FreightCar America, Inc.
Form 10-Q
November 01, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2016

or

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

Commission file number: 000-51237

FREIGHTCAR AMERICA, INC.

(Exact name of registrant as specified in its charter)

Delaware	**25-1837219**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
Two North Riverside Plaza, Suite 1300 Chicago, Illinois	**60606**
(Address of principal executive offices)	**(Zip Code)**

(800) 458-2235

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES 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 October 27, 2016, there were 12,384,730 shares of the registrant s common stock outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

FreightCar America, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

	September 30, 2016	December 31, 2015
	(In thousands, except for share and per share data)	
Assets		
Current assets		
Cash and cash equivalents	$ 24,786	$ 83,068
Restricted cash and restricted certificates of deposit	5,970	6,896
Marketable securities	14,997	26,951
Accounts receivable, net of allowance for doubtful accounts of $6 and $82, respectively	30,292	39,708
Inventories, net	144,658	115,354
Other current assets	22,365	8,704
Total current assets	243,068	280,681
Property, plant and equipment, net	48,065	42,596
Railcars available for lease, net	24,193	24,729
Goodwill	21,521	21,521
Deferred income taxes, net	17,205	34,722
Other long-term assets	1,713	2,655
Total assets	$ 355,765	$ 406,904
Liabilities and Stockholders Equity		
Current liabilities		
Accounts and contractual payables	$ 32,978	$ 34,304
Accrued payroll and employee benefits	2,693	8,303
Accrued postretirement benefits	405	405
Reserve for workers compensation	4,460	4,165
Accrued warranty	8,313	9,239
Customer deposits and deferred revenue	14,595	8,615
Income taxes payable		4,180
Other current liabilities	3,225	3,346
Total current liabilities	66,669	72,557
Accrued pension costs	7,560	6,673
Accrued postretirement benefits, less current portion	6,246	72,497

Deferred income state and local incentives, long-term		10,594		12,190
Accrued taxes and other long-term liabilities		7,775		7,876
Total liabilities		98,844		171,793
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, 2016 and December 31, 2015)				
Common stock, $0.01 par value, 50,000,000 shares authorized, 12,731,678 shares issued at September 30, 2016 and December 31, 2015		127		127
Additional paid in capital		91,687		93,939
Treasury stock, at cost, 347,216 and 402,166 shares at September 30, 2016 and December 31, 2015, respectively		(14,524)		(17,516)
Accumulated other comprehensive loss		(8,918)		(21,078)
Retained earnings		188,549		179,639
Total stockholders equity		256,921		235,111
Total liabilities and stockholders equity	$	355,765	$	406,904

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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FreightCar America, Inc.

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
	(In thousands, except for share and per share data)							
Revenues	$	113,461	$	241,114	$	388,208	$	569,555
Cost of sales		103,972		212,064		354,755		514,146
Gross profit		9,489		29,050		33,453		55,409
Selling, general and administrative expenses		8,010		10,706		27,286		30,473
Gain on sale of railcars available for lease								(1,187)
Gain on sale of railcar repair and maintenance services business and facility				(4,578)				(4,578)
Gain on settlement of postretirement benefit obligation, net of plaintiffs attorneys fees						(14,306)		
Restructuring and impairment charges		1,531				1,531		
Operating (loss) income		(52)		22,922		18,942		30,701
Interest expense and deferred financing costs		(29)		(56)		(115)		(184)
Other income		13		8		95		91
(Loss) income before income taxes		(68)		22,874		18,922		30,608
Income tax (benefit) provision		(119)		8,047		6,672		10,457
Net income	$	51	$	14,827	$	12,250	$	20,151
Net income per common share basic	$		$	1.20	$	0.99	$	1.65
Net income per common share diluted	$		$	1.20	$	0.99	$	1.64
Weighted average common shares outstanding basic		12,267,468		12,241,211		12,260,329		12,153,313
Weighted average common shares outstanding diluted		12,267,468		12,241,426		12,260,329		12,207,432
Dividends declared per common share	$	0.09	$	0.09	$	0.27	$	0.27

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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FreightCar America, Inc.

Condensed Consolidated Statements of Comprehensive (Loss) Income

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Net income	$ 51	$ 14,827	$ 12,250	$ 20,151
Other comprehensive income:				
Pension liability adjustments, net of tax	(697)	71	(535)	205
Postretirement liability adjustments, net of tax	(236)	112	12,695	326
Other comprehensive income	(933)	183	12,160	531
Comprehensive (loss) income	$ (882)	$ 15,010	$ 24,410	$ 20,682

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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FreightCar America, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (Unaudited)

(in thousands, except for share data)

	Common Stock Shares	Common Stock Amount	Additional Paid In Capital	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders Equity
Balance, December 31, 2014	12,731,678	$ 127	$ 100,303	(665,869)	$ (29,971)	$ (24,017)	$ 152,253	$ 198,695
Net income							20,151	20,151
Other comprehensive income						531		531
Stock options exercised			(5,728)	238,475	10,613			4,885
Restricted stock awards			(2,880)	64,317	2,880			
Forfeiture of restricted stock awards			94	(4,635)	(94)			
Employee stock settlement				(35,952)	(1,051)			(1,051)
Stock-based compensation recognized			1,686					1,686
Excess tax benefit from stock-based compensation			13					13
Cash dividends							(3,310)	(3,310)
Balance, September 30, 2015	12,731,678	$ 127	$ 93,488	(403,664)	$ (17,623)	$ (23,486)	$ 169,094	$ 221,600
Balance, December 31, 2015	12,731,678	$ 127	$ 93,939	(402,166)	$ (17,516)	$ (21,078)	$ 179,639	$ 235,111
Net income							12,250	12,250

Other comprehensive income						12,160		12,160
Restricted stock awards			(3,418)	79,796	3,418			
Forfeiture of restricted stock awards			351	(20,755)	(351)			
Employee stock settlement				(4,091)	(75)			(75)
Stock-based compensation recognized			815					815
Cash dividends							(3,340)	(3,340)
Balance, September 30, 2016	12,731,678	$ 127	$ 91,687	(347,216)	$ (14,524)	$ (8,918)	$ 188,549	$ 256,921

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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FreightCar America, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30, 2016	2015
	(In thousands)	
Cash flows from operating activities		
Net income	$ 12,250	$ 20,151
Adjustments to reconcile net income to net cash flows used in operating activities		
Depreciation and amortization	7,402	7,551
Recognition of deferred income from state and local incentives	(1,596)	(883)
Gain on sale of railcars available for lease		(1,187)
Gain on sale of railcar repair and maintenance services business and facility		(4,578)
Gain on settlement of postretirement benefit plan obligation	(15,606)	
Deferred income taxes	17,207	296
Stock-based compensation recognized	815	1,686
Other non-cash items, net	984	1,555
Changes in operating assets and liabilities		
Accounts receivable	9,416	(27,514)
Inventories	(29,022)	(63,488)
Other assets	(8,174)	(1,191)
Accounts and contractual payables	(1,488)	25,180
Accrued payroll and employee benefits	(5,610)	295
Income taxes receivable/payable	(8,610)	8,050
Accrued warranty	(926)	563
Customer deposits and other liabilities	5,913	(29,471)
Payment for settlement of postretirement benefit plan obligation	(31,616)	
Accrued pension costs and accrued postretirement benefits	(5,982)	1,972
Net cash flows used in operating activities	(54,643)	(61,013)
Cash flows from investing activities		
Purchase of restricted certificates of deposit	(2,089)	(2,165)
Maturity of restricted certificates of deposit	3,015	1,284
Purchase of securities held to maturity		(17,997)
Proceeds from maturity of securities	12,001	36,004
Proceeds from sale of railcars available for lease		7,654
Proceeds from sale of railcar repair and maintenance services business and facility		17,589
Purchase of property, plant and equipment	(13,070)	(16,161)
State and local incentives received		15,733

Net cash flows (used in) provided by investing activities		(143)		41,941
Cash flows from financing activities				
Stock option exercise				4,885
Employee stock settlement		(75)		(1,051)
Deferred financing costs		(81)		
Excess tax benefit from stock-based compensation				13
Cash dividends paid to stockholders		(3,340)		(3,310)
Net cash flows (used in) provided by financing activities		(3,496)		537
Net decrease in cash and cash equivalents		(58,282)		(18,535)
Cash and cash equivalents at beginning of period		83,068		113,532
Cash and cash equivalents at end of period	$	24,786	$	94,997
Supplemental cash flow information:				
Interest paid	$	32	$	101
Income taxes paid	$	4,668	$	3,061
Income tax refunds received	$		$	646

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 for 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., Johnstown America, LLC, Freight Car Services, Inc., JAIX Leasing Company (JAIX), FreightCar Roanoke, LLC, FreightCar Alabama, LLC and FreightCar (Shanghai) Trading Co., Ltd. (herein collectively referred to as the Company), and manufactures a wide range of railroad freight cars, supplies railcar parts and leases freight cars. The Company designs and builds high-quality railcars, including coal cars, bulk commodity cars, covered hopper cars, intermodal and non-intermodal flat cars, mill gondola cars, coil steel cars and boxcars. The Company is headquartered in Chicago, Illinois and has facilities in the following locations: Cherokee, Alabama; Danville, Illinois; Grand Island, Nebraska; Johnstown, Pennsylvania; Roanoke, Virginia; and Shanghai, People s Republic of China.

The Company and its direct and indirect subsidiaries are all Delaware corporations or Delaware limited liability companies except FreightCar (Shanghai) Trading Co., Ltd., which is organized in the People s Republic of China. 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 U.S. 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, 2016 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 2015 year-end balance sheet data was derived from the audited financial statements as of December 31, 2015. 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, 2015.

Note 3 Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2016-09, *Compensation Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting,* to simplify the accounting for stock compensation. The ASU focuses on income tax accounting, award classification, estimating forfeitures and cash flow presentation. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842),* which requires a lessee to record a right-of-use asset and a lease liability for all leases with a term greater than twelve months regardless of whether the lease is classified as an operating lease or a financing lease. Leases with a term of twelve months or less will be accounted for in a similar manner to existing guidance for operating leases. This standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is currently assessing the impact of this standard on the Company s financial position, results of operations and cash flows.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330),* which requires entities to measure most inventory at the lower of cost and net realizable value, thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. Under ASU 2015-11, inventory is measured at the lower of cost and net realizable value, which eliminates the need to determine replacement cost and evaluate whether it is above the ceiling (net realizable value) or below the floor (net realizable value less normal profit margin). ASU 2015-11 defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This standard is effective prospectively for annual reporting periods beginning after December 15, 2016, early adoption is permitted. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs,* which changes the presentation of debt issuance costs in financial statements. ASU 2015-03 requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the debt issuance costs will continue to be reported as interest expense. This standard was effective for the Company as of January 1, 2016. Since the Company does not have any debt outstanding the adoption of these changes did not have any impact on the consolidated financial position, results of operations or cash flows of the Company.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810) Amendments to the Consolidation Analysis,* which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. All legal entities are subject to reevaluation under the revised consolidation model. The new guidance affects the following areas: (1) limited partnerships and similar legal entities; (2) evaluating fees paid to a decision maker or a service provider as a variable interest; (3) the effect of fee arrangements on the primary beneficiary determination; (4) the effect of related parties on the primary beneficiary determination; and (5) certain investment funds. This standard is effective for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. The adoption of these changes did not have a material impact on the consolidated financial position, results of operations or cash flows of the Company.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which was further clarified in March 2016. The ASU outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most prior revenue recognition guidance, including industry-specific guidance. The ASU is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. The ASU is effective for annual reporting periods beginning after December 15, 2017 and early adoption for annual reporting periods beginning after December 15, 2016 is permitted. The Company is currently assessing the impact of this standard on the Company s financial position, results of operations and cash flows.

Note 4 Segment Information

On September 30, 2015, the Company sold its railcar repair and maintenance services business. Through September 30, 2015, the Company s operations comprised two reportable segments, Manufacturing and Services. As of October 1, 2015, the Company s operations comprise two operating segments, Manufacturing and Parts, and one reportable segment, Manufacturing. The Company s Manufacturing segment includes new railcar manufacturing, used railcar sales, railcar leasing and major railcar rebuilds. The Company s Parts operating segment is not expected to be of continuing significance for separate reporting and has been combined with corporate and other non-operating activities as Corporate and Other. Prior period segment information has been recast to include general railcar repair and maintenance and inspections and parts sales in Corporate and Other.

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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,	
	2016	**2015**	**2016**	**2015**
Revenues:				
Manufacturing	$ 111,963	$ 233,294	$ 382,258	$ 545,407
Corporate and Other	1,498	7,820	5,950	24,148
Consolidated revenues	$ 113,461	$ 241,114	$ 388,208	$ 569,555
Operating (loss) income:				
Manufacturing	$ 6,967	$ 25,817	$ 25,179	$ 44,910
Corporate and Other (1)	(7,019)	(2,895)	(6,237)	(14,209)
Consolidated operating (loss) income	(52)	22,922	18,942	30,701
Consolidated interest expense and deferred financing costs	(29)	(56)	(115)	(184)
Consolidated other income	13	8	95	91
Consolidated (loss) income before income taxes	$ (68)	$ 22,874	$ 18,922	$ 30,608
Depreciation and amortization:				
Manufacturing	$ 2,024	$ 1,807	$ 6,163	$ 5,185
Corporate and Other	261	796	1,239	2,366
Consolidated depreciation and amortization	$ 2,285	$ 2,603	$ 7,402	$ 7,551
Capital expenditures:				
Manufacturing	$ 3,952	$ 5,176	$ 12,623	$ 14,640
Corporate and Other	337	822	447	1,521
Consolidated capital expenditures	$ 4,289	$ 5,998	$ 13,070	$ 16,161

	September 30, 2016	December 31, 2015
Assets:		
Manufacturing	$ 274,616	$ 238,841
Corporate and Other	59,064	133,341
Total operating assets	333,680	372,182
Consolidated income taxes receivable	4,880	
Consolidated deferred income taxes, long-term	17,205	34,722
Consolidated assets	$ 355,765	$ 406,904

(1) Results for the nine months ended September 30, 2016 included a $14,306 gain on the settlement of a postretirement benefit plan obligation, net of plaintiffs attorneys fees (see Note 14).

Note 5 Fair Value Measurements

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

Recurring Fair Value Measurements	**As of September 30, 2016**			
	Level 1	**Level 2**	**Level 3**	**Total**
ASSETS:				
Cash equivalents	$ 146	$	$	$ 146
Restricted certificates of deposit	$ 5,970	$	$	$ 5,970
Escrow receivable	$	$	$ 1,910	$ 1,910

Recurring Fair Value Measurements	**As of December 31, 2015**			
	Level 1	**Level 2**	**Level 3**	**Total**
ASSETS:				
Cash equivalents	$ 33,150	$	$	$ 33,150
Restricted certificates of deposit	$ 6,896	$	$	$ 6,896
Escrow receivable	$	$	$ 1,910	$ 1,910

The carrying values of property, plant and equipment at the Company s Johnstown administrative facility was reduced to its estimated fair market value during the third quarter of 2016 resulting in a non-cash impairment charge of $1,255. Fair market value was estimated using the market approach using market data such as recent sales of comparable assets in active markets and estimated salvage values. No non-financial assets were recorded at fair value on a non-recurring basis as of December 31, 2015.

Note 6 Marketable Securities

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. Marketable securities as of September 30, 2016 and December 31, 2015 of $14,997 and $26,951, respectively, consisted of U.S. treasury securities held to maturity and certificates of deposit with original maturities of greater than 90 days and up to one year. Due to the short-term nature of these securities and their low interest rates, there is no material difference between their fair market values and amortized costs.

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Note 7 Inventories

Inventories, net of reserve for excess and slow-moving items, consist of the following:

	September 30, 2016	December 31, 2015
Work in process	$ 129,993	$ 108,099
Finished new railcars	11,317	2,538
Parts inventory	3,348	4,717
Total inventories, net	$ 144,658	$ 115,354

Inventory on the Company s condensed consolidated balance sheets includes reserves of $3,511 and $3,793 relating to excess or slow-moving inventory for parts and work in process at September 30, 2016 and December 31, 2015, respectively.

Note 8 Leased Railcars

Railcars available for lease, net at September 30, 2016 was $24,193 (cost of $27,954 and accumulated depreciation of $3,761) and at December 31, 2015 was $24,729 (cost of $27,954 and accumulated depreciation of $3,225). The Company s lease utilization rate for railcars in its lease fleet was 73% as of each of September 30, 2016 and December 31, 2015.

Leased railcars at September 30, 2016 are subject to lease agreements with external customers with terms of up to six years and are accounted for as operating leases.

Future minimum rental revenues on leased railcars at September 30, 2016 are as follows:

Three months ending December 31, 2016	$ 427
Year ending December 31, 2017	1,706
Year ending December 31, 2018	1,118
Year ending December 31, 2019	1,001
Year ending December 31, 2020	1,001
Thereafter	276
	$ 5,529

Note 9 Goodwill

The Company assesses the carrying value of goodwill for impairment annually or more frequently whenever events occur and circumstances change indicating potential impairment. On August 1, 2016, the Company performed its annual assessment of its Manufacturing reporting unit, the only reporting unit carrying goodwill, and concluded that the estimated fair value of the Manufacturing reporting unit exceeded the carrying value as of the testing date. Management determined the fair value of the Manufacturing reporting unit using a combination of the income approach, utilizing the discounted cash flow method, and the market approach, utilizing the guideline company method.

Fair value calculations contain significant judgments and estimates with respect to a variety of factors that will significantly impact the future performance of the business, including: future railcar volume projections based on an industry-specific outlook for railcar demand; estimated margins on railcar sales; estimated growth rate for selling, general and administrative costs; future effective tax rate for the Company and weighted-average cost of capital (WACC). Management estimated a WACC of 14% for the Company s August 1, 2016 goodwill impairment valuation analysis.

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In addition to estimating the fair value of the net assets of the Company s Manufacturing reporting unit using the discounted cash flow method in the base case scenario, the Company also estimated the fair value of the net assets in its Manufacturing reporting unit using the discounted cash flow method for alternate scenarios. From a sensitivity perspective, the estimated fair value of the net assets in the Company s Manufacturing reporting unit exceeded the carrying value even if the WACC used in the discounted cash flow method was increased by one hundred basis points. If market conditions further deteriorate or the Manufacturing reporting unit performance is worse than its projections over an extended period of time, the reporting unit could potentially be at risk of an impairment charge. As of September 30, 2016, the total goodwill balance of the Manufacturing reporting unit was $21,521.

Note 10 State and Local Incentives

The Company records state and local incentives when there is reasonable assurance that the incentive will be received and the Company is able to comply with the conditions attached to the incentives received. State incentives related to assets are recorded as deferred income and recognized on a straight-line basis over the useful life of the related assets.

During the year ended December 31, 2015, the Company received cash payments of $15,733 for Alabama state and local incentives related to the Company&#