

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP  
Form 10-Q  
July 28, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
<sup>x</sup> 1934

For the quarterly period ended June 30, 2016

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

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

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|   |   |
|---|---|
| Delaware  | 25-1615902                              |
| (State or other jurisdiction<br>of incorporation or organization) | (I.R.S. Employer<br>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)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

Yes  No

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

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| Class                                   | Outstanding at July 25, 2016 |
|---|------------------------------|
| Common Stock, \$.01 par value per share | 90,120,526 shares            |

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WESTINGHOUSE AIR BRAKE  
TECHNOLOGIES CORPORATION  
June 30, 2016  
FORM 10-Q  
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## 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,<br>2016    | December 31,<br>2015 |
| <b>Assets</b>   |                     |                      |
| <b>Current Assets</b>   |                     |                      |
| Cash and cash equivalents   | \$ 302,935          | \$ 226,191           |
| Accounts receivable   | 440,900             | 494,975              |
| Unbilled accounts receivable  | 145,451             | 103,814              |
| Inventories   | 493,442             | 478,574              |
| Deposit in escrow   | 206,212             | 202,942              |
| Deferred income taxes   | 75,705              | 71,658               |
| Other current assets  | 35,713              | 33,524               |
| Total current assets  | 1,700,358           | 1,611,678            |
| Property, plant and equipment   | 730,050             | 717,295              |
| Accumulated depreciation  | (381,400)           | (364,102)            |
| Property, plant and equipment, net  | 348,650             | 353,193              |
| <b>Other Assets</b>   |                     |                      |
| Goodwill  | 860,027             | 858,532              |
| Other intangibles, net  | 430,331             | 440,534              |
| Other noncurrent assets   | 39,830              | 32,909               |
| Total other assets  | 1,330,188           | 1,331,975            |
| <b>Total Assets</b>   | <b>\$ 3,379,196</b> | <b>\$ 3,296,846</b>  |
| <b>Liabilities and Shareholders' Equity</b>   |                     |                      |
| <b>Current Liabilities</b>  |                     |                      |
| Accounts payable  | \$ 305,160          | \$ 319,525           |
| Customer deposits   | 110,968             | 106,127              |
| Accrued compensation  | 62,062              | 69,892               |
| Accrued warranty  | 77,566              | 72,678               |
| Current portion of long-term debt   | 115                 | 433                  |
| Other accrued liabilities   | 108,681             | 96,121               |
| Total current liabilities   | 664,552             | 664,776              |
| Long-term debt  | 744,139             | 691,805              |
| Accrued postretirement and pension benefits   | 56,487              | 55,765               |
| Deferred income taxes   | 145,572             | 139,852              |
| Accrued warranty  | 18,780              | 19,386               |
| Other long-term liabilities   | 23,827              | 23,923               |
| Total liabilities   | 1,653,357           | 1,595,507            |
| <b>Shareholders' Equity</b>   |                     |                      |
| Preferred stock, 1,000,000 shares authorized, no shares issued  | —                   | —                    |
| Common stock, \$0.01 par value; 200,000,000 shares authorized:<br>132,349,534 shares issued and 90,119,492 and 91,836,106 outstanding<br>at June 30, 2016 and December 31, 2015, respectively | 1,323               | 1,323                |
| Additional paid-in capital  | 466,553             | 469,326              |
| Treasury stock, at cost, 42,230,042 and 40,513,428 shares,<br>at June 30, 2016 and December 31, 2015, respectively  | (905,877)           | (775,124)            |

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|  |             |              |
|--|-------------|--------------|
| Retained earnings  | 2,450,884   | 2,280,801    |
| Accumulated other comprehensive loss                                       | (290,346 )  | (276,719 )   |
| Total Westinghouse Air Brake Technologies Corporation shareholders' equity | 1,722,537   | 1,699,607    |
| Non-controlling interest (minority interest)                               | 3,302       | 1,732        |
| Total shareholders' equity   | 1,725,839   | 1,701,339    |
| Total Liabilities and Shareholders' Equity                                 | \$3,379,196 | \$ 3,296,846 |

The accompanying notes are an integral part of these statements.

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

| In thousands, except per share data            | Unaudited<br>Three Months Ended<br>June 30, |            | Unaudited<br>Six Months Ended<br>June 30, |              |
|--|---|------------|---|--------------|
|  | 2016  | 2015       | 2016                                      | 2015         |
| Net sales                                      | \$723,601                                   | \$847,028  | \$1,495,632                               | \$1,665,622  |
| Cost of sales                                  | (486,212 )                                  | (579,264 ) | (1,003,063 )                              | (1,142,503 ) |
| Gross profit                                   | 237,389                                     | 267,764    | 492,569                                   | 523,119      |
| Selling, general and administrative expenses   | (80,610 )                                   | (88,992 )  | (170,361 )                                | (173,763 )   |
| Engineering expenses                           | (18,029 )                                   | (17,750 )  | (35,982 )                                 | (34,613 )    |
| Amortization expense                           | (5,466 )                                    | (5,162 )   | (10,761 )                                 | (10,463 )    |
| Total operating expenses                       | (104,105 )                                  | (111,904 ) | (217,104 )                                | (218,839 )   |
| Income from operations                         | 133,284                                     | 155,860    | 275,465                                   | 304,280      |
| Other income and expenses                      |   |            |   |              |
| Interest expense, net                          | (4,969 )                                    | (4,041 )   | (9,840 )                                  | (8,347 )     |
| Other expense, net                             | (1,229 )                                    | (1,887 )   | (1,075 )                                  | (4,753 )     |
| Income from operations before income taxes     | 127,086                                     | 149,932    | 264,550                                   | 291,180      |
| Income tax expense                             | (36,601 )                                   | (48,428 )  | (79,902 )                                 | (93,512 )    |
| Net income attributable to Wabtec shareholders | \$90,485                                    | \$101,504  | \$184,648                                 | \$197,668    |
| Earnings Per Common Share                      |   |            |   |              |
| Basic  |   |            |   |              |
| Net income attributable to Wabtec shareholders | \$1.00                                      | \$1.05     | \$2.03                                    | \$2.05       |
| Diluted  |   |            |   |              |
| Net income attributable to Wabtec shareholders | \$1.00                                      | \$1.04     | \$2.02                                    | \$2.03       |
| Weighted average shares outstanding            |   |            |   |              |
| Basic  | 89,846                                      | 96,338     | 90,832                                    | 96,066       |
| Diluted  | 90,559                                      | 97,435     | 91,628                                    | 97,112       |

The accompanying notes are an integral part of these statements.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| In thousands, except per share data   | Unaudited<br>Three Months Ended |           | Unaudited<br>Six Months Ended |           |
|---|---------------------------------|-----------|-------------------------------|-----------|
|   | June 30,<br>2016                | 2015      | June 30,<br>2016              | 2015      |
| Net income attributable to Wabtec shareholders  | \$90,485                        | \$101,504 | \$184,648                     | \$197,668 |
| Foreign currency translation (loss) gain  | (42,330 )                       | 36,082    | (10,119 )                     | (51,849 ) |
| Unrealized (loss) gain on derivative contracts  | (716 )                          | 949       | (2,909 )                      | (756 )    |
| Pension benefit plans and post-retirement benefit plans                                 | 2,149                           | (822 )    | (1,634 )                      | 3,000     |
| Other comprehensive (loss) income before tax  | (40,897 )                       | 36,209    | (14,662 )                     | (49,605 ) |
| Income tax (expense) benefit related to components of other comprehensive (loss) income | (352 )                          | (320 )    | 1,035                         | (605 )    |
| Other comprehensive (loss) income, net of tax   | (41,249 )                       | 35,889    | (13,627 )                     | (50,210 ) |
| Comprehensive income attributable to Wabtec shareholders                                | \$49,236                        | \$137,393 | \$171,021                     | \$147,458 |

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<br>Six Months Ended<br>June 30, |            |
|--|---|------------|
|  | 2016                                      | 2015       |
| <b>Operating Activities</b>  |   |            |
| Net income attributable to Wabtec shareholders   | \$ 184,648                                | \$ 197,668 |
| Adjustments to reconcile net income to cash provided by operations:  |   |            |
| Depreciation and amortization  | 33,093                                    | 31,612     |
| Stock-based compensation expense   | 9,673                                     | 14,989     |
| Loss on disposal of property, plant and equipment  | 378                                       | 420        |
| Excess income tax benefits from exercise of stock options  | —   | (1,388 )   |
| Changes in operating assets and liabilities, net of acquisitions   |   |            |
| Accounts receivable and unbilled accounts receivable   | (2,171 )                                  | (35,788 )  |
| Inventories  | (10,893 )                                 | (25,536 )  |
| Accounts payable   | (13,757 )                                 | (25,015 )  |
| Accrued income taxes   | 2,913                                     | 19,185     |
| Accrued liabilities and customer deposits  | 3,505                                     | (27,089 )  |
| Other assets and liabilities   | 6,587                                     | (38,132 )  |
| Net cash provided by operating activities  | 213,976                                   | 110,926    |
| <b>Investing Activities</b>  |   |            |
| Purchase of property, plant and equipment  | (19,104 )                                 | (20,860 )  |
| Proceeds from disposal of property, plant and equipment  | 165                                       | 178        |
| Acquisitions of businesses, net of cash acquired   | (21,263 )                                 | (100,108 ) |
| Net cash used for investing activities   | (40,202 )                                 | (120,790 ) |
| <b>Financing Activities</b>  |   |            |
| Proceeds from debt   | 230,000                                   | 174,300    |
| Payments of debt   | (175,499 )                                | (294,589 ) |
| Purchase of treasury stock   | (133,738 )                                | —          |
| Proceeds from exercise of stock options and other benefit plans  | 651                                       | 1,409      |
| Excess income tax benefits from exercise of stock options  | —   | 1,388      |
| Payment of income tax withholding on share-based compensation  | (9,006 )                                  | (14,565 )  |
| Cash dividends (\$0.16 and \$0.12 per share for the six months ended June 30, 2016 and 2015, respectively) | (14,565 )                                 | (11,580 )  |
| Net cash used for financing activities   | (102,157 )                                | (143,637 ) |
| Effect of changes in currency exchange rates   | 5,127                                     | (7,504 )   |
| Increase (Decrease) in cash  | 76,744                                    | (161,005 ) |
| Cash, beginning of period  | 226,191                                   | 425,849    |
| Cash, end of period  | \$302,935                                 | \$264,844  |

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, 2016 (UNAUDITED)

### 1. BUSINESS

Westinghouse Air Brake Technologies Corporation (“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 20 countries. In the first six months of 2016, about 50% of the Company’s revenues came from customers outside the U.S.

### 2. PROPOSED TRANSACTION WITH FAIVELEY TRANSPORT S.A.

On July 27, 2015, the Company announced plans to acquire Faiveley Transport S.A. (“Faiveley Transport”), 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 valued-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 & Safety (braking systems and couplers).

The transaction has been structured in three steps:

Wabtec made an irrevocable offer to the owners of approximately 51% of Faiveley Transport’s shares for a purchase price of €100 per share, payable 25% in cash and 75% in Wabtec preferred stock. The preferred stock will have a 1% annual dividend or, if greater, the annual dividend assuming full conversion into common shares, and must be converted after three years into Wabtec common shares at an implied ratio of one Faiveley Transport common share for 1.125 Wabtec common shares. Shareholders owning approximately 51% of Faiveley Transport have entered into exclusive discussions with Wabtec.

Upon completion of required labor group consultations, on October 6, 2015, the 51% shareholders entered into a definitive share purchase agreement and Faiveley Transport entered into an acquisition agreement with Wabtec. Upon completing the share purchase, Wabtec will commence a tender offer for the remaining publicly traded Faiveley Transport shares. The public shareholders will have the option to elect to receive €100 per share in cash or Wabtec preferred stock. The preferred stock portion of the consideration is subject to a cap of 75% of Faiveley Transport’s common shares. Wabtec intends to delist Faiveley Transport from Euronext after the tender offer if minority interests represent less than 5%.

The total purchase price offered is about \$1.8 billion, including assumed debt. Wabtec plans to fund the cash portion of the transaction with cash on hand, existing credit facilities and potentially other debt financing. Prior to December 31, 2015, Wabtec set aside €186.9 million as an escrow deposit for the Faiveley Transport purchase. The combination of Wabtec and Faiveley Transport would create one of the world’s largest public rail equipment companies, with revenues of about \$4.5 billion and a presence in all key freight rail and passenger transit geographies worldwide.

Closing of the transaction is subject to various conditions, including completion of regulatory requirements. These steps are currently on-going and the timing of completion is unknown.

### 3. ACCOUNTING POLICIES

**Basis of Presentation** The unaudited condensed consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles 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.

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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, 2015. The December 31, 2015 information has been derived from the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

**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 revenues on 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 at a minimum quarterly 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 \$145.5 million and \$103.8 million, customer deposits were \$111.0 million and \$106.1 million, and provisions for loss contracts were \$16.7 million and \$11.8 million at June 30, 2016 and December 31, 2015, respectively.

**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 \$28.8 million and \$30.3 million at June 30, 2016 and December 31, 2015, respectively.

**Reclassifications** Certain prior year amounts have been reclassified, where necessary, to conform to the current year presentation.

**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 13 and 14.

**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.

**Non-controlling Interests** In accordance with ASC 810 "Consolidation", the Company has classified non-controlling interests as equity on our condensed consolidated balance sheets as of June 30, 2016 and December 31, 2015. Net income attributable to non-controlling interests for the three and six months ended June 30, 2016 and 2015 was not material.

**Recent Accounting Pronouncements** In April 2015, the FASB issued Accounting Standards Update No. 2015-3, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-3") which changes the presentation of debt issuance costs in financial statements to present such costs as a direct deduction from the related debt liability rather than as an asset. ASU 2015-3 became effective for public companies during interim and annual reporting periods beginning after December 15, 2015. The Company retrospectively adopted this ASU on January 1, 2016. The adoption of this ASU did not have a material impact to our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-9, "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

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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 Company is currently evaluating the impact the pronouncement will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" (ASU 2016-09). 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 is effective for public companies in the fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

Other Comprehensive Income Comprehensive income is defined as net income and all other non-owner changes in shareholders' equity.

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

| In thousands   | Foreign<br>currency<br>translation | Derivative<br>contracts | Pension<br>and<br>post<br>retirement<br>benefit<br>plans | Total       |
|--|------------------------------------|-------------------------|--|-------------|
| Balance at December 31, 2015                                     | \$(227,349)                        | \$(2,987 )              | \$(46,383 )  | \$(276,719) |
| Other comprehensive (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<br>reclassified from<br>accumulated<br>other<br>comprehensive<br>income | Affected line<br>item in the<br>Condensed<br>Consolidated<br>Statements of<br>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<br>Operations  |
|   | (157 )   | Income tax<br>expense  |
|   | \$ 392   | Net income   |
| Derivative contracts  |  |  |
| Realized loss on derivative contracts                         | \$ 453   | Interest<br>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<br>reclassified from<br>accumulated<br>other<br>comprehensive<br>income | Affected line<br>item in the<br>Condensed<br>Consolidated<br>Statements of<br>Operations |
|---|--|--|
| Amortization of defined pension and post retirement items     | \$ (807 )  | Cost of sales  |
| Amortization of initial net obligation and prior service cost | 2,091  | Cost of sales  |
| Amortization of net loss                                      | 1,284  | Income from<br>Operations  |
|   | (388 )   | Income tax<br>expense  |
|   | \$ 896   | Net income   |
| <br>Derivative contracts                                      |  |  |
| Realized loss on derivative contracts                         | \$ 927   | Interest<br>expense, net   |
|   | (280 )   | Income tax<br>expense  |
|   | \$ 647   | Net income   |

#### 4. ACQUISITIONS

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

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 \$14.4 million, net of cash acquired, resulting in preliminary goodwill of \$1.0 million, none of which will be deductible for tax purposes.

On October 30, 2015, the Company acquired Relay Monitoring Systems PTY Ltd. ("RMS"), an Australian based manufacturer of electrical protection and control products for a purchase price of approximately \$18.7 million, net of cash acquired, resulting in preliminary goodwill of \$8.8 million, none of which will be deductible for tax purposes.

On October 8, 2015, the Company acquired Track IQ, an Australian based manufacturer of wayside censor systems for the global rail industry for a purchase price of approximately \$9.3 million, net of cash acquired, resulting in preliminary goodwill of \$6.6 million, all of which will be deductible for tax purposes.

On February 4, 2015, the Company acquired Railroad Controls L.P. ("RCL"), a provider of railway signal construction services, for a purchase price of approximately \$78.0 million, net of cash acquired, resulting in goodwill of \$14.8 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 June 17, 2015, the Company acquired Metalocaucho ("MTC"), a manufacturer of transit products, primarily rubber components for suspension and vibration control systems, for a purchase price of approximately \$23.4 million, net of cash acquired, resulting in goodwill of \$13.2 million, none of which will be deductible for tax purposes.

The acquisitions listed above include escrow deposits of \$37.6 million, which act as security for indemnity and other claims in accordance with the purchase and related escrow agreements.

For the Unitrac, RMS, and Track IQ acquisitions, the following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition. For the MTC and RCL acquisitions, the following table summarizes the final fair value of the assets acquired and liabilities assumed at the date of acquisition.





|                             | Unitrac<br>May 5,<br>2016 | RMS<br>October 30,<br>2015 | Track IQ<br>October 8,<br>2015 | MTC<br>June 17,<br>2015 | RCL<br>February 4,<br>2015 |
|-----------------------------|---------------------------|----------------------------|--------------------------------|-------------------------|----------------------------|
| In thousands                |                           |                            |                                |                         |                            |
| Current assets              | \$12,526                  | \$ 3,605                   | \$ 660                         | \$10,348                | \$ 16,421                  |
| Property, plant & equipment | 1,768                     | 1,378                      | 187                            | 1,450                   | 12,136                     |
| Goodwill                    | 998                       | 8,847                      | 6,649                          | 13,198                  | 14,787                     |
| Other intangible assets     | 1,230                     | 8,621                      | 3,246                          | 7,650                   | 40,403                     |
| Other assets                | —                         | —                          | —                              | 114                     | —                          |
| Total assets acquired       | 16,522                    | 22,451                     | 10,742                         | 32,760                  | 83,747                     |
| Total liabilities assumed   | (2,144 )                  | (3,741 )                   | (1,430 )                       | (9,400 )                | (5,736 )                   |
| Net assets acquired         | \$14,378                  | \$ 18,710                  | \$ 9,312                       | \$23,360                | \$ 78,011                  |

Of the \$61.1 million of total acquired other intangible assets, \$53.8 million was assigned to customer relationships, \$5.6 million was assigned to trade names, \$0.3 million was assigned to non-compete agreements and \$1.4 million was assigned to customer backlog. The trade names were determined to have an indefinite useful life, while the customer relationships' average useful life is 20 years, and the non-compete useful life is five years.

The following unaudited pro forma consolidated financial information presents income statement results as if the acquisitions listed above had occurred on January 1, 2015:

| In thousands                                   | Three<br>Months<br>Ended<br>June 30,<br>2016 | Three<br>Months<br>Ended<br>June 30,<br>2015 | Six Months<br>Ended June<br>30, 2016 | Six Months<br>Ended June<br>30, 2015 |
|--|--|--|--------------------------------------|--------------------------------------|
| Net sales                                      | \$725,602                                    | \$825,466                                    | \$1,505,193                          | \$1,710,009                          |
| Gross profit                                   | 237,604                                      | 274,251                                      | 493,605                              | 537,425                              |
| Net income attributable to Wabtec shareholders | 90,608                                       | 101,534                                      | 184,978                              | 200,540                              |
| Diluted earnings per share                     |  |  |                                      |                                      |
| As Reported                                    | \$1.00                                       | \$1.04                                       | \$2.02                               | \$2.03                               |
| Pro forma                                      | \$1.00                                       | \$1.04                                       | \$2.02                               | \$2.06                               |

## 5. INVENTORIES

The components of inventory, net of reserves, were:

| In thousands      | June 30,<br>2016 | December 31,<br>2015 |
|-------------------|------------------|----------------------|
| Raw materials     | \$197,026        | \$ 180,128           |
| Work-in-progress  | 169,968          | 171,217              |
| Finished goods    | 126,448          | 127,229              |
| Total inventories | \$493,442        | \$ 478,574           |



## 6. INTANGIBLES

The change in the carrying amount of goodwill by segment for the six months ended June 30, 2016 is as follows:

| In thousands                                  | Freight<br>Segment | Transit<br>Segment | Total     |
|---|--------------------|--------------------|-----------|
| Balance at December 31, 2015                  | \$531,965          | \$326,567          | \$858,532 |
| Adjustment to preliminary purchase allocation | 1,379              | 1,025              | 2,404     |
| Acquisitions                                  | 2,711              | —                  | 2,711     |
| Foreign currency impact                       | (6,115 )           | 2,495              | (3,620 )  |
| Balance at June 30, 2016                      | \$529,940          | \$330,087          | \$860,027 |

As of June 30, 2016 and December 31, 2015, the Company's trademarks had a net carrying amount of \$167.8 million and \$167.4 million, respectively, and the Company believes these intangibles have indefinite lives.

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

| In thousands   | June 30,<br>2016 | December 31,<br>2015 |
|--|------------------|----------------------|
| Patents, non-compete and other intangibles, net of accumulated amortization of \$41,411 and \$40,936 | \$9,434          | \$ 11,403            |
| Customer relationships, net of accumulated amortization of \$78,240 and \$70,493                     | 253,126          | 261,751              |
| Total  | \$262,560        | \$ 273,154           |

The weighted average remaining useful life of patents, customer relationships and other intangibles were 10 years, 16 years and 13 years, respectively. Amortization expense for intangible assets was \$5.5 million and \$10.8 million for three and six months ended June 30, 2016, and \$5.2 million and \$10.5 million for the three and six months ended June 30, 2015.

Amortization expense for the five succeeding years is estimated to be as follows (in thousands):

|                   |          |
|-------------------|----------|
| Remainder of 2016 | \$10,320 |
| 2017              | 19,351   |
| 2018              | 18,660   |
| 2019              | 17,981   |
| 2020              | 16,803   |

## 7. LONG-TERM DEBT

Long-term debt consisted of the following:

| In thousands  | June 30,<br>2016 | December 31,<br>2015 |
|---|------------------|----------------------|
| 4.375% Senior Notes, due 2023, net of unamortized discount and debt issuance costs of \$1,818 and \$1,947 | \$248,182        | \$ 248,053           |
| Revolving Credit Facility, net of unamortized debt issuance costs of \$4,181 and \$1,542                  | 495,819          | 443,458              |
| Capital Leases  | 253              | 727                  |
| Total   | 744,254          | 692,238              |
| Less - current portion  | 115              | 433                  |
| Long-term portion   | \$744,139        | \$ 691,805           |
| 2016 Refinancing Credit Agreement   |                  |                      |

On June 22, 2016, the Company amended its existing revolving credit facility with a consortium of commercial banks. This "2016 Refinancing Credit Agreement" provides the Company with a \$1.2 billion, 5 year revolving credit facility and a

\$400.0 million delayed draw term loan “Term Loan”. The Company incurred approximately \$2.9 million of deferred financing cost 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, 2016, the Company had available bank borrowing capacity, net of \$24.3 million of letters of credit, of approximately \$675.7 million, subject to certain financial covenant restrictions.

The Term Loan is available for advance on or after June 22, 2016 until December 31, 2016. The Company will incur a 10 basis point commitment fee from June 22, 2016 until the initial draw or cancellation of the Term Loan.

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 cash flow ratios. The initial Base Rate margin is 0 basis points and the Alternate Rate margin is 100 basis points. At June 30, 2016, the weighted average interest rate on the Company’s variable rate debt was 1.45%. 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 is July 31, 2013, and the termination date is November 7, 2016. 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 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 is 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 an excellent credit rating 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 cash flow 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 our 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 a \$800.0 million, five-year 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 cash flow ratios.  
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.

## 8. 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.<br>Three<br>Months<br>Ended<br>June 30, |        | International<br>Three Months<br>Ended<br>June 30, |         |
|-----------------------------------|--|--------|--|---------|
| In thousands, except percentages  | 2016   | 2015   | 2016   | 2015    |
| Net periodic benefit cost         |  |        |  |         |
| Service cost                      | \$84   | \$95   | \$255  | \$506   |
| Interest cost                     | 369  | 479    | 1,450  | 1,801   |
| Expected return on plan assets    | (519 )                                       | (542 ) | (2,881)  | (2,434) |
| Net amortization/deferrals        | 229  | 266    | 435  | 655     |
| Net periodic benefit cost         | \$163  | \$298  | \$(741)  | \$528   |
| Assumptions                       |  |        |  |         |
| Discount Rate                     | 4.21%  | 3.95%  | 3.56%  | 3.48%   |
| Expected long-term rate of return | 5.70%  | 5.70%  | 5.81%  | 5.79%   |
| Rate of compensation increase     | 3.00%  | 3.00%  | 3.10%  | 3.10%   |

|                                  | U.S.<br>Six Months<br>Ended<br>June 30, |         | International<br>Six Months<br>Ended<br>June 30, |          |
|----------------------------------|---|---------|--|----------|
| In thousands, except percentages | 2016                                    | 2015    | 2016   | 2015     |
| Net periodic benefit cost        |   |         |  |          |
| Service cost                     | \$168                                   | \$190   | \$728  | \$1,012  |
| Interest cost                    | 738                                     | 958     | 2,936  | 3,590    |
| Expected return on plan assets   | (1,038)                                 | (1,084) | (5,286)  | (4,850 ) |
| Net amortization/deferrals       | 458                                     | 532     | 1,055  | 1,307    |
| Curtailement loss recognized     | —                                       | —       | 240  | —        |
| Net periodic benefit cost        | \$326                                   | \$596   | \$(327)  | \$1,059  |

Assumptions

|                                   |       |       |       |       |
|-----------------------------------|-------|-------|-------|-------|
| Discount Rate                     | 4.21% | 3.95% | 3.56% | 3.48% |
| Expected long-term rate of return | 5.70% | 5.70% | 5.81% | 5.79% |
| Rate of compensation increase     | 3.00% | 3.00% | 3.10% | 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 \$7.0 million to the international plans and does not expect to make a contribution to the U.S. plans during 2016.

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.<br>Three<br>Months<br>Ended<br>June 30, |  | International<br>Three<br>Months<br>Ended<br>June 30, |  |
|--|--|--|---|--|
|--|--|--|---|--|

In thousands, except percentages

|                                    | 2016  | 2015  | 2016 | 2015 |
|------------------------------------|-------|-------|------|------|
| Net periodic benefit cost          |       |       |      |      |
| Service cost                       | \$1   | \$2   | \$7  | \$11 |
| Interest cost                      | 97    | 308   | 25   | 35   |
| Net amortization/deferrals         | (105) | (234) | (9)  | (10) |
| Net periodic benefit (credit) cost | \$(7) | \$76  | \$23 | \$36 |

Assumptions

|               |       |       |       |       |
|---------------|-------|-------|-------|-------|
| Discount Rate | 3.33% | 3.95% | 3.24% | 3.96% |
|---------------|-------|-------|-------|-------|

|  | U.S.<br>Six Months<br>Ended<br>June 30, |  | International<br>Six Months<br>Ended<br>June 30, |  |
|--|---|--|--|--|
|--|---|--|--|--|

In thousands, except percentages

|                                    | 2016   | 2015  | 2016 | 2015 |
|------------------------------------|--------|-------|------|------|
| Net periodic benefit cost          |        |       |      |      |
| Service cost                       | \$2    | \$4   | \$14 | \$22 |
| Interest cost                      | 194    | 616   | 50   | 70   |
| Net amortization/deferrals         | (210)  | (468) | (18) | (19) |
| Net periodic benefit (credit) cost | \$(14) | \$152 | \$46 | \$73 |

Assumptions

|               |       |       |       |       |
|---------------|-------|-------|-------|-------|
| Discount Rate | 3.33% | 3.95% | 3.24% | 3.96% |
|---------------|-------|-------|-------|-------|

At December 31, 2015, the Company changed the method it uses to estimate the service and interest cost components of net periodic benefit cost for pension and other postretirement benefit costs for all of its U.S. and International plans. Historically, the service and interest cost components were estimated using a single weighted-average discount rate derived from the yield curve used to measure the projected benefit obligation at the beginning of the period. The Company has elected to utilize an approach that discounts the individual expected cash flows underlying the service and interest cost using the applicable spot rates derived from the yield curve used in the determination of the benefit

obligation to the relevant projected

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cash flows. The Company made this change to improve the correlation between projected benefit cash flows and the corresponding yield curve spot rates and to provide a more precise measurement of service and interest costs. The Company estimates the service and interest cost of the pension and OPEB plans will be reduced by approximately \$1.6 million in 2016 as a result of this change. The Company has accounted for this change as a change in accounting estimate that is inseparable from a change in accounting principle and accordingly has accounted for it prospectively.

## 9. STOCK-BASED COMPENSATION

As of June 30, 2016, 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 10-year term through March 27, 2021 and provides a maximum of 3,800,000 shares for grants or awards. The 2011 Plan was approved by stockholders of Wabtec on May 11, 2011. The Company also maintains a Non-Employee Directors’ Fee and Stock Option Plan (“the Directors Plan”).

Stock-based compensation expense was \$9.7 million and \$15.0 million for the six months ended June 30, 2016 and 2015, respectively. Included in stock-based compensation expense for the six months ended June 30, 2016 is \$0.9 million of expense related to stock options, \$3.0 million related to non-vested restricted stock, \$1.2 million related to restricted stock units, \$4.1 million related to incentive stock units and \$0.5 million related to units issued for Directors’ fees. At June 30, 2016, unamortized compensation expense related to those stock options, non-vested restricted shares units and incentive stock units expected to vest totaled \$31.0 million and will be recognized over a weighted average period of 1.6 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, 2016:

|                                  | Options   | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate Intrinsic value (in thousands) |
|----------------------------------|-----------|---------------------------------|---|--|
| Outstanding at December 31, 2015 | 1,097,323 | \$ 32.70                        | 4.8   | \$ 42,154                                |
| Granted                          | 94,115    | 61.39                           |   | 828                                      |
| Exercised                        | (26,150 ) | 26.89                           |   | 1,132                                    |
| Canceled                         | (5,321 )  | 69.37                           |   | 4  |
| Outstanding at June 30, 2016     | 1,159,967 | 35.00                           | 4.7   | 40,825                                   |
| Exercisable at June 30, 2016     | 941,442   | 27.17                           | 3.9   | 40,501                                   |

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, |       |
|-------------------------|---------------------------|-------|
|                         | 2016                      | 2015  |
| Dividend yield          | 0.26%                     | 0.14% |
| Risk-free interest rate | 1.47%                     | 1.82% |
| Stock price volatility  | 26.9%                     | 27.3% |
| 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 and 2000 Plans, 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 and be awarded ranging from 0% to 200% of the initial incentive stock units granted. The incentive stock units included in the table below represent the number of shares that are expected to vest based on the Company's estimate for meeting those established performance targets. As of June 30, 2016, the Company estimates that it will achieve 119%, 92% and 100% for the incentive stock awards expected to vest based on performance for the three-year periods ending December 31, 2016, 2017, and 2018, respectively, and has recorded incentive compensation expense accordingly. If our estimate of the number of these 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, 2016:

|  | Restricted<br>Stock<br>and Units | Incentive<br>Stock<br>Awards | Weighted<br>Average<br>Grant<br>Date Fair<br>Value |
|--|----------------------------------|------------------------------|--|
| Outstanding at December 31, 2015                       | 356,885                          | 541,638                      | \$ 65.89   |
| Granted  | 142,891                          | 167,850                      | 62.20  |
| Vested   | (148,753)                        | (236,591)                    | 52.12  |
| Adjustment for incentive stock awards expected to vest | —                                | (27,784)                     | 73.28  |
| Canceled   | (7,519)                          | (5,283)                      | 70.48  |
| Outstanding at June 30, 2016                           | 343,504                          | 439,830                      | 70.85  |

#### 10. INCOME TAXES

The overall effective income tax rate was 28.8% and 30.2% for the three and six months ended June 30, 2016, respectively, and 32.3% and 32.1% for the three and six months ended June 30, 2015, respectively. For the three and six months ended June 30, 2016, the decrease in the effective rate is primarily the result of a lower earnings mix in higher tax rate jurisdictions.

As of June 30, 2016 and December 31, 2015, the liability for income taxes associated with uncertain tax positions was \$10.6 million, of which \$4.3 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, 2016, the total accrued interest and penalties are \$2.3 million and \$0.2 million, respectively. As of December 31, 2015, the total accrued interest and penalties were \$2.0 million and \$0.2 million, respectively.

At this time, the Company believes that it is reasonably possible that unrecognized tax benefits of approximately \$2.1 million may change within the next 12 months due to the expiration of statutory review periods and current examinations. With limited exception, the Company is no longer subject to examination by various U.S. and foreign taxing authorities for years before 2012.

## 11. 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,           |           |
|   | 2016               | 2015      |
| Numerator   |                    |           |
| Numerator for basic and diluted earnings per common share - net income attributable to Wabtec shareholders  | \$90,485           | \$101,504 |
| Less: dividends declared - common shares and non-vested restricted stock                                    | (7,209 )           | (5,799 )  |
| Undistributed earnings  | 83,276             | 95,705    |
| Percentage allocated to common shareholders (1)   | 99.7 %             | 99.7 %    |
|   | 83,026             | 95,418    |
| Add: dividends declared - common shares   | 7,189              | 5,782     |
| Numerator for basic and diluted earnings per common share   | \$90,215           | \$101,200 |
| Denominator   |                    |           |
| Denominator for basic earnings per common share - weighted average shares                                   | 89,846             | 96,338    |
| Effect of dilutive securities:  |                    |           |
| Assumed conversion of dilutive stock-based compensation plans   | 713                | 1,097     |
| Denominator for diluted earnings per common share - adjusted weighted average shares and assumed conversion | 90,559             | 97,435    |
| Net income per common share attributable to Wabtec shareholders   |                    |           |
| Basic   | \$1.00             | \$1.05    |
| Diluted   | \$1.00             | \$1.04    |
| (1) Basic weighted-average common shares outstanding  | 89,846             | 96,338    |
| Basic weighted-average common shares outstanding and non-vested restricted stock expected to vest           | 90,101             | 96,620    |
| Percentage allocated to common shareholders   | 99.7 %             | 99.7 %    |

| In thousands, except per share data   | Six Months Ended |            |
|---|------------------|------------|
|   | June 30,         |            |
|   | 2016             | 2015       |
| Numerator   |                  |            |
| Numerator for basic and diluted earnings per common share - net income attributable to Wabtec shareholders  | \$ 184,648       | \$ 197,668 |
| Less: dividends declared - common shares and non-vested restricted stock                                    | (14,565 )        | (11,580 )  |
| Undistributed earnings  | 170,083          | 186,088    |
| Percentage allocated to common shareholders (1)   | 99.7 %           | 99.6 %     |
|   | 169,573          | 185,344    |
| Add: dividends declared - common shares   | 14,520           | 11,539     |
| Numerator for basic and diluted earnings per common share   | \$ 184,093       | \$ 196,883 |
| Denominator   |                  |            |
| Denominator for basic earnings per common share - weighted average shares                                   | 90,832           | 96,066     |
| Effect of dilutive securities:  |                  |            |
| Assumed conversion of dilutive stock-based compensation plans   | 796              | 1,046      |
| Denominator for diluted earnings per common share - adjusted weighted average shares and assumed conversion | 91,628           | 97,112     |
| Net income per common share attributable to Wabtec shareholders   |                  |            |
| Basic   | \$ 2.03          | \$ 2.05    |
| Diluted   | \$ 2.02          | \$ 2.03    |
| (1) Basic weighted-average common shares outstanding  | 90,832           | 96,066     |
| Basic weighted-average common shares outstanding and non-vested restricted stock expected to vest           | 91,111           | 96,406     |
| Percentage allocated to common shareholders   | 99.7 %           | 99.6 %     |

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.

## 12. WARRANTIES

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

| In thousands  | Six Months Ended |           |
|---|------------------|-----------|
|   | June 30,         |           |
|   | 2016             | 2015      |
| Balance at December 31, 2015 and 2014, respectively | \$92,064         | \$87,849  |
| Warranty expense                                    | 17,853           | 14,043    |
| Acquisitions  | 7,547            | 6,001     |
| Warranty claim payments                             | (20,422 )        | (10,538 ) |
| Foreign currency impact/other                       | (696 )           | (702 )    |
| Balance at June 30, 2016 and 2015, respectively     | \$96,346         | \$96,653  |

## 13. 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. At June 30, 2016, the Company had outstanding foreign exchange contracts with a notional value of \$10.8 million. The fair value of these hedges was a net liability of \$0.7 million at June 30, 2016. The notional amount and fair value of foreign exchange contracts at December 31, 2015 was not material. The contracts are scheduled to mature within two years. For the period ended June 30, 2016, the amount reclassified into income was not material.

**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. See long-term debt footnote fair value measurement footnote for further information on current interest rate swaps. As of June 30, 2016, the Company has recorded a current liability of \$6.6 million and a corresponding offset in accumulated other comprehensive loss of \$4.0 million, net of tax, related to these agreements.

**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. At June 30, 2016, the Company maintained foreign currency contracts with a notional value of \$21.1 million. 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 loss related to these contracts was \$1.3 million for the period ended June 30, 2016. The notional amount and fair value of foreign exchange contracts that did not meet the criteria for hedge accounting at December 31, 2015 was not material. These contracts are scheduled to mature within one year.

#### 14. 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, 2016, which are included in other current liabilities on the Condensed Consolidated Balance sheet:

| In thousands                  | Total Carrying Value at June 30, 2016 | Fair Value Measurements at June 30, 2016 Using                 |   |   |
|-------------------------------|---------------------------------------|--|---|---|
|                               |                                       | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Interest rate swap agreements | \$ 6,592                              | \$ —   | \$ 6,592                                      | \$ —                                      |
| Total                         | \$ 6,592                              | \$ —   | \$ 6,592                                      | \$ —                                      |

The following table provides the liabilities carried at fair value measured on a recurring basis as of December 31, 2015, which is included in other current liabilities on the Condensed Consolidated Balance sheet:

| In thousands                  | Total<br>Carrying<br>Value at<br>December 31,<br>2015 | Fair Value Measurements at<br>December 31, 2015 Using<br>Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) |  | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|-------------------------------|---|--|--|--|
|                               |   | Other<br>Observable<br>Inputs<br>(Level 2)   | Significant<br>Unobservable<br>Inputs<br>(Level 3) |  |
| Interest rate swap agreements | \$ 4,474  | \$ —   | \$ 4,474   | \$ —   |
| Total                         | \$ 4,474  | \$ —   | \$ 4,474   | \$ —   |

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, 2016 and December 31, 2015. 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 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, 2016 |            | December 31, 2015 |            |
|------------------------------|---------------|------------|-------------------|------------|
|                              | Carry Value   | Fair Value | Carry Value       | Fair Value |
| Interest rate swap agreement | \$6,592       | \$6,592    | \$4,474           | \$4,474    |
| 4.375% Senior Notes          | 248,182       | 267,613    | 248,053           | 254,075    |

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

## 15. 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, 2015, in Note 19 therein, filed on February 19, 2016. During the first six months of 2016, there were no material changes to the information described in the Form 10-K.

The Company is also subject to litigation from time to time arising out of its 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, 2015, in Note 19 therein, filed on February 19, 2016. Except as described below, there have been no material changes to the information described in the Form 10-K.

On April 21, 2016, Siemens Industry, Inc. (Siemens) filed a lawsuit against the Company in federal district court in Delaware alleging that the Company has infringed seven (7) patents owned by Siemens, all of which are related to Positive Train Control technology. Wabtec filed its answer to the complaint on June 17, 2016. The case is in a very preliminary stage. Wabtec believes the claims are without merit and intends to vigorously defend itself.

## 16. 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, friction products, 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 subway cars and buses, builds new commuter locomotives, friction products, and refurbishes subway cars. 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. 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, 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 three months ended June 30, 2015 is as follows:

| In thousands                                      | Freight Segment | Transit Segment | Corporate Activities and Elimination | Total     |
|---|-----------------|-----------------|--------------------------------------|-----------|
| Sales to external customers                       | \$534,674       | \$312,354       | \$—                                  | \$847,028 |
| Intersegment sales/(elimination)                  | 9,029           | 2,799           | (11,828 )                            | —         |
| Total sales                                       | \$543,703       | \$315,153       | \$(11,828 )                          | \$847,028 |
| Income (loss) from operations                     | \$125,232       | \$37,514        | \$(6,886 )                           | \$155,860 |
| Interest expense and other, net                   | —               | —               | (5,928 )                             | (5,928 )  |
| Income (loss) from operations before income taxes | \$125,232       | \$37,514        | \$(12,814 )                          | \$149,932 |

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   |

Segment financial information for the six months ended June 30, 2015 is as follows:

| In thousands                                      | Freight Segment | Transit Segment | Corporate Activities and Elimination | Total       |
|---|-----------------|-----------------|--------------------------------------|-------------|
| Sales to external customers                       | \$1,046,561     | \$619,061       | \$—                                  | \$1,665,622 |
| Intersegment sales/(elimination)                  | 17,957          | 5,383           | (23,340 )                            | —           |
| Total sales                                       | \$1,064,518     | \$624,444       | \$(23,340 )                          | \$1,665,622 |
| Income (loss) from operations                     | \$236,801       | \$78,937        | \$(11,458 )                          | \$304,280   |
| Interest expense and other, net                   | —               | —               | (13,100 )                            | (13,100 )   |
| Income (loss) from operations before income taxes | \$236,801       | \$78,937        | \$(24,558 )                          | \$291,180   |

Sales by product are as follows:

| In thousands                      | Three Months Ended June 30, |           |
|-----------------------------------|-----------------------------|-----------|
|                                   | 2016                        | 2015      |
| Specialty Products & Electronics  | \$339,188                   | \$448,292 |
| Remanufacturing, Overhaul & Build | 156,981                     | 151,859   |
| Brake Products                    | 141,979                     | 159,034   |
| Other Transit Products            | 49,643                      | 50,864    |
| Other                             | 35,810                      | 36,979    |
| Total sales                       | \$723,601                   | \$847,028 |

| In thousands                      | Six Months Ended June 30, |             |
|-----------------------------------|---------------------------|-------------|
|                                   | 2016                      | 2015        |
| Specialty Products & Electronics  | \$717,457                 | \$873,829   |
| Remanufacturing, Overhaul & Build | 315,014                   | 288,549     |
| Brake Products                    | 293,885                   | 326,431     |
| Other Transit Products            | 98,438                    | 97,667      |
| Other                             | 70,838                    | 79,146      |
| Total sales                       | \$1,495,632               | \$1,665,622 |

## 17. OTHER INCOME (EXPENSE), NET

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

|                                      | Three Months      |           | Six Months Ended |           |
|--------------------------------------|-------------------|-----------|------------------|-----------|
|                                      | Ended<br>June 30, |           | June 30,         |           |
| In thousands                         | 2016              | 2015      | 2016             | 2015      |
| Foreign currency loss                | \$(1,530)         | \$(1,541) | \$(1,368)        | \$(3,935) |
| Other miscellaneous income (expense) | 301               | (346)     | 293              | (818)     |
| Total other expense, net             | \$(1,229)         | \$(1,887) | \$(1,075)        | \$(4,753) |

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, 2015, filed with the Securities and Exchange Commission on February 19, 2016.

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 20 countries. In the first six months of 2016, about 50% 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 Performance System, and increase revenues through a focused growth strategy, including global and market expansion, new products and technologies, 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 monitors a variety of factors and statistics to gauge activity in key freight rail and passenger transit markets such as North and South America, Europe and Asia-Pacific. In these and other markets, the freight rail industry is largely driven by general economic conditions, which can cause fluctuations in rail traffic and the level of investment spending by railroads and governments to expand, upgrade, and modernize their networks. Based on those fluctuations, railroads and governments can increase or decrease purchases of new locomotives and freight cars, and spending on rail-related infrastructure. The passenger transit industry is driven mainly by the spending of government agencies and authorities as they maintain, expand and modernize their transit systems. In doing so, they will increase or decrease spending on new locomotives, transit/subway cars, buses and related infrastructure. Fare box revenues, the fees paid by riders to use public transit, also provide funding for maintaining and operating the systems. Many government entities at all levels are facing budget issues, which could have a negative effect on demand for the Company's products and services.

In North America, the Association of American Railroads ("AAR") compiles freight rail industry statistics such as carloadings, generally referred to as "rail traffic," and the Railway Supply Institute ("RSI") releases data on freight car orders, deliveries, and backlog. Through the first six months of 2016, rail traffic in North America was down about 7%. According to the RSI, at the end of the second quarter of 2016, the industry multi-year backlog of freight cars on order was about 89,000, slightly lower than at the end of the first quarter of 2016. In 2015, deliveries of new freight cars and locomotives were about 82,000 units and 1,200 units, respectively. In 2016, the Company expects the deliveries of new freight cars and locomotives to be approximately 60,000 units and 900 units, respectively. Future demand depends largely on the strength in the overall economy and in rail traffic volumes.

The American Public Transportation Association ("APTA") provides quarterly transit ridership statistics for the U.S. and Canada. For the first quarter of 2016 ridership was up slightly in the U.S. and down slightly in Canada. In the fourth quarter of 2015, the U.S. Congress passed a new, five-year transportation funding bill, which includes annual spending increases and some funding for Positive Train Control ("PTC") projects. The Company expects deliveries of new subway cars to increase in 2016, while bus deliveries are expected to be about the same compared to 2015.

In 2008, the U.S. federal government enacted a rail safety bill that mandates the use of PTC technology, which includes on-board locomotive computer and related software, on a majority of the locomotives and track in the U.S. With our Electronic Train Management System<sup>®</sup>, we are the leading supplier of this on-board train control equipment, and we are working with the U.S. Class I railroads, commuter rail authorities and other industry suppliers to implement this technology. In 2015, the U.S. Congress extended the deadline for PTC implementation until December

31, 2018, which has slowed the rate of industry spending on this technology. Wabtec's Train Control and Signaling revenue, which includes PTC, was about \$196 million for the six months ended June 30, 2016.

Wabtec continues to expand its presence in freight rail and passenger transit markets outside the U.S., particularly in Europe, Asia-Pacific and South America. In Europe, the majority of the rail system serves the passenger transit market, which is larger than the transit market in the U.S. Our presence in the U.K., Germany and Italy has positioned the Company to take advantage of this market. Asia-Pacific is a growth market and our various joint ventures and direct exports to China have positioned the Company to take advantage of this growth. Important freight rail markets include Australia, Brazil, Russia and South Africa.

Current conditions in these international markets vary based on general economic factors and specific freight rail and passenger transit drivers, as mentioned above. In its most recent quarterly data, the Office of Rail Regulation in the U.K. reported an increase in passenger ridership of about 1% and a 27% decrease in freight moved, mainly due to reduced shipments of coal. In Germany, the government statistics bureau reported a slight increase for passenger rail and bus ridership in 2015. Russian Railways announced a decrease of almost 1% in passenger ridership in the first half of 2016 compared to the year-ago period, and it said freight tons loaded were 1.8% higher than the year-ago period.

In 2016 and beyond, general economic and market conditions in our key markets could have an impact on our sales and operations. To the extent that these factors cause instability of capital and debt 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.

#### PROPOSED TRANSACTION WITH FAIVELEY TRANSPORT S.A.

On July 27, 2015, the Company announced plans to acquire Faiveley Transport S.A. ("Faiveley Transport"), 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 & Safety (braking systems and couplers).

The transaction has been structured in three steps:

- Wabtec made an irrevocable offer to the owners of approximately 51% of Faiveley Transport's shares for a purchase price of €100 per share, payable 25% in cash and 75% in Wabtec preferred stock. The preferred stock will have a 1% annual dividend or, if greater, the annual dividend assuming full conversion into common shares, and must be converted after three years into Wabtec common shares at an implied ratio of one Faiveley Transport common share for 1.125 Wabtec common shares. Shareholders owning 51% of Faiveley Transport have entered into exclusive discussions with Wabtec.

- Upon completion of required labor group consultations, on October 6, 2015, the 51% shareholders entered into a definitive share purchase agreement and Faiveley Transport entered into an acquisition agreement with Wabtec.

Upon completing the share purchase, Wabtec will commence a tender offer for the remaining publicly traded Faiveley Transport shares. The public shareholders will have the option to elect to receive €100 per share in cash or Wabtec preferred stock. The preferred stock portion of the consideration is subject to a cap of 75% of Faiveley Transport's common shares. Wabtec intends to delist Faiveley Transport from Euronext after the tender offer if minority interests represent less than 5%.

The total purchase price offered is about \$1.8 billion, including assumed debt. Wabtec plans to fund the cash portion of the transaction with cash on hand, existing credit facilities and potentially other debt financing. Prior to December 31, 2015, Wabtec set aside €186.9 million as an escrow deposit for the Faiveley Transport purchase. The combination of Wabtec and Faiveley Transport would create one of the world's largest public rail equipment companies, with revenues of about \$4.5 billion and a presence in all key freight rail and passenger transit geographies worldwide.

Closing of the transaction is subject to various conditions, including completion of regulatory requirements. These steps are currently on-going and the timing of completion is unknown.





## 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,           | 2015       | June 30,         | 2015         |
| Net sales                                      | \$723,601          | \$847,028  | \$1,495,632      | \$1,665,622  |
| Cost of sales                                  | (486,212 )         | (579,264 ) | (1,003,063 )     | (1,142,503 ) |
| Gross profit                                   | 237,389            | 267,764    | 492,569          | 523,119      |
| Selling, general and administrative expenses   | (80,610 )          | (88,992 )  | (170,361 )       | (173,763 )   |
| Engineering expenses                           | (18,029 )          | (17,750 )  | (35,982 )        | (34,613 )    |
| Amortization expense                           | (5,466 )           | (5,162 )   | (10,761 )        | (10,463 )    |
| Total operating expenses                       | (104,105 )         | (111,904 ) | (217,104 )       | (218,839 )   |
| Income from operations                         | 133,284            | 155,860    | 275,465          | 304,280      |
| Interest expense, net                          | (4,969 )           | (4,041 )   | (9,840 )         | (8,347 )     |
| Other expense, net                             | (1,229 )           | (1,887 )   | (1,075 )         | (4,753 )     |
| Income from operations before income taxes     | 127,086            | 149,932    | 264,550          | 291,180      |
| Income tax expense                             | (36,601 )          | (48,428 )  | (79,902 )        | (93,512 )    |
| Net income attributable to Wabtec shareholders | \$90,485           | \$101,504  | \$184,648        | \$197,668    |

## SECOND QUARTER 2016 COMPARED TO SECOND QUARTER 2015

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

| In thousands                                   | Three Months Ended June 30, |           |                |
|--|-----------------------------|-----------|----------------|
|  | 2016                        | 2015      | Percent Change |
| Freight Segment                                | \$397,067                   | \$534,674 | (25.7)%        |
| Transit Segment                                | 326,534                     | 312,354   | 4.5 %          |
| Net sales                                      | 723,601                     | 847,028   | (14.6)%        |
| Income from operations                         | 133,284                     | 155,860   | (14.5)%        |
| Net income attributable to Wabtec shareholders | \$90,485                    | \$101,504 | (10.9)%        |

The following table shows the major components of the change in sales in the second quarter of 2016 from the second quarter of 2015:

| In thousands                      | Freight Segment | Transit Segment | Total      |
|-----------------------------------|-----------------|-----------------|------------|
| Second Quarter 2015 Net Sales     | \$534,674       | \$312,354       | \$847,028  |
| Acquisitions                      | 10,521          | 6,246           | 16,767     |
| Change in Sales by Product Line:  |                 |                 |            |
| Remanufacturing, Overhaul & Build | (1,269 )        | 11,546          | 10,277     |
| Other Transit Products            | —               | (1,287 )        | (1,287 )   |
| Other                             | (7,108 )        | 302             | (6,806 )   |
| Brake Products                    | (15,249 )       | (1,519 )        | (16,768 )  |
| Specialty Products & Electronics  | (120,974 )      | 4,549           | (116,425 ) |
| Foreign exchange                  | (3,528 )        | (5,657 )        | (9,185 )   |
| Second Quarter 2016 Net Sales     | \$397,067       | \$326,534       | \$723,601  |

Net sales for the three months ended June 30, 2016 decreased by \$123.4 million or 14.6% to \$723.6 million from \$847.0 million. The decrease is primarily due to lower sales for Specialty Products and Electronics of \$116.4 million and lower Brake Products sales of \$16.8 million due to decreased demand for freight products as well as train control and signaling products and

services. This decrease was partially offset by higher sales for Remanufacturing, Overhaul and Build of \$10.3 million due to higher demand for aftermarket locomotive builds. Acquisitions increased sales \$16.8 million and unfavorable foreign exchange decreased sales \$9.2 million.

Freight Segment sales decreased by \$137.6 million, or 25.7%, primarily due to a decrease of \$121.0 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 and a decrease of \$15.2 million for Brake Products sales from lower demand for original equipment brakes for freight customers. Acquisitions increased sales by \$10.5 million and unfavorable foreign exchange decreased sales by \$3.5 million.

Transit Segment sales increased by \$14.2 million, or 4.5%, primarily due to higher sales for Remanufacturing, Overhaul and Build products due to higher demand for aftermarket locomotive builds. Acquisitions increased sales by \$6.2 million and unfavorable foreign exchange decreased sales by \$5.7 million.

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

| In thousands        | Three Months Ended June 30, 2016 |                     |   |           |                     |   |           |                     |   |
|---------------------|----------------------------------|---------------------|---|-----------|---------------------|---|-----------|---------------------|---|
|                     | 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                | % |

| In thousands        | Three Months Ended June 30, 2015 |                     |   |           |                     |   |           |                     |   |
|---------------------|----------------------------------|---------------------|---|-----------|---------------------|---|-----------|---------------------|---|
|                     | Freight                          | Percentage of Sales |   | Transit   | Percentage of Sales |   | Total     | Percentage of Sales |   |
| Material            | \$222,501                        | 41.6                | % | \$132,014 | 42.3                | % | \$354,515 | 41.9                | % |
| Labor               | 57,950                           | 10.8                | % | 38,824    | 12.4                | % | 96,774    | 11.4                | % |
| Overhead            | 74,782                           | 14.0                | % | 44,308    | 14.2                | % | 119,090   | 14.1                | % |
| Other/Warranty      | 1,557                            | 0.3                 | % | 7,328     | 2.3                 | % | 8,885     | 1.0                 | % |
| Total cost of sales | \$356,790                        | 66.7                | % | \$222,474 | 71.2                | % | \$579,264 | 68.4                | % |

Cost of Sales decreased by \$93.1 million to \$486.2 million in the second quarter of 2016 compared to \$579.3 million in the same period of 2015. In the second quarter of 2016, cost of sales as a percentage of sales was 67.2% compared to 68.4% in the same period of 2015. The decrease as a percentage of sales is due to contributions from cost reduction initiatives and improved margin performance from prior year acquisitions.

Freight Segment cost of sales decreased 1.5% as a percentage of sales to 65.2% in 2016 compared to 66.7% for the same period in 2015. The decrease is primarily related to product sales with lower material content, lower overall material costs due to on-going sourcing efforts, and decreases in various commodity prices.

Transit Segment cost of sales decreased 1.4% as a percentage of sales to approximately 69.8% in the second quarter of 2016 from 71.2% for the same period of 2015. The decrease is primarily related to improved margin performance from prior years acquisitions and the benefits of ongoing cost reduction efforts. The change between material and labor costs is a direct result of higher remanufacturing, overhaul and build revenue which carries higher labor and lower material content as a percentage of sales.

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 \$7.0 million in the second quarter of 2016 compared to \$7.7 million in the second quarter of 2015.

Gross profit for the three months ended June 30, 2016 decreased \$30.4 million to \$237.4 million from \$267.8 million in the previous year's quarter. The gross profit margin increased 120 basis points to 32.8% from 31.6% at June 30, 2015. The decrease is due lower sales volume, however, the improvement in the gross profit margin is due to ongoing cost reduction initiatives aimed at increasing our competitiveness in an increasing challenging global economy, as well as the reasons discussed above.

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

| In thousands                                 | Three Months Ended June 30, |                     |   |           |                     |   |
|--|-----------------------------|---------------------|---|-----------|---------------------|---|
|  | 2016                        | Percentage of Sales |   | 2015      | Percentage of Sales |   |
| Selling, general and administrative expenses | \$80,610                    | 11.1                | % | \$88,992  | 10.5                | % |
| Engineering expenses                         | 18,029                      | 2.5                 | % | 17,750    | 2.1                 | % |
| Amortization expense                         | 5,466                       | 0.8                 | % | 5,162     | 0.6                 | % |
| Total operating expenses                     | \$104,105                   | 14.4                | % | \$111,904 | 13.2                | % |

Total operating expenses were 14.4% and 13.2% of sales for the second quarters of 2016 and 2015, respectively. Selling, general, and administrative expenses decreased \$8.4 million, or 9.4%, primarily due to lower sales volume, reduced incentive compensation expense and benefits associated with the cost saving initiative undertaken in 2016. These reductions were partially offset by \$5.8 million of costs related to the Faiveley transaction and \$0.4 million of costs related to restructuring activity. Engineering expense increased by \$0.3 million, or 1.6%, primarily related to acquisitions. Amortization expense increased \$0.3 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, |          |                |
|--------------------------|-----------------------------|----------|----------------|
|                          | 2016                        | 2015     | Percent Change |
| Freight Segment          | \$44,464                    | \$52,482 | (15.3)%        |
| Transit Segment          | 48,461                      | 52,536   | (7.8)%         |
| Corporate                | 11,180                      | 6,886    | 62.4%          |
| Total operating expenses | 104,105                     | 111,904  | (7.0)%         |

Freight Segment operating expenses decreased \$8.0 million, or 15.3%, in 2016 and increased 140 basis points to 11.2% of sales. The decrease is primarily attributable to reduced sales volumes and lower costs associated with cost saving initiatives undertaken in 2016 partially offset by \$1.5 million of incremental operating expenses from acquisitions.

Transit Segment operating expenses decreased \$4.1 million, or 7.8%, in 2016 and decreased 200 basis points to 14.8% of sales. The decrease is primarily attributable to lower costs associated with cost saving initiatives undertaken in 2016 partially offset by \$0.6 million of incremental operating expenses from acquisitions.

Corporate non-allocated operating expenses increased \$4.3 million in 2016 primarily due to \$5.8 million of costs related to the Faiveley transaction partially offset by lower costs from cost saving initiatives.

Income from operations Income from operations totaled \$133.3 million or 18.4% of sales in the second quarter of 2016 compared to \$155.9 million or 18.4% of sales in the same period of 2015. Income from operations decreased due to lower sales volume partially offset by lower operating expenses as discussed above.

Interest expense, net Interest expense, net, increased \$0.9 million in 2016 primarily attributable to higher average debt balances relating to stock repurchases and the escrow deposit for the Faiveley acquisition.

Other income/(expense), net Other Expense, net, decreased \$0.7 million to \$1.2 million compared to \$1.9 million in 2015 due to lower currency losses in the current year.

Income taxes The effective income tax rate was 28.8% and 32.3% for the second quarter of 2016 and 2015, respectively. The decrease in the effective rate is primarily the result of a lower earnings mix in higher tax rate jurisdictions.



Net income for the second quarter of 2016 was \$90.5 million or \$1.00 per diluted share compared to \$101.5 million or \$1.04 per diluted share in the prior year quarter. The decrease in net income is due to lower income from operations for the reasons noted above, partially offset by a lower effective tax rate discussed above and lower shares outstanding.

#### FIRST SIX MONTHS OF 2016 COMPARED TO FIRST SIX MONTHS OF 2015

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

| In thousands                                   | Six months ended June 30, |             |                |
|--|---------------------------|-------------|----------------|
|  | 2016                      | 2015        | Percent Change |
| Freight Segment                                | \$839,736                 | \$1,046,561 | (19.8)%        |
| Transit Segment                                | 655,896                   | 619,061     | 6.0 %          |
| Net sales                                      | 1,495,632                 | 1,665,622   | (10.2)%        |
| Income from operations                         | 275,465                   | 304,280     | (9.5 )%        |
| Net income attributable to Wabtec shareholders | \$184,648                 | \$197,668   | (6.6 )%        |

The following table shows the major components of the change in sales in the first half of 2016 from the first half of 2015:

| In thousands                       | Freight Segment | Transit Segment | Total       |
|------------------------------------|-----------------|-----------------|-------------|
| First Six Months of 2015 Net Sales | \$1,046,561     | \$619,061       | \$1,665,622 |
| Acquisitions                       | 25,019          | 11,914          | 36,933      |
| Change in Sales by Product Line:   |                 |                 |             |
| Remanufacturing, Overhaul & Build  | 12,551          | 23,933          | 36,484      |
| Other Transit Products             | —               | 768             | 768         |
| Other                              | (18,921 )       | 747             | (18,174 )   |
| Brake Products                     | (21,296 )       | (7,558 )        | (28,854 )   |
| Specialty Products & Electronics   | (195,066 )      | 22,840          | (172,226 )  |
| Foreign exchange                   | (9,112 )        | (15,809 )       | (24,921 )   |
| First Six Months of 2016 Net Sales | \$839,736       | \$655,896       | \$1,495,632 |

Net sales for the six months ended June 30, 2016 decreased by \$170.0 million or 10.2% to \$1,495.6 million from \$1,665.6 million. The decrease is primarily due to lower sales for Specialty Products and Electronics of \$172.2 million and lower Brake Products sales of \$28.9 million due to decreased demand for freight products as well as for train control and signaling products and services. This decrease was partially offset by higher sales for Remanufacturing, Overhaul and Build of \$36.5 million due to higher demand for aftermarket locomotive builds. Acquisitions increased sales \$36.9 million and unfavorable foreign exchange decreased sales \$24.9 million.

Freight Segment sales decreased by \$206.8 million, or 19.8%, primarily due to a decrease of \$195.1 million for Specialty Products and Electronics sales from lower demand for freight original equipment rail products and train control and signaling products and a decrease of \$21.3 million for Brake Products sales from lower demand for original equipment brakes and aftermarket services. The decrease was partially offset by a \$12.6 million increase in Remanufacturing, Overhaul, and Build sales. Acquisitions increased sales by \$25.0 million and unfavorable foreign exchange decreased sales by \$9.1 million.

Transit Segment sales increased by \$36.8 million, or 5.9%, primarily due to an increase for Remanufacturing, Overhaul, and Build sales of \$23.9 million from higher demand for aftermarket locomotive builds, and a \$22.8 million increase for Specialty Products and Electronics. Acquisitions increased sales by \$11.9 million and unfavorable foreign exchange decreased sales by \$15.8 million.

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

| In thousands        | Six months ended June 30, 2016 |                     |   |           |                     |   |             |                     |   |
|---------------------|--------------------------------|---------------------|---|-----------|---------------------|---|-------------|---------------------|---|
|                     | 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                | % |
| In thousands        | Six months ended June 30, 2015 |                     |   |           |                     |   |             |                     |   |
|                     | Freight                        | Percentage of Sales |   | Transit   | Percentage of Sales |   | Total       | Percentage of Sales |   |
| Material            | \$440,628                      | 42.1                | % | \$260,075 | 42.0                | % | \$700,703   | 42.1                | % |
| Labor               | 112,535                        | 10.8                | % | 77,988    | 12.6                | % | 190,523     | 11.4                | % |
| Overhead            | 142,131                        | 13.6                | % | 88,980    | 14.4                | % | 231,111     | 13.9                | % |
| Other/Warranty      | 9,513                          | 0.9                 | % | 10,653    | 1.7                 | % | 20,166      | 1.2                 | % |
| Total cost of sales | \$704,807                      | 67.4                | % | \$437,696 | 70.7                | % | \$1,142,503 | 68.6                | % |

Cost of Sales decreased by \$139.4 million to \$1,003.1 million in the first six months of 2016 compared to \$1,142.5 million in the same period of 2015. In the first six months of 2016, cost of sales as a percentage of sales was 67.2% compared to 68.6% in the same period of 2015. The decrease as a percentage of sales is due contributions from cost reduction initiatives and improved margin performance from prior year acquisitions.

Freight Segment cost of sales decreased 2.8% as a percentage of sales to 64.6% in 2016 compared to 67.4% for the same period in 2015. The decrease is primarily related to product sales with lower material content, lower overall material costs due to ongoing sourcing efforts, and decreases in various commodity prices.

Transit Segment cost of sales decreased 0.4% as a percentage of sales to approximately 70.3% in the first half of 2016 from 70.7% for the same period of 2015. The decrease is primarily due to better margin performance from prior year acquisitions and ongoing sourcing savings.

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 \$17.9 million in the first six months of 2016 compared to \$14.0 million in the first half of 2015.

Gross profit for the six months ended June 30, 2016 decreased \$30.6 million to \$492.6 million from \$523.1 million in the first six months of 2015. The gross profit margin increased 150 basis points to 32.9% from 31.4% at June 30, 2015. The decrease is due lower sales volume, however, the improvement in the gross profit margin is due to ongoing cost reduction initiatives aimed at increasing our competitiveness in an increasing challenging global economy, as well as favorable performance discussed above.

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

| In thousands                                 | Six months ended June 30, |                           |   |           |                           |   |
|--|---------------------------|---------------------------|---|-----------|---------------------------|---|
|  | 2016                      | Percentage<br>of<br>Sales |   | 2015      | Percentage<br>of<br>Sales |   |
| Selling, general and administrative expenses | \$170,361                 | 11.4                      | % | \$173,763 | 10.4                      | % |
| Engineering expenses                         | 35,982                    | 2.4                       | % | 34,613    | 2.1                       | % |
| Amortization expense                         | 10,761                    | 0.7                       | % | 10,463    | 0.6                       | % |
| Total operating expenses                     | \$217,104                 | 14.5                      | % | \$218,839 | 13.1                      | % |

Total operating expenses were 14.5% and 13.1% of sales for the first six months of 2016 and 2015, respectively. Selling, general, and administrative expenses decreased \$3.4 million, or 2.0%, primarily due to lower sales volume, reduced costs for incentive compensation, and benefits associated with the cost saving initiative undertaken in 2016. These reductions were partially offset by \$9.4 million of costs related to the Faiveley acquisition and \$1.9 million in costs related to restructuring activity. Engineering expense increased by \$1.4 million, or 4.0%, primarily due to \$0.8 million of expenses from acquisitions. The remainder of the increase can be attributed to the company concentrating resources on new product development. Amortization expense increased \$0.3 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, |           |                   |
|--------------------------|---------------------------|-----------|-------------------|
|                          | 2016                      | 2015      | Percent<br>Change |
| Freight Segment          | \$95,274                  | \$104,640 | (9.0)%            |
| Transit Segment          | 101,146                   | 102,740   | (1.6)%            |
| Corporate                | 20,684                    | 11,459    | 80.5%             |
| Total operating expenses | 217,104                   | 218,839   | (0.8)%            |

Freight Segment operating expenses decreased \$9.4 million, or 9.0%, in 2016 and increased 130 basis points to 11.3% of sales. The decrease is primarily attributable to reduced sales volumes and lower costs associated with the cost saving initiative undertaken in 2016 partially offset by \$2.9 million of incremental operating expenses from acquisitions.

Transit Segment operating expenses decreased \$1.6 million, or 1.6%, in 2016 and decreased 120 basis points to 15.4% of sales. The decrease is primarily attributable to lower costs associated with cost saving initiatives undertaken in 2016 partially offset by \$1.2 million of incremental operating expenses from acquisitions.

Corporate non-allocated operating expenses increased \$9.2 million in the first six months of 2016 primarily due to \$10.7 million of costs related to the Faiveley acquisition partially offset by cost reductions associated with cost saving initiatives in 2016.

Income from operations Income from operations totaled \$275.5 million or 18.4% of sales in the first half of 2016 compared to \$304.3 million or 18.3% of sales in the same period of 2015. Income from operations decreased due to lower sales volume partially offset by lower operating expenses as discussed above.

Interest expense, net Interest expense, net, increased \$1.5 million in 2016 due primarily to higher average debt balances resulting from stock repurchases and the escrow deposit for the Faiveley acquisition.

Other income/(expense), net Other Expense, net, decreased \$3.7 million to \$1.1 million primarily due to lower currency transaction losses in the current year.

Income taxes The effective income tax rate was 30.2% and 32.1% for the first six months of 2016 and 2015, respectively. The decrease in the effective rate is primarily the result of a lower earnings mix in higher tax rate jurisdictions.



Net income Net income for the first six months of 2016 was \$184.6 million or \$2.02 per diluted share compared to \$197.7 million or \$2.03 per diluted share in the prior year quarter. The decrease in net income is due to lower income from operations for the reasons noted above, partially offset by a lower effective tax rate discussed above and lower shares outstanding.

#### 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,         |             |
|                              | 2016             | 2015        |
| Cash provided by (used for): |                  |             |
| Operating activities         | \$213,976        | \$110,926   |
| Investing activities         | (40,202 )        | (120,790 )  |
| Financing activities         | (102,157 )       | (143,637 )  |
| Increase/(decrease) in cash  | \$76,744         | \$(161,005) |

Operating activities In the first six months of 2016 and 2015, cash provided by operations was \$214.0 million and \$110.9 million, respectively. In comparison to the first six months of 2015, cash provided by operations in 2016 increased due to favorable working capital performance. The major components of the higher cash inflows were as follows: a favorable change in accounts receivable of \$33.6 million due to a decline in sales volume coupled with ongoing collection efforts, a favorable change in accrued liabilities and accounts payable of \$30.6 million and \$11.3 million, respectively, both due to payment timing, and a favorable change in inventory of \$14.6 million due to successful efforts to control the amount of inventory on hand. These cash outflows were partially offset by lower operating results of \$13.0 million.

Investing activities In the first six months of 2016 and 2015, cash used in investing activities was \$40.2 million and \$120.8 million, respectively. The major components of the cash outflow in 2016 were \$21.3 million in net cash paid for acquisitions and \$19.1 million in planned additions to property, plant and equipment for investments in our facilities and manufacturing processes. This compares to \$100.1 million in net cash paid for acquisitions and \$20.9 million in property, plant, and equipment for investments in the first six months of 2015. Refer to Note 4 of the "Notes to Condensed Consolidated Financial Statements" for additional information on acquisitions.

Financing activities In the first six months of 2016, cash used for 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, \$14.6 million of dividend payments, \$133.7 million for the repurchase of 1,950,000 shares of stock and \$9.0 million related to the payment of income tax withholding on share based compensation. In the first six months of 2015, cash provided by financing activities was \$143.6 million, which included \$174.3 million in proceeds from the revolving credit facility, \$294.6 million in repayments of debt on the revolving credit facility, \$14.6 million related to payment of income tax withholding on share based compensation, and \$11.6 million of dividend payments.

#### 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 2016, the Company repurchased 1,950,000, leaving \$216.0 million under the authorization. There were no repurchases in the second quarter of 2016. The Company intends to purchase shares on the open market or in negotiated or block trades. 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.

#### Contractual Obligations and Off-Balance Sheet Arrangements

As of June 30, 2016, the Company has recognized a total liability of \$10.6 million for unrecognized tax benefits related to uncertain tax positions. At this time, the Company is unable to make a reasonably reliable estimate of the timing of cash



settlement for any of the unrecognized tax benefits due to the uncertainty of the timing and outcome of its audits and other factors.

Since December 31, 2015, there have been no other significant changes in the total amount of the Company's contractual obligations or the timing of cash flows in accordance with those obligations, as reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

#### 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, power generation equipment 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, asbestos-related matters and pension liabilities or warranty, product liability or intellectual property claims;

• completion and integration of acquisitions; 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 PTC;

uncertainty relating to the United Kingdom's continued membership in the European Union;

federal and state income tax legislation; or

the outcome of negotiations with partners, governments, suppliers, customers or others.

Statements in this 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, 2015.

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, 2015. 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, 2015.

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 47% and 42% of total long-term debt at June 30, 2016 and December 31, 2015, 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 7 – 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 2016, approximately 50% of Wabtec's net sales were to customers in the United States, 11% in the United Kingdom, 8% in Canada, 6% in Mexico, 3% in China, 3% in Germany, 2% in Australia, 2% in Brazil, and 15% 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 3 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, 2016. 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, 2016, 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, 2015.

On April 21, 2016, Siemens Industry, Inc. (Siemens) filed a lawsuit against the Company in federal district court in Delaware alleging that the Company has infringed seven (7) patents owned by Siemens, all of which are related to Positive Train Control technology. Wabtec filed its answer to the complaint on June 17, 2016. The case is in a very preliminary stage. Wabtec believes the claims are without merit and intends to vigorously defend itself.

### 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, 2015.

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

On February 9, 2016, the Board of Directors amended its stock repurchase authorization to \$350.0 million of the Company's outstanding shares. During the first six months of 2016, the Company repurchased 1,950,000 shares, leaving \$216.0 million under the authorization. There were no repurchase in the second quarter of 2016.

The Company intends to purchase shares on the open market or in negotiated or block trades. 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:

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,  
Senior Vice President Finance and  
Chief Financial Officer

(Duly Authorized Officer and Principal  
Financial Officer)

DATE: July 28, 2016

EXHIBIT INDEX

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