

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP  
Form 10-Q  
August 03, 2017

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 June 30, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 033-90866

WESTINGHOUSE AIR BRAKE TECHNOLOGIES  
CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware 25-1615902  
(State or other jurisdiction (I.R.S. Employer  
of incorporation or organization) Identification No.)

1001 Air Brake Avenue 15148  
Wilmerding, PA  
(Address of principal executive offices) (Zip code)

412-825-1000  
(Registrant's telephone number, including area code)

N/A  
(Former name, former address and former fiscal year, if changed since last report)

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  "Non-accelerated filer" smaller reporting company  (Do not check if reporting company)

Emerging growth company  Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 28, 2017
Common Stock, \$.01 par value per share	95,984,443 shares

WESTINGHOUSE AIR BRAKE  
TECHNOLOGIES CORPORATION  
June 30, 2017  
FORM 10-Q  
TABLE OF CONTENTS

	Page
PART I—FINANCIAL INFORMATION	
Item 1. <u>Financial Statements - (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016</u>	<u>3</u>
<u>Condensed Consolidated Statements of Income for the three and six months ended June 30, 2017 and 2016</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2017 and 2016</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>35</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>46</u>
Item 4. <u>Controls and Procedures</u>	<u>47</u>
PART II—OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>48</u>
Item 1A. <u>Risk Factors</u>	<u>48</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>48</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>48</u>
Item 6. <u>Exhibits</u>	<u>48</u>
<u>Signatures</u>	<u>50</u>

## PART I—FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS

In thousands, except shares and par value	Unaudited	
	June 30, 2017	December 31, 2016
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 328,522	\$ 398,484
Accounts receivable	812,727	667,596
Unbilled accounts receivable	316,264	274,912
Inventories	746,236	658,510
Deposit in escrow	—	744,748
Other current assets	141,060	123,381
Total current assets	2,344,809	2,867,631
Property, plant and equipment	975,599	912,230
Accumulated depreciation	(427,757)	(393,854)
Property, plant and equipment, net	547,842	518,376
<b>Other Assets</b>		
Goodwill	2,343,608	2,078,765
Other intangibles, net	1,129,365	1,053,860
Other noncurrent assets	73,116	62,386
Total other assets	3,546,089	3,195,011
<b>Total Assets</b>	<b>\$6,438,740</b>	<b>\$ 6,581,018</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 548,150	\$ 530,211
Customer deposits	373,361	256,591
Accrued compensation	146,537	145,324
Accrued warranty	130,782	123,190
Current portion of long-term debt	50,693	129,809
Other accrued liabilities	232,576	261,514
Total current liabilities	1,482,099	1,446,639
Long-term debt	1,934,604	1,762,967
Accrued postretirement and pension benefits	112,930	110,597
Deferred income taxes	287,377	245,680
Accrued warranty	13,976	15,802
Other long-term liabilities	23,383	22,508
Total liabilities	3,854,369	3,604,193
<b>Commitments and contingent liabilities (Note 14)</b>		
<b>Equity</b>		
Preferred stock, 1,000,000 shares authorized, no shares issued	—	—
Common stock, \$0.01 par value; 200,000,000 shares authorized: 132,349,534 shares issued and 95,984,443 and 95,425,432 outstanding at June 30, 2017 and December 31, 2016, respectively	1,323	1,323
Additional paid-in capital	898,459	869,951
Treasury stock, at cost, 36,365,091 and 36,924,102 shares, at June 30, 2017 and December 31, 2016, respectively	(828,370)	(838,950)

Edgar Filing: WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP - Form 10-Q

Retained earnings	2,679,995	2,553,258
Accumulated other comprehensive loss	(184,550 )	(379,605 )
Total Westinghouse Air Brake Technologies Corporation shareholders' equity	2,566,857	2,205,977
Noncontrolling interest	17,514	770,848
Total equity	2,584,371	2,976,825
Total Liabilities and Equity	\$6,438,740	\$ 6,581,018

The accompanying notes are an integral part of these statements.

3

---

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

In thousands, except per share data	Unaudited Three Months Ended June 30,		Unaudited Six Months Ended June 30,	
	2017	2016	2017	2016
Net sales	\$932,253	\$723,601	\$1,848,287	\$1,495,632
Cost of sales	(658,290 )	(486,212 )	(1,304,617 )	(1,003,063 )
Gross profit	273,963	237,389	543,670	492,569
Selling, general and administrative expenses	(127,574 )	(80,610 )	(249,915 )	(170,361 )
Engineering expenses	(23,338 )	(18,029 )	(46,802 )	(35,982 )
Amortization expense	(9,350 )	(5,466 )	(18,394 )	(10,761 )
Total operating expenses	(160,262 )	(104,105 )	(315,111 )	(217,104 )
Income from operations	113,701	133,284	228,559	275,465
Other income and expenses				
Interest expense, net	(15,420 )	(4,969 )	(33,132 )	(9,840 )
Other income (expense), net	(1,552 )	(1,229 )	767	(1,075 )
Income from operations before income taxes	96,729	127,086	196,194	264,550
Income tax expense	(24,569 )	(36,601 )	(52,030 )	(79,902 )
Net income	72,160	90,485	144,164	184,648
Less: Net (gain) loss attributable to noncontrolling interest	(135 )	—	1,750	—
Net income attributable to Wabtec shareholders	\$72,025	\$90,485	\$145,914	\$184,648
Earnings Per Common Share				
Basic				
Net income attributable to Wabtec shareholders	\$0.75	\$1.00	\$1.52	\$2.03
Diluted				
Net income attributable to Wabtec shareholders	\$0.75	\$1.00	\$1.52	\$2.02
Weighted average shares outstanding				
Basic				
	95,641	89,846	95,370	90,832
Diluted				
	96,284	90,559	96,071	91,628

The accompanying notes are an integral part of these statements.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

In thousands	Unaudited Three Months Ended June 30,		Unaudited Six Months Ended June 30,	
	2017	2016	2017	2016
Net income attributable to Wabtec shareholders	\$72,025	\$90,485	\$145,914	\$184,648
Foreign currency translation gain (loss)	145,684	(42,330 )	195,079	(10,119 )
Unrealized gain (loss) on derivative contracts	1,686	(716 )	3,379	(2,909 )
Unrealized gain (loss) on pension benefit plans and post-retirement benefit plans	30	2,149	(3,044 )	(1,634 )
Other comprehensive income (loss) before tax	147,400	(40,897 )	195,414	(14,662 )
Income tax (expense) benefit related to components of other comprehensive income	(300 )	(352 )	(361 )	1,035
Other comprehensive income (loss), net of tax	147,100	(41,249 )	195,053	(13,627 )
Comprehensive income attributable to Wabtec shareholders	\$219,125	\$49,236	\$340,967	\$171,021

The accompanying notes are an integral part of these statements.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands, except per share data	Unaudited Six Months Ended June 30,	
	2017	2016
Operating Activities		
Net income	\$ 144,164	\$ 184,648
Adjustments to reconcile net income to cash (used for) provided by operations:		
Depreciation and amortization	51,051	33,093
Stock-based compensation expense	11,879	9,673
Loss on disposal of property, plant and equipment	525	378
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable and unbilled accounts receivable	(66,544 )	(2,171 )
Inventories	(48,406 )	(10,893 )
Accounts payable	(75,761 )	(13,757 )
Accrued income taxes	(23,025 )	2,913
Accrued liabilities and customer deposits	86,937	3,505
Other assets and liabilities	(94,523 )	6,587
Net cash (used for) provided by operating activities	(13,703 )	213,976
Investing Activities		
Purchase of property, plant and equipment	(38,425 )	(19,104 )
Proceeds from disposal of property, plant and equipment	471	165
Acquisitions of businesses, net of cash acquired	(114,175 )	(21,263 )
Release of deposit in escrow	23,548	—
Net cash used for investing activities	(128,581 )	(40,202 )
Financing Activities		
Proceeds from debt	745,035	230,000
Payments of debt	(680,145 )	(175,499 )
Purchase of treasury stock	—	(133,738 )
Proceeds from exercise of stock options and other benefit plans	2,679	651
Payment of income tax withholding on share-based compensation	(6,802 )	(9,006 )
Cash dividends (\$0.20 and \$0.16 per share for the six months ended June 30, 2017 and 2016, respectively)	(19,177 )	(14,565 )
Net cash provided by (used for) financing activities	41,590	(102,157 )
Effect of changes in currency exchange rates	30,732	5,127
(Decrease) Increase in cash	(69,962 )	76,744
Cash, beginning of period	398,484	226,191
Cash, end of period	\$ 328,522	\$ 302,935

The accompanying notes are an integral part of these statements.



WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017 (UNAUDITED)

## 1. BUSINESS

Westinghouse Air Brake Technologies Corporation (“Wabtec” or the “Company”) is one of the world’s largest providers of value-added, technology-based products and services for the global rail industry. Our products are found on virtually all U.S. locomotives, freight cars and passenger transit vehicles, as well as in more than 100 countries throughout the world. Our products enhance safety, improve productivity and reduce maintenance costs for customers, and many of our core products and services are essential in the safe and efficient operation of freight rail and passenger transit vehicles. Wabtec is a global company with operations in 31 countries. In the first six months of 2017, approximately 65% of the Company’s revenues came from customers outside the United States.

## 2. ACCOUNTING POLICIES

**Basis of Presentation** The unaudited condensed consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States of America and the rules and regulations of the Securities and Exchange Commission and include the accounts of Wabtec and its majority owned subsidiaries. These condensed consolidated interim financial statements do not include all of the information and footnotes required for complete financial statements. In management’s opinion, these financial statements reflect all adjustments of a normal, recurring nature necessary for a fair presentation of the results for the interim periods presented. Results for these interim periods are not necessarily indicative of results to be expected for the full year. The Company operates on a four-four-five week accounting quarter, and the quarters end on or about March 31, June 30, September 30, and December 31.

The notes included herein should be read in conjunction with the audited consolidated financial statements included in Wabtec’s Annual Report on Form 10-K for the year ended December 31, 2016. The December 31, 2016 information has been derived from the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

**Revenue Recognition** Revenue is recognized in accordance with Accounting Standards Codification (“ASC”) 605 “Revenue Recognition.” Revenue is recognized when products have been shipped to the respective customers, title has passed and the price for the product has been determined.

In general, the Company recognizes revenue from long-term contracts based on the percentage of completion method of accounting. The units-of-delivery method or other input-based or output-based measures, as appropriate, are used to measure the progress toward completion of individual contracts. Contract revenues and cost estimates are reviewed and revised quarterly at a minimum and adjustments are reflected in the accounting period as such amounts are determined. Provisions are made currently for estimated losses on uncompleted contracts. Unbilled accounts receivables were \$316.3 million and \$274.9 million, customer deposits were \$373.4 million and \$256.6 million, and provisions for loss contracts were \$86.9 million and \$60.5 million at June 30, 2017 and December 31, 2016, respectively.

**Pre-Production Costs** Certain pre-production costs relating to long-term production and supply contracts have been deferred and will be recognized over the life of the contracts. Deferred pre-production costs were \$31.5 million and \$29.4 million at June 30, 2017 and December 31, 2016, respectively.

**Reclassifications** Certain prior year amounts have been reclassified, where necessary, to conform to the current year presentation. Refer to Recently Adopted Accounting Pronouncements below.

**Use of Estimates** The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from the estimates. On an ongoing basis, management reviews its estimates based on currently available information. Changes in facts and circumstances may result in revised estimates.

**Financial Derivatives and Hedging Activities** As part of its risk management strategy, the Company utilizes derivative financial instruments to manage its exposure due to changes in foreign currencies and interest rates. For further

information regarding financial derivatives and hedging activities, refer to Footnotes 12 and 13.

7

---

Foreign Currency Translation Assets and liabilities of foreign subsidiaries, except for the Company's Mexican operations whose functional currency is the U.S. Dollar, are translated at the rate of exchange in effect on the balance sheet date while income and expenses are translated at the average rates of exchange prevailing during the period. Foreign currency gains and losses resulting from transactions and the translation of financial statements are recorded in the Company's consolidated financial statements based upon the provisions of ASC 830 "Foreign Currency Matters." The effects of currency exchange rate changes on intercompany transactions and balances of a long-term investment nature are accumulated and carried as a component of accumulated other comprehensive loss. The effects of currency exchange rate changes on intercompany transactions that are denominated in a currency other than an entity's functional currency are charged or credited to earnings.

Noncontrolling Interests In accordance with ASC 810 "Consolidation", the Company has classified noncontrolling interests as equity on our condensed consolidated balance sheets as of June 30, 2017 and December 31, 2016. Net income attributable to noncontrolling interests for the three and six months ended June 30, 2017 was a \$0.1 million gain and a \$1.8 million loss, respectively, and was not material for the three and six months ended June 30, 2016. Other comprehensive income attributable to noncontrolling interests for the three and six months ended June 30, 2017 and 2016 was not material.

Recently Issued Accounting Pronouncements In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-07 "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost". The amendments in this update require the service cost component of net benefit costs to be reported in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit costs are required to be presented in the income statement separately from the service cost component and outside income from operations. This update also allows the service cost component to be eligible for capitalization when applicable. The ASU is effective for public companies in the fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption was permitted as of the beginning of an annual period. The amendments should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The Company does not expect the adoption of this guidance in 2018 to have a material impact on the Company's financial statements.

In January 2017, the FASB issued ASU No. 2017-04 "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". The amendments in this update eliminate the requirement to perform Step 2 of the goodwill impairment test. Instead, an entity should perform a goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value up to the carrying amount of the goodwill. The ASU is effective for public companies in the fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The impact of adopting this guidance could result in a change in the overall conclusion as to whether or not a reporting units' goodwill is impaired and the amount of an impairment charge recognized in the event a reporting units' carrying value exceeds its fair value. All of the Company's reporting units had fair values that were substantially greater than the carrying value as of the Company's last quantitative goodwill impairment test, which was performed as of October 1, 2016.

In November 2016, the FASB issued ASU No. 2016-18 "Statement of Cash Flows (Topic 230): Restricted Cash". The amendments in this update require a statement of cash flows to explain the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is effective for public companies in the fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the potential impact of adopting this guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 814)" which requires lessees to recognize a right of use asset and lease liability on the balance sheet for all leases with terms longer than 12 months. For leases

with terms less than 12 months, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize a right of use asset and lease liability. The ASU is effective for public companies in the fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company is currently evaluating the potential impact of adopting this guidance on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contract with Customers." The ASU will supersede most of the existing revenue recognition requirements in U.S. GAAP and will require entities to recognize revenue at an

amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The new standard also requires significantly expanded disclosures regarding the qualitative and quantitative information of an entity's nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Board voted to propose that the standard would take effect for reporting periods beginning after December 15, 2017 and that early adoption would be allowed as of the original effective date. The impact of adopting the new standard on net sales and operating income for the three and six months ended June 30, 2017 and 2016 is not expected to be material. The Company also does not expect a material impact to the consolidated balance sheet. The impact to results is not anticipated to be material because the analysis of the Company's current contracts under the new revenue recognition standard supports how the Company is currently recognizing revenue over time and at a point in time; however, the Company's conclusions may evolve as management completes its contract reviews and evaluation. The Company plans to adopt this accounting standard update using the modified retrospective method, with the cumulative effect of initially applying this update recognized in the first reporting period of 2018. The Company is in the process of drafting an updated accounting policy, evaluating new disclosure requirements and identifying and implementing appropriate changes to its business processes, systems and controls to support recognition and disclosure under the new guidance. The Company believes it is following an appropriate timeline to appropriately adopt this new standard on January 1, 2018.

Recently Adopted Accounting Pronouncements In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting". The ASU simplifies several aspects for the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The ASU became effective for public companies during interim and annual reporting periods beginning after December 15, 2016. In accordance with this update, the Company began recognizing all excess tax deficiencies and tax benefits from share-based payment awards as a benefit or expense to income tax in the income statement. This update has been adopted prospectively in accordance with the ASU and the impact of adoption on the income statement was not material. Additionally in accordance with this update, the Company began classifying excess income tax benefits from exercise of stock options as an operating activity on the consolidated statement of cash flows. The Company elected to adopt this amendment retrospectively and the impact of the adoption on operating and financing cash flows for the three and six months ended June 30, 2016 was not material.

In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes" which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities to be classified as noncurrent on the balance sheet. The Company elected to early adopt this ASU as of December 31, 2016; therefore, all deferred income tax assets and liabilities are classified in the noncurrent deferred income taxes line-items on the consolidated balance sheets.

Other Comprehensive Income Comprehensive income comprises both net income and the change in equity from transactions and other events and circumstances from nonowner sources.

The changes in accumulated other comprehensive loss by component, net of tax, for the six months ended June 30, 2017 are as follows:

In thousands	Foreign currency translation	Derivative contracts	Pension and post retirement benefit plans	Total
Balance at December 31, 2016	\$(321,033)	\$(2,957 )	\$(55,615)	\$(379,605)
Other comprehensive income (loss) before reclassifications	195,079	1,978	(4,029 )	193,028
Amounts reclassified from accumulated other comprehensive income	—	843	1,184	2,027
Net current period other comprehensive income (loss)	195,079	2,821	(2,845 )	195,055
Balance at June 30, 2017	\$(125,954)	\$(136 )	\$(58,460)	\$(184,550)



Reclassifications out of accumulated other comprehensive loss for the three months ended June 30, 2017 are as follows:

In thousands	Amount reclassified from accumulated other comprehensive income	Affected line item in the Condensed Consolidated Statements of Income
Amortization of defined pension and post retirement items		
Amortization of initial net obligation and prior service cost	\$ (422 )	Cost of sales
Amortization of net loss	1,240	Cost of sales
	818	Income from Operations
	(226 )	Income tax expense
	\$ 592	Net income

Derivative contracts

Realized loss on derivative contracts	\$ 566	Interest expense, net
	(149 )	Income tax expense
	\$ 417	Net income

Reclassifications out of accumulated other comprehensive loss for the six months ended June 30, 2017 are as follows:

In thousands	Amount reclassified from accumulated other comprehensive income	Affected line item in the Condensed Consolidated Statements of Income
Amortization of defined pension and post retirement items		
Amortization of initial net obligation and prior service cost	\$ (844 )	Cost of sales
Amortization of net loss	2,480	Cost of sales
	1,636	Income from Operations
	(452 )	Income tax expense
	\$ 1,184	Net income

Derivative contracts

Realized loss on derivative contracts	\$ 1,155	Interest expense, net
	(312 )	Income tax expense
	\$ 843	Net income

The changes in accumulated other comprehensive loss by component, net of tax, for the six months ended June 30, 2016 are as follows:

Foreign currency translation	Derivative contracts	Pension and post retirement benefit plans	Total
------------------------------	----------------------	---	-------

Edgar Filing: WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP - Form 10-Q

Balance at December 31, 2015	\$(227,349)	\$(2,987 )	\$(46,383)	\$(276,719)
Other comprehensive income (loss) before reclassifications	(10,119 )	(2,758 )	(2,293 )	(15,170 )
Amounts reclassified from accumulated other comprehensive income	—	647	896	1,543
Net current period other comprehensive (loss)	(10,119 )	(2,111 )	(1,397 )	(13,627 )
Balance at June 30, 2016	\$(237,468)	\$(5,098 )	\$(47,780)	\$(290,346)



Reclassifications out of accumulated other comprehensive loss for the three months ended June 30, 2016 are as follows:

In thousands	Amount reclassified from accumulated other comprehensive income	Affected line item in the Condensed Consolidated Statements of Operations
Amortization of defined pension and post retirement items		
Amortization of initial net obligation and prior service cost	\$ (422 )	Cost of sales
Amortization of net loss	971	Cost of sales
	549	Income from Operations
	(157 )	Income tax expense
	\$ 392	Net income
 Derivative contracts		
Realized loss on derivative contracts	\$ 453	Interest expense, net
	(130 )	Income tax expense
	\$ 323	Net income

Reclassifications out of accumulated other comprehensive loss for the six months ended June 30, 2016 are as follows:

In thousands	Amount reclassified from accumulated other comprehensive income	Affected line item in the Condensed Consolidated Statements of Operations
Amortization of defined pension and post retirement items		
Amortization of initial net obligation and prior service cost	\$ (807 )	Cost of sales
Amortization of net loss	2,091	Cost of sales
	1,284	Income from Operations
	(388 )	Income tax expense
	\$ 896	Net income
 Derivative contracts		
Realized loss on derivative contracts	\$ 927	Interest expense, net
	(280 )	Income tax expense
	\$ 647	Net income

### 3. ACQUISITIONS

#### Faiveley Transport

On November 30, 2016, the Company acquired majority ownership of Faiveley Transport S.A. (“Faiveley Transport”) under the terms of a Share Purchase Agreement (“Share Purchase Agreement”). Faiveley Transport is a leading global provider of value-added, integrated systems and services for the railway industry with annual sales of about \$1.2 billion and more than 5,700 employees in 24 countries. Faiveley Transport supplies railway manufacturers, operators and maintenance providers with a range of value-added, technology-based systems and services in Energy & Comfort (air conditioning, power collectors and converters, and passenger information), Access & Mobility (passenger access systems and platform doors), and Brakes and Safety (braking systems and couplers). The transaction was structured as a step acquisition as follows:

On November 30, 2016, the Company acquired majority ownership of Faiveley Transport, after completing the purchase of the Faiveley family’s ownership interest under the terms of the Share Purchase Agreement, which directed the Company to pay €100 per share of Faiveley Transport, payable between 25% and 45% in cash at the election of those shareholders and the remainder payable in Wabtec stock. The Faiveley family’s ownership

interest acquired by the Company represented approximately 51% of outstanding share capital and approximately 49% of the outstanding voting shares of Faiveley Transport. Upon completion of the share purchase under the Share Purchase Agreement, Wabtec commenced a tender offer for the remaining publicly traded Faiveley Transport shares. The public shareholders had the option to elect to receive €100 per share in cash or 1.1538 shares of Wabtec common stock per share of Faiveley Transport. The common stock portion of the consideration was subject to a cap on issuance of Wabtec common shares that was equivalent to the rates of cash and stock elected by the 51% owners.

On February 3, 2017, the initial cash tender offer was closed, which resulted in the Company acquiring approximately 27% of additional outstanding share capital and voting rights of Faiveley Transport for approximately \$411.8 million in cash and \$25.2 million in Wabtec stock. After the initial cash tender offer, the Company owned approximately 78% of outstanding share capital and 76% of voting rights.

On March 6, 2017, the final cash tender offer was closed, which resulted in the Company acquiring approximately 21% of additional outstanding share capital and 22% of additional outstanding voting rights of Faiveley Transport for approximately \$303.2 million in cash and \$0.3 million in Wabtec stock. After the final cash tender offer, the Company owned approximately 99% of the share capital and 98% of the voting rights of Faiveley Transport.

On March 21, 2017, a mandatory squeeze-out procedure was finalized, which resulted in the Company acquiring the Faiveley Transport shares not tendered in the offers for approximately \$17.5 million in cash. This resulted in the Company owning 100% of the share capital and voting rights of Faiveley Transport.

As of November 30, 2016, the date the Company acquired 51% of the share capital and 49% of the voting interest in Faiveley Transport, Faiveley Transport was consolidated under the variable interest entity model as the Company concluded that it was the primary beneficiary of Faiveley Transport as it then possessed the power to direct the activities of Faiveley Transport that most significantly impact its economic performance and it then possessed the obligation and right to absorb losses and benefits from Faiveley Transport.

The aggregate value of consideration paid for 100% ownership of Faiveley Transport was \$1,736.1 million including \$944.3 million in cash, \$560.2 million in stock or approximately 6.6 million shares, \$409.9 million in debt assumed, less \$178.3 million in cash acquired. The \$744.7 million included as deposits in escrow on the consolidated balance sheet at December 31, 2016 was cash designated for use as consideration for the tender offers.

The fair values of the assets acquired and liabilities assumed are preliminarily determined using the income, cost and market approaches. The fair value measurements were primarily based on significant inputs that are not observable in the market and are considered Level 3. The December 31, 2016 consolidated balance sheet includes the assets and liabilities of Faiveley Transport, which have been measured at fair value. The fair value of the noncontrolling interest was preliminarily determined using the market price of Faiveley Transport's publicly traded common stock multiplied by the number of publicly traded common shares outstanding at the acquisition date and is considered Level 1. The acquisition of the noncontrolling interest in the three months ended March 31, 2017 resulted in a \$8.9 million increase to additional paid-in capital on the consolidated balance sheet which represents the difference in consideration paid to acquire the noncontrolling interest and the carrying value of noncontrolling interest at acquisition.



The following table summarizes the preliminary estimated fair values of the Faiveley Transport assets acquired and liabilities assumed:

In thousands

Assets acquired

Cash and cash equivalents	\$ 178,318
Accounts receivable	445,164
Inventories	206,093
Other current assets	70,930
Property, plant, and equipment	156,885
Goodwill	1,256,855
Trade names	333,823
Customer relationships	255,354
Patents	1,201
Other noncurrent assets	165,167
Total assets acquired	3,069,790
Liabilities assumed	
Current liabilities	805,728
Debt	409,899
Other noncurrent liabilities	347,348
Total liabilities assumed	1,562,975
Net assets acquired	\$ 1,506,815

These estimates are preliminary in nature and subject to adjustments, which could be material. Any necessary adjustments will be finalized within one year from the date of acquisition. During the six months ended June 30, 2017, the estimated fair values for current liabilities were adjusted by \$51.5 million for changes to initial estimates based on information that existed at the date of acquisition. Additionally, the estimated fair values for accounts receivable and current liabilities were adjusted by \$2.8 million and \$36.2 million, respectively, to correct errors in the preliminary estimated fair values of the Faiveley Transport assets acquired and liabilities assumed. Other noncurrent assets were adjusted by \$23.4 million to record the deferred tax impact of these adjustments. As a result of these adjustments and other immaterial adjustments related to changes to initial estimates based on information that existed at the date of acquisition, goodwill increased by \$68.6 million. Accounts receivable and current liabilities were adjusted by \$64.3 million to correct an error in the preliminary estimated fair values of Faiveley Transport assets and liabilities assumed related to a factoring arrangement with recourse.

Substantially all of the accounts receivable acquired are expected to be collectible. Included in current liabilities is \$25.9 million of accrued compensation for acquired share-based stock plans that are obligated to be settled in cash. Contingent liabilities assumed as part of the transaction were not material. These contingent liabilities are related to contract disputes, environmental, legal and tax matters. Contingent liabilities are recorded at fair value in purchase accounting, aside from those pertaining to uncertainty in income taxes which is an exception to the fair value basis of accounting.

Goodwill was calculated as the difference between the acquisition date fair value of the consideration transferred and the fair value of the net assets acquired, and represents the future economic benefits, including synergies and assembled workforce, the Company expects to achieve as a result of the acquisition. Purchased goodwill is not expected to be deductible for tax purposes. The goodwill has been preliminarily allocated to the Transit segment. For the three and six months ended June 30, 2017, the Company's consolidated statement of income included \$282.7 million and \$557.4 million of revenues, respectively, from Faiveley Transport.

Other Acquisitions

The Company has made the following acquisitions operating as a business unit or component of a business unit in the Freight Segment:

On April 5, 2017, the Company acquired Thermal Transfer Corporation ("TTC"), a leading provider of heat transfer solutions for industrial applications, for a purchase price of approximately \$32.5 million, net of cash acquired, resulting in preliminary goodwill of \$21.1 million, all of which will be deductible for tax purposes.



On March 14, 2017, the Company acquired Aero Transportation Products ("ATP"), a manufacturer of engineered covering systems for hopper freight cars, for a purchase price of approximately \$65.3 million, net of cash acquired, resulting in preliminary goodwill of \$41.0 million, none of which will be deductible for tax purposes.

On December 14, 2016, the Company acquired Workhorse Rail LLC ("Workhorse"), a supplier of engineered freight car components mainly for the aftermarket, for a purchase price of approximately \$43.8 million, net of cash acquired, resulting in preliminary goodwill of \$24.4 million, 37.8% of which will be deductible for tax purposes.

On November 17, 2016, the Company acquired the assets of Precision Turbo & Engine ("Precision Turbo"), a designer and manufacturer of high-performance, aftermarket turbochargers, wastegates, and heat exchangers for the automotive performance market, for a purchase price of approximately \$13.8 million, net of cash acquired, resulting in preliminary goodwill of \$4.0 million, all of which will be deductible for tax purposes.

On May 5, 2016, the Company acquired Unitrac Railroad Materials ("Unitrac"), a leading designer and manufacturer of railroad products and track work services, for a purchase price of approximately \$14.8 million, net of cash acquired, resulting in goodwill of \$2.4 million, all of which will be deductible for tax purposes.

The Company has made the following acquisitions operating as a business unit or component of a business unit in the Transit Segment:

On August 1, 2016, the Company acquired Gerken Group SA ("Gerken"), a manufacturer of specialty carbon and graphite products for rail and other industrial applications, for a purchase price of approximately \$62.8 million, net of cash acquired, resulting in preliminary goodwill of \$17.5 million, none of which will be deductible for tax purposes. The acquisitions listed above include escrow deposits of \$38.4 million, which act as security for indemnity and other claims in accordance with the purchase and related escrow agreements.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition for TTC, ATP, Workhorse, Precision Turbo, and Gerken. For the Unitrac acquisition, the following table summarizes the final fair value of the assets acquired and liabilities assumed at the date of acquisition.

	TTC	ATP	Workhorse	Precision Turbo	Gerken	Unitrac
In thousands	April 5, 2017	March 14, 2017	December 14, 2016	November 17, 2016	August 1, 2016	May 5, 2016
Current assets	\$3,746	\$ 11,679	\$ 9,137	\$ 4,146	\$32,706	\$11,476
Property, plant & equipment	5,909	5,354	0	1,346	7,667	1,768
Goodwill	21,122	41,036	24,373	3,959	17,470	2,442
Other intangible assets	11,800	22,100	19,400	5,200	30,560	1,230
Other assets	—	—	—	—	1,706	—
Total assets acquired	42,577	80,169	52,910	14,651	90,109	16,916
Total liabilities assumed	(10,066 )	(14,915 )	(9,083 )	(825 )	(27,262 )	(2,145 )
Net assets acquired	\$32,511	\$ 65,254	\$ 43,827	\$ 13,826	\$ 62,847	\$ 14,771

Of the \$668.9 million of total acquired other intangible assets, \$355.1 million was assigned to trade names, \$307.1 million was assigned to customer relationships, and \$5.0 million was assigned to intellectual property. The trade names were determined to have indefinite useful lives, while the intellectual property and customer relationships' average useful lives are 20 years, and the non-compete agreements' useful life is five years.

The Company also made smaller acquisitions not listed above which are individually and collectively immaterial.

The following unaudited pro forma consolidated financial information presents income statement results as if the acquisitions listed above had occurred on January 1, 2016:

In thousands	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net sales	\$932,467	\$1,055,212	\$1,859,619	\$2,210,418
Gross profit	274,027	325,658	546,492	674,222
Net income attributable to Wabtec shareholders	72,061	107,574	146,971	223,661
Diluted earnings per share				
As Reported	\$0.75	\$1.00	\$1.52	\$2.02
Pro forma	\$0.75	\$1.10	\$1.53	\$2.43

#### 4. INVENTORIES

The components of inventory, net of reserves, were:

In thousands	June 30, 2017	December 31, 2016
Raw materials	\$378,569	\$331,465
Work-in-progress	185,286	145,462
Finished goods	182,381	181,583
Total inventories	\$746,236	\$658,510

#### 5. INTANGIBLES

The change in the carrying amount of goodwill by segment for the six months ended June 30, 2017 is as follows:

In thousands	Freight Segment	Transit Segment	Total
Balance at December 31, 2016	\$550,902	\$1,527,863	\$2,078,765
Adjustment to preliminary purchase allocation	2,556	77,299	79,855
Acquisitions	62,158	4,999	67,157
Foreign currency impact	5,660	112,171	117,831
Balance at June 30, 2017	\$621,276	\$1,722,332	\$2,343,608

As of June 30, 2017 and December 31, 2016, the Company's trade names had a net carrying amount of \$553.3 million and \$510.5 million, respectively, and the Company believes these intangibles have indefinite lives.

Intangible assets of the Company, other than goodwill and trade names, consist of the following:

In thousands	June 30, 2017	December 31, 2016
Patents, non-compete and other intangibles, net of accumulated amortization of \$43,600 and \$42,538	\$13,504	\$15,360
Customer relationships, net of accumulated amortization of \$106,272 and \$87,334	562,603	528,068
Total	\$576,107	\$543,428

The weighted average remaining useful life of patents, customer relationships and other intangibles were 10 years, 18 years and 16 years, respectively. Amortization expense for intangible assets was \$9.4 million and \$18.4 million for the three and six months ended June 30, 2017, and \$5.5 million and \$10.8 million for the three and six months ended June 30, 2016, respectively.



Amortization expense for the five succeeding years is estimated to be as follows:

Remainder of 2017	\$19,775
2018	36,983
2019	35,696
2020	34,174
2021	32,203

## 6. LONG-TERM DEBT

Long-term debt consisted of the following:

In thousands	June 30, 2017	December 31, 2016
3.45% Senior Notes, due 2026, net of unamortized debt issuance costs of \$2,420 and \$2,526	\$747,580	\$747,474
4.375% Senior Notes, due 2023, net of unamortized discount and debt issuance costs of \$1,562 and \$1,690	248,438	248,310
Revolving Credit Facility, net of unamortized debt issuance costs of \$3,150 and \$3,850	966,235	796,150
Schuldschein Loan	11,415	98,671
Other Borrowings	9,875	1,153
Capital Leases	1,754	1,018
Total	1,985,297	1,892,776
Less - current portion	50,693	129,809
Long-term portion	\$1,934,604	\$1,762,967

Wabtec's acquisition of the controlling stake of Faiveley Transport triggered the early repayment of a syndicated loan and the mandatory offer to investors to repay the U.S. and Schuldschein private placements. Both the syndicated loan and U.S. private placements were repaid in full in December 2016.

### 3.45% Senior Notes Due November 2026

On November 3, the Company issued \$750.0 million of Senior Notes due in 2026 (the "2016 Notes"). The 2016 Notes were issued at 99.965% of face value. Interest on the 2016 Notes accrues at a rate of 3.45% per annum and is payable semi-annually on May 15 and November 15 of each year. The proceeds were used to finance the cash portion of the Faiveley Transport acquisition, refinance Faiveley Transport's indebtedness, and for general corporate purposes. The principal balance is due in full at maturity. The Company incurred \$2.6 million of deferred financing costs related to the issuance of the 2016 Notes.

The 2016 Notes are senior unsecured obligations of the Company and rank pari passu with all existing and future senior debt and senior to all existing and future subordinated indebtedness of the Company. The indenture under which the 2016 Notes were issued contains covenants and restrictions which limit among other things, the following: the incurrence of indebtedness, payment of dividends and certain distributions, sale of assets, change in control, mergers and consolidations and the incurrence of liens.

The Company is in compliance with the restrictions and covenants in the indenture under which the 2016 Notes were issued and expects that these restrictions and covenants will not be any type of limiting factor in executing our operating activities.

### 4.375% Senior Notes Due August 2023

In August 2013, the Company issued \$250.0 million of Senior Notes due in 2023 (the "2013 Notes"). The 2013 Notes were issued at 99.879% of face value. Interest on the 2013 Notes accrues at a rate of 4.375% per annum and is payable semi-annually on February 15 and August 15 of each year. The proceeds were used to repay debt outstanding under the Company's existing credit agreement, and for general corporate purposes. The principal balance is due in full at maturity. The Company incurred \$2.6 million of deferred financing costs related to the issuance of the 2013 Notes.



The 2013 Notes are senior unsecured obligations of the Company and rank pari passu with all existing and future senior debt and senior to all existing and future subordinated indebtedness of the Company. The indenture under which the 2013 Notes were issued contains covenants and restrictions which limit among other things, the following: the incurrence of indebtedness, payment of dividends and certain distributions, sale of assets, change in control, mergers and consolidations and the incurrence of liens.

The Company is in compliance with the restrictions and covenants in the indenture under which the 2013 Notes were issued and expects that these restrictions and covenants will not be any type of limiting factor in executing our operating activities.

#### 2016 Refinancing Credit Agreement

On June 22, 2016, the Company amended and restated its existing revolving credit facility with a consortium of commercial banks. This “2016 Refinancing Credit Agreement” provides the Company with a \$1.2 billion, five years revolving credit facility and a \$400.0 million delayed draw term loan (the “Term Loan”). The Company incurred approximately \$3.3 million of deferred financing costs related to the 2016 Refinancing Credit Agreement. The facility expires on June 22, 2021. The 2016 Refinancing Credit Agreement borrowings bear variable interest rates indexed as described below. At June 30, 2017, the Company had available bank borrowing capacity, net of \$40.5 million of letters of credit, of approximately \$583.2 million, subject to certain financial covenant restrictions.

The Term Loan was initially drawn on November 25, 2016. The Company incurred 10 basis point commitment fee from June 22, 2016 until the initial draw.

Under the 2016 Refinancing Credit Agreement, the Company may elect a Base Rate of interest for U.S. Dollar denominated loans or, for certain currencies, an interest rate based on the London Interbank Offered Rate (“LIBOR”) of interest, or other rates appropriate for such currencies (in any case, “the Alternate Rate”). The Base Rate adjusts on a daily basis and is the greater of the Federal Funds Effective Rate plus 0.5% per annum, the PNC, N.A. prime rate or the Daily LIBOR Rate plus 100 basis points, plus a margin that ranges from 0 to 75 basis points. The Alternate Rate is based on the quoted rates specific to the applicable currency, plus a margin that ranges from 75 to 175 basis points. Both the Base Rate and Alternate Rate margins are dependent on the Company’s consolidated total indebtedness to EBITDA ratios. The initial Base Rate margin is 0 basis points and the Alternate Rate margin is 175 basis points. At June 30, 2017, the weighted average interest rate on the Company’s variable rate debt was 2.43%. On January 12, 2012, the Company entered into a forward starting interest rate swap agreement with a notional value of \$150.0 million. The effective date of the interest rate swap agreement was July 31, 2013, and the termination date was November 7, 2016. The impact of the interest rate swap agreement converted a portion of the Company’s outstanding debt from a variable rate to a fixed-rate borrowing. During the term of the interest rate swap agreement the interest rate on the notional value was fixed at 1.415% plus the Alternate Rate margin. On June 5, 2014, the Company entered into a forward starting interest rate swap agreement with a notional value of \$150.0 million. The effective date of the interest rate swap agreement was November 7, 2016, and the termination date is December 19, 2018. The impact of the interest rate swap agreement converts a portion of the Company’s outstanding debt from a variable rate to a fixed-rate borrowing. During the term of the interest rate swap agreement the interest rate on the notional value will be fixed at 2.56% plus the Alternate Rate margin. As for these agreements, the Company is exposed to credit risk in the event of nonperformance by the counterparties. However, since only the cash interest payments are exchanged, exposure is significantly less than the notional amount. The counterparties are large financial institutions with excellent credit ratings and history of performance. The Company currently believes the risk of nonperformance is negligible.

The 2016 Refinancing Credit Agreement limits the Company’s ability to declare or pay cash dividends and prohibits the Company from declaring or making other distributions, subject to certain exceptions. The 2016 Refinancing Credit Agreement contains various other covenants and restrictions including the following limitations: incurrence of additional indebtedness; mergers, consolidations, sales of assets and acquisitions; additional liens; sale and leasebacks; permissible investments, loans and advances; certain debt payments; and imposes a minimum interest expense coverage ratio of 3.0 and a maximum debt to EBITDA ratio of 3.25. The Company is in compliance with the restrictions and covenants of the 2016 Refinancing Credit Agreement and does not expect that these measurements will limit the Company in executing its operating activities.

2013 Refinancing Credit Agreement

On December 19, 2013, the Company amended its then existing revolving credit facility with a consortium of commercial banks. This “2013 Refinancing Credit Agreement” provided the Company with an \$800.0 million, five-year

17

---

revolving credit facility. The Company incurred approximately \$1.0 million of deferred financing cost related to the 2013 Refinancing Credit Agreement. The 2013 Refinancing Credit Agreement was replaced by the 2016 Refinancing Credit Agreement.

Under the 2013 Refinancing Credit Agreement, the Company could have elected a Base Rate of interest for U.S. Dollar denominated loans or, for certain currencies, an interest rate based on the LIBOR of interest, or other rates appropriate for such currencies (in any case, "the Alternate Rate"). The Base Rate adjusted on a daily basis and was the greater of the Federal Funds Effective Rate plus 0.5% per annum, the PNC, N.A. prime rate or the Daily LIBOR Rate plus 100 basis points, plus a margin that ranged from 0 to 75 basis points. The Alternate Rate was based on the quoted rates specific to the applicable currency, plus a margin that ranged from 75 to 175 basis points. Both the Base Rate and Alternate Rate margins were dependent on the Company's consolidated total indebtedness to EBITDA ratios.

#### Schuldschein Loan, Due 2024

In conjunction with the acquisition of Faiveley Transport, Wabtec acquired \$137.2 million of a Schuldschein private placement loan which was originally issued by Faiveley Transport on March 5, 2014 in Germany, in which approximately 20 international investors participated. This loan is denominated in euros. Subsequent to the acquisition of Faiveley Transport, the Company repaid \$125.8 million of the outstanding Schuldschein loan. The remaining balance of \$11.4 million as of June 30, 2017 has a maturity of seven years and bears a fixed rate of 4.00%.

The Schuldschein loan is senior unsecured and ranks pari passu with all existing and future senior debt and senior to all existing and future subordinated indebtedness of the Company. The Schuldschein loan agreement contains covenants and undertakings which limit, among other things, the following: factoring of receivables, the incurrence of indebtedness, sale of assets, change of control, mergers and consolidations and incurrence of liens. At June 30, 2017, the Company is in compliance with the undertakings and covenants contained in the loan agreement.

For the three months ended June 30, 2017, the Company has repaid \$30.3 million of the private placement fixed tranches and \$39.6 million in floating tranches outstanding at December 31, 2016.

## 7. EMPLOYEE BENEFIT PLANS

## Defined Benefit Pension Plans

The Company sponsors defined benefit pension plans that cover certain U.S., Canadian, German and United Kingdom employees and which provide benefits of stated amounts for each year of service of the employee.

The Company uses a December 31 measurement date for the plans.

The following tables provide information regarding the Company's defined benefit pension plans summarized by U.S. and international components.

	U.S.		International	
	Three		Three	
	Months		Months	
	Ended		Ended	
	June 30,		June 30,	
In thousands, except percentages	2017	2016	2017	2016
Net periodic benefit cost				
Service cost	\$86	\$84	\$614	\$473
Interest cost	356	369	1,677	1,486
Expected return on plan assets	(433 )	(519 )	(2,910)	(2,405)
Net amortization/deferrals	248	229	685	620
Curtailment loss recognized	—	—	—	240
Net periodic benefit cost	\$257	\$163	\$66	\$414

	U.S.		International	
	Six Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
In thousands, except percentages	2017	2016	2017	2016
Net periodic benefit cost				
Service cost	\$172	\$168	\$1,228	\$728
Interest cost	712	738	3,354	2,936
Expected return on plan assets	(866 )	(1,038)	(5,820 )	(5,286)
Net amortization/deferrals	496	458	1,370	1,055
Curtailment loss recognized	—	—	—	240
Net periodic benefit (credit) cost	\$514	\$326	\$132	\$(327)

## Assumptions

Discount Rate	3.95%	4.21%	2.51%	3.56%
Expected long-term rate of return	4.95%	5.70%	4.93%	5.81%
Rate of compensation increase	3.00%	3.00%	2.54%	3.10%

The Company's funding methods are based on governmental requirements and differ from those methods used to recognize pension expense. The Company expects to contribute \$7.1 million and \$0.5 million to the international and U.S. plans, respectively, during 2017.

## Post Retirement Benefit Plans

In addition to providing pension benefits, the Company has provided certain unfunded postretirement health care and life insurance benefits for a portion of North American employees. The Company is not obligated to pay health care and life insurance benefits to individuals who had retired prior to 1990.



The Company uses a December 31 measurement date for all post retirement plans.

The following tables provide information regarding the Company's postretirement benefit plans summarized by U.S. and international components.

	U.S. Three Months Ended June 30,		International Three Months Ended June 30,	
In thousands, except percentages	2017	2016	2017	2016
Net periodic benefit cost				
Service cost	\$1	\$1	\$7	\$7
Interest cost	88	97	24	25
Net amortization/deferrals	(73)	(105)	(7)	(9)
Net periodic benefit (credit) cost	\$16	\$(7)	\$24	\$23

	U.S. Six Months Ended June 30,		International Six Months Ended June 30,	
In thousands, except percentages	2017	2016	2017	2016
Net periodic benefit cost				
Service cost	\$2	\$2	\$14	\$14
Interest cost	176	194	48	50
Net amortization/deferrals	(146)	(210)	(14)	(18)
Net periodic (credit) benefit cost	\$32	\$(14)	\$48	\$46

#### Assumptions

Discount Rate 3.76% 3.95% 3.46% 3.90%

#### 8. STOCK-BASED COMPENSATION

As of June 30, 2017, the Company maintains employee stock-based compensation plans for stock options, restricted stock, and incentive stock units as governed by the 2011 Stock Incentive Compensation Plan (the "2011 Plan") and the 2000 Stock Incentive Plan, as amended (the "2000 Plan"). The 2011 Plan has a term through May 10, 2027 and provides a maximum of 3,800,000 shares for grants or awards, plus any shares which remain available under the 2000 Plan.

The 2011 Plan was approved by stockholders of Wabtec on May 11, 2011, and an amendment and restatement of the 2011 Plan was approved by the Stockholders of Wabtec on May 10, 2017. The Company also maintains a Non-Employee Directors' Fee and Stock Option Plan ("the Directors Plan").

Stock-based compensation expense was \$11.9 million and \$9.7 million for the six months ended June 30, 2017 and 2016, respectively. Included in stock-based compensation expense for the six months ended June 30, 2017 is \$0.8 million of expense related to stock options, \$3.5 million related to non-vested restricted stock, \$2.7 million related to restricted stock units, \$4.1 million related to incentive stock units and \$0.8 million related to units issued for Directors' fees. At June 30, 2017, unamortized compensation expense related to those stock options, non-vested restricted shares units and incentive stock units expected to vest totaled \$39.9 million and will be recognized over a weighted average period of 1.4 years.

Stock Options Stock options are granted to eligible employees and directors at the fair market value, which is the average of the high and low Wabtec stock price on the date of grant. Under the 2011 Plan and the 2000 Plan, options become exercisable over a four-year vesting period and expire 10 years from the date of grant.



The following table summarizes the Company's stock option activity and related information for the 2011 Plan, the 2000 Plan and the Directors Plan for the six months ended June 30, 2017:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic value (in thousands)
Outstanding at December 31, 2016	1,098,823	\$ 35.39	4.3	\$ 52,332
Granted	64,507	87.05		287
Exercised	(120,577 )	22.21		7,388
Canceled	(471 )	83.14		4
Outstanding at June 30, 2017	1,042,282	40.09	4.3	53,581
Exercisable at June 30, 2017	851,494	31.93	3.6	50,722

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Six Months Ended June 30,	
	2017	2016
Dividend yield	0.23%	0.26%
Risk-free interest rate	2.17%	1.47%
Stock price volatility	23.4%	26.9%
Expected life (years)	5.0	5.0

The dividend yield is based on the Company's dividend rate and the current market price of the underlying common stock at the date of grant. Expected life in years is determined from historical stock option exercise data. Expected volatility is based on the historical volatility of the Company's stock. The risk-free interest rate is based on the U.S. Treasury bond rates for the expected life of the option.

Restricted Stock, Restricted Units and Incentive Stock Beginning in 2006, the Company adopted a restricted stock program. As provided for under the 2011 Plan and 2000 Plan, eligible employees are granted restricted stock that generally vests over four years from the date of grant. Under the Directors Plan, restricted stock units vest one year from the date of grant.

In addition, the Company has issued incentive stock units to eligible employees that vest upon attainment of certain cumulative three-year performance goals. Based on the Company's performance for each three-year period then ended, the incentive stock units can vest, with underlying shares of common stock being awarded in an amount ranging from 0% to 200% of the amount of initial incentive stock units granted. The incentive stock units included in the table below represent the number of incentive stock units that are expected to vest based on the Company's estimate for meeting those established performance targets. As of June 30, 2017, the Company estimates that it will achieve 87%, 85% and 99% for the incentive stock awards expected to vest based on performance for the three-year periods ending December 31, 2017, 2018, and 2019, respectively, and has recorded incentive compensation expense accordingly. If our estimate of the number of these incentive stock units expected to vest changes in a future accounting period, cumulative compensation expense could increase or decrease and will be recognized in the current period for the elapsed portion of the vesting period and would change future expense for the remaining vesting period.

Compensation expense for the non-vested restricted stock and incentive stock units is based on the average of the high and low Wabtec stock price on the date of grant and recognized over the applicable vesting period.

The following table summarizes the restricted stock activity and related information for the 2011 Plan, the 2000 Plan and the Directors Plan, and incentive stock units activity for the 2011 Plan and the 2000 Plan with related information for the six months ended June 30, 2017:

	Restricted Stock and Units	Incentive Stock Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2016	396,295	424,750	\$ 72.18
Granted	151,655	155,575	86.64
Vested	(130,098)	(153,271)	70.05
Adjustment for incentive stock awards expected to vest	—	(26,586)	69.74
Canceled	(4,103)	(2,458)	77.20
Outstanding at June 30, 2017	413,749	398,010	

## 9. INCOME TAXES

The overall effective income tax rate was 25.4% and 26.3% for the three and six months ended June 30, 2017, respectively, and 28.8% and 30.2% for the three and six months ended June 30, 2016, respectively. For the three and six months ended June 30, 2017, the decrease in the effective rate is primarily the result of a lower earnings mix in higher tax rate jurisdictions.

As of June 30, 2017 and December 31, 2016, the liability for income taxes associated with uncertain tax positions was \$8.4 million, of which \$4.2 million, if recognized, would favorably affect the Company's effective tax rate.

The Company includes interest and penalties related to uncertain tax positions in income tax expense. As of June 30, 2017, the total accrued interest and penalties were \$1.0 million and \$0.3 million, respectively. As of December 31, 2016, the total accrued interest and penalties were \$0.8 million and \$0.3 million, respectively.

At this time, the Company believes it is reasonably possible that unrecognized tax benefits of approximately \$4.0 million may change within the next 12 months due to the expiration of statutory review periods and current examinations. With limited exceptions, the Company is no longer subject to examination by various U.S. and foreign taxing authorities for years before 2013.

## 10. EARNINGS PER SHARE

The computation of basic and diluted earnings per share for net income attributable to Wabtec shareholders is as follows:

In thousands, except per share data	Three Months Ended	
	June 30,	
	2017	2016
Numerator		
Numerator for basic and diluted earnings per common share - net income attributable to Wabtec shareholders	\$72,025	\$90,485
Less: dividends declared - common shares and non-vested restricted stock	(9,605 )	(7,209 )
Undistributed earnings	62,420	83,276
Percentage allocated to common shareholders (1)	99.7 %	99.7 %
	62,233	83,026
Add: dividends declared - common shares	9,576	7,189
Numerator for basic and diluted earnings per common share	\$71,809	\$90,215
Denominator		
Denominator for basic earnings per common share - weighted average shares	95,641	89,846
Effect of dilutive securities:		
Assumed conversion of dilutive stock-based compensation plans	643	713
Denominator for diluted earnings per common share - adjusted weighted average shares and assumed conversion	96,284	90,559
Net income attributable to Wabtec shareholders per common share		
Basic	\$0.75	\$1.00
Diluted	\$0.75	\$1.00
(1) Basic weighted-average common shares outstanding	95,641	89,846
Basic weighted-average common shares outstanding and non-vested restricted stock expected to vest	95,917	90,101
Percentage allocated to common shareholders	99.7 %	99.7 %

In thousands, except per share data	Six Months Ended	
	June 30, 2017	2016
Numerator		
Numerator for basic and diluted earnings per common share - net income attributable to Wabtec shareholders	\$ 145,914	\$ 184,648
Less: dividends declared - common shares and non-vested restricted stock	(19,177 )	(14,565 )
Undistributed earnings	126,737	170,083
Percentage allocated to common shareholders (1)	99.7 %	99.7 %
	126,357	169,573
Add: dividends declared - common shares	19,120	14,520
Numerator for basic and diluted earnings per common share	\$ 145,477	\$ 184,093
Denominator		
Denominator for basic earnings per common share - weighted average shares	95,370	90,832
Effect of dilutive securities:		
Assumed conversion of dilutive stock-based compensation plans	701	796
Denominator for diluted earnings per common share - adjusted weighted average shares and assumed conversion	96,071	91,628
Net income attributable to Wabtec shareholders per common share		
Basic	\$ 1.52	\$ 2.03
Diluted	\$ 1.52	\$ 2.02
(1) Basic weighted-average common shares outstanding	95,370	90,832
Basic weighted-average common shares outstanding and non-vested restricted stock expected to vest	95,666	91,111
Percentage allocated to common shareholders	99.7 %	99.7 %

The Company's non-vested restricted stock contains rights to receive nonforfeitable dividends, and thus are participating securities requiring the two-class method of computing earnings per share. The calculation of earnings per share for common stock shown above excludes the income attributable to the non-vested restricted stock from the numerator and excludes the dilutive impact of those shares from the denominator.

#### 11. WARRANTIES

The following table reconciles the changes in the Company's product warranty reserve as follows:

In thousands	2017	2016
Balance at beginning of year	\$ 138,992	\$ 92,064
Warranty expense	15,961	17,853
Acquisitions	397	7,547
Warranty claim payments	(16,479 )	(20,422 )
Foreign currency impact/other	5,887	(696 )
Balance at June 30	\$ 144,758	\$ 96,346



## 12. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

**Foreign Currency Hedging** The Company uses forward contracts to mitigate its foreign currency exchange rate exposure due to forecasted sales of finished goods and future settlement of foreign currency denominated assets and liabilities. Derivatives used to hedge forecasted transactions and specific cash flows associated with foreign currency denominated financial assets and liabilities that meet the criteria for hedge accounting are designated as cash flow hedges. The effective portion of gain and losses is deferred as a component of accumulated other comprehensive income and is recognized in earnings at the time the hedged item affects earnings, in the same line item as the underlying hedged item. The contracts are scheduled to mature within two years. For the three and six months ended June 30, 2017 and June 30, 2016, the amounts reclassified into income were not material.

**Other Activities** The Company enters into certain derivative contracts in accordance with its risk management strategy that do not meet the criteria for hedge accounting but which have the impact of largely mitigating foreign currency exposure. These foreign exchange contracts are accounted for on a full mark to market basis through earnings, with gains and losses recorded as a component of other expense, net. The net unrealized gain related to these contracts was \$3.7 million for the three months ended June 30, 2017. These contracts are scheduled to mature within one year. The following table summarizes the gross notional amounts and fair values of the designated and non-designated hedges discussed in the above sections.

In millions	Designated	Non-Designated	Total
Gross notional amount	\$ 886.9	\$ 292.4	\$1,179.3

### Fair Value:

Other current assets	3.7	3.7	7.4
Other current liabilities	—	—	—
Total	\$ 3.7	\$ 3.7	\$7.4

**Interest Rate Hedging** The Company uses interest rate swaps to manage interest rate exposures. The Company is exposed to interest rate volatility with regard to existing floating rate debt. Primary exposure includes the London Interbank Offered Rates (LIBOR). Derivatives used to hedge risk associated with changes in the fair value of certain variable-rate debt are primarily designated as fair value hedges. Consequently, changes in the fair value of these derivatives, along with changes in the fair value of debt obligations are recognized in current period earnings. Refer to footnote 13 for further information on interest rate swaps.

As of June 30, 2017, the Company has recorded a current liability of \$2.5 million and an accumulated other comprehensive loss of \$1.5 million, net of tax, related to these agreements.

## 13. FAIR VALUE MEASUREMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 820 “Fair Value Measurements and Disclosures” defines fair value, establishes a framework for measuring fair value and explains the related disclosure requirements. ASC 820 indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability and defines fair value based upon an exit price model.

**Valuation Hierarchy** ASC 820 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company’s assumptions used to measure assets and liabilities at fair value. A financial asset or liability’s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.



The following table provides the liabilities carried at fair value measured on a recurring basis as of June 30, 2017, which are included in other current liabilities on the Condensed Consolidated Balance sheet:

In thousands	Total Carrying Value at June 30, 2017	Fair Value Measurements at June 30, 2017 Using Quoted Prices in Significant Other Markets for Identical Assets (Level 1)		
		Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Interest rate swap agreements	\$ 2,476	\$ —	\$ 2,476	\$ —
Total	\$ 2,476	\$ —	\$ 2,476	\$ —

The following table provides the liabilities carried at fair value measured on a recurring basis as of December 31, 2016, which is included in other current liabilities on the Condensed Consolidated Balance sheet:

In thousands	Total Carrying Value at December 31, 2016	Fair Value Measurements at December 31, 2016 Using Quoted Prices in Significant Other Markets for Identical Assets (Level 1)		
		Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Interest rate swap agreements	\$ 3,888	\$ —	\$ 3,888	\$ —
Total	\$ 3,888	\$ —	\$ 3,888	\$ —

To reduce the impact of interest rate changes on a portion of its variable-rate debt, the Company entered into interest rate swaps which effectively converted a portion of the debt from variable to fixed-rate borrowings during the term of the swap contracts. For certain derivative contracts whose fair values are based upon trades in liquid markets, such as interest rate swaps, valuation model inputs can generally be verified and valuation techniques do not involve significant management judgment. The fair values of such financial instruments are generally classified within Level 2 of the fair value hierarchy.

As a result of our global operating activities the Company is exposed to market risks from changes in foreign currency exchange rates, which may adversely affect our operating results and financial position. When deemed appropriate, the Company minimizes these risks through entering into foreign currency forward contracts. The foreign currency forward contracts are valued using broker quotations, or market transactions in either the listed or over-the counter markets. As such, these derivative instruments are classified within Level 2.

The Company's cash and cash equivalents are highly liquid investments purchased with an original maturity of three months or less and are considered Level 1 on the fair value valuation hierarchy. The fair value of cash and cash equivalents approximated the carrying value at June 30, 2017 and December 31, 2016. The Company's defined benefit pension plan assets consist primarily of equity security funds, debt security funds and temporary cash and cash equivalent investments. Generally, all plan assets are considered Level 2 based on the fair value valuation hierarchy. These investments are comprised of a number of investment funds that invest in a diverse portfolio of assets including equity securities, corporate and governmental bonds, and money markets. Trusts are valued at the net asset value



(“NAV”) as determined by their custodian. NAV represent the accumulation of the unadjusted quoted close prices on the reporting date for the underlying investments divided by the total shares outstanding at the reporting dates. The 2013 and 2016 Notes are considered Level 2 based on the fair value valuation hierarchy.

The estimated fair values and related carrying values of the Company’s financial instruments are as follows:

	June 30, 2017		December 31, 2016	
	Carry Value	Fair Value	Carry Value	Fair Value
In thousands				
Interest rate swap agreement	\$2,476	\$2,476	\$3,888	\$3,888
4.375% Senior Notes	248,438	266,308	248,310	260,265
3.45% Senior Notes	747,580	742,808	747,474	719,273

The fair value of the Company’s interest rate swap agreements and the 2013 and 2016 Notes were based on dealer quotes and represent the estimated amount the Company would pay to the counterparty to terminate the agreement.

#### 14. COMMITMENTS AND CONTINGENCIES

Claims have been filed against the Company and certain of its affiliates in various jurisdictions across the United States by persons alleging bodily injury as a result of exposure to asbestos-containing products. Further information and detail on these claims is described in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, in Note 19 therein, filed on February 28, 2017. During the first six months of 2017, there were no material changes to the information described in the Form 10-K.

From time to time, the Company is involved in litigation related to claims arising out of the Company's operations in the ordinary course of business, including claims based on product liability, contracts, intellectual property, or other causes of action. Further information and detail on any potentially material litigation is as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, in Note 19 therein, filed on February 28, 2017. Except as described below, there have been no material changes to the information described in the Form 10-K, including with respect to the litigation with Siemens described therein.

Xorail, Inc., a wholly owned subsidiary of the Company ("Xorail"), has received notices from Denver Transit Constructors ("Denver Transit") alleging breach of contract related to the installation of constant warning wireless crossings, and late delivery of the Train Management & Dispatch System ("TMDS") for the Denver Eagle P3 Project. No damages have been asserted for the alleged late delivery of the TMDS. On May 4, 2017, Denver Transit alleged that total damages were \$29.9 million as of March 31, 2017 and are continuing to accumulate regarding the installation of constant wireless crossings. The crossings have not been certified for use, which Denver Transit alleges is due to Xorail's failure to achieve constant warning times satisfactory to the Federal Railway Administration ("FRA"). No claims have been filed by Denver Transit with regard to either issue. Xorail has denied Denver Transit's assertions regarding the wireless crossings but continues to work with Denver Transit and FRA to upgrade and change its system to meet the FRA's previously undefined, and still evolving, certification requirements. The Company does not believe that it has any liability with respect to the wireless crossing issue. The Company is working with Denver Transit on a response plan regarding the TMDS.

#### 15. SEGMENT INFORMATION

Wabtec has two reportable segments—the Freight Segment and the Transit Segment. The key factors used to identify these reportable segments are the organization and alignment of the Company's internal operations, the nature of the products and services, and customer type. The business segments are:

Freight Segment primarily manufactures and services components for new and existing freight cars and locomotives, builds new switcher locomotives, rebuilds freight locomotives, supplies railway electronics, positive train control equipment, signal design and engineering services, and provides related heat exchange and cooling systems. Customers include large, publicly traded railroads, leasing companies, manufacturers of original equipment such as locomotives and freight cars, and utilities.

Transit Segment primarily manufactures and services components for new and existing passenger transit vehicles, typically regional trains, high speed trains, subway cars, light-rail vehicles and buses, builds new commuter locomotives, refurbishes subway cars, provides heating, ventilation, and air conditioning equipment, and doors for buses and subways. Customers include public transit authorities and municipalities, leasing companies, and manufacturers of subway cars and buses around the world.

The Company evaluates its business segments' operating results based on income from operations. Intersegment sales are accounted for at prices that are generally established by reference to similar transactions with unaffiliated customers. Corporate activities include general corporate expenses, elimination of intersegment transactions, interest income and expense and other unallocated charges. Since certain administrative and other operating expenses have not been allocated to business segments, the results in the following tables are not necessarily a measure computed in accordance with generally accepted accounting principles and may not be comparable to other companies.

Segment financial information for the three months ended June 30, 2017 is as follows:

In thousands	Freight Segment	Transit Segment	Corporate Activities and Elimination	Total
Sales to external customers	\$344,828	\$587,425	\$—	\$932,253
Intersegment sales/(elimination)	10,139	6,073	(16,212 )	—
Total sales	\$354,967	\$593,498	\$(16,212 )	\$932,253
Income (loss) from operations	\$63,337	\$59,222	\$(8,858 )	\$113,701
Interest expense and other, net	—	—	(16,972 )	(16,972 )
Income (loss) from operations before income taxes	\$63,337	\$59,222	\$(25,830 )	\$96,729

Segment financial information for the three months ended June 30, 2016 is as follows:

In thousands	Freight Segment	Transit Segment	Corporate Activities and Elimination	Total
Sales to external customers	\$397,067	\$326,534	\$—	\$723,601
Intersegment sales/(elimination)	13,616	4,106	(17,722 )	—
Total sales	\$410,683	\$330,640	\$(17,722 )	\$723,601
Income (loss) from operations	\$92,317	\$52,146	\$(11,179 )	\$133,284
Interest expense and other, net	—	—	(6,198 )	(6,198 )
Income (loss) from operations before income taxes	\$92,317	\$52,146	\$(17,377 )	\$127,086

Segment financial information for the six months ended June 30, 2017 is as follows:

In thousands	Freight Segment	Transit Segment	Corporate Activities and Elimination	Total
Sales to external customers	\$692,774	\$1,155,513	\$—	\$1,848,287
Intersegment sales/(elimination)	19,226	11,759	(30,985 )	—
Total sales	\$712,000	\$1,167,272	\$(30,985 )	\$1,848,287
Income (loss) from operations	\$134,732	\$108,370	\$(14,543 )	\$228,559
Interest expense and other, net	—	—	(32,365 )	(32,365 )
Income (loss) from operations before income taxes	\$134,732	\$108,370	\$(46,908 )	\$196,194

Segment financial information for the six months ended June 30, 2016 is as follows:

In thousands	Freight Segment	Transit Segment	Corporate Activities and Elimination	Total
Sales to external customers	\$839,736	\$655,896	\$—	\$1,495,632
Intersegment sales/(elimination)	19,424	5,783	(25,207 )	—
Total sales	\$859,160	\$661,679	\$(25,207 )	\$1,495,632
Income (loss) from operations	\$198,991	\$97,156	\$(20,682 )	\$275,465
Interest expense and other, net	—	—	(10,915 )	(10,915 )
Income (loss) from operations before income taxes	\$198,991	\$97,156	\$(31,597 )	\$264,550

Sales by product line are as follows:

	Three Months Ended June 30,	
In thousands	2017	2016
Specialty Products & Electronics	\$324,798	\$339,188
Transit Products	253,764	49,643
Brake Products	192,557	141,979
Remanufacturing, Overhaul & Build	126,556	156,981
Other	34,578	35,810
Total sales	\$932,253	\$723,601

	Six Months Ended June 30,	
In thousands	2017	2016
Specialty Products & Electronics	\$639,863	\$717,457
Transit Products	512,182	98,438
Brake Products	373,016	293,885
Remanufacturing, Overhaul & Build	255,616	315,014
Other	67,610	70,838
Total sales	\$1,848,287	\$1,495,632

## 16. GUARANTOR SUBSIDIARIES FINANCIAL INFORMATION

The obligations under the Company's 2016 Notes, 2013 Notes, and Revolving Credit Facility and Term Loan are full and unconditionally guaranteed by all U.S. subsidiaries as guarantors. Each guarantor is 100% owned by the parent company. In accordance with positions established by the Securities and Exchange Commission, the following shows separate financial information with respect to the parent, the guarantor subsidiaries and the non-guarantor subsidiaries. The principal elimination entries eliminate investment in subsidiaries and certain intercompany balances and transactions.

Balance Sheet for June 30, 2017:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Cash and cash equivalents	\$2,190	\$8,985	\$ 317,347	\$—	\$ 328,522
Receivables, net	71,773	209,518	847,700	—	1,128,991
Inventories	128,733	143,932	473,571	—	746,236
Current assets - other	36,231	3,925	100,904	—	141,060
Total current assets	238,927	366,360	1,739,522	—	2,344,809
Property, plant and equipment, net	50,700	134,047	363,095	—	547,842
Goodwill	25,275	565,154	1,753,179	—	2,343,608
Investment in subsidiaries	6,132,898	2,488,919	—	(8,621,817 )	—
Other intangibles, net	31,236	251,852	846,277	—	1,129,365
Other long term assets	31,634	6,273	35,209	—	73,116
Total assets	\$6,510,670	\$3,812,605	\$ 4,737,282	\$(8,621,817)	\$ 6,438,740
Current liabilities	\$152,688	198,646	\$ 1,130,765	—	\$ 1,482,099
Inter-company	1,982,986	(1,918,583 )	(64,403 )	—	—
Long-term debt	1,765,868	36	168,700	—	1,934,604
Long-term liabilities - other	42,272	102,705	292,689	—	437,666
Total liabilities	3,943,814	(1,617,196 )	1,527,751	—	3,854,369
Shareholders' equity	2,566,856	5,431,033	3,190,785	(8,621,817 )	2,566,857
Non-controlling interest	—	(1,232 )	18,746	—	17,514
Total shareholders' equity	\$2,566,856	\$5,429,801	\$ 3,209,531	\$(8,621,817)	\$ 2,584,371
Total Liabilities and Shareholders' Equity	\$6,510,670	\$3,812,605	\$ 4,737,282	\$(8,621,817)	\$ 6,438,740

## Balance Sheet for December 31, 2016:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Cash and cash equivalents	\$2,522	\$9,496	\$ 386,466	\$—	\$ 398,484
Receivables, net	79,041	202,779	660,688	—	942,508
Inventories	120,042	128,076	410,392	—	658,510
Current assets - other	52,576	(17,844 )	833,397	—	868,129
Total current assets	254,181	322,507	2,290,943	—	2,867,631
Property, plant and equipment, net	49,031	126,661	342,684	—	518,376
Goodwill	25,275	477,472	1,576,018	—	2,078,765
Investment in subsidiaries	5,388,613	1,325,150	—	(6,713,763 )	—
Other intangibles, net	31,897	204,512	817,451	—	1,053,860
Other long term assets	9,592	(1,914 )	54,708	—	62,386
Total assets	\$5,758,589	\$2,454,388	\$ 5,081,804	\$(6,713,763)	\$ 6,581,018
Current liabilities	\$194,983	196,956	\$ 1,054,700	—	\$ 1,446,639
Inter-company	1,562,399	(1,848,777 )	286,378	—	—
Long-term debt	1,761,933	58	976	—	1,762,967
Long-term liabilities - other	33,298	74,977	286,312	—	394,587
Total liabilities	3,552,613	(1,576,786 )	1,628,366	—	3,604,193
Shareholders' equity	2,205,976	4,032,250	2,681,514	(6,713,763 )	2,205,977
Non-controlling interest	—	(1,076 )	771,924	—	770,848
Total shareholders' equity	\$2,205,976	\$4,031,174	\$ 3,453,438	\$(6,713,763)	\$ 2,976,825
Total Liabilities and Shareholders' Equity	\$5,758,589	\$2,454,388	\$ 5,081,804	\$(6,713,763)	\$ 6,581,018

## Income Statement for the Three Months Ended June 30, 2017:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net Sales	\$137,708	\$250,065	\$ 576,967	\$(32,487 )	\$ 932,253
Cost of sales	(100,311 )	(159,789 )	(421,998 )	23,808	(658,290 )
Gross profit (loss)	37,397	90,276	154,969	(8,679 )	273,963
Total operating expenses	(32,954 )	(30,072 )	(97,236 )	—	(160,262 )
Income (loss) from operations	4,443	60,204	57,733	(8,679 )	113,701
Interest (expense) income, net	(18,732 )	2,251	1,061	—	(15,420 )
Other income (expense), net	(10,228 )	(617 )	9,293	—	(1,552 )
Equity earnings (loss)	96,944	38,206	—	(135,150 )	—
Pretax income (loss)	72,427	100,044	68,087	(143,829 )	96,729
Income tax expense	(402 )	124	(24,291 )	—	(24,569 )
Net income (loss)	72,025	100,168	43,796	(143,829 )	72,160
Less: Net income attributable to noncontrolling interest	—	157	(292 )	—	(135 )
Net income (loss) attributable to Wabtec shareholders	\$72,025	\$ 100,325	\$ 43,504	\$(143,829)	\$ 72,025
Comprehensive income (loss) attributable to Wabtec shareholders	\$72,921	\$ 100,326	\$ 189,707	\$(143,829)	\$ 219,125

## Income Statement for the Three Months Ended June 30, 2016:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net Sales	\$161,632	\$349,763	\$313,239	\$(101,033)	\$723,601
Cost of sales	(118,079)	(221,854)	(210,033)	63,754	(486,212)
Gross profit (loss)	43,553	127,909	103,206	(37,279)	237,389
Total operating expenses	(29,063)	(30,596)	(44,446)	—	(104,105)
(Loss) income from operations	14,490	97,313	58,760	(37,279)	133,284
Interest (expense) income, net	(7,085)	1,596	520	—	(4,969)
Other income (expense), net	223	611	(2,063)	—	(1,229)
Equity earnings (loss)	108,929	46,120	—	(155,049)	—
Pretax income (loss)	116,557	145,640	57,217	(192,328)	127,086
Income tax expense	(26,074)	(947)	(9,580)	—	(36,601)
Net income (loss)	90,483	144,693	47,637	(192,328)	90,485
Less: Net income attributable to noncontrolling interest	—	—	—	—	—
Net income attributable to Wabtec shareholders	\$90,483	\$144,693	\$47,637	\$(192,328)	\$90,485
Comprehensive income (loss) attributable to Wabtec shareholders	\$90,182	\$144,691	\$6,691	\$(192,328)	\$49,236

## Income Statement for the Six Months Ended June 30, 2017:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net Sales	\$282,251	\$508,777	\$1,121,356	\$(64,097)	\$1,848,287
Cost of sales	(199,262)	(327,395)	(825,964)	48,004	(1,304,617)
Gross profit (loss)	82,989	181,382	295,392	(16,093)	543,670
Total operating expenses	(57,247)	(59,944)	(197,920)	—	(315,111)
Income (loss) from operations	25,742	121,438	97,472	(16,093)	228,559
Interest (expense) income, net	(33,343)	4,411	(4,200)	—	(33,132)
Other income (expense), net	2,854	(1,877)	(210)	—	767
Equity earnings (loss)	165,229	50,148	—	(215,377)	—
Pretax income (loss)	160,482	174,120	93,062	(231,470)	196,194
Income tax expense	(14,567)	(17)	(37,446)	—	(52,030)
Net income (loss)	145,915	174,103	55,616	(231,470)	144,164
Less: Net income attributable to noncontrolling interest	—	157	1,593	—	1,750
Net income (loss) attributable to Wabtec shareholders	\$145,915	\$174,260	\$57,209	\$(231,470)	\$145,914
Comprehensive income (loss) attributable to Wabtec shareholders	\$147,668	\$174,261	\$250,508	\$(231,470)	\$340,967

## Income Statement for the Six Months Ended June 30, 2016:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net Sales	\$338,619	\$606,676	\$629,223	\$(78,886)	\$1,495,632
Cost of sales	(247,160)	(374,815)	(430,159)	49,071	(1,003,063)
Gross profit (loss)	91,459	231,861	199,064	(29,815)	492,569
Total operating expenses	(66,938)	(62,948)	(87,218)	—	(217,104)
(Loss) income from operations	24,521	168,913	111,846	(29,815)	275,465
Interest (expense) income, net	(13,754)	3,321	593	—	(9,840)
Other income (expense), net	11,040	(3,870)	(8,245)	—	(1,075)
Equity earnings (loss)	221,950	84,819	—	(306,769)	—
Pretax income (loss)	243,757	253,183	104,194	(336,584)	264,550
Income tax expense	(59,108)	(1,947)	(18,847)	—	(79,902)
Net income (loss)	184,649	251,236	85,347	(336,584)	184,648
Less: Net income attributable to noncontrolling interest	—	—	—	—	—
Net income attributable to Wabtec shareholders	\$184,649	\$251,236	\$85,347	\$(336,584)	\$184,648
Comprehensive income (loss) attributable to Wabtec shareholders	\$183,369	\$251,236	\$73,000	\$(336,584)	\$171,021

## Condensed Statement of Cash Flows for the Six Months Ended June 30, 2017:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net cash (used in) provided by operating activities	\$(3,939)	\$63,758	\$(57,429)	\$(16,093)	\$(13,703)
Net cash used in investing activities	(8,661)	(105,498)	(14,422)	—	(128,581)
Net cash provided by (used in) financing activities	12,268	41,229	(28,000)	16,093	41,590
Effect of changes in currency exchange rates	—	—	30,732	—	30,732
Increase (decrease) in cash	(332)	(511)	(69,119)	—	(69,962)
Cash, beginning of period	2,522	9,496	386,466	—	398,484
Cash, end of period	\$2,190	\$8,985	\$317,347	\$—	\$328,522

## Condensed Statement of Cash Flows for the Six Months Ended June 30, 2016:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net cash provided by (used in) operating activities	\$(29,564)	\$139,189	\$90,343	\$14,008	\$213,976
Net cash used in investing activities	(5,445)	(19,799)	(14,958)	—	(40,202)
Net cash (used in) provided by financing activities	41,157	(118,345)	(10,961)	(14,008)	(102,157)
Effect of changes in currency exchange rates	—	—	5,127	—	5,127
Increase (decrease) in cash	6,148	1,045	69,551	—	76,744
Cash, beginning of period	—	13,157	213,034	—	226,191
Cash, end of period	\$6,148	\$14,202	\$282,585	\$—	\$302,935



## 17. OTHER INCOME (EXPENSE), NET

The components of other income (expense) are as follows:

In thousands	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Foreign currency loss	\$(2,303)	\$(1,530)	\$(1,089)	\$(1,368)
Equity income	792	—	1,067	—
Other miscellaneous (expense) income	(41)	301	789	293
Total other (expense) income, net	\$(1,552)	\$(1,229)	\$767	\$(1,075)

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and Westinghouse Air Brake Technologies Corporation's Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in its Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission on February 28, 2017.

OVERVIEW

Wabtec is one of the world's largest providers of value-added, technology-based products and services for the global rail industry. Our products are found on virtually all U.S. locomotives, freight cars and passenger transit vehicles, as well as in more than 100 countries throughout the world. Our products enhance safety, improve productivity and reduce maintenance costs for customers, and many of our core products and services are essential in the safe and efficient operation of freight rail and passenger transit vehicles. Wabtec is a global company with operations in 31 countries. For the six months ended June 30, 2017, approximately 65% of the Company's revenues came from customers outside the U.S.

Management Review and Future Outlook

Wabtec's long-term financial goals are to generate cash flow from operations in excess of net income, maintain a strong credit profile while minimizing our overall cost of capital, increase margins through strict attention to cost controls and implementation of the Wabtec Excellence Program, and increase revenues through a focused growth strategy, including product innovation and new technologies, global and market expansion, aftermarket products and services and acquisitions. In addition, management evaluates the Company's current operational performance through measures such as quality and on-time delivery.

The Company primarily serves the worldwide freight and transit rail industries. As such, our operating results are largely dependent on the level of activity, financial condition and capital spending plans of railroads and passenger transit agencies around the world, and transportation equipment manufacturers who serve those markets. Many factors influence these industries, including general economic conditions; traffic volumes, as measured by freight carloadings and passenger ridership; government spending on public transportation; and investment in new technologies. In general, trends such as increasing urbanization, a focus on sustainability and environmental awareness, an aging equipment fleet, and growth in global trade are expected to drive continued investment in freight and transit rail. The Company monitors a variety of factors and statistics to gauge market activity. Freight rail markets around the world are driven primarily by overall economic conditions and activity, while Transit markets are driven primarily by government funding and passenger ridership. Changes in these market drivers can cause fluctuations in demand for Wabtec's product and services.

According to the 2016 edition of a market study by UNIFE, the Association of the European Rail Industry, the accessible global market for railway products and services is more than \$100 billion, and it is expected to grow at about 3.2% annually through 2021. The three largest geographic markets, which represent about 80% of the total accessible market, are Europe, North America and Asia Pacific. Over the next five years, UNIFE projects above-average growth in Asia Pacific and Europe due to overall economic growth and trends such as urbanization and increasing mobility, deregulation, investments in new technologies, energy and environmental issues, and increasing government support. The largest product segments of the market are rolling stock, services and infrastructure, which represent almost 90% of the accessible market. Over the next five years, UNIFE projects spending on rolling stock to grow at an above-average rate due to increased investment in passenger transit vehicles. UNIFE estimates that the global installed base of locomotives is about 114,000 units, with about 32% in Asia Pacific, about 25% in North America and about 18% in Russia-CIS (Commonwealth of Independent States). Wabtec estimates that about 3,400 new locomotives were delivered worldwide in 2016, and it expects deliveries of about 3,200 in 2017. UNIFE estimates the global installed base of freight cars is about 5.5 million units, with about 37% in North America, about 26% in Russia-CIS and about 20% in Asia Pacific. Wabtec estimates that about 108,000 new freight cars were delivered worldwide in 2016, and it expects deliveries of about 97,000 in 2017. UNIFE estimates the global installed base of passenger transit vehicles to be about 569,000 units, with about 43% in Asia Pacific, about 32% in Europe and about 14% in Russia-CIS. UNIFE estimates that about 208,000 new passenger transit vehicles were ordered annually

from 2013-2015, and that about 184,000 will be ordered annually from 2016-2018.

In Europe, the majority of the rail system serves the passenger transit market, which is expected to continue growing as energy and environmental factors encourage continued investment in public mass transit. France, Germany and the United

35

---

Kingdom are the largest Western European transit markets, representing almost two-thirds of industry spending in the European Union. UNIFE projects the Western European rail market to grow at about 3.6% annually during the next five years, led by investments in new rolling stock in France and Germany. Significant investments are also expected in Turkey, the largest market in Eastern Europe. About 75% of freight traffic in Europe is hauled by truck, while rail accounts for about 20%. The largest freight markets in Europe are Germany, Poland and the United Kingdom. In recent years, the European Commission has adopted a series of measures designed to increase the efficiency of the European rail network by standardizing operating rules and certification requirements. UNIFE believes that adoption of these measures should have a positive effect on ridership and investment in public transportation over time. In North America, railroads carry about 40% of intercity freight, as measured by ton-miles, which is more than any other mode of transportation. Through direct ownership and operating partnerships, U.S. railroads are part of an integrated network that includes railroads in Canada and Mexico, forming what is regarded as the world's most-efficient and lowest-cost freight rail service. There are more than 500 railroads operating in North America, with the largest railroads, referred to as "Class I," accounting for more than 90% of the industry's revenues. The railroads carry a wide variety of commodities and goods, including coal, metals, minerals, chemicals, grain, and petroleum. These commodities represent about 55% of total rail carloadings, with intermodal carloads accounting for the rest. Railroads operate in a competitive environment, especially with the trucking industry, and are always seeking ways to improve safety, cost and reliability. New technologies offered by Wabtec and others in the industry can provide some of these benefits. Demand for our freight related products and services in North America is driven by a number of factors, including rail traffic, and production of new locomotives and new freight cars. In the U.S., the passenger transit industry is dependent largely on funding from federal, state and local governments, and from fare box revenues. Demand for North American passenger transit products is driven by a number of factors, including government funding, deliveries of new subway cars and buses, and ridership. The U.S. federal government provides money to local transit authorities, primarily to fund the purchase of new equipment and infrastructure for their transit systems.

Growth in the Asia Pacific market has been driven mainly by the continued urbanization of China and India, and by investments in freight rail rolling stock and infrastructure in Australia to serve its mining and natural resources markets. During the next five years, UNIFE expects India to make significant investments in rolling stock and infrastructure to modernize its rail system; for example, the country has awarded a 1,000-unit locomotive order to a U.S. manufacturer. UNIFE expects the increased spending in India to offset decreased spending on very-high-speed rolling stock in China during the next five years.

Other key geographic markets include Russia-CIS and Africa-Middle East. With about 1.4 million freight cars and about 20,000 locomotives, Russia-CIS is among the largest freight rail markets in the world, and it's expected to invest in both freight and transit rolling stock. PRASA, the Passenger Rail Agency of South Africa, is expected to continue to invest in new transit cars and new locomotives. According to UNIFE, emerging markets are expected to grow at above-average rates as global trade creates increases in freight volumes and urbanization leads to increased demand for efficient mass-transportation systems. As this growth occurs, Wabtec expects to have additional opportunities to provide products and services in these markets.

In its study, UNIFE also said it expects increased investment in digital tools for data and asset management, and in rail control technologies, both of which would improve efficiency in the global rail industry during the next five years. UNIFE said data-driven asset management tools have the potential to reduce equipment maintenance costs and improve asset utilization, while rail control technologies have been focused on increasing track capacity, improving operational efficiency and ensuring safer railway traffic. Wabtec offers products and services to help customers make ongoing investments in these initiatives.

In 2017 and beyond, general economic and market conditions in the United States and internationally will have an impact on our sales and operations. To the extent that these factors cause instability of capital markets, shortages of raw materials or component parts, longer sales cycles, deferral or delay of customer orders or an inability to market our products effectively, our business and results of operations could be materially adversely affected. In addition, we face risks associated with our four-point growth strategy including the level of investment that customers are willing to make in new technologies developed by the industry and the Company, and risks inherent in global expansion. When necessary, we will modify our financial and operating strategies to reflect changes in market conditions and

risks.

#### ACQUISITION OF FAIVELEY TRANSPORT S.A.

On November 30, 2016, the Company acquired majority ownership of Faiveley Transport under the terms of a Share Purchase Agreement (“Share Purchase Agreement”). Faiveley Transport is a leading global provider of value-added, integrated systems and services for the railway industry with annual sales of about \$1.2 billion and more than 5,700 employees in 24 countries. Faiveley Transport supplies railway manufacturers, operators and maintenance providers with a range of value-added, technology-based systems and services in Energy & Comfort (air conditioning, power collectors and converters, and

36

---

passenger information), Access & Mobility (passenger access systems and platform doors), and Brakes and Safety (braking systems and couplers). The transaction was structured as a step acquisition as follows:

On November 30, 2016, the Company acquired majority ownership of Faiveley Transport, after completing the purchase of the Faiveley family's ownership interest under the terms of the Share Purchase Agreement, which directed the Company to pay €100 per share of Faiveley Transport, payable between 25% and 45% in cash at the election of those shareholders and the remainder payable in Wabtec stock. The Faiveley family's ownership interest acquired by the Company represented approximately 51% of outstanding share capital and approximately 49% of the outstanding voting shares of Faiveley Transport. Upon completion of the share purchase under the Share Purchase Agreement, Wabtec commenced a tender offer for the remaining publicly traded Faiveley Transport shares. The public shareholders had the option to elect to receive €100 per share in cash or 1.1538 shares of Wabtec common stock per share of Faiveley Transport. The common stock portion of the consideration was subject to a cap on issuance of Wabtec common shares that was equivalent to the rates of cash and stock elected by the 51% owners.

On February 3, 2017, the initial cash tender offer was closed, which resulted in the Company acquiring approximately 27% of additional outstanding share capital and voting rights of Faiveley Transport for approximately \$411.8 million in cash and \$25.2 million in Wabtec stock. After the initial cash tender offer, the Company owned approximately 78% of outstanding share capital and 76% of voting rights.

On March 6, 2017, the final cash tender offer was closed, which resulted in the Company acquiring approximately 21% of additional outstanding share capital and 22% of additional outstanding voting rights of Faiveley Transport for approximately \$303.2 million in cash and \$0.3 million in Wabtec stock. After the final cash tender offer, the Company owned approximately 99% of the share capital and 98% of the voting rights of Faiveley Transport.

On March 21, 2017, a mandatory squeeze-out procedure was finalized, which resulted in the Company acquiring the Faiveley Transport shares not tendered in the offers for approximately \$17.5 million in cash. This resulted in the Company owning 100% of the share capital and voting rights of Faiveley Transport.

As of November 30, 2016, the date the Company acquired 51% of the share capital and 49% of the voting interest in Faiveley Transport, Faiveley Transport was consolidated under the variable interest entity model as the Company concluded that it was the primary beneficiary of Faiveley Transport as it then possessed the power to direct the activities of Faiveley Transport that most significantly impact its economic performance and it then possessed the obligation and right to absorb losses and benefits from Faiveley Transport. The aggregate value of consideration paid for 100% ownership of Faiveley Transport was \$1,736.1 million, including \$944.3 million in cash, \$560.2 million in stock or approximately 6.6 million shares, \$409.9 million in debt assumed, less \$178.3 million in cash acquired. The \$744.7 million included as deposits in escrow on the consolidated balance sheet at December 31, 2016 was cash designated for use as consideration for the tender offers.

## RESULTS OF OPERATIONS

The following table shows our Consolidated Statements of Operations for the periods indicated.

In millions	Three Months Ended		Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
Net sales	\$932,253	\$723,601	\$1,848,287	\$1,495,632
Cost of sales	(658,290 )	(486,212 )	(1,304,617 )	(1,003,063 )
Gross profit	273,963	237,389	543,670	492,569
Selling, general and administrative expenses	(127,574 )	(80,610 )	(249,915 )	(170,361 )
Engineering expenses	(23,338 )	(18,029 )	(46,802 )	(35,982 )
Amortization expense	(9,350 )	(5,466 )	(18,394 )	(10,761 )
Total operating expenses	(160,262 )	(104,105 )	(315,111 )	(217,104 )
Income from operations	113,701	133,284	228,559	275,465
Interest expense, net	(15,420 )	(4,969 )	(33,132 )	(9,840 )
Other (expense) income, net	(1,552 )	(1,229 )	767	(1,075 )
Income from operations before income taxes	96,729	127,086	196,194	264,550
Income tax expense	(24,569 )	(36,601 )	(52,030 )	(79,902 )
Net income	72,160	90,485	\$144,164	\$184,648
Less: Net (gain) loss attributable to noncontrolling interest	(135 )	—	1,750	—
Net income attributable to Wabtec shareholders	\$72,025	\$90,485	\$145,914	\$184,648

## SECOND QUARTER 2017 COMPARED TO SECOND QUARTER 2016

The following table summarizes our results of operations for the periods indicated:

In thousands	Three Months Ended June		
	2017	2016	Percent Change
Freight Segment Sales	\$344,828	\$397,067	(13.2)%
Transit Segment Sales	587,425	326,534	79.9 %
Net sales	932,253	723,601	28.8 %
Income from operations	113,701	133,284	(14.7)%
Net income attributable to Wabtec shareholders	72,025	90,485	(20.3)%

The following table shows the major components of the change in sales in the second quarter of 2017 from the second quarter of 2016:

In thousands	Freight Segment	Transit Segment	Total
Second Quarter 2016 Net Sales	\$397,067	\$326,534	\$723,601
Acquisitions	43,725	282,960	326,685
Change in Sales by Product Line:			
Specialty Products & Electronics	(46,601 )	(2,704 )	(49,305 )
Remanufacturing, Overhaul & Build	(28,595 )	(6,166 )	(34,761 )
Brake Products	(13,025 )	(1,148 )	(14,173 )
Transit Products	—	(771 )	(771 )
Other	(4,231 )	(64 )	(4,295 )
Foreign exchange	(3,513 )	(11,215 )	(14,728 )
Second Quarter 2017 Net Sales	\$344,827	\$587,426	\$932,253

Net sales for the three months ended June 30, 2017 increased by \$208.7 million, or 28.8%, to \$932.3 million. The increase is primarily due to sales from acquisitions of \$326.7 million partially offset by a \$49.3 million decrease for Specialty Products and Electronics due to lower demand for freight original equipment rail products and train control and signaling products and services, and a \$34.8 million decrease for Remanufacturing, Overhaul and Build primarily due to the absence of a large locomotive rebuild contract that completed in 2016. Unfavorable foreign exchange decreased sales by \$14.7 million.

Freight Segment sales decreased by \$52.2 million, or 13.2%, primarily due to a decrease of \$46.6 million for Specialty Products and Electronics sales from lower demand for freight original equipment rail products as well as train control and signaling products and services, a decrease of \$28.6 million for Remanufacturing, Overhaul & Build sales primarily due to the absence of a large locomotive rebuild contract that completed in 2016, and a decrease of \$13.0 million for Brake Products sales from lower demand for original equipment brakes for freight customers. Acquisitions increased sales by \$43.7 million and unfavorable foreign exchange decreased sales by \$3.5 million.

Transit Segment sales increased by \$260.9 million, or 79.9%, primarily due to sales from acquisitions of \$283.0 million partially offset by a decrease of \$6.2 million for Remanufacturing, Overhaul & Build due to decreased rebuild contracts. Unfavorable foreign exchange decreased sales by \$11.2 million.

Cost of Sales The following table shows the major components of cost of sales for the periods indicated:

Three Months Ended June 30, 2017

In thousands	Freight	Percentage of Sales	Transit	Percentage of Sales	Total	Percentage of Sales
Material	\$127,373	36.9 %	\$247,737	42.2 %	\$375,110	40.2 %
Labor	53,220	15.4 %	83,435	14.2 %	136,655	14.7 %
Overhead	52,504	15.2 %	79,037	13.5 %	131,541	14.1 %
Other/Warranty	2,515	0.7 %	12,469	2.1 %	14,984	1.6 %
Total cost of sales	\$235,612	68.2 %	\$422,678	72.0 %	\$658,290	70.6 %

Three Months Ended June 30, 2016

In thousands	Freight	Percentage of Sales	Transit	Percentage of Sales	Total	Percentage of Sales
Material	\$149,908	37.8 %	\$130,808	40.1 %	\$280,716	38.8 %
Labor	43,700	11.0 %	43,643	13.4 %	87,343	12.1 %
Overhead	64,661	16.3 %	46,257	14.2 %	110,918	15.3 %
Other/Warranty	438	0.1 %	6,797	2.1 %	7,235	1.0 %
Total cost of sales	\$258,707	65.2 %	\$227,505	69.8 %	\$486,212	67.2 %

Cost of Sales increased by \$172.1 million to \$658.3 million in the second quarter of 2017 compared to \$486.2 million in the same period of 2016. In the second quarter of 2017, cost of sales as a percentage of sales was 70.6% compared to 67.2% in the same period of 2016. The increase as a percentage of sales is due to product mix largely attributable to higher transit segment sales due to acquisitions, along with an unfavorable product mix within the freight segment.

Freight Segment cost of sales increased 3.0% as a percentage of sales to 68.2% in 2017 compared to 65.2% for the same period in 2016. The increase is primarily related to lower demand for freight original equipment rail products and train controls and signaling products and services.

Transit Segment cost of sales increased 2.2% as a percentage of sales to approximately 72.0% in the second quarter of 2017 from 69.8% for the same period of 2016. The increase is primarily related to product mix largely attributable to the acquisition of Faiveley Transport, which has lower overall margins.

Included in cost of sales is warranty expense. The provision for warranty expense is generally established for specific losses, along with historical estimates of customer claims as a percentage of sales, which can cause variability in warranty expense between quarters. Warranty expense was \$10.2 million in the second quarter of 2017 compared to \$7.0 million in the second quarter of 2016. The increase is primarily related to the increase in sales.





Operating expenses The following table shows our operating expenses for the periods indicated:

In thousands	Three Months Ended June 30,					
	2017	Percentage of Sales		2016	Percentage of Sales	
Selling, general and administrative expenses	\$127,574	13.7	%	\$80,610	11.1	%
Engineering expenses	23,338	2.5	%	18,029	2.5	%
Amortization expense	9,350	1.0	%	5,466	0.8	%
Total operating expenses	\$160,262	17.2	%	\$104,105	14.4	%

Total operating expenses were 17.2% and 14.4% of sales for the second quarters of 2017 and 2016, respectively. Selling, general, and administrative expenses increased \$47.0 million, or 58.3%, primarily due to \$44.0 million in incremental expense from acquisitions and \$7.9 million in Faiveley Transport transaction and integration related charges partially offset by lower costs due to cost saving initiatives and lower organic sales volumes. Engineering expense increased by \$5.3 million, or 29.4%, due to incremental costs associated with acquisitions but remained constant as a percentage of sales at 2.5%. Amortization expense increased \$3.9 million due to amortization of intangibles associated with acquisitions.

The following table shows our segment operating expense for the periods indicated:

In thousands	Three Months Ended June 30,		
	2017	2016	Percent Change
Freight Segment	\$45,881	\$44,464	3.2 %
Transit Segment	105,524	48,461	117.8 %
Corporate	8,857	11,180	(20.8 )%
Total operating expenses	160,262	104,105	53.9 %

Freight Segment operating expenses increased \$1.4 million, or 3.2%, in 2017 and increased 210 basis points to 13.3% of sales. The increase is primarily attributable to \$5.6 million of incremental operating expenses from acquisitions, partially offset by cost saving initiatives across the freight business and lower selling expenses related to reduced volume.

Transit Segment operating expenses increased \$57.1 million, or 117.8%, in 2017 and increased 320 basis points to 18.0% of sales. The increase is primarily attributable to acquisitions with \$47.9 million of incremental operating expenses and \$5.6 million of Faiveley Transport integration costs.

Corporate non-allocated operating expenses decreased \$2.3 million in 2017 primarily due to lower Faiveley Transport transaction costs in the current quarter as well as lower costs associated with cost saving initiatives.

Interest expense, net Interest expense, net, increased \$10.5 million in 2017 attributable to higher overall debt balances in 2017 than 2016, primarily related to the Faiveley Transport acquisition, partially offset by a \$2.2 million benefit related to the prepayment of debt assumed in Faiveley Transport acquisition.

Other income (expense), net Other income/(expense), net, totaled \$1.6 million of expense in 2017 compared to \$1.2 million of expense in 2016 primarily due to foreign currency losses.

Income taxes The effective income tax rate was 25.4% and 28.8% for the second quarter of 2017 and 2016, respectively. The decrease in the effective rate is primarily the result of a lower earnings mix in higher tax rate jurisdictions.

## FIRST SIX MONTHS OF 2017 COMPARED TO FIRST SIX MONTHS OF 2016

The following table summarizes our results of operations for the periods indicated:

In thousands	Six Months Ended June 30,		
	2017	2016	Percent Change
Freight Segment Sales	\$692,774	\$839,736	(17.5)%
Transit Segment Sales	1,155,513	655,896	76.2 %
Net sales	1,848,287	1,495,632	23.6 %
Income from operations	228,559	275,465	(17.0)%
Net income attributable to Wabtec shareholders	145,914	184,648	184,648(21.9)%

The following table shows the major components of the change in sales for the six months ended June 30, 2017 from the six months ended June 30, 2016:

In thousands	Freight Segment	Transit Segment	Total
First Six Months of 2016 Net Sales	\$839,736	\$655,896	\$1,495,632
Acquisitions	80,613	553,310	633,923
Change in Sales by Product Line:			
Specialty Products & Electronics	(122,563 )	(17,670 )	(140,233 )
Remanufacturing, Overhaul, and Build	(61,592 )	(5,425 )	(67,017 )
Brake Products	(30,649 )	(4,440 )	(35,089 )
Transit Products	—	(3,164 )	(3,164 )
Other	(7,675 )	1,280	(6,395 )
Foreign exchange	(5,096 )	(24,274 )	(29,370 )
First Six Months of 2017 Net Sales	\$692,774	\$1,155,513	\$1,848,287

Net sales for the six months ended June 30, 2017 increased by \$352.7 million, or 23.6%, to \$1,848.3 million from \$1,495.6 million. The increase is due to sales from acquisitions of \$633.9 million partially offset by a \$140.2 million decrease for Specialty Products and Electronics due to lower demand for freight original equipment rail products and train control and signaling products and services, and a \$67.0 million decrease for Remanufacturing, Overhaul and Build primarily due to the absence of a large locomotive rebuild contract that completed in 2016. Unfavorable foreign exchange decreased sales by \$29.4 million.

Freight Segment sales decreased by \$147.0 million, or 17.5%, primarily due to a decrease of \$122.6 million for Specialty Products and Electronics sales from lower demand for freight original equipment rail products as well as train control and signaling products and services, a decrease of \$61.6 million for Remanufacturing, Overhaul & Build sales primarily due to the absence of a large locomotive rebuild contract that completed in 2016, and a decrease of \$30.6 million for Brake Products sales from lower demand for original equipment brakes for freight customers.

Acquisitions increased sales by \$80.6 million and unfavorable foreign exchange decreased sales by \$5.1 million.

Transit Segment sales increased by \$499.6 million, or 76.2%, primarily due to an increase in sales from acquisitions of \$553.3 million partially offset by a decrease of \$17.7 million for Specialty Products and Electronics due to lower demand for original equipment conduction systems and current collectors. Unfavorable foreign exchange decreased sales by \$24.3 million.

Cost of Sales The following table shows the major components of cost of sales for the periods indicated:

## Six Months Ended June 30, 2017

In thousands	Freight	Percentage of Sales		Transit	Percentage of Sales		Total	Percentage of Sales	
Material	\$265,771	38.4	%	\$494,846	42.8	%	\$760,617	41.2	%
Labor	92,205	13.3	%	159,572	13.8	%	251,777	13.6	%
Overhead	109,791	15.8	%	160,371	13.9	%	270,162	14.6	%
Other/Warranty	1,607	0.2	%	20,454	1.8	%	22,061	1.2	%
Total cost of sales	\$469,374	67.7	%	\$835,243	72.3	%	\$1,304,617	70.6	%

## Six Months Ended June 30, 2016

In thousands	Freight	Percentage of Sales		Transit	Percentage of Sales		Total	Percentage of Sales	
Material	\$319,340	38.0	%	\$273,932	41.8	%	\$593,272	39.7	%
Labor	91,137	10.9	%	81,236	12.4	%	172,373	11.5	%
Overhead	127,974	15.2	%	94,233	14.4	%	222,207	14.9	%
Other/Warranty	4,135	0.5	%	11,076	1.7	%	15,211	1.0	%
Total cost of sales	\$542,586	64.6	%	\$460,477	70.3	%	\$1,003,063	67.1	%

Cost of Sales increased by \$301.6 million to \$1,304.6 million in the six months ended June 30, 2017 compared to \$1,003.1 million in the same period of 2016. For the six months ended June 30, 2017, cost of sales as a percentage of sales was 70.6% compared to 67.1% in the same period of 2016. The increase as a percentage of sales is due to product mix largely attributable to higher transit segment sales due to acquisitions, along with an unfavorable product mix within the freight segment.

Freight Segment cost of sales increased 3.1% as a percentage of sales to 67.7% for the six months ended June 30, 2017 compared to 64.6% for the same period in 2016. The increase is primarily related to lower demand for freight original equipment rail products and train control and signaling products and services.

Transit Segment cost of sales increased 2.0% as a percentage of sales to 72.3% for the six months ended June 30, 2017 from 70.3% for the same period of 2016. The increase is primarily related to product mix largely attributable to the acquisition of Faiveley Transport, which has lower overall margins.

Included in cost of sales is warranty expense. The provision for warranty expense is generally established for specific losses, along with historical estimates of customer claims as a percentage of sales, which can cause variability in warranty expense between quarters. Warranty expense was \$16.0 million in the six months ended June 30, 2017 compared to \$17.9 million in the six months ended June 30, 2016.

Operating expenses The following table shows our operating expenses for the periods indicated:

## Six Months Ended June 30,

In thousands	2017	Percentage of Sales		2016	Percentage of Sales	
Selling, general and administrative expenses	\$249,915	13.5	%	\$170,361	11.4	%
Engineering expenses	46,802	2.5	%	35,982	2.4	%
Amortization expense	18,394	1.0	%	10,761	0.7	%
Total operating expenses	\$315,111	17.0	%	\$217,104	14.5	%

Total operating expenses were 17.0% and 14.5% of sales for the six months of 2017 and 2016, respectively. Selling, general, and administrative expenses increased \$79.6 million, or 46.7%, primarily due to \$95.9 million in incremental expense from acquisitions and \$13.3 million of Faiveley Transport transaction and integration related charges partially offset by lower costs due to cost saving initiatives and lower organic sales volumes. Engineering expense increased by \$10.8 million, or 30.0%, primarily due to \$10.5 million in expenses from acquisitions and remained consistent as a percentage of sales. Amortization expense increased \$7.6 million due to amortization of intangibles associated with acquisitions.



The following table shows our segment operating expense for the periods indicated:

In thousands	Six Months Ended June 30,		Percent Change
	2017	2016	
Freight Segment	\$88,668	\$95,274	(6.9)%
Transit Segment	211,900	101,146	109.5%
Corporate	14,543	20,684	(29.7)%
Total operating expenses	\$315,111	\$217,104	45.1%

Freight Segment operating expenses decreased \$6.6 million, or 6.9%, in the six months ended June 30, 2017 and increased 150 basis points to 12.8% of sales. The decrease is primarily attributable to reduced sales volumes, and realized benefits from the cost saving initiatives undertaken in 2016 and 2017, partially offset by \$10.6 million of incremental operating expenses from acquisitions.

Transit Segment operating expenses increased \$110.8 million, or 109.5%, in the six months ended June 30, 2017 and increased 290 basis points to 18.3% of sales. The increase is attributed to \$105.3 million of incremental operating expenses from acquisitions and \$7.6 million of Faiveley Transport and integration costs.

Corporate non-allocated operating expenses decreased \$6.1 million in the six months ended June 30, 2017 primarily due to lower Faiveley Transport transaction and integration costs.

Interest expense, net Interest expense, net, increased \$23.3 million in the six months ended June 30, 2017 attributable to higher overall debt balances in 2017 than 2016, primarily related to the Faiveley Transport acquisition.

Other income (expense), net Other income/(expense), net, totaled \$0.8 million in the six months ended June 30, 2017 compared to \$1.1 million for the comparable period in 2016 primarily due to foreign currency losses.

Income taxes The effective income tax rate was 26.3% and 30.2% for the six months ended June 30, 2017 and 2016, respectively. The decrease in the effective rate is primarily the result of a lower earnings mix in higher tax rate jurisdictions.

Net loss attributable to noncontrolling interest Net loss attributable to noncontrolling interest was \$1.8 million in 2017 as Faiveley Transport was not wholly owned by the Company until March 2017; therefore, a portion of Faiveley Transport's operating results for the first two months of 2017 was allocated to the Company's consolidated subsidiaries noncontrolling shareholders.

#### Liquidity and Capital Resources

Liquidity is provided primarily by operating cash flow and borrowings under the Company's unsecured credit facility with a consortium of commercial banks. The following is a summary of selected cash flow information and other relevant data:

In thousands	Six Months Ended June 30,	
	2017	2016
Cash (used for) provided by:		
Operating activities	\$(13,703)	\$213,976
Investing activities	(128,581)	(40,202)
Financing activities	41,590	(102,157)
(Decrease)/increase in cash	\$(69,962)	\$76,744

Operating activities In the first six months of 2017, cash used for operations was \$13.7 million. In the first six months of 2016, cash provided by operations was \$214.0 million. In comparison to the first six months of 2016, cash provided by operations for the comparable period in 2017 decreased due to unfavorable working capital performance and lower net income of \$40.5 million. The major components of working capital were as follows: an unfavorable change in accounts receivable of

\$64.4 million due to the timing of sales and customer payments, an unfavorable change in inventory of \$37.5 million due to efforts to ramp up production in anticipation of stronger product demand through 2017, an unfavorable change of \$101.1 million in other assets and liabilities primarily due to an unfavorable change in accrued liabilities due to payments related to contract liabilities, accrued expenses, and acquisition costs during the first six months of 2017, an unfavorable change in accrued taxes of \$25.9 million, partially offset by a favorable change in accrued liabilities and customer deposits of \$83.4 million primarily due to the timing of cash receipts from customers for long term projects. Investing activities In the first six months of 2017 and 2016, cash used in investing activities was \$128.6 million and \$40.2 million, respectively. The major components of the cash outflow in 2017 were \$90.6 million in net cash paid for acquisitions and \$38.4 million in planned additions to property, plant and equipment for investments in our facilities and manufacturing processes. This compares to \$21.3 million in net cash paid for acquisitions and \$19.1 million in property, plant, and equipment for investments in the first six months of 2016. Refer to Note 3 of the “Notes to Condensed Consolidated Financial Statements” for additional information on acquisitions.

Financing activities In the first six months of 2017, cash provided by financing activities was \$41.6 million which included \$745.0 million in proceeds from the revolving credit facility, \$680.1 million in repayments of debt and \$19.2 million of dividend payments. In the first six months of 2016, cash provided by financing activities was \$102.2 million, which included \$230.0 million in proceeds from the revolving credit facility, \$175.5 million in repayments of debt on the revolving credit facility, \$133.7 million for purchases of treasury stock, \$9.0 million related to payment of income tax withholding on share based compensation, and \$14.6 million of dividend payments.

#### Senior Notes Due November 2026

On November 3, 2016, the Company issued \$750.0 million of Senior Notes due in 2026. The 2016 Notes were issued at 99.965% of face value. Interest on the 2016 Notes accrues at a rate of 3.45% per annum and is payable semi-annually on May 15 and November 15 of each year. The proceeds will be used to pay the cash portion of the Faiveley Transport acquisition, refinance Faiveley Transport's outstanding indebtedness, and for general corporate purposes. The principal balance is due in full at maturity.

The 2016 Notes are senior unsecured obligations of the Company and rank pari passu with all existing and future senior debt and senior to all existing and future subordinated indebtedness of the Company. The indenture under which the 2016 Notes were issued contains covenants and restrictions which limit among other things the following: the incurrence of indebtedness, payment of dividends and certain distributions, sale of assets, change in control, mergers and consolidations and the incurrence of liens. The Company is in compliance with the restrictions and covenants in the indenture under which the 2016 Notes were issued and expects that these restrictions and covenants will not be any type of limiting factor in executing our operating activities.

#### Faiveley Transport Tender Offer

On February 3, 2017, the initial cash tender offer was closed, which resulted in the Company acquiring approximately 27% of additional outstanding share capital and voting rights of Faiveley Transport for approximately \$411.8 million in cash and \$25.2 million in Wabtec stock. After the initial cash tender offer, the Company owned approximately 78% of outstanding share capital and 76% of voting rights.

On March 6, 2017, the final cash tender offer was closed, which resulted in the Company acquiring approximately 21% of additional outstanding share capital and 22% of additional outstanding voting rights of Faiveley Transport for approximately \$303.2 million in cash and \$0.3 million in Wabtec stock. After the final cash tender offer, the Company owned approximately 99% of the share capital and 98% of the voting rights of Faiveley Transport.

On March 21, 2017, a mandatory squeeze-out procedure was finalized, which resulted in the Company acquiring the Faiveley Transport shares not tendered in the offers for approximately \$17.5 million in cash. This resulted in the Company owning 100% of the share capital and voting rights of Faiveley Transport.

#### Company Stock Repurchase Plan

On February 8, 2016, the Board of Directors amended its stock repurchase authorization to \$350 million of the Company's outstanding shares. This new stock repurchase authorization supersedes the previous authorization of \$350

million of which about \$33.3 million remained. During the first six months of 2017, the Company did not repurchase any shares. The Company intends to purchase shares on the open market or in negotiated block trades from time to time depending on market



conditions. No time limit was set for the completion of the programs which conforms to the requirements under the 2016 Refinancing Credit Agreement, as well as the senior notes currently outstanding.

#### Forward Looking Statements

We believe that all statements other than statements of historical facts included in this report, including certain statements under “Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” may constitute forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. Although we believe that our assumptions made in connection with the forward-looking statements are reasonable, we cannot assure that our assumptions and expectations are correct.

These forward-looking statements are subject to various risks, uncertainties and assumptions about us, including, among other things:

#### Economic and industry conditions

- prolonged unfavorable economic and industry conditions in the markets served by us, including North America, South America, Europe, Australia, Asia and South Africa;
- decline in demand for freight cars, locomotives, passenger transit cars, buses and related products and services;
- reliance on major original equipment manufacturer customers;
- original equipment manufacturers’ program delays;
- demand for services in the freight and passenger rail industry;
- demand for our products and services;
- orders either being delayed, canceled, not returning to historical levels, or reduced or any combination of the foregoing;
- consolidations in the rail industry;
- continued outsourcing by our customers;
- industry demand for faster and more efficient braking equipment;
- fluctuations in interest rates and foreign currency exchange rates; or
- availability of credit.

#### Operating factors

- supply disruptions;
- technical difficulties;
- changes in operating conditions and costs;
- increases in raw material costs;
- successful introduction of new products;
- performance under material long-term contracts;
- labor relations;
- the outcome of our existing or any future legal proceedings, including litigation involving our principal customers and any litigation with respect to environmental matters, asbestos-related matters, pension liabilities, warranties, product liabilities or intellectual property claims;
- completion and integration of acquisitions, including the acquisition of Faiveley Transport; or
- the development and use of new technology.

#### Competitive factors

- the actions of competitors.

Political/governmental factors

political stability in relevant areas of the world;  
future regulation/deregulation of our customers and/or the rail industry;  
levels of governmental funding on transit projects, including for some of our customers;  
political developments and laws and regulations, including those related to Positive Train Control; or  
federal and state income tax legislation; and  
the outcome of negotiations with partners, governments, suppliers, customers or others.

Statements in this Quarterly Report on Form 10-Q apply only as of the date on which such statements are made, and we undertake no obligation to update any statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. Reference is also made to the risk factors set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Critical Accounting Policies

A summary of critical accounting policies is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. In particular, judgment is used in areas such as accounts receivable and the allowance for doubtful accounts, inventories, goodwill and indefinite-lived intangibles, warranty reserves, pensions and postretirement benefits, income taxes and revenue recognition. There have been no significant changes in accounting policies since December 31, 2016.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

In the ordinary course of business, Wabtec is exposed to risks that increases in interest rates may adversely affect funding costs associated with its variable-rate debt. The Company's variable rate debt represents 42% and 36% of total long-term debt at June 30, 2017 and December 31, 2016, respectively. To reduce the impact of interest rate changes on a portion of this variable-rate debt, the Company entered into forward interest rate swap agreements which convert a portion of the debt from variable to fixed-rate borrowings during the term of the swap contract. Refer to Note 6 – Long Term Debt of "Notes to Condensed Consolidated Financial Statements" for additional information regarding interest rate risk.

Foreign Currency Exchange Risk

The Company is subject to certain risks associated with changes in foreign currency exchange rates to the extent our operations are conducted in currencies other than the U.S. dollar. For the first six months of 2017, approximately 35% of Wabtec's net sales were to customers in the United States, 9% in the United Kingdom, 7% in Canada, 6% in France, 5% in China, 5% in Germany 4% in Mexico, 4% in Italy, 3% in Australia, and 22% in other international locations. To reduce the impact of changes in currency exchange rates, the Company has periodically entered into foreign currency forward contracts. Refer to "Financial Derivatives and Hedging Activities" in Note 2 of "Notes to Condensed Consolidated Financial Statements" for more information regarding foreign currency exchange risk.

Item 4. CONTROLS AND PROCEDURES

Wabtec's principal executive officer and its principal financial officer have evaluated the effectiveness of Wabtec's "disclosure controls and procedures," (as defined in Exchange Act Rule 13a-15(e)) as of June 30, 2017. Based upon their evaluation, the principal executive officer and principal financial officer concluded that Wabtec's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by Wabtec in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to provide reasonable assurance that information required to be disclosed by Wabtec in such reports is accumulated and communicated to Wabtec's Management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There was no change in Wabtec's "internal control over financial reporting" (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2017, that has materially affected, or is reasonably likely to materially affect, Wabtec's internal control over financial reporting.

## PART II—OTHER INFORMATION

## Item 1. LEGAL PROCEEDINGS

Except as described below, there have been no material changes regarding the Company's commitments and contingencies as described in Note 19 of the Company's Annual Report on Form 10-K for the year ended December 31, 2016, including with respect to the litigation with Siemens described therein.

Xorail, Inc., a wholly owned subsidiary of the Company ("Xorail"), has received notices from Denver Transit Constructors ("Denver Transit") alleging breach of contract related to the installation of constant warning wireless crossings, and late delivery of the Train Management & Dispatch System ("TMDS") for the Denver Eagle P3 Project. No damages have been asserted for the alleged late delivery of the TMDS. On May 4, 2017, Denver Transit alleged that total damages were \$29.9 million as of March 31, 2017 and are continuing to accumulate regarding the installation of constant wireless crossings. The crossings have not been certified for use, which Denver Transit alleges is due to Xorail's failure to achieve constant warning times satisfactory to the Federal Railway Administration ("FRA"). No claims have been filed by Denver Transit with regard to either issue. Xorail has denied Denver Transit's assertions regarding the wireless crossings but continues to work with Denver Transit and FRA to upgrade and change its system to meet the FRA's previously undefined, and still evolving, certification requirements. The Company does not believe that it has any liability with respect to the wireless crossing issue. The Company is working with Denver Transit on a response plan regarding the TMDS.

## Item 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

## Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table summarizes the Company's stock repurchase activity for the three months ended June 30, 2017:

Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs (1)	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Programs (1)
April 2017	—	—	—	\$ —
May 2017	—	\$ —	—	\$ —
June 2017	—	\$ —	—	\$ —
Total quarter ended June 30, 2017	—	\$ —	—	\$ —

On February 9, 2016, the Board of Directors amended its stock repurchase authorization to \$350.0 million of the (1) Company's outstanding shares. No time limit was set for the completion of the programs which conforms to the requirements under the 2016 Refinancing Credit Agreement, as well as the senior notes currently outstanding.

## Item 4. MINE SAFETY DISCLOSURES

Not Applicable

## Item 6. EXHIBITS

The following exhibits are being filed with this report:



- 4.1 Fifth Supplemental Indenture, dated April 28, 2017, by and among Westinghouse Air Brake Technologies Corporation, the subsidiary guarantors named therein and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017)
- 4.2 Sixth Supplemental Indenture, dated June 21, 2017, by and among Westinghouse Air Brake Technologies Corporate, the subsidiary guarantors named therein and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.10 to the Company's Registration Statement on Form S-4 filed on July 19, 2017) (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017)
- 10.1 First Amendment to Second Amended and Restated Refinancing Credit Agreement, dated as of April 19, 2017, by and among the Company, Wabtec Cooperatief UA, as borrowers, the subsidiary guarantors named therein, and the lenders party thereto and PNC Bank, National Association, as Administrative Agent
- 10.2 Westinghouse Air Brake Technologies Corporation 2011 Stock Incentive Plan (as amended restated effective May 20, 2017) (incorporated by reference to Annex A to the Company's Proxy Statement dated March 31, 2017)
- 10.3 Westinghouse Air Brake Technologies Corporation 1995 Non-Employee Directors' Fee and Stock Option Plan (as amended and restated effective May 10, 2017) (incorporated by reference to Annex B to the Company's Proxy Statement dated March 31, 2017)
- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer.
- 32.1 Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.
- 101.INS XBRL Instance Document.
- 101.SCHXBRL Taxonomy Extension Schema Document.
- 101.CALXBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LABXBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WESTINGHOUSE AIR BRAKE  
TECHNOLOGIES CORPORATION

By: /s/ PATRICK D. DUGAN  
Patrick D. Dugan,  
Executive Vice President Finance and  
Chief Financial Officer

(Duly Authorized Officer and Principal  
Financial Officer)

DATE: August 3, 2017

EXHIBIT INDEX

- 4.1 Fifth Supplemental Indenture, dated April 28, 2017, by and among Westinghouse Air Brake Technologies Corporation, the subsidiary guarantors named therein and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017)
- 4.2 Sixth Supplemental Indenture, dated June 21, 2017, by and among Westinghouse Air Brake Technologies Corporate, the subsidiary guarantors named therein and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.10 to the Company's Registration Statement on Form S-4 filed on July 19, 2017) (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017)
- 10.1 First Amendment to Second Amended and Restated Refinancing Credit Agreement, dated as of April 19, 2017, by and among the Company, Wabtec Cooperatief UA, as borrowers, the subsidiary guarantors named therein, and the lenders party thereto and PNC Bank, National Association, as Administrative Agent
- 10.2 Westinghouse Air Brake Technologies Corporation 2011 Stock Incentive Plan (as amended restated effective May 20, 2017) (incorporated by reference to Annex A to the Company's Proxy Statement dated March 31, 2017)
- 10.3 Westinghouse Air Brake Technologies Corporation 1995 Non-Employee Directors' Fee and Stock Option Plan (as amended and restated effective May 10, 2017) (incorporated by reference to Annex B to the Company's Proxy Statement dated March 31, 2017)
- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer.
- 32.1 Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.
- 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.