In addition to the increases in marketing and advertising expense, we incurred a \$5.9 million increase in headcount-related expenses, including share-based compensation expense, driven by growth in headcount, and a \$0.4 million increase in various miscellaneous sales and marketing expenses.

We expect our sales and marketing expenses to increase in absolute dollars in future years as we continue to expand our sales team and invest more resources in extending our audience through marketing and advertising initiatives.

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	Three Months Ended September 30, 2014		2013 to 2014 %
	2014	2013	Change
	(in thousands, unaudited)		
Technology and development	\$ 21,318	\$ 12,167	75%

Technology and development expenses, which include research and development costs, were \$21.3 million for the three months ended September 30, 2014 compared to \$12.2 million for the three months ended September 30, 2013, an increase of \$9.2 million, or 75%. Approximately \$4.7 million of the increase related to growth in headcount-related expenses, including share-based compensation expense, as we continue to grow our engineering headcount to support current and future product initiatives. Approximately \$2.4 million of the increase was the result of increased amortization of intangible assets, including website development costs, purchased content, and acquired intangible assets. The increase in technology and development expenses was also attributable to a \$0.6 million increase in software costs, a \$0.5 million increase in depreciation expense, a \$0.4 million increase in consulting costs, and a \$0.6 million increase in various miscellaneous expenses, including connectivity costs and travel.

Amortization expense included in technology and development for capitalized website development costs was \$4.8 million and \$3.2 million, respectively, for the three months ended September 30, 2014 and 2013. Amortization expense included in technology and development related to intangible assets recorded in connection with acquisitions was \$1.6 million and \$1.2 million, respectively, for the three months ended September 30, 2014 and 2013. Amortization expense included in technology and development for intangible assets related to purchased data content was \$1.0 million and \$0.7 million, respectively, for the three months ended September 30, 2014 and 2013. Other data content expense was \$0.2 million and \$0.1 million, respectively, for the three months ended September 30, 2014 and 2013. We expect our technology and development expenses to increase in absolute dollars over time as we continue to build new mobile and website functionality.

General and Administrative

	Three Months Ended September 30, 2014		2013 to 2014 %
	2014	2013	Change
	(in thousands, unaudited)		
General and administrative	\$ 15,757	\$ 10,156	55%

General and administrative expenses were \$15.8 million for the three months ended September 30, 2014 compared to \$10.2 million for the three months ended September 30, 2013, an increase of \$5.6 million, or 55%. The increase in general and administrative expenses was a result of a \$2.8 million increase in headcount-related expenses, including share-based compensation expense, driven primarily by growth in headcount and increases in compensation, a \$1.3 million increase in building lease-related expenses including rent, utilities and insurance, a \$0.5 million increase in travel and meals expense, a \$0.4 million increase in consulting costs, and a \$0.6 million increase in various other miscellaneous expenses. We expect general and administrative expenses to increase over time in absolute dollars as we continue to expand our business.

Acquisition-Related Costs

	Three Months Ended		2013 to 2014
	September 30,		%
	2014	2013	Change
	(in thousands, unaudited)		
Acquisition-related costs	\$ 13,200	\$ 201	6,467%

Acquisition-related costs were \$13.2 million for the three months ended September 30, 2014 compared to \$0.2 million for the three months ended September 30, 2013, an increase of \$13.0 million. Acquisition-related costs for the three months ended September 30, 2014 were a result of the proposed acquisition of Trulia, including investment banker, legal, accounting, tax, and regulatory filing fees. Acquisition-related costs for the three months ended September 30, 2013 were a result of the acquisition of StreetEasy, Inc. We expect our acquisition-related costs to increase in future periods in connection with our proposed acquisition of Trulia.

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	Nine Months Ended September 30, 2014 2013		2013 to 2014 % Change
	(in thousands, unaudited)		
Revenue:			
Marketplace revenue:			
Real estate	\$ 168,232	\$ 92,000	83%
Mortgages	20,800	16,465	26%
Total Marketplace revenue	189,032	108,465	74%
Display revenue	44,532	30,732	45%
Total revenue	\$ 233,564	\$ 139,197	68%

	Nine Months Ended September 30, 2014 2013	
Percentage of Total Revenue:		
Marketplace revenue:		
Real estate	72%	66%
Mortgages	9%	12%
Total Marketplace revenue	81%	78%
Display revenue	19%	22%
Total revenue	100%	100%

Overall revenue increased by \$94.4 million, or 68%, for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. Marketplace revenue increased by 74%, and display revenue increased by 45%.

Marketplace revenue grew to \$189.0 million for the nine months ended September 30, 2014 from \$108.5 million for the nine months ended September 30, 2013, an increase of \$80.6 million. Marketplace revenue represented 81% of total revenue for the nine months ended September 30, 2014 compared to 78% of total revenue for the nine months ended September 30, 2013. The increase in marketplace revenue was primarily attributable to the \$76.2 million increase in real estate revenue, which was primarily a result of growth in the number of advertisers in our Premier Agent program to 60,877 as of September 30, 2014 from 44,749 as of September 30, 2013, representing growth of 36%. Average monthly revenue per agent increased by 24% to \$321 for the nine months ended September 30, 2014 from \$260 for the nine months ended September 30, 2013. The increase in average monthly revenue per agent was primarily driven by an increase in inventory which led to an increase in sales to

existing Premier Agent advertisers looking to expand their presence on our platform.

The increase in marketplace revenue was also attributable to growth in mortgages revenue, which increased by \$4.3 million, or 26%, for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. The increase in mortgages revenue was primarily a result of an increase in the number of loan requests submitted by consumers in Zillow Mortgages. There were approximately 18.3 million mortgage loan requests submitted by consumers for the nine months ended September 30, 2014 compared to 15.8 million mortgage loan requests submitted by consumers for the nine months ended September 30, 2013, an increase of 16%.

Display revenue was \$44.5 million for the nine months ended September 30, 2014 compared to \$30.7 million for the nine months ended September 30, 2013, an increase of \$13.8 million. Display revenue represented 19% of total revenue for the nine months ended September 30, 2014 compared to 22% of total revenue for the nine months ended September 30, 2013. The increase in display revenue was primarily the result of an increase in the number of unique users to our mobile applications and websites, which increased to 86.0 million average monthly unique users for the three months ended September 30, 2014 from 61.1 million average monthly unique users for the three months ended September 30, 2013, representing growth of 41%.

Table of Contents***Cost of Revenue***

	Nine Months Ended		2013 to 2014
	September 30,		%
	2014	2013	Change
	(in thousands, unaudited)		
Cost of revenue	\$ 20,636	\$ 13,540	52%

Cost of revenue was \$20.6 million for the nine months ended September 30, 2014 compared to \$13.5 million for the nine months ended September 30, 2013, an increase of \$7.1 million, or 52%. The increase in cost of revenue was attributable to increased headcount-related expenses of \$2.2 million, including share-based compensation expense, driven by growth in headcount, increased credit card and ad serving fees of \$2.0 million, a \$1.5 million increase in data center operations and connectivity costs, a \$1.0 million increase in revenue share expense, and a \$0.4 million increase in various miscellaneous expenses.

Sales and Marketing

	Nine Months Ended		2013 to 2014
	September 30,		%
	2014	2013	Change
	(in thousands, unaudited)		
Sales and marketing	\$ 129,907	\$ 83,913	55%

Sales and marketing expenses were \$129.9 million for the nine months ended September 30, 2014 compared to \$83.9 million for the nine months ended September 30, 2013, an increase of \$46.0 million, or 55%. The increase in sales and marketing expenses was primarily due to a \$30.9 million increase in marketing and advertising expenses, primarily related to advertising spend to attract users across online and offline channels, which supports our growth initiatives, and a \$2.1 million increase in consulting costs to support our marketing and advertising spend. We believe we have considerable opportunity to increase brand awareness and grow traffic through targeted advertising programs. As such, we plan to continue to selectively advertise to consumers and professionals in various online and offline channels that have tested well for us to drive traffic and brand awareness for Zillow.

In addition to the increases in marketing and advertising expense, headcount-related expenses, including share-based compensation expense, increased by \$10.6 million, driven primarily by growth in the size of our sales team. We also incurred a \$0.9 million increase in depreciation expense, a \$0.8 million increase in tradeshow and conference expenses, including related travel costs, and a \$0.7 million increase in various miscellaneous sales and marketing expenses.

Technology and Development

	Nine Months Ended		2013 to 2014
	September 30,		%
	2014	2013	Change

(in thousands, unaudited)

Technology and development	\$ 58,150	\$ 33,849	72%
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Technology and development expenses, which include research and development costs, were \$58.2 million for the nine months ended September 30, 2014 compared to \$33.8 million for the nine months ended September 30, 2013, an increase of \$24.3 million, or 72%. Approximately \$12.0 million of the increase related to growth in headcount-related expenses, including share-based compensation expense, as we continue to grow our engineering headcount to support current and future product initiatives. Approximately \$7.3 million of the increase was the result of increased amortization of intangible assets, including website development costs, purchased content, and acquired intangible assets. The increase in technology and development expenses was also attributable to a \$1.5 million increase in software costs, a \$1.4 million increase in depreciation expense, a \$0.7 million increase in consulting costs, a \$0.4 million increase in loss on disposal of property and equipment, and a \$0.8 million increase in various miscellaneous expenses, including data acquisition costs, connectivity costs, and travel.

Amortization expense included in technology and development for capitalized website development costs was \$13.3 million and \$8.6 million, respectively, for the nine months ended September 30, 2014 and 2013.

Amortization expense included in technology and development related to intangible assets recorded in connection with acquisitions was \$4.7 million and \$3.2 million, respectively, for the nine months ended September 30, 2014 and 2013. Amortization expense included in technology and development for intangible assets related to purchased data content was \$3.1 million and \$2.0 million, respectively, for the nine months ended September 30, 2014 and 2013. Other data content expense was \$0.5 million and \$0.3 million, respectively, for the nine months ended September 30, 2014 and 2013.

Table of Contents***General and Administrative***

	Nine Months Ended September 30, 2014 2013		2013 to 2014 % Change
	(in thousands, unaudited)		
General and administrative	\$ 44,968	\$ 27,367	64%

General and administrative expenses were \$45.0 million for the nine months ended September 30, 2014 compared to \$27.4 million for the nine months ended September 30, 2013, an increase of \$17.6 million, or 64%. The increase in general and administrative expenses was a result of an \$8.9 million increase in headcount-related expenses, including share-based compensation expense, driven primarily by growth in headcount and increases in compensation, a \$2.9 million increase in building lease-related expenses including rent, utilities, and insurance, a \$1.5 million increase in professional services fees, including legal and accounting, a \$1.2 million increase in travel and meals expense, a \$0.9 million increase in city and state taxes, a \$0.6 million increase in consulting costs, a \$0.5 million increase in bad debt expense, a \$0.4 million increase in software costs, and a \$0.7 million increase in various other miscellaneous expenses.

Acquisition-Related Costs

	Nine Months Ended September 30, 2014 2013		2013 to 2014 % Change
	(in thousands, unaudited)		
Acquisition-related costs	\$ 13,384	\$ 201	6,559%

Acquisition-related costs were \$13.4 million for the nine months ended September 30, 2014 compared to \$0.2 million for the nine months ended September 30, 2013, an increase of \$13.2 million. Acquisition-related costs for the nine months ended September 30, 2014 were primarily a result of the proposed acquisition of Trulia, including investment banker, legal, accounting, tax, and regulatory filing fees. Acquisition-related costs for the nine months ended September 30, 2013 were a result of the acquisition of StreetEasy, Inc.

Liquidity and Capital Resources

As of September 30, 2014 and December 31, 2013, we had cash, cash equivalents and investments of \$458.5 million and \$437.7 million, respectively. Cash and cash equivalents balances consist of operating cash on deposit with financial institutions, money market funds and U.S. government agency securities. Investments as of September 30, 2014 and December 31, 2013 consisted of fixed income securities, which include U.S. government agency securities, certificates of deposit, commercial paper, corporate notes and bonds, and municipal securities. Amounts on deposit with third-party financial institutions exceed the applicable Federal Deposit Insurance Corporation and the Securities Investor Protection Corporation insurance limits, as applicable. We believe that cash from operations and cash, cash equivalents and investment balances will be sufficient to meet our ongoing operating activities, working capital, capital expenditures and other capital requirements for at least the next 12 months.

We have executed a standby letter of credit of \$2.0 million in connection with the lease of our Seattle, Washington office space and a standby letter of credit of \$1.1 million in connection with the operating lease of our New York office space. The letters of credit are secured by our investments and are effective until 60 days after the expiration date of the lease.

On July 28, 2014, Zillow, HoldCo, and Trulia entered into the Merger Agreement, pursuant to which Zillow agreed, upon the terms and subject to the conditions set forth therein, to acquire Trulia. If the Merger Agreement is terminated in certain circumstances, Zillow or Trulia, as applicable, would be required to pay the other a termination fee of \$69.8 million. In addition, the Merger Agreement provides that, in certain other circumstances, Zillow would be required to pay Trulia a termination fee of \$150 million.

If completed, the acquisition of Trulia will have a significant impact on our liquidity, financial position and results of operations and, as a result of the acquisition, HoldCo (as the resulting parent entity in the acquisition) will enter into a supplemental indenture in respect of Trulia's Convertible Senior Notes due in 2020 in the aggregate principal amount of \$230.0 million, which will provide, among other things, that, at the Trulia Merger Effective Time, (i) each outstanding Convertible Senior Note will no longer be convertible into shares of Trulia common stock and will be convertible solely into shares of HoldCo Class A Common Stock, pursuant to, and in accordance with, the terms of the indenture governing the Convertible Senior Notes, and (ii) HoldCo will guarantee all of the obligations of Trulia under the Convertible Senior Notes and related indenture. The aggregate principal amount of the 2020 Notes is due on December 15, 2020 if not earlier converted or redeemed. Interest is payable on the 2020 Notes at the rate of 2.75% semi-annually. The 2020 Notes cannot be redeemed prior to December 20, 2018. For additional information regarding the proposed acquisition of Trulia, see Note 1 to our condensed consolidated financial statements.

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The following table presents selected cash flow data for the nine months ended September 30, 2014 and 2013:

	Nine Months Ended September 30,	
	2014	2013
	(in thousands, unaudited)	
Cash Flow Data:		
Cash flows provided by operating activities	\$ 33,357	\$ 12,536
Cash flows used in investing activities	(133,296)	(114,167)
Cash flows provided by financing activities	20,944	270,479

Cash Flows Provided By Operating Activities

For the nine months ended September 30, 2014, net cash provided by operating activities was \$33.4 million. This was driven by a net loss of \$32.7 million, adjusted by depreciation and amortization expense of \$25.7 million, share-based compensation expense of \$24.2 million, an increase in the balance of deferred rent of \$3.2 million, amortization of bond premium of \$2.6 million, bad debt expense of \$1.7 million, and a loss on disposal of property and equipment of \$0.5 million. Primarily due to the increase in accounts payable and accrued expenses since December 31, 2013, which, in turn, were primarily a result of increased advertising spend and related consulting costs, changes in operating assets and liabilities increased cash provided by operating activities by \$8.2 million.

For the nine months ended September 30, 2013, net cash provided by operating activities was \$12.5 million. This was primarily driven by a net loss of \$15.2 million, adjusted by share-based compensation expense of \$18.4 million, depreciation and amortization expense of \$15.8 million, a \$4.3 million non-cash change in the valuation allowance related to a deferred tax liability generated in connection with our acquisition of StreetEasy, Inc., bad debt expense of \$1.2 million, and loss on disposal of property and equipment of \$0.9 million. Changes in operating assets and liabilities decreased cash provided by operating activities by \$4.4 million.

Cash Flows Used In Investing Activities

Our primary investing activities include the purchase and maturity of short-term and long-term investments, including U.S. government agency securities, certificates of deposit, commercial paper, corporate notes and bonds, and municipal securities, as well as the purchase of property and equipment and intangible assets, and cash paid in connection with acquisitions.

For the nine months ended September 30, 2014, net cash used in investing activities was \$133.3 million. This was the result of \$102.3 million of net purchases of investments, \$27.4 million of purchases for property and equipment and intangible assets, and \$3.5 million paid in connection with an acquisition.

For the nine months ended September 30, 2013, net cash used in investing activities was \$114.2 million. This was the result of \$52.5 million of net purchases of investments, \$42.6 million paid in connection with the acquisition of StreetEasy, Inc., and \$19.1 million of purchases for property and equipment and intangible assets.

Cash Flows Provided By Financing Activities

For the nine months ended September 30, 2014, our financing activities resulted entirely from the exercise of employee stock options. The proceeds from the issuance of Class A common stock from the exercise of stock options for the nine months ended September 30, 2014 was \$20.9 million.

For the nine months ended September 30, 2013, net cash provided by financing activities was approximately \$270.5 million, which was primarily the result of \$253.9 million in net proceeds to us from the public offering of our Class A common stock that closed in August 2013. In addition, we received approximately \$16.6 million in proceeds from the issuance of Class A common stock from the exercise of stock options for the nine months ended September 30, 2013.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of September 30, 2014.

Table of Contents**Contractual Obligations**

The following table provides a summary of our contractual obligations as of September 30, 2014:

	Total	Payment Due By Period			More Than 5 Years
		Less Than 1 Year	1-3 Years	3-5 Years	
Operating lease obligations	\$ 93,876	\$ 8,869	\$ 22,001	\$ 22,181	\$ 40,825
Purchase obligations	10,300	4,632	5,668		
Total	\$ 104,176	\$ 13,501	\$ 27,669	\$ 22,181	\$ 40,825

Our operating lease obligations consist of various operating leases for office space and equipment. We also have purchase obligations for content related to our mobile applications and websites. For further discussion of our operating lease and purchase obligations, see Note 11 and Note 13 in Part I, Item 1 (Notes to Condensed Consolidated Financial Statements).

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates. For information on our critical accounting policies and estimates, see Part II, Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of our Annual Report on Form 10-K for the year ended December 31, 2013. There have been no material changes to our critical accounting policies and estimates as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk, see Part 2, Item 7A (Quantitative and Qualitative Disclosures About Market Risk) in our Annual Report on Form 10-K for the year ended December 31, 2013. Our exposures to market risk have not changed materially since December 31, 2013.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended). Management, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of September 30, 2014. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that these disclosure controls and procedures were effective as of September 30, 2014.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

In March 2010, Smarter Agent, LLC (Smarter Agent) filed a complaint against us and multiple other defendants, including HotPads, Inc. (HotPads), for patent infringement in the U.S. District Court for the District of Delaware. The complaint alleges, among other things, that our mobile technology infringes three patents held by Smarter Agent purporting to cover: a Global positioning-based real estate database access device and method, a Position-based information access device and method and a Position-based information access device and method of searching, and seeks an injunction against the alleged infringing activities and an unspecified award for damages. In November 2010, the U.S. Patent and Trademark Office granted our petition for re-examination of the three patents-in-suit, and, to date, all claims of all three patents remain rejected in the re-examination proceedings, including through appeals to the Patent Trial and Appeal Board. In March 2011, the court granted a stay of the litigation pending the completion of the re-examination proceedings. In addition, in October 2011, Smarter Agent filed a substantially similar complaint against Diverse Solutions, Inc. (Diverse Solutions), StreetEasy, Inc. (StreetEasy) and other defendants, for patent infringement in the U.S. District Court for the District of Delaware. On October 31, 2011, we acquired substantially all of the operating assets and certain liabilities of Diverse Solutions, and took responsibility for the Smarter Agent complaint against Diverse Solutions. On December 14, 2012, we acquired HotPads, and took responsibility for the Smarter Agent complaint against HotPads. On August 26, 2013, we acquired StreetEasy, and took responsibility for the Smarter Agent complaint against StreetEasy.

In September 2010, LendingTree, LLC (LendingTree) filed a complaint against us for patent infringement in the U.S. District Court for the Western District of North Carolina. The complaint alleged, among other things, that our website technology infringes two patents purporting to cover a Method and computer network for coordinating a loan over the internet. The complaint sought, among other things, a judgment that we infringed certain patents held by LendingTree, an injunction against the alleged infringing activities and an award for damages. We denied the allegations and asserted defenses and counterclaims seeking declarations that we are not infringing the patents and that the patents are invalid. In March 2014, a federal jury found that Zillow does not infringe the patents and that the patents asserted by LendingTree are invalid. In April, 2014, LendingTree filed two motions for judgment as a matter of law and for a new trial, all of which we opposed. In October 2014, the Court issued an order upholding the jury verdict and denying LendingTree's motions.

In November 2012, a securities class action lawsuit was filed in the U.S. District Court for the Western District of Washington at Seattle against us and certain of our executive officers seeking unspecified damages. A consolidated amended complaint was filed in June 2013. The complaint purports to state claims for violations of federal securities laws on behalf of a class of those who purchased our common stock between February 15, 2012 and November 6, 2012. The complaint generally alleges, among other things, that during the period between February 15, 2012 and November 6, 2012, we issued materially false and misleading statements regarding our business practices and financial results. In August 2013, we moved to dismiss the lawsuit. On October 20, 2014, the Court issued an order granting our motion to dismiss the consolidated amended complaint with prejudice. Also on October 20, 2014, the Court entered a judgment dismissing the complaint with prejudice. Plaintiffs have 30 days from the date of entry of the judgment to appeal the Court's judgment dismissing the consolidated amended complaint with prejudice.

In March 2014, Move, Inc., the National Association of Realtors and three related entities, filed a complaint against us and Errol Samuelson, our Chief Industry Development Officer, in the Superior Court of the State of

Washington in King County, alleging, among other things, that Zillow and Mr. Samuelson misappropriated plaintiffs' trade secrets in connection with Mr. Samuelson joining Zillow in March 2014. The complaint seeks, among other things, an injunction against the alleged misappropriations and Mr. Samuelson working for us, as well as unspecified damages. In April 2014, the court denied the plaintiffs' motion for a preliminary injunction prohibiting Mr. Samuelson from working for us. Plaintiffs renewed their motion for a preliminary injunction and on June 30, 2014, the court granted that request and entered a preliminary injunction. Zillow filed a motion requesting that the court reconsider that decision, which the court denied. On September 22, 2014, Zillow filed a notice for discretionary review by the Washington Court of Appeals, followed by a motion for discretionary review on October 7, 2014. We deny the allegations of any wrongdoing and intend to vigorously defend the claims in the lawsuit.

In August 2014, four purported class action lawsuits were filed by plaintiffs against Trulia and its directors, Zillow, and Zebra Holdco, Inc. in connection with Zillow's proposed acquisition of Trulia. One of those purported class actions, captioned Collier et al. v. Trulia, Inc., et al., was brought in the Superior Court of the State of California for the County of San Francisco, however on October 7, 2014, plaintiff in the Collier action filed a new complaint in the Delaware Court of Chancery alleging substantially the same claims and seeking substantially the same relief as the original complaint filed in California. On October 8, 2014, plaintiff in the Collier action filed a request for dismissal of the California case without prejudice. The other three of the purported class action lawsuits, captioned Shue et al. v. Trulia, Inc., et al., Sciabacucci et al. v. Trulia, Inc., et al., and Steinberg et al. v. Trulia, Inc. et al., were brought in the Delaware Court of Chancery. All four lawsuits allege that Trulia's directors breached their fiduciary duties to Trulia stockholders, and that the other defendants aided and abetted such breaches, by seeking to sell Trulia through an allegedly unfair process and for an unfair price and on unfair terms. All lawsuits seek, among other things, equitable relief that would enjoin the consummation of Zillow's proposed acquisition of Trulia and attorneys' fees and costs. The Delaware actions also seek rescission of the Merger Agreement (to the extent it has already been implemented) or rescissory damages and orders directing the defendants to account for alleged damages suffered by the plaintiffs and the purported class as a result of the defendants' alleged wrongdoing. On

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September 24, 2014, plaintiff in the Sciabacucci action filed (1) a motion for expedited proceedings, (2) a motion for a preliminary injunction, (3) a request for production of documents from defendants, and (4) notice of depositions. On October 13, 2014, the Delaware Court of Chancery issued an order consolidating all of the Delaware actions into one matter captioned In re Trulia, Inc. Stockholder Litigation and appointed Rigrotsky & Long as lead counsel. On October 13 and 14, 2014, the above-referenced motions were refiled under the consolidated case number. The hearing on the preliminary injunction motion is set for December 3, 2014.

Although the results of litigation cannot be predicted with certainty, we currently believe we have substantial and meritorious defenses to the outstanding claims and that the final outcome of the outstanding litigation matters will not have a material effect on our business, financial position, results of operations or cash flow.

From time to time, we are involved in litigation and claims that arise in the ordinary course of business and although we cannot be certain of the outcome of any such litigation or claims, nor the amount of damages and exposure that we could incur, we currently believe that the final disposition of such matters will not have a material effect on our business, financial position, results of operations or cash flow. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

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Item 1A. Risk Factors

There have not been any material changes to the risk factors affecting our business, financial condition or future results from those set forth in Part II, Item 1A (Risk Factors) in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014. However, you should carefully consider the factors discussed in our Quarterly Report on Form 10-Q, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

There were no unregistered sales of equity securities during the three months ended September 30, 2014.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents**Item 6. Exhibits**

The exhibits listed below are filed as part of this Quarterly Report on Form 10-Q.

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated July 28, 2014, among Zillow, Inc., Zebra Holdco, Inc. and Trulia, Inc. (Filed as Exhibit 2.1 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 29, 2014, and incorporated herein by reference).*
31.1	Certification of Chief Executive Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

* Schedules omitted pursuant to Item 601(b)(2) of Regulation S-K. Zillow agrees to furnish a supplemental copy of any omitted schedule to the Securities and Exchange Commission upon request.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: November 6, 2014

ZILLOW, INC.

By: /s/ CHAD M. COHEN

Name: Chad M. Cohen

Title: Chief Financial Officer and Treasurer