

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

**FORM 10-Q**

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

For the quarterly period ended March 31, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 033-90866

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES  
CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

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

25-1615902  
(I.R.S. Employer  
Identification No.)

15148  
(Zip code)

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

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

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

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

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

|                         |                                     |                           |                          |                       |                          |   |
|-------------------------|-------------------------------------|---------------------------|--------------------------|-----------------------|--------------------------|---|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> | Non-accelerated filer | <input type="checkbox"/> | (Do not check if smaller reporting company) |
| Emerging growth company | <input type="checkbox"/>            | Smaller reporting company | <input type="checkbox"/> |                       |                          |   |

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

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

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

| Class                                   | Outstanding at April 28, 2017 |
|---|-------------------------------|
| Common Stock, \$.01 par value per share | 95,960,503 shares             |

WESTINGHOUSE AIR BRAKE  
TECHNOLOGIES CORPORATION

March 31, 2017

FORM 10-Q

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## PART I—FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS

|  | Unaudited           |                      |
|--|---------------------|----------------------|
| <i>In thousands, except shares and par value</i>   | March 31,<br>2017   | December 31,<br>2016 |
| <b>Assets</b>  |                     |                      |
| <b>Current Assets</b>  |                     |                      |
| Cash and cash equivalents  | \$ 280,179          | \$ 398,484           |
| Accounts receivable  | 754,358             | 667,596              |
| Unbilled accounts receivable   | 297,184             | 274,912              |
| Inventories  | 703,881             | 658,510              |
| Deposit in escrow  | —                   | 744,748              |
| Other current assets   | 130,631             | 123,381              |
| Total current assets   | 2,166,233           | 2,867,631            |
| Property, plant and equipment  | 935,900             | 912,230              |
| Accumulated depreciation   | (411,841)           | (393,854)            |
| Property, plant and equipment, net   | 524,059             | 518,376              |
| <b>Other Assets</b>  |                     |                      |
| Goodwill   | 2,188,503           | 2,078,765            |
| Other intangibles, net   | 1,089,112           | 1,053,860            |
| Other noncurrent assets  | 62,992              | 62,386               |
| Total other assets   | 3,340,607           | 3,195,011            |
| Total Assets   | <u>\$ 6,030,899</u> | <u>\$ 6,581,018</u>  |
| <b>Liabilities and Shareholders' Equity</b>  |                     |                      |
| <b>Current Liabilities</b>   |                     |                      |
| Accounts payable   | \$ 512,230          | \$ 530,211           |
| Customer deposits  | 351,599             | 256,591              |
| Accrued compensation   | 141,762             | 145,324              |
| Accrued warranty   | 123,817             | 123,190              |
| Current portion of long-term debt  | 87,373              | 129,809              |
| Other accrued liabilities  | 254,626             | 261,514              |
| Total current liabilities  | 1,471,407           | 1,446,639            |
| Long-term debt   | 1,782,624           | 1,762,967            |
| Accrued postretirement and pension benefits  | 110,120             | 110,597              |
| Deferred income taxes  | 258,228             | 245,680              |
| Accrued warranty   | 13,849              | 15,802               |
| Other long-term liabilities  | 25,903              | 22,508               |
| Total liabilities  | 3,662,131           | 3,604,193            |
| Commitments and contingent liabilities (Note 14)   |                     |                      |
| <b>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 95,896,236 and 95,425,432 outstanding<br>at March 31, 2017 and December 31, 2016, respectively | 1,323               | 1,323                |
| Additional paid-in capital   | 894,377             | 869,951              |
| Treasury stock, at cost, 36,453,298 and 36,924,102 shares,<br>at March 31, 2017 and December 31, 2016, respectively  | (830,032)           | (838,950)            |
| Retained earnings  | 2,617,575           | 2,553,258            |
| Accumulated other comprehensive loss   | (331,652)           | (379,605)            |
| Total Westinghouse Air Brake Technologies Corporation shareholders' equity   | 2,351,591           | 2,205,977            |
| Noncontrolling interest  | 17,177              | 770,848              |
| Total equity   | 2,368,768           | 2,976,825            |
| Total Liabilities and Equity   | <u>\$ 6,030,899</u> | <u>\$ 6,581,018</u>  |

The accompanying notes are an integral part of these statements.

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

|  | <b>Unaudited</b>          |             |
|--|---------------------------|-------------|
|  | <b>Three Months Ended</b> |             |
|  | <b>March 31,</b>          |             |
|  | <b>2017</b>               | <b>2016</b> |
| <i>In thousands, except per share data</i>             |                           |             |
| Net sales  | \$ 916,034                | \$ 772,031  |
| Cost of sales  | (646,327)                 | (516,851)   |
| Gross profit   | 269,707                   | 255,180     |
| Selling, general and administrative expenses           | (122,341)                 | (89,751)    |
| Engineering expenses                                   | (23,464)                  | (17,953)    |
| Amortization expense                                   | (9,044)                   | (5,295)     |
| Total operating expenses                               | (154,849)                 | (112,999)   |
| Income from operations                                 | 114,858                   | 142,181     |
| Other income and expenses                              |                           |             |
| Interest expense, net                                  | (17,712)                  | (4,871)     |
| Other income (expense), net                            | 2,319                     | 154         |
| Income from operations before income taxes             | 99,465                    | 137,464     |
| Income tax expense                                     | (27,461)                  | (43,301)    |
| Net income   | 72,004                    | 94,163      |
| Less: Net loss attributable to noncontrolling interest | 1,885                     | —           |
| Net income attributable to Wabtec shareholders         | \$ 73,889                 | \$ 94,163   |
| <b>Earnings Per Common Share</b>                       |                           |             |
| Basic  |                           |             |
| Net income attributable to Wabtec shareholders         | \$ 0.77                   | \$ 1.03     |
| Diluted  |                           |             |
| Net income attributable to Wabtec shareholders         | \$ 0.77                   | \$ 1.02     |
| Weighted average shares outstanding                    |                           |             |
| Basic  | 95,243                    | 91,258      |
| Diluted  | 95,991                    | 92,149      |

The accompanying notes are an integral part of these statements.

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| <u><i>In thousands</i></u>  | Unaudited<br>Three Months Ended<br>March 31, |            |
|---|--|------------|
|   | 2017   | 2016       |
| Net income attributable to Wabtec shareholders                                      | \$ 73,889                                    | \$ 94,163  |
| Foreign currency translation gain   | 49,395                                       | 32,211     |
| Unrealized gain (loss) on derivative contracts                                      | 1,693  | (2,193)    |
| Unrealized loss on pension benefit plans and post-retirement benefit plans          | (3,074)                                      | (3,783)    |
| Other comprehensive income before tax   | 48,014                                       | 26,235     |
| Income tax (expense) benefit related to components of<br>other comprehensive income | (61)   | 1,387      |
| Other comprehensive income, net of tax  | 47,953                                       | 27,622     |
| Comprehensive income attributable to Wabtec shareholders                            | \$ 121,842                                   | \$ 121,785 |

The accompanying notes are an integral part of these statements.

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| <i>In thousands, except per share data</i>  | Unaudited<br>Three Months Ended<br>March 31, |            |
|---|--|------------|
|   | 2017   | 2016       |
| <b>Operating Activities</b>   |  |            |
| Net income  | \$ 72,004                                    | \$ 94,163  |
| Adjustments to reconcile net income to cash provided by operations:   |  |            |
| Depreciation and amortization   | 25,229                                       | 16,232     |
| Stock-based compensation expense  | 5,692  | 5,510      |
| Loss on disposal of property, plant and equipment   | 153  | 18         |
| Changes in operating assets and liabilities, net of acquisitions  |  |            |
| Accounts receivable and unbilled accounts receivable  | (96,481)                                     | (23,844)   |
| Inventories   | (32,145)                                     | 1,400      |
| Accounts payable  | (24,690)                                     | (18,002)   |
| Accrued income taxes  | 2,188  | 29,779     |
| Accrued liabilities and customer deposits   | 85,303                                       | (12,832)   |
| Other assets and liabilities  | (63,349)                                     | (16,858)   |
| Net cash (used for) provided by operating activities  | (26,096)                                     | 75,566     |
| <b>Investing Activities</b>   |  |            |
| Purchase of property, plant and equipment   | (19,327)                                     | (8,504)    |
| Proceeds from disposal of property, plant and equipment   | 284  | 84         |
| Acquisitions of businesses, net of cash acquired  | (67,581)                                     | (210)      |
| Release of deposit in escrow  | 23,548                                       | —          |
| Net cash used for investing activities  | (63,076)                                     | (8,630)    |
| <b>Financing Activities</b>   |  |            |
| Proceeds from debt  | 458,273                                      | 195,000    |
| Payments of debt  | (482,591)                                    | (85,453)   |
| Purchase of treasury stock  | —  | (133,738)  |
| Proceeds from exercise of stock options and other benefit plans   | 1,259  | 515        |
| Payment of income tax withholding on share-based compensation   | (6,842)                                      | (9,006)    |
| Cash dividends (\$0.10 and \$0.08 per share for the three months ended March 31, 2017 and 2016, respectively) | (9,572)                                      | (7,355)    |
| Net cash used for financing activities  | (39,473)                                     | (40,037)   |
| Effect of changes in currency exchange rates  | 10,340                                       | 9,684      |
| (Decrease) Increase in cash   | (118,305)                                    | 36,583     |
| Cash, beginning of period   | 398,484                                      | 226,191    |
| Cash, end of period   | \$ 280,179                                   | \$ 262,774 |

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 MARCH 31, 2017 (UNAUDITED)**

**1. BUSINESS**

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

**2. 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.

The Company operates on a four-four-five week accounting quarter, and the quarters end on or about March 31, June 30, September 30, and December 31.

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

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

In general, the Company recognizes revenue from long-term contracts based on the percentage of completion method of accounting. The units-of-delivery method or other input-based or output-based measures, as appropriate, are used to measure the progress toward completion of individual contracts. Contract revenues and cost estimates are reviewed and revised quarterly at a minimum and adjustments are reflected in the accounting period as such amounts are determined. Provisions are made currently for estimated losses on uncompleted contracts. Unbilled accounts receivables were \$297.2 million and \$274.9 million, customer deposits were \$351.6 million and \$256.6 million, and provisions for loss contracts were \$81.4 million and \$60.5 million at March 31, 2017 and December 31, 2016, respectively.

**Pre-Production Costs** Certain pre-production costs relating to long-term production and supply contracts have been deferred and will be recognized over the life of the contracts. Deferred pre-production costs were \$31.4 million and \$29.4 million at March 31, 2017 and December 31, 2016, respectively.

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

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

**Financial Derivatives and Hedging Activities** As part of its risk management strategy, the Company utilizes derivative financial instruments to manage its exposure due to changes in foreign currencies and interest rates. For further information regarding financial derivatives and hedging activities, refer to Footnotes 12 and 13.

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

**Noncontrolling Interests** In accordance with ASC 810 "Consolidation", the Company has classified noncontrolling interests as equity on our condensed consolidated balance sheets as of March 31, 2017 and December 31, 2016. Net loss attributable to noncontrolling interests for the three months ended March 31, 2017 was \$1.9 million and was not material for the three months ended March 31, 2016. Other comprehensive income attributable to noncontrolling interests for the three months ended March 31, 2017 and 2016 was not material.

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

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

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

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 814)" which requires lessees to recognize a right of use asset and lease liability on the balance sheet for all leases with terms longer than 12 months. For leases with terms less than 12 months, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize a right of use asset and lease liability. The ASU is effective for public companies in the fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company is currently evaluating the potential impact of adopting this guidance on its consolidated financial statements.

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



amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The new standard also requires significantly expanded disclosures regarding the qualitative and quantitative information of an entity's nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Board voted to propose that the standard would take effect for reporting periods beginning after December 15, 2017 and that early adoption would be allowed as of the original effective date. The impact of adopting the new standard on net sales and operating income for the three months ended March 31, 2017 and 2016 is not expected to be material. The Company also does not expect a material impact to the consolidated balance sheet. The impact to results is not anticipated to be material because the analysis of the Company's current contracts under the new revenue recognition standard supports the recognition of revenue over time under the cost-to-cost method for the majority of our contracts, which is consistent with our current revenue recognition model. The Company plans to adopt this accounting standard update using the modified retrospective method, with the cumulative effect of initially applying this update recognized in the first reporting period of 2018. The Company is in the process of drafting an updated accounting policy, evaluating new disclosure requirements and identifying and implementing appropriate changes to its business processes, systems and controls to support recognition and disclosure under the new guidance.

**Recently Adopted Accounting Pronouncements** In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting". The ASU simplifies several aspects for the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The ASU became effective for public companies during interim and annual reporting periods beginning after December 15, 2016. In accordance with this update, the Company began recognizing all excess tax deficiencies and tax benefits from share-based payment awards as a benefit or expense to income tax in the income statement. This update has been adopted prospectively in accordance with the ASU and the impact of adoption on the income statement was not material. Additionally in accordance with this update, the Company began classifying excess income tax benefits from exercise of stock options as an operating activity on the consolidated statement of cash flows. The Company elected to adopt this amendment retrospectively and the impact of the adoption on operating and financing cash flows for the three months ended March 31, 2016 was not material.

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

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

The changes in accumulated other comprehensive loss by component, net of tax, for the three months ended March 31, 2017 are as follows:

| <u>In thousands</u>   | Foreign<br>currency<br>translation | Derivative<br>contracts | Pension and<br>post<br>retirement<br>benefit plans | Total               |
|---|------------------------------------|-------------------------|--|---------------------|
| Balance at December 31, 2016  | \$ (321,033)                       | \$ (2,957)              | \$ (55,615)  | \$ (379,605)        |
| Other comprehensive income (loss) before reclassifications          | 49,395                             | 903                     | (3,363)  | 46,935              |
| Amounts reclassified from accumulated other<br>comprehensive income | —                                  | 426                     | 592  | 1,018               |
| Net current period other comprehensive income (loss)                | 49,395                             | 1,329                   | (2,771)  | 47,953              |
| Balance at March 31, 2017   | <u>\$ (271,638)</u>                | <u>\$ (1,628)</u>       | <u>\$ (58,386)</u>                                 | <u>\$ (331,652)</u> |

Reclassifications out of accumulated other comprehensive loss for the three months ended March 31, 2017 are as follows:

| <i><u>In thousands</u></i>                                    | <u>Amount reclassified from<br/>accumulated other<br/>comprehensive income</u> | <u>Affected line item in the<br/>Condensed Consolidated<br/>Statements of Income</u> |
|---|--|--|
| Amortization of defined pension and post retirement items     |  |  |
| Amortization of initial net obligation and prior service cost | \$ (422)   | Cost of sales  |
| Amortization of net loss                                      | 1,240  | Cost of sales  |
|   | <u>818</u>   | Income from Operations   |
|   | <u>(226)</u>   | Income tax expense   |
|   | <u>\$ 592</u>  | Net income   |
| <br>  |  |  |
| Derivative contracts  |  |  |
| Realized loss on derivative contracts                         | \$ 589   | Interest expense, net  |
|   | <u>(163)</u>   | Income tax expense   |
|   | <u>\$ 426</u>  | Net income   |

The changes in accumulated other comprehensive loss by component, net of tax, for the three months ended March 31, 2016 are as follows:

|   | <u>Foreign<br/>currency<br/>translation</u> | <u>Derivative<br/>contracts</u> | <u>Pension and<br/>post<br/>retirement<br/>benefit plans</u> | <u>Total</u>        |
|---|---|---------------------------------|--|---------------------|
| Balance at December 31, 2015  | \$ (227,349)                                | \$ (2,987)                      | \$ (46,383)  | \$ (276,719)        |
| Other comprehensive income (loss) before reclassifications          | 32,211                                      | (1,885)                         | (3,533)  | 26,793              |
| Amounts reclassified from accumulated other<br>comprehensive income | <u>—</u>                                    | <u>325</u>                      | <u>504</u>   | <u>829</u>          |
| Net current period other comprehensive (loss)                       | <u>32,211</u>                               | <u>(1,560)</u>                  | <u>(3,029)</u>   | <u>27,622</u>       |
| Balance at March 31, 2016   | <u>\$ (195,138)</u>                         | <u>\$ (4,547)</u>               | <u>\$ (49,412)</u>   | <u>\$ (249,097)</u> |

Reclassifications out of accumulated other comprehensive loss for the three months ended March 31, 2016 are as follows:

| <i><u>In thousands</u></i>                                    | <u>Amount reclassified from<br/>accumulated other<br/>comprehensive income</u> | <u>Affected line item in the<br/>Condensed Consolidated<br/>Statements of Operations</u> |
|---|--|--|
| Amortization of defined pension and post retirement items     |  |  |
| Amortization of initial net obligation and prior service cost | \$ (385)   | Cost of sales  |
| Amortization of net loss                                      | 1,120  | Cost of sales  |
|   | <u>735</u>   | Income from Operations   |
|   | <u>(231)</u>   | Income tax expense   |
|   | <u>\$ 504</u>  | Net income   |
| <br>  |  |  |
| Derivative contracts  |  |  |
| Realized loss on derivative contracts                         | \$ 474   | Interest expense, net  |
|   | <u>(149)</u>   | Income tax expense   |
|   | <u>\$ 325</u>  | Net income   |

### 3. ACQUISITIONS

#### *Faiveley Transport*

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

- On November 30, 2016, the Company acquired majority ownership of Faiveley Transport, after completing the purchase of the Faiveley family’s ownership interest under the terms of the Share Purchase Agreement, which directed the Company to pay €100 per share of Faiveley Transport, payable between 25% and 45% in cash at the election of those shareholders. The Faiveley family’s ownership interest acquired by the Company represented approximately 51% of outstanding share capital and approximately 49% of the outstanding voting shares of Faiveley Transport. Upon completion of the share purchase under the Share Purchase Agreement, Wabtec commenced a tender offer for the remaining publicly traded Faiveley Transport shares. The public shareholders had the option to elect to receive €100 per share in cash or 1.1538 shares of Wabtec common stock per share of Faiveley Transport. The common stock portion of the consideration was subject to a cap on issuance of Faiveley common shares that will be equivalent to the rates of cash and stock elected by the 51% owners.
- On February 3, 2017, the initial cash tender offer was closed which resulted in the Company acquiring approximately 27% of additional outstanding share capital and voting rights of Faiveley Transport for approximately \$411.8 million in cash and \$25.2 million in Wabtec stock. After the initial cash tender offer the Company owned approximately 78% of outstanding share capital and 76% of voting rights.
- On March 6, 2017, the final cash tender offer was closed which resulted in the Company acquiring approximately 21% of additional outstanding share capital and 22% of additional outstanding voting rights of Faiveley Transport for approximately \$303.2 million in cash and \$0.3 million in Wabtec stock. After the final cash tender offer the Company owned approximately 99% of the share capital and 98% of the voting rights of Faiveley Transport.
- On March 21, 2017, a mandatory squeeze-out procedure was finalized which resulted in the Company acquiring the Faiveley Transport shares not tendered in the offers for approximately \$17.5 million in cash. This resulted in the Company owning 100% of the share capital and voting rights of Faiveley Transport.

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

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

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

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

*In thousands*

**Assets acquired**

|                                |                  |
|--------------------------------|------------------|
| Cash and cash equivalents      | \$ 178,318       |
| Accounts receivable            | 444,918          |
| Inventories                    | 206,516          |
| Other current assets           | 66,152           |
| Property, plant, and equipment | 161,663          |
| Goodwill                       | 1,232,143        |
| Trade names                    | 333,823          |
| Customer relationships         | 255,354          |
| Patents                        | 1,201            |
| Other noncurrent assets        | 158,726          |
| Total assets acquired          | <u>3,038,814</u> |

**Liabilities assumed**

|                              |                     |
|------------------------------|---------------------|
| Current liabilities          | 774,751             |
| Debt                         | 409,899             |
| Other noncurrent liabilities | 347,349             |
| Total liabilities assumed    | <u>1,531,999</u>    |
| Net assets acquired          | <u>\$ 1,506,815</u> |

These estimates are preliminary in nature and subject to adjustments, which could be material. Any necessary adjustments will be finalized within one year from the date of acquisition. During the three months ended March 31, 2017, the estimated fair values for current liabilities were adjusted by \$28.9 million for changes to initial estimates based on information that existed at the date of acquisition. Additionally, the estimated fair values for accounts receivable and current liabilities were adjusted by \$2.8 million and \$27.9 million, respectively, to correct errors in the preliminary estimated fair values of the Faiveley Transport assets acquired and liabilities assumed. Other noncurrent assets were adjusted by \$17.0 million to record the deferred tax impact of these adjustments. As a result of these adjustments and other immaterial adjustments related to changes to initial estimates based on information that existed at the date of acquisition, goodwill increased by \$43.8 million. Accounts receivable and current liabilities were adjusted by \$64.3 million to correct an error in the preliminary estimated fair values of Faiveley Transport assets and liabilities assumed related to a factoring arrangement with recourse.

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

Goodwill was calculated as the difference between the acquisition date fair value of the consideration transferred and the fair value of the net assets acquired, and represents the future economic benefits, including synergies and assembled workforce, the Company expects to achieve as a result of the acquisition. Purchased goodwill is not expected to be deductible for tax purposes. The goodwill has been preliminarily allocated to the Transit segment.

For the three months ended March 31, 2017, the Company's consolidated statement of income included \$274.7 million of revenues.

*Other Acquisitions*

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

- On March 14, 2017, the Company acquired Aero Transportation Products ("ATP"), a manufacturer of engineered covering systems for hopper freight cars for a purchase price of approximately \$65.2 million, net of cash acquired, resulting in preliminary goodwill of \$35.1 million, none of which will be deductible for tax purposes.

- On December 14, 2016, the Company acquired Workhorse Rail LLC ("Workhorse"), a supplier of engineered freight car components, mainly for the aftermarket for a purchase price of approximately \$44.3 million, net of cash acquired, resulting in preliminary goodwill of \$24.8 million, 37.8% of which will be deductible for tax purposes.
- On November 17, 2016, the Company acquired the assets of Precision Turbo & Engine ("Precision Turbo"), a designer and manufacturer of high-performance, aftermarket turbochargers, wastegates, and heat exchangers for the automotive performance market for a purchase price of approximately \$13.8 million, net of cash acquired, resulting in preliminary goodwill of \$3.9 million, all of which will be deductible for tax purposes.
- On May 5, 2016, the Company acquired Unitrac Railroad Materials ("Unitrac"), a leading designer and manufacturer of railroad products and track work services for a purchase price of approximately \$14.4 million, net of cash acquired, resulting in preliminary goodwill of \$1.4 million, all of which will be deductible for tax purposes.

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

- On August 1, 2016, the Company acquired Gerken Group SA ("Gerken"), a manufacturer of specialty carbon and graphite products for rail and other industrial applications, for a purchase price of approximately \$62.8 million, net of cash acquired, resulting in preliminary goodwill of \$17.5 million, none of which will be deductible for tax purposes.

The acquisitions listed above include escrow deposits of \$48.6 million, which act as security for indemnity and other claims in accordance with the purchase and related escrow agreements.

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

|                             | ATP               | Workhorse            | Precision Turbo      | Gerken            | Unitrac        |
|-----------------------------|-------------------|----------------------|----------------------|-------------------|----------------|
| <i>In thousands</i>         | March 14,<br>2017 | December 14,<br>2016 | November 17,<br>2016 | August 1,<br>2016 | May 5,<br>2016 |
| Current assets              | \$ 10,882         | \$ 9,137             | \$ 4,183             | \$ 32,706         | \$ 12,136      |
| Property, plant & equipment | 2,787             | 0                    | 1,346                | 7,667             | 1,768          |
| Goodwill                    | 35,146            | 24,838               | 3,942                | 17,470            | 1,388          |
| Other intangible assets     | 34,800            | 19,400               | 5,200                | 30,560            | 1,230          |
| Other assets                | —                 | —                    | —                    | 1,706             | —              |
| Total assets acquired       | 83,615            | 53,375               | 14,671               | 90,109            | 16,522         |
| Total liabilities assumed   | (18,403)          | (9,083)              | (825)                | (27,262)          | (2,144)        |
| Net assets acquired         | \$ 65,212         | \$ 44,292            | \$ 13,846            | \$ 62,847         | \$ 14,378      |

Of the \$681.6 million of total acquired other intangible assets, \$357.1 million was assigned to trade names, \$317.8 million was assigned to customer relationships, and \$5.0 million was assigned to intellectual property. The trade names were determined to have indefinite useful lives, while the intellectual property and customer relationships' average useful lives are 20 years, and the non-compete agreements' useful life is 5 years.

The Company also made smaller acquisitions not listed above.

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

| <i>In thousands</i>                            | <u>Three Months Ended<br/>March 31, 2017</u> | <u>Three Months Ended<br/>March 31, 2016</u> |
|--|--|--|
| Net sales                                      | \$ 921,407                                   | \$ 1,116,789                                 |
| Gross profit                                   | 270,605                                      | 345,081                                      |
| Net income attributable to Wabtec shareholders | 72,250                                       | 114,444                                      |
| Diluted earnings per share                     |  |  |
| As Reported                                    | \$ 0.77                                      | \$ 1.02                                      |
| Pro forma                                      | \$ 0.77                                      | \$ 1.16                                      |

#### 4. INVENTORIES

The components of inventory, net of reserves, were:

| <i>In thousands</i> | <u>March 31,<br/>2017</u> | <u>December 31,<br/>2016</u> |
|---------------------|---------------------------|------------------------------|
| Raw materials       | \$ 360,374                | \$ 331,465                   |
| Work-in-progress    | 166,143                   | 145,462                      |
| Finished goods      | 177,364                   | 181,583                      |
| Total inventories   | <u>\$ 703,881</u>         | <u>\$ 658,510</u>            |

#### 5. INTANGIBLES

The change in the carrying amount of goodwill by segment for the three months ended months ended March 31, 2017 is as follows:

| <i>In thousands</i>                           | <u>Freight<br/>Segment</u> | <u>Transit<br/>Segment</u> | <u>Total</u>        |
|---|----------------------------|----------------------------|---------------------|
| Balance at December 31, 2016                  | \$ 550,902                 | \$ 1,527,863               | \$ 2,078,765        |
| Adjustment to preliminary purchase allocation | 2,260                      | 48,687                     | 50,947              |
| Acquisitions                                  | 35,165                     | —                          | 35,165              |
| Foreign currency impact                       | 3,343                      | 20,283                     | 23,626              |
| Balance at March 31, 2017                     | <u>\$ 591,670</u>          | <u>\$ 1,596,833</u>        | <u>\$ 2,188,503</u> |

As of March 31, 2017 and December 31, 2016, the Company's trade names had a net carrying amount of \$525.7 million and \$510.5 million, respectively, and the Company believes these intangibles have indefinite lives.

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

| <i>In thousands</i>  | <u>March 31,<br/>2017</u> | <u>December 31,<br/>2016</u> |
|--|---------------------------|------------------------------|
| Patents, non-compete and other intangibles, net of accumulated amortization of \$43,280 and \$42,538 | \$ 13,071                 | \$ 15,360                    |
| Customer relationships, net of accumulated amortization of \$95,984 and \$87,334                     | 550,317                   | 528,068                      |
| Total  | <u>\$ 563,388</u>         | <u>\$ 543,428</u>            |

The weighted average remaining useful life of patents, customer relationships and other intangibles were 10 years, 18 years and 16 years, respectively. Amortization expense for intangible assets was \$9.0 million and \$5.3 million for the three months ended March 31, 2017, and 2016, respectively.

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

|                   |    |        |
|-------------------|----|--------|
| Remainder of 2017 | \$ | 25,308 |
| 2018              |    | 33,328 |
| 2019              |    | 32,284 |
| 2020              |    | 30,762 |
| 2021              |    | 30,774 |

## 6. LONG-TERM DEBT

Long-term debt consisted of the following:

| <u>In thousands</u>   | <u>March 31,<br/>2017</u> | <u>December 31,<br/>2016</u> |
|---|---------------------------|------------------------------|
| 3.45% Senior Notes, due 2026, net of unamortized debt issuance costs of \$2,485 and \$2,526               | \$ 747,515                | \$ 747,474                   |
| 4.375% Senior Notes, due 2023, net of unamortized discount and debt issuance costs of \$1,626 and \$1,690 | 248,374                   | 248,310                      |
| Revolving Credit Facility, net of unamortized debt issuance costs of \$3,500 and \$3,850                  | 825,773                   | 796,150                      |
| Schuldschein Loan   | 41,718                    | 98,671                       |
| Other Borrowings  | 5,359                     | 1,153                        |
| Capital Leases  | 1,258                     | 1,018                        |
| Total   | <u>1,869,997</u>          | <u>1,892,776</u>             |
| Less - current portion  | <u>87,373</u>             | <u>129,809</u>               |
| Long-term portion   | <u>\$ 1,782,624</u>       | <u>\$ 1,762,967</u>          |

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

### 3.45% Senior Notes Due November 2026

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

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

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

### 4.375% Senior Notes Due August 2023

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

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

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

#### *2016 Refinancing Credit Agreement*

On June 22, 2016, the Company amended 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 (the “Term Loan”). The Company incurred approximately \$3.3 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 March 31, 2017, the Company had available bank borrowing capacity, net of \$32.7 million of letters of credit, of approximately \$728.0 million, subject to certain financial covenant restrictions.

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

Under the 2016 Refinancing Credit Agreement, the Company may elect a Base Rate of interest for U.S. Dollar denominated loans or, for certain currencies, an interest rate based on the London Interbank Offered Rate (“LIBOR”) of interest, or other rates appropriate for such currencies (in any case, “the Alternate Rate”). The Base Rate adjusts on a daily basis and is the greater of the Federal Funds Effective Rate plus 0.5% per annum, the PNC, N.A. prime rate or the Daily LIBOR Rate plus 100 basis points, plus a margin that ranges from 0 to 75 basis points. The Alternate Rate is based on the quoted rates specific to the applicable currency, plus a margin that ranges from 75 to 175 basis points. Both the Base Rate and Alternate Rate margins are dependent on the Company’s consolidated total indebtedness to EBITDA ratios. The initial Base Rate margin is 0 basis points and the Alternate Rate margin is 175 basis points.

At March 31, 2017, the weighted average interest rate on the Company’s variable rate debt was 2.61%. On January 12, 2012, the Company entered into a forward starting interest rate swap agreement with a notional value of \$150.0 million. The effective date of the interest rate swap agreement was July 31, 2013, and the termination date was November 7, 2016. The impact of the interest rate swap agreement converted a portion of the Company’s outstanding debt from a variable rate to a fixed-rate borrowing. During the term of the interest rate swap agreement the interest rate on the notional value was fixed at 1.415% plus the Alternate Rate margin. On June 5, 2014, the Company entered into a forward starting interest rate swap agreement with a notional value of \$150.0 million. The effective date of the interest rate swap agreement was November 7, 2016, and the termination date is December 19, 2018. The impact of the interest rate swap agreement converts a portion of the Company’s outstanding debt from a variable rate to a fixed-rate borrowing. During the term of the interest rate swap agreement the interest rate on the notional value will be fixed at 2.56% plus the Alternate Rate margin. As for these agreements, the Company is exposed to credit risk in the event of nonperformance by the counterparties. However, since only the cash interest payments are exchanged, exposure is significantly less than the notional amount. The counterparties are large financial institutions with excellent credit ratings and history of performance. The Company currently believes the risk of nonperformance is negligible.

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

#### *2013 Refinancing Credit Agreement*

On December 19, 2013, the Company amended its then existing revolving credit facility with a consortium of commercial banks. This “2013 Refinancing Credit Agreement” provided the Company with an \$800.0 million, five-year revolving credit facility. The Company incurred approximately \$1.0 million of deferred financing cost related to the 2013



Refinancing Credit Agreement. The 2013 Refinancing Credit Agreement was replaced by the 2016 Refinancing Credit Agreement.

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

*Schuldschein Loan, Due 2016*

In conjunction with the acquisition of Faiveley Transport, Wabtec acquired \$137.2 million of a Schuldschein private placement loan which was originally issued by Faiveley Transport on March 5, 2014 in Germany, in which approximately 20 international investors participated. This loan is denominated in euros. Subsequent to the acquisition of Faiveley Transport, the Company repaid \$95.5 million of the outstanding Schuldschein loan. The remaining balance of \$41.7 million as of March 31, 2017 is divided into three tranches with original maturities of 7 and 10 years bearing fixed rates. The Company has notified investors of its intention to repay the remaining three tranches in full. A summary of the tranches as of March 31, 2017 are as follows:

| <b>Maturity</b> | <b>Rate</b> | <b>Amounts</b>   |
|-----------------|-------------|------------------|
| December 2020   | 3.04%       | \$ 21,390        |
| March 2021      | 3.07%       | 9,630            |
| March 2024      | 4.00%       | 10,698           |
| Total           |             | <u>\$ 41,718</u> |

The Schuldschein loan is senior unsecured and ranks pari passu with all existing and future senior debt and senior to all existing and future subordinated indebtedness of the Company. The Schuldschein loan agreement contains covenants and undertakings which limit among other things, the following: factoring of receivables, the incurrence of indebtedness, sale of assets, change of control, mergers and consolidations and incurrence of liens. At March 31, 2017, the Company is in compliance with the undertakings and covenants contained in the loan agreement.

For the three months ended March 31, 2017, the Company has repaid \$18.7 million of the private placement fixed tranches and \$39.6 million in floating tranches outstanding at December 31, 2016.

## 7. EMPLOYEE BENEFIT PLANS

### Defined Benefit Pension Plans

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

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

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

*In thousands, except percentages*

|                                   | U.S.                            |        | International                   |         |
|-----------------------------------|---------------------------------|--------|---------------------------------|---------|
|                                   | Three Months Ended<br>March 31, |        | Three Months Ended<br>March 31, |         |
|                                   | 2017                            | 2016   | 2017                            | 2016    |
| <b>Net periodic benefit cost</b>  |                                 |        |                                 |         |
| Service cost                      | \$ 86                           | \$ 84  | \$ 614                          | \$ 473  |
| Interest cost                     | 356                             | 369    | 1,677                           | 1,486   |
| Expected return on plan assets    | (433)                           | (519)  | (2,910)                         | (2,405) |
| Net amortization/deferrals        | 248                             | 229    | 685                             | 620     |
| Curtailement loss recognized      | —                               | —      | —                               | 240     |
| Net periodic benefit cost         | \$ 257                          | \$ 163 | \$ 66                           | \$ 414  |
| <b>Assumptions</b>                |                                 |        |                                 |         |
| Discount Rate                     | 3.95%                           | 4.21%  | 2.51%                           | 3.56%   |
| Expected long-term rate of return | 4.95%                           | 5.70%  | 4.93%                           | 5.81%   |
| Rate of compensation increase     | 3.00%                           | 3.00%  | 2.54%                           | 3.10%   |

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

### Post Retirement Benefit Plans

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

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

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

*In thousands, except percentages*

|                                    | U.S.                            |        | International                   |       |
|------------------------------------|---------------------------------|--------|---------------------------------|-------|
|                                    | Three Months Ended<br>March 31, |        | Three Months Ended<br>March 31, |       |
|                                    | 2017                            | 2016   | 2017                            | 2016  |
| <b>Net periodic benefit cost</b>   |                                 |        |                                 |       |
| Service cost                       | \$ 1                            | \$ 1   | \$ 7                            | \$ 7  |
| Interest cost                      | 88                              | 97     | 24                              | 25    |
| Net amortization/deferrals         | (73)                            | (105)  | (7)                             | (9)   |
| Net periodic benefit (credit) cost | \$ 16                           | \$ (7) | \$ 24                           | \$ 23 |
| <b>Assumptions</b>                 |                                 |        |                                 |       |
| Discount Rate                      | 3.76%                           | 3.95%  | 3.46%                           | 3.90% |

## 8. STOCK-BASED COMPENSATION

As of March 31, 2017, the Company maintains employee stock-based compensation plans for stock options, restricted stock, and incentive stock units as governed by the 2011 Stock Incentive Compensation Plan (the "2011 Plan") and the 2000 Stock Incentive Plan, as amended (the "2000 Plan"). The 2011 Plan has a 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 \$5.7 million and \$5.5 million for the three months ended March 31, 2017 and 2016, respectively. Included in stock-based compensation expense for the three months ended March 31, 2017 is \$0.4 million of expense related to stock options, \$1.7 million related to non-vested restricted stock, \$0.8 million related to restricted stock units, \$2.4 million related to incentive stock units and \$0.4 million related to units issued for Directors' fees. At March 31, 2017, unamortized compensation expense related to those stock options, non-vested restricted shares units and incentive stock units expected to vest totaled \$44.9 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 three months ended months ended March 31, 2017:

|                                  | Options          | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual Life | Aggregate<br>Intrinsic value<br>(in thousands) |
|----------------------------------|------------------|--|--|--|
| Outstanding at December 31, 2016 | 1,098,823        | \$ 35.39                                 | 4.3  | \$ 52,332                                      |
| Granted                          | 64,507           | 87.05                                    |  | (584)  |
| Exercised                        | (47,567)         | 26.46                                    |  | 2,452  |
| Canceled                         | (471)            | 83.14                                    |  | (2)  |
| Outstanding at March 31, 2017    | <u>1,115,292</u> | 38.74                                    | 4.4  | 43,783   |
| Exercisable at March 31, 2017    | <u>923,878</u>   | 30.90                                    | 3.7  | 43,513   |

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:

|                         | Three Months Ended<br>March 31, |       |
|-------------------------|---------------------------------|-------|
|                         | 2017                            | 2016  |
| Dividend yield          | 0.23%                           | 0.26% |
| Risk-free interest rate | 2.17%                           | 1.47% |
| Stock price volatility  | 23.4%                           | 26.9% |
| Expected life (years)   | 5.0                             | 5.0   |

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

**Restricted Stock, Restricted Units and Incentive Stock** Beginning in 2006, the Company adopted a restricted stock program. As provided for under the 2011 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 March 31, 2017, the Company estimates that it will achieve 92%, 95% and 100% for the incentive stock awards expected to vest based on performance for the three-year periods ending December 31, 2017, 2018, and 2019, respectively, and has recorded incentive compensation expense accordingly. If our estimate of the number of these 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 three months ended March 31, 2017:

|  | Restricted<br>Stock<br>and Units | Incentive<br>Stock<br>Awards | Weighted<br>Average Grant<br>Date Fair<br>Value |
|--|----------------------------------|------------------------------|---|
| Outstanding at December 31, 2016                       | 396,295                          | 424,750                      | \$ 72.18  |
| Granted  | 128,985                          | 155,575                      | 87.02   |
| Vested   | (112,504)                        | (153,271)                    | 69.38   |
| Adjustment for incentive stock awards expected to vest | —                                | (2,558)                      | 72.79   |
| Canceled   | (4,103)                          | (2,458)                      | 77.20   |
| Outstanding at March 31, 2017                          | <u>408,673</u>                   | <u>422,038</u>               |   |

## 9. INCOME TAXES

The overall effective income tax rate was 27.6% and 31.5% for the three months ended March 31, 2017 and 2016. For the three months ended March 31, 2017, the decrease in the effective rate is primarily the result of a lower earnings mix in higher tax rate jurisdictions.

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

The Company includes interest and penalties related to uncertain tax positions in income tax expense. As of March 31, 2017, the total accrued interest and penalties were \$0.9 million and \$0.3 million, respectively. As of December 31, 2016, the total accrued interest and penalties were \$0.8 million and \$0.3 million, respectively.

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

## 10. EARNINGS PER SHARE

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

|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2017                            | 2016      |
| <i>In thousands, except per share data</i>  |                                 |           |
| <b>Numerator</b>  |                                 |           |
| Numerator for basic and diluted earnings per common share - net income attributable to Wabtec shareholders  | \$ 73,889                       | \$ 94,163 |
| Less: dividends declared - common shares and non-vested restricted stock                                    | (9,572)                         | (7,355)   |
| Undistributed earnings  | 64,317                          | 86,808    |
| Percentage allocated to common shareholders (1)   | 99.7%                           | 99.7%     |
|   | 64,124                          | 86,548    |
| Add: dividends declared - common shares   | 9,542                           | 7,332     |
| Numerator for basic and diluted earnings per common share   | \$ 73,666                       | \$ 93,880 |
| <b>Denominator</b>  |                                 |           |
| Denominator for basic earnings per common share - weighted average shares                                   | 95,243                          | 91,258    |
| Effect of dilutive securities:  |                                 |           |
| Assumed conversion of dilutive stock-based compensation plans   | 748                             | 891       |
| Denominator for diluted earnings per common share - adjusted weighted average shares and assumed conversion | 95,991                          | 92,149    |
| <b>Net income attributable to Wabtec shareholders per common share</b>                                      |                                 |           |
| Basic   | \$ 0.77                         | \$ 1.03   |
| Diluted   | \$ 0.77                         | \$ 1.02   |
| (1) Basic weighted-average common shares outstanding  | 95,243                          | 91,258    |
| Basic weighted-average common shares outstanding and non-vested restricted stock expected to vest           | 95,544                          | 91,543    |
| Percentage allocated to common shareholders   | 99.7%                           | 99.7%     |

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

## 11. WARRANTIES

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

|                               | 2017       | 2016      |
|-------------------------------|------------|-----------|
| <i>In thousands</i>           |            |           |
| Balance at beginning of year  | \$ 138,992 | \$ 92,064 |
| Warranty expense              | 5,760      | 10,880    |
| Acquisitions                  | 62         | —         |
| Warranty claim payments       | (8,224)    | (7,287)   |
| Foreign currency impact/other | 1,076      | (25)      |
| Balance at March 31           | \$ 137,666 | \$ 95,632 |

## 12. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

**Foreign Currency Hedging** The Company uses forward contracts to mitigate its foreign currency exchange rate exposure due to forecasted sales of finished goods and future settlement of foreign currency denominated assets and liabilities. Derivatives used to hedge forecasted transactions and specific cash flows associated with foreign currency denominated financial assets and liabilities that meet the criteria for hedge accounting are designated as cash flow hedges. The effective portion of gain and losses is deferred as a component of accumulated other comprehensive income and is recognized in earnings at the time the hedged item affects earnings, in the same line item as the underlying hedged item. The contracts are scheduled to mature within two years. For the three months ended March 31, 2017 and March 31, 2016, the amounts reclassified into income were not material.

**Other Activities** The Company enters into certain derivative contracts in accordance with its risk management strategy that do not meet the criteria for hedge accounting but which have the impact of largely mitigating foreign currency exposure. These foreign exchange contracts are accounted for on a full mark to market basis through earnings, with gains and losses recorded as a component of other expense, net. The net unrealized gain related to these contracts was \$0.4 million for the three months ended March 31, 2017. These contracts are schedule to mature within one year.

The following table summarizes the gross notional amounts and fair values of the designated and non-designated hedges discussed in the above sections.

| <u>In millions</u>        | Designated |       | Non-Designated |       | Total      |
|---------------------------|------------|-------|----------------|-------|------------|
| Gross notional amount     | \$         | 911.0 | \$             | 490.0 | \$ 1,401.0 |
| Fair Value:               |            |       |                |       |            |
| Other current assets      |            | 1.1   |                | 0.4   | 1.5        |
| Other current liabilities |            | (0.5) |                | (0.2) | (0.7)      |
| Total                     | \$         | 0.6   | \$             | 0.2   | \$ 0.8     |

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

As of March 31, 2017, the Company has recorded a current liability of \$3.0 million and an accumulated other comprehensive loss of \$1.8 million, net of tax, related to these agreements.

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

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

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

The following table provides the liabilities carried at fair value measured on a recurring basis as of March 31, 2017, which are included in other current liabilities on the Condensed Consolidated Balance sheet:

|                               | Total Carrying Value at March 31, 2017 | Fair Value Measurements at March 31, 2017 Using                |   |   |
|-------------------------------|--|--|---|---|
|                               |  | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <i>In thousands</i>           |  |  |   |   |
| Interest rate swap agreements | \$ 2,969                               | \$ —   | \$ 2,969                                      | \$ —                                      |
| Total                         | \$ 2,969                               | \$ —   | \$ 2,969                                      | \$ —                                      |

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

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

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

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

The Company's cash and cash equivalents are highly liquid investments purchased with an original maturity of three months or less and are considered Level 1 on the fair value valuation hierarchy. The fair value of cash and cash equivalents approximated the carrying value at March 31, 2017 and December 31, 2016. The Company's defined benefit pension plan assets consist primarily of equity security funds, debt security funds and temporary cash and cash equivalent investments. Generally, all plan assets are considered Level 2 based on the fair value valuation hierarchy. These investments are comprised of a number of investment funds that invest in a diverse portfolio of assets including equity securities, corporate and governmental bonds, and money markets. Trusts are valued at the net asset value ("NAV") as determined by their custodian. NAV represent the accumulation of the unadjusted quoted close prices on the reporting date for the underlying investments divided by the total shares outstanding at the reporting dates. The 2013 and 2016 Notes are considered Level 2 based on the fair value valuation hierarchy.

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

|                              | March 31, 2017 |            | December 31, 2016 |            |
|------------------------------|----------------|------------|-------------------|------------|
|                              | Carry Value    | Fair Value | Carry Value       | Fair Value |
| <i>In thousands</i>          |                |            |                   |            |
| Interest rate swap agreement | \$ 2,969       | \$ 2,969   | \$ 3,888          | \$ 3,888   |
| 4.375% Senior Notes          | 248,374        | 260,710    | 248,310           | 260,265    |
| 3.45% Senior Notes           | 747,515        | 730,178    | 747,474           | 719,273    |

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

## 14. COMMITMENTS AND CONTINGENCIES

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

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

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. On November 2, 2016, Siemens amended its complaint to add six additional patents they also claim are infringed by the Company's Positive Train Control Products. The Company has filed answers, and asserted counterclaims, in response to Siemens' complaints. The case is still in the preliminary stages, but the Company has begun filing for Inter-Parties Review proceedings before the U.S. Patent & Trademark Office seeking to invalidate the Siemens patents. Wabtec believes the claims are without merit and is vigorously defending itself.

## 15. SEGMENT INFORMATION

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

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

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

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

Segment financial information for the three months ended March 31, 2017 is as follows:

| <i>In thousands</i>                               | Freight Segment | Transit Segment | Corporate Activities and Elimination | Total      |
|---|-----------------|-----------------|--------------------------------------|------------|
| Sales to external customers                       | \$ 347,946      | \$ 568,088      | \$ —                                 | \$ 916,034 |
| Intersegment sales/(elimination)                  | 9,087           | 5,686           | (14,773)                             | —          |
| Total sales                                       | \$ 357,033      | \$ 573,774      | \$ (14,773)                          | \$ 916,034 |
| Income (loss) from operations                     | \$ 71,395       | \$ 49,148       | \$ (5,685)                           | \$ 114,858 |
| Interest expense and other, net                   | —               | —               | (15,393)                             | (15,393)   |
| Income (loss) from operations before income taxes | \$ 71,395       | \$ 49,148       | \$ (21,078)                          | \$ 99,465  |

Segment financial information for the three months ended March 31, 2016 is as follows:



| <i><u>In thousands</u></i>                        | <b>Freight<br/>Segment</b> | <b>Transit<br/>Segment</b> | <b>Corporate<br/>Activities and<br/>Elimination</b> | <b>Total</b>      |
|---|----------------------------|----------------------------|---|-------------------|
| Sales to external customers                       | \$ 442,669                 | \$ 329,362                 | \$ —  | \$ 772,031        |
| Intersegment sales/(elimination)                  | 5,808                      | 1,677                      | (7,485)   | —                 |
| Total sales                                       | <u>\$ 448,477</u>          | <u>\$ 331,039</u>          | <u>\$ (7,485)</u>                                   | <u>\$ 772,031</u> |
| Income (loss) from operations                     | \$ 106,675                 | \$ 45,010                  | \$ (9,504)  | \$ 142,181        |
| Interest expense and other, net                   | —                          | —                          | (4,717)   | (4,717)           |
| Income (loss) from operations before income taxes | <u>\$ 106,675</u>          | <u>\$ 45,010</u>           | <u>\$ (14,221)</u>                                  | <u>\$ 137,464</u> |

Sales by product are as follows:

| <i><u>In thousands</u></i>        | <b>Three Months Ended<br/>March 31,</b> |                   |
|-----------------------------------|---|-------------------|
|                                   | <b>2017</b>                             | <b>2016</b>       |
| Specialty Products & Electronics  | \$ 315,067                              | \$ 378,269        |
| Transit Products                  | 258,419                                 | 48,795            |
| Brake Products                    | 180,459                                 | 158,033           |
| Remanufacturing, Overhaul & Build | 129,058                                 | 151,906           |
| Other                             | 33,031                                  | 35,028            |
| Total sales                       | <u>\$ 916,034</u>                       | <u>\$ 772,031</u> |

## 16. GUARANTOR SUBSIDIARIES FINANCIAL INFORMATION

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

Balance Sheet for March 31, 2017:

| <i>In thousands</i>                               | Parent              | Guarantors          | Non-Guarantors      | Elimination           | Consolidated        |
|---|---------------------|---------------------|---------------------|-----------------------|---------------------|
| Cash and cash equivalents                         | \$ 2,528            | \$ 7,172            | \$ 270,479          | \$ —                  | \$ 280,179          |
| Receivables, net                                  | 71,106              | 207,705             | 772,731             | —                     | 1,051,542           |
| Inventories                                       | 131,680             | 135,067             | 437,134             | —                     | 703,881             |
| Current assets - other                            | 34,516              | 3,923               | 92,192              | —                     | 130,631             |
| <b>Total current assets</b>                       | 239,830             | 353,867             | 1,572,536           | —                     | 2,166,233           |
| Property, plant and equipment                     | 49,179              | 127,726             | 347,154             | —                     | 524,059             |
| Goodwill  | 25,275              | 537,949             | 1,625,279           | —                     | 2,188,503           |
| Investment in subsidiaries                        | 5,656,301           | 1,450,967           | —                   | (7,107,268)           | —                   |
| Other intangibles, net                            | 31,566              | 255,986             | 801,560             | —                     | 1,089,112           |
| Other long term assets                            | 32,504              | 6,312               | 24,176              | —                     | 62,992              |
| <b>Total assets</b>                               | <b>\$ 6,034,655</b> | <b>\$ 2,732,807</b> | <b>\$ 4,370,705</b> | <b>\$ (7,107,268)</b> | <b>\$ 6,030,899</b> |
| Current liabilities                               | \$ 173,300          | 190,455             | \$ 1,107,652        | —                     | \$ 1,471,407        |
| Inter-company                                     | 1,779,360           | (1,889,230)         | 109,870             | —                     | —                   |
| Long-term debt                                    | 1,685,389           | 47                  | 97,188              | —                     | 1,782,624           |
| Long-term liabilities - other                     | 45,015              | 101,756             | 261,329             | —                     | 408,100             |
| <b>Total liabilities</b>                          | 3,683,064           | (1,596,972)         | 1,576,039           | —                     | 3,662,131           |
| Shareholders' equity                              | 2,351,591           | 4,330,922           | 2,776,346           | (7,107,268)           | 2,351,591           |
| Non-controlling interest                          | —                   | (1,143)             | 18,320              | —                     | 17,177              |
| <b>Total shareholders' equity</b>                 | <b>\$ 2,351,591</b> | <b>\$ 4,329,779</b> | <b>\$ 2,794,666</b> | <b>\$ (7,107,268)</b> | <b>\$ 2,368,768</b> |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>\$ 6,034,655</b> | <b>\$ 2,732,807</b> | <b>\$ 4,370,705</b> | <b>\$ (7,107,268)</b> | <b>\$ 6,030,899</b> |

Balance Sheet for December 31, 2016:

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

Income Statement for the Three Months Ended March 31, 2017:

| <i><u>In thousands</u></i>                                      | <u>Parent</u>    | <u>Guarantors</u> | <u>Non-Guarantors</u> | <u>Elimination</u> | <u>Consolidated</u> |
|---|------------------|-------------------|-----------------------|--------------------|---------------------|
| Net Sales   | \$ 144,544       | \$ 258,712        | \$ 544,388            | \$ (31,610)        | \$ 916,034          |
| Cost of sales   | (98,950)         | (167,607)         | (403,966)             | 24,196             | (646,327)           |
| Gross profit (loss)   | 45,594           | 91,105            | 140,422               | (7,414)            | 269,707             |
| Total operating expenses  | (24,293)         | (29,871)          | (100,685)             | —                  | (154,849)           |
| <b>Income (loss) from operations</b>                            | 21,301           | 61,234            | 39,737                | (7,414)            | 114,858             |
| Interest (expense) income, net                                  | (14,611)         | 2,160             | (5,261)               | —                  | (17,712)            |
| Other income (expense), net                                     | 13,081           | (1,260)           | (9,502)               | —                  | 2,319               |
| Equity earnings (loss)  | 68,285           | 11,942            | —                     | (80,227)           | —                   |
| Pretax income (loss)  | 88,056           | 74,076            | 24,974                | (87,641)           | 99,465              |
| Income tax expense  | (14,165)         | (141)             | (13,155)              | —                  | (27,461)            |
| <b>Net income (loss)</b>  | 73,891           | 73,935            | 11,819                | (87,641)           | 72,004              |
| Less: Net income attributable to noncontrolling interest        | —                | —                 | 1,885                 | —                  | 1,885               |
| Net income (loss) attributable to Wabtec shareholders           | <u>\$ 73,891</u> | <u>\$ 73,935</u>  | <u>\$ 13,704</u>      | <u>\$ (87,641)</u> | <u>\$ 73,889</u>    |
| Comprehensive income (loss) attributable to Wabtec shareholders | <u>\$ 74,747</u> | <u>\$ 73,935</u>  | <u>\$ 60,801</u>      | <u>\$ (87,641)</u> | <u>\$ 121,842</u>   |

Income Statement for the Three Months Ended March 31, 2016:

| <u><i>In thousands</i></u>                                      | <u>Parent</u> | <u>Guarantors</u> | <u>Non-Guarantors</u> | <u>Elimination</u> | <u>Consolidated</u> |
|---|---------------|-------------------|-----------------------|--------------------|---------------------|
| Net Sales   | \$ 176,986    | \$ 318,152        | \$ 315,984            | \$ (39,091)        | \$ 772,031          |
| Cost of sales   | (129,081)     | (190,366)         | (220,126)             | 22,722             | (516,851)           |
| Gross profit (loss)   | 47,905        | 127,786           | 95,858                | (16,369)           | 255,180             |
| Total operating expenses  | (37,876)      | (32,351)          | (42,772)              | —                  | (112,999)           |
| <b>(Loss) income from operations</b>                            | 10,029        | 95,435            | 53,086                | (16,369)           | 142,181             |
| Interest (expense) income, net                                  | (6,669)       | 1,725             | 73                    | —                  | (4,871)             |
| Other income (expense), net                                     | 10,816        | (4,480)           | (6,182)               | —                  | 154                 |
| Equity earnings (loss)  | 113,022       | 38,699            | —                     | (151,721)          | —                   |
| Pretax income (loss)  | 127,198       | 131,379           | 46,977                | (168,090)          | 137,464             |
| Income tax expense  | (33,035)      | (1,000)           | (9,266)               | —                  | (43,301)            |
| <b>Net income (loss)</b>  | 94,163        | 130,379           | 37,711                | (168,090)          | 94,163              |
| Less: Net income attributable to noncontrolling interest        | —             | —                 | —                     | —                  | —                   |
| Net income attributable to Wabtec shareholders                  | \$ 94,163     | \$ 130,379        | \$ 37,711             | \$ (168,090)       | \$ 94,163           |
| Comprehensive income (loss) attributable to Wabtec shareholders | \$ 93,932     | \$ 130,378        | \$ 65,565             | \$ (168,090)       | \$ 121,785          |

Condensed Statement of Cash Flows for the Three Months Ended March 31, 2017:

| <u><i>In thousands</i></u>                          | <u>Parent</u> | <u>Guarantors</u> | <u>Non-Guarantors</u> | <u>Elimination</u> | <u>Consolidated</u> |
|---|---------------|-------------------|-----------------------|--------------------|---------------------|
| Net cash (used in) provided by operating activities | \$ (8,705)    | \$ (5,829)        | \$ (4,148)            | \$ (7,414)         | \$ (26,096)         |
| Net cash used in investing activities               | (5,124)       | (68,173)          | 10,221                | —                  | (63,076)            |
| Net cash provided by (used in) financing activities | 13,835        | 71,678            | (132,400)             | 7,414              | (39,473)            |
| Effect of changes in currency exchange rates        | —             | —                 | 10,340                | —                  | 10,340              |
| Increase (decrease) in cash                         | 6             | (2,324)           | (115,987)             | —                  | (118,305)           |
| Cash, beginning of period                           | 2,522         | 9,496             | 386,466               | —                  | 398,484             |
| Cash, end of period                                 | \$ 2,528      | \$ 7,172          | \$ 270,479            | \$ —               | \$ 280,179          |

Condensed Statement of Cash Flows for the Three Months Ended March 31, 2016:

| <u><i>In thousands</i></u>                          | <u>Parent</u> | <u>Guarantors</u> | <u>Non-Guarantors</u> | <u>Elimination</u> | <u>Consolidated</u> |
|---|---------------|-------------------|-----------------------|--------------------|---------------------|
| Net cash provided by (used in) operating activities | \$ (11,340)   | \$ 81,479         | \$ 21,796             | \$ (16,369)        | \$ 75,566           |
| Net cash used in investing activities               | (3,234)       | (2,303)           | (3,093)               | —                  | (8,630)             |
| Net cash (used in) provided by financing activities | 20,229        | (71,084)          | (5,551)               | 16,369             | (40,037)            |
| Effect of changes in currency exchange rates        | —             | —                 | 9,684                 | —                  | 9,684               |
| (Decrease) increase in cash                         | 5,655         | 8,092             | 22,836                | —                  | 36,583              |
| Cash, beginning of period                           | —             | 13,157            | 213,034               | —                  | 226,191             |
| Cash, end of period                                 | \$ 5,655      | \$ 21,249         | \$ 235,870            | \$ —               | \$ 262,774          |

**17. OTHER INCOME (EXPENSE), NET**

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

|                                      | Three Months Ended<br>March 31, |               |
|--------------------------------------|---------------------------------|---------------|
|                                      | 2017                            | 2016          |
| <i>In thousands</i>                  |                                 |               |
| Foreign currency gain                | \$ 1,213                        | \$ 162        |
| Other miscellaneous income (expense) | 1,106                           | (8)           |
| Total other income (expense), net    | <u>\$ 2,319</u>                 | <u>\$ 154</u> |

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

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

### OVERVIEW

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

#### *Management Review and Future Outlook*

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

The Company primarily serves the worldwide freight and transit rail industries. As such, our operating results are largely dependent on the level of activity, financial condition and capital spending plans of railroads and passenger transit agencies around the world, and transportation equipment manufacturers who serve those markets. Many factors influence these industries, including general economic conditions; traffic volumes, as measured by freight carloadings and passenger ridership; government spending on public transportation; and investment in new technologies. In general, trends such as increasing urbanization, a focus on sustainability and environmental awareness, an aging equipment fleet, and growth in global trade are expected to drive continued investment in freight and transit rail.

The Company monitors a variety of factors and statistics to gauge market activity. Freight rail markets around the world are driven primarily by overall economic conditions and activity, while Transit markets are driven primarily by government funding and passenger ridership. Changes in these market drivers can cause fluctuations in demand for Wabtec's product and services.

According to the 2016 edition of a market study by UNIFE, the Association of the European Rail Industry, the accessible global market for railway products and services is more than \$100 billion, and it is expected to grow at about 3.2% annually through 2021. The three largest geographic markets, which represent about 80% of the total accessible market, are Europe, North America and Asia Pacific. Over the next five years, UNIFE projects above-average growth in Asia Pacific and Europe due to overall economic growth and trends such as urbanization and increasing mobility, deregulation, investments in new technologies, energy and environmental issues, and increasing government support. The largest product segments of the market are rolling stock, services and infrastructure, which represent almost 90% of the accessible market. Over the next five years, UNIFE projects spending on rolling stock to grow at an above-average rate due to increased investment in passenger transit vehicles. UNIFE estimates that the global installed base of locomotives is about 114,000 units, with about 32% in Asia Pacific, about 25% in North America and about 18% in Russia-CIS (Commonwealth of Independent States). Wabtec estimates that about 3,400 new locomotives were delivered worldwide in 2016, and it expects deliveries of about 3,200 in 2017. UNIFE estimates the global installed base of freight cars is about 5.5 million units, with about 37% in North America, about 26% in Russia-CIS and about 20% in Asia Pacific. Wabtec estimates that about 108,000 new freight cars were delivered worldwide in 2016, and it expects deliveries of about 97,000 in 2017. UNIFE estimates the global installed base of passenger transit vehicles to be about 569,000 units, with about 43% in Asia Pacific, about 32% in Europe and about 14% in Russia-CIS. UNIFE estimates that about 208,000 new passenger transit vehicles were ordered annually from 2013-2015, and that about 184,000 will be ordered annually from 2016-2018.

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

Kingdom are the largest Western European transit markets, representing almost two-thirds of industry spending in the European Union. UNIFE projects the Western European rail market to grow at about 3.6% annually during the next five years, led by investments in new rolling stock in France and Germany. Significant investments are also expected in Turkey, the largest market in Eastern Europe. About 75% of freight traffic in Europe is hauled by truck, while rail accounts for about 20%. The largest freight markets in Europe are Germany, Poland and the United Kingdom. In recent years, the European Commission has adopted a series of measures designed to increase the efficiency of the European rail network by standardizing operating rules and certification requirements. UNIFE believes that adoption of these measures should have a positive effect on ridership and investment in public transportation over time.

In North America, railroads carry about 40% of intercity freight, as measured by ton-miles, which is more than any other mode of transportation. Through direct ownership and operating partnerships, U.S. railroads are part of an integrated network that includes railroads in Canada and Mexico, forming what is regarded as the world's most-efficient and lowest-cost freight rail service. There are more than 500 railroads operating in North America, with the largest railroads, referred to as "Class I," accounting for more than 90% of the industry's revenues. The railroads carry a wide variety of commodities and goods, including coal, metals, minerals, chemicals, grain, and petroleum. These commodities represent about 55% of total rail carloadings, with intermodal carloads accounting for the rest. Railroads operate in a competitive environment, especially with the trucking industry, and are always seeking ways to improve safety, cost and reliability. New technologies offered by Wabtec and others in the industry can provide some of these benefits. Demand for our freight related products and services in North America is driven by a number of factors, including rail traffic, and production of new locomotives and new freight cars. In the U.S., the passenger transit industry is dependent largely on funding from federal, state and local governments, and from fare box revenues. Demand for North American passenger transit products is driven by a number of factors, including government funding, deliveries of new subway cars and buses, and ridership. The U.S. federal government provides money to local transit authorities, primarily to fund the purchase of new equipment and infrastructure for their transit systems.

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

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

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

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

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

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

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

- On November 30, 2016, the Company acquired majority ownership of Faiveley Transport, after completing the purchase of the Faiveley family's ownership interest under the terms of the Share Purchase Agreement, which directed the Company to pay €100 per share of Faiveley Transport, payable between 25% and 45% in cash at the election of those shareholders. The Faiveley family's ownership interest acquired by the Company represented approximately 51% of outstanding share capital and approximately 49% of the outstanding voting shares of Faiveley Transport. Upon completion of the share purchase under the Share Purchase Agreement, Wabtec commenced a tender offer for the remaining publicly traded Faiveley Transport shares. The public shareholders had the option to elect to receive €100 per share in cash or 1.1538 shares of Wabtec common stock per share of Faiveley Transport. The common stock portion of the consideration was subject to a cap on issuance of Faiveley common shares that will be equivalent to the rates of cash and stock elected by the 51% owners.
- On February 3, 2017, the initial cash tender offer was closed which resulted in the Company acquiring approximately 27% of additional outstanding share capital and voting rights of Faiveley Transport for approximately \$411.8 million in cash and \$25.2 million in Wabtec stock. After the initial cash tender offer the Company owned approximately 78% of outstanding share capital and 76% of voting rights.
- On March 6, 2017, the final cash tender offer was closed which resulted in the Company acquiring approximately 21% of additional outstanding share capital and 22% of additional outstanding voting rights of Faiveley Transport for approximately \$303.2 million in cash and \$0.3 million in Wabtec stock. After the final cash tender offer the Company owned approximately 99% of the share capital and 98% of the voting rights of Faiveley Transport.
- On March 21, 2017, a mandatory squeeze-out procedure was finalized which resulted in the Company acquiring the Faiveley Transport shares not tendered in the offers for approximately 17.5 million in cash. This resulted in the Company owning 100% of the share capital and voting rights of Faiveley Transport.

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



## RESULTS OF OPERATIONS

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

| <i>In millions</i>                                     | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2017                            | 2016       |
| Net sales  | \$ 916,034                      | \$ 772,031 |
| Cost of sales  | (646,327)                       | (516,851)  |
| Gross profit   | 269,707                         | 255,180    |
| Selling, general and administrative expenses           | (122,341)                       | (89,751)   |
| Engineering expenses                                   | (23,464)                        | (17,953)   |
| Amortization expense                                   | (9,044)                         | (5,295)    |
| Total operating expenses                               | (154,849)                       | (112,999)  |
| Income from operations                                 | 114,858                         | 142,181    |
| Interest expense, net                                  | (17,712)                        | (4,871)    |
| Other (expense) income, net                            | 2,319                           | 154        |
| Income from operations before income taxes             | 99,465                          | 137,464    |
| Income tax expense                                     | (27,461)                        | (43,301)   |
| Net income   | 72,004                          | 94,163     |
| Less: Net loss attributable to noncontrolling interest | 1,885                           | —          |
| Net income attributable to Wabtec shareholders         | \$ 73,889                       | \$ 94,163  |

## FIRST QUARTER 2017 COMPARED TO FIRST QUARTER 2016

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

| <i>In thousands</i>    | Three Months Ended March 31, |            |                   |
|------------------------|------------------------------|------------|-------------------|
|                        | 2017                         | 2016       | Percent<br>Change |
| Freight Segment Sales  | \$ 347,946                   | \$ 442,669 | (21.4)%           |
| Transit Segment Sales  | 568,088                      | 329,362    | 72.5 %            |
| Net sales              | 916,034                      | 772,031    | 18.7 %            |
| Income from operations | 114,858                      | 142,181    | (19.2)%           |
| Net income             | \$ 72,004                    | \$ 94,163  | (23.5)%           |

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

| <i>In thousands</i>                     | Freight<br>Segment | Transit<br>Segment | Total      |
|---|--------------------|--------------------|------------|
| First Quarter 2016 Net Sales            | \$ 442,669         | \$ 329,362         | \$ 772,031 |
| Acquisitions                            | 36,888             | 270,351            | 307,239    |
| <i>Change in Sales by Product Line:</i> |                    |                    |            |
| Specialty Products & Electronics        | (75,540)           | (14,538)           | (90,078)   |
| Remanufacturing, Overhaul & Build       | (33,571)           | 1,284              | (32,287)   |
| Brake Products                          | (17,607)           | (1,486)            | (19,093)   |
| Other                                   | (3,455)            | 1,347              | (2,108)    |
| Transit Products                        | —                  | 5,115              | 5,115      |
| Foreign exchange                        | (1,438)            | (23,347)           | (24,785)   |
| First Quarter 2017 Net Sales            | \$ 347,946         | \$ 568,088         | \$ 916,034 |

Net sales for the three months ended March 31, 2017 increased by \$144.0 million or 18.7% to \$916.0 million from \$772.0 million. The increase is primarily due to sales from acquisitions of \$307.2 million partially offset by a \$90.1 million decrease for Specialty Products and Electronics due to lower demand for train control and signaling products and services, and a \$32.3 million decrease for Remanufacturing, Overhaul and Build primarily due to the absence of a large locomotive rebuild contract that completed in 2016. Unfavorable foreign exchange decreased sales by \$24.8 million.

Freight Segment sales decreased by \$94.7 million, or 21.4%, primarily due to a decrease of \$75.5 million for Specialty Products and Electronics sales from lower demand for freight original equipment rail products as well as train control and signaling products and services, a decrease of \$33.6 million for Remanufacturing, Overhaul & Build sales primarily due to the absence of a large locomotive rebuild contract that completed in 2016, and a decrease of \$17.6 million for Brake Products sales from lower demand for original equipment brakes for freight customers. Acquisitions increased sales by \$36.9 million and unfavorable foreign exchange decreased sales by \$1.4 million.

Transit Segment sales increased by \$238.7 million, or 72.5%, primarily due to sales from acquisitions of \$270.4 million partially offset by a decrease of \$14.5 million for Specialty Products and Electronics due to lower demand for original equipment conduction systems and current collectors. Unfavorable foreign exchange decreased sales by \$23.3 million.

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

| <u>In thousands</u> | Three Months Ended March 31, 2017 |                     |                   |                     |                   |                     |
|---------------------|-----------------------------------|---------------------|-------------------|---------------------|-------------------|---------------------|
|                     | Freight                           | Percentage of Sales | Transit           | Percentage of Sales | Total             | Percentage of Sales |
| Material            | \$ 138,398                        | 39.8 %              | \$ 247,109        | 43.5%               | \$ 385,507        | 42.1%               |
| Labor               | 38,986                            | 11.2 %              | 76,137            | 13.4%               | 115,123           | 12.6%               |
| Overhead            | 57,287                            | 16.5 %              | 81,334            | 14.3%               | 138,621           | 15.1%               |
| Other/Warranty      | (907)                             | (0.3)%              | 7,983             | 1.4%                | 7,076             | 0.8%                |
| Total cost of sales | <u>\$ 233,764</u>                 | <u>67.2 %</u>       | <u>\$ 412,563</u> | <u>72.6%</u>        | <u>\$ 646,327</u> | <u>70.6%</u>        |

  

| <u>In thousands</u> | Three Months Ended March 31, 2016 |                     |                   |                     |                   |                     |
|---------------------|-----------------------------------|---------------------|-------------------|---------------------|-------------------|---------------------|
|                     | Freight                           | Percentage of Sales | Transit           | Percentage of Sales | Total             | Percentage of Sales |
| Material            | \$ 165,285                        | 37.3%               | \$ 143,124        | 43.5%               | \$ 308,409        | 39.9%               |
| Labor               | 51,584                            | 11.7%               | 37,593            | 11.4%               | 89,177            | 11.6%               |
| Overhead            | 63,313                            | 14.3%               | 47,976            | 14.6%               | 111,289           | 14.4%               |
| Other/Warranty      | 3,697                             | 0.8%                | 4,279             | 1.3%                | 7,976             | 1.0%                |
| Total cost of sales | <u>\$ 283,879</u>                 | <u>64.1%</u>        | <u>\$ 232,972</u> | <u>70.8%</u>        | <u>\$ 516,851</u> | <u>66.9%</u>        |

Cost of Sales increased by \$129.5 million to \$646.3 million in the first quarter of 2017 compared to \$516.9 million in the same period of 2016. In the first quarter of 2017, cost of sales as a percentage of sales was 70.6% compared to 66.9% in the same period of 2016. The increase as a percentage of sales is due to an unfavorable product mix largely attributable to higher transit segment sales which have a lower gross margin compared to freight segment sales.

Freight Segment cost of sales increased 3.1% as a percentage of sales to 67.2% in 2017 compared to 64.1% for the same period in 2016. The increase is primarily related to sales an unfavorable product mix with higher material content and lower overall margins.

Transit Segment cost of sales increased 1.8% as a percentage of sales to approximately 72.6% in the first quarter of 2017 from 70.8% for the same period of 2016. The increase is primarily related to the acquisition of Faiveley Transport, which has lower overall margins.

Included in cost of sales is warranty expense. The provision for warranty expense is generally established for specific losses, along with historical estimates of customer claims as a percentage of sales, which can cause variability in warranty expense between quarters. Warranty expense was \$5.8 million in the first quarter of 2017 compared to \$10.9 million in the first quarter of 2016.

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

| <u>In thousands</u>                          | Three Months Ended March 31, |                     |            |                     |
|--|------------------------------|---------------------|------------|---------------------|
|  | 2017                         | Percentage of Sales | 2016       | Percentage of Sales |
| Selling, general and administrative expenses | \$ 122,341                   | 13.4%               | \$ 89,751  | 11.6%               |
| Engineering expenses                         | 23,464                       | 2.6%                | 17,953     | 2.3%                |
| Amortization expense                         | 9,044                        | 1.0%                | 5,295      | 0.7%                |
| Total operating expenses                     | \$ 154,849                   | 17.0%               | \$ 112,999 | 14.6%               |

Total operating expenses were 17.0% and 14.6% of sales for the first quarters of 2017 and 2016, respectively. Selling, general, and administrative expenses increased \$32.6 million, or 36.3%, primarily due to \$52.2 million in incremental expense from acquisitions and \$5.5 million in transaction and restructuring related charges partially offset by lower costs due to lower organic sales volumes. Engineering expense increased by \$5.5 million, or 30.7%, due to incremental costs associated with acquisitions. Amortization expense increased \$3.7 million due to amortization of intangibles associated with acquisitions.

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

| <u>In thousands</u>      | Three Months Ended March 31, |           |                |
|--------------------------|------------------------------|-----------|----------------|
|                          | 2017                         | 2016      | Percent Change |
| Freight Segment          | \$ 42,787                    | \$ 50,810 | (15.8)%        |
| Transit Segment          | 106,377                      | 52,685    | 101.9 %        |
| Corporate                | 5,685                        | 9,504     | (40.2)%        |
| Total operating expenses | 154,849                      | 112,999   | 37.0 %         |

Freight Segment operating expenses decreased \$8.0 million, or 15.8%, in 2017 and increased 80 basis points to 12.3% of sales. The decrease is primarily attributable to reduced sales volumes, realized benefits from the cost saving initiatives undertaken in 2016 and 2017, reduced incentive compensation, partially offset by \$4.7 million of incremental operating expenses from acquisitions.

Transit Segment operating expenses increased \$53.7 million, or 101.9%, in 2017 and increased 270 basis points to 18.7% of sales. The increase is primarily attributable to \$59.2 million of incremental operating expenses from acquisitions.

Corporate non-allocated operating expenses decreased \$3.8 million in 2017 primarily due to lower costs associated with cost saving initiatives undertaken in 2016.

**Interest expense, net** Interest expense, net, increased \$12.8 million in 2017 attributable to higher overall debt balances in 2017 than 2016, primarily related to the Faiveley Transport acquisition.

**Other income (expense), net** Other income/(expense), net, totaled \$2.3 million of income in 2017 compared to \$0.2 million of income in 2016 primarily due to foreign currency gains.

**Income taxes** The effective income tax rate was 27.6% and 31.5% for the first quarter of 2017 and 2016, respectively. The decrease in the effective rate is primarily the result of a lower earnings mix in higher tax rate jurisdictions.

**Net loss attributable to noncontrolling interest** Net loss attributable to noncontrolling interest was \$1.9 million in 2017 as Faiveley Transport was not wholly owned by the Company until March 2017; therefore, a portion of Faiveley Transport's operating results for the first two months of 2017 was allocated to the noncontrolling shareholders.

## Liquidity and Capital Resources

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

| <u>In thousands</u>          | Three Months Ended<br>March 31, |           |
|------------------------------|---------------------------------|-----------|
|                              | 2017                            | 2016      |
| Cash (used for) provided by: |                                 |           |
| Operating activities         | \$ (26,096)                     | \$ 75,566 |
| Investing activities         | (63,076)                        | (8,630)   |
| Financing activities         | (39,473)                        | (40,037)  |
| (Decrease)/increase in cash  | \$ (118,305)                    | \$ 36,583 |

**Operating activities** In the first three months of 2017, cash used for operations was \$26.1 million. In the first three months of 2016, cash provided by operations was \$75.6 million. In comparison to the first three months of 2016, cash provided by operations in 2017 decreased due to unfavorable working capital performance and lower net income of \$22.2 million. The major components of working capital were as follows: an unfavorable change in accounts receivable of \$72.6 million due to the timing of sales and customer payments, an unfavorable change in inventory of \$33.5 million due to efforts to ramp up production in anticipation of stronger product demand through 2017, an unfavorable change of \$46.5 million in other assets and liabilities due to the payments of acquisition costs during the first three months of 2017, an unfavorable change in accrued taxes of \$27.6 million, partially offset by a favorable change in accrued liabilities and customer deposits of \$98.1 million primarily due to the timing of cash receipts from customers for long term projects.

**Investing activities** In the first three months of 2017 and 2016, cash used in investing activities was \$63.1 million and \$8.6 million, respectively. The major components of the cash outflow in 2017 were \$44.0 million in net cash paid for acquisitions and \$19.3 million in planned additions to property, plant and equipment for investments in our facilities and manufacturing processes. This compares to \$8.5 million in property, plant, and equipment for investments in the first three months of 2016. Refer to Note 3 of the "Notes to Condensed Consolidated Financial Statements" for additional information on acquisitions.

**Financing activities** In the first three months of 2017, cash used for financing activities was \$39.5 million which included \$458.3 million in proceeds from the revolving credit facility, \$482.6 million in repayments of debt on the revolving credit facility and \$9.6 million of dividend payments. In the first three months of 2016, cash provided by financing activities was \$40.0 million, which included \$195.0 million in proceeds from the revolving credit facility, \$85.5 million in repayments of debt on the revolving credit facility, \$9.0 million related to payment of income tax withholding on share based compensation, and \$7.4 million of dividend payments.

### Senior Notes Due November 2026

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

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

### *Faiveley Transport Tender Offer*

- On February 3, 2017, the initial cash tender offer was closed which resulted in the Company acquiring approximately 27% of additional outstanding share capital and voting rights of Faiveley Transport for approximately \$411.8 million in cash and \$25.2 million in Wabtec stock. After the initial cash tender offer the Company owned approximately 78% of outstanding share capital and 76% of voting rights.
- On March 6, 2017, the final cash tender offer was closed which resulted in the Company acquiring approximately 21% of additional outstanding share capital and 22% of additional outstanding voting rights of Faiveley Transport for approximately \$303.2 million in cash and \$0.3 million in Wabtec stock. After the final cash tender offer the Company owned approximately 99% of the share capital and 98% of the voting rights of Faiveley Transport.
- On March 21, 2017, a mandatory squeeze-out procedure finalized which resulted in the Company acquiring the Faiveley Transport shares not tendered in the offers for approximately 17.5 million in cash. This resulted in the Company owning 100% of the share capital and voting rights of Faiveley Transport.

### *Company Stock Repurchase Plan*

On February 8, 2016 the Board of Directors amended its stock repurchase authorization to \$350 million of the Company's outstanding shares. This new stock repurchase authorization supersedes the previous authorization of \$350 million of which about \$33.3 million remained. During the three months ended March 31, 2017, the Company did not repurchase any shares. The Company intends to purchase shares on the open market or in negotiated 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.

### **Forward Looking Statements**

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

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

#### Economic and industry conditions

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

#### Operating factors

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

#### Competitive factors

- the actions of competitors.

#### Political/governmental factors

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

#### Transaction or commercial factors

- 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, 2016.

### **Critical Accounting Policies**

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

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Interest Rate Risk**

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

#### **Foreign Currency Exchange Risk**

The Company is subject to certain risks associated with changes in foreign currency exchange rates to the extent our operations are conducted in currencies other than the U.S. dollar. For the first three months of 2017 and 2016, approximately

35% of Wabtec's net sales were to customers in the United States, 9% in the United Kingdom, 7% in Canada, 7% in France, 5% in Mexico, 4% in China, 4% in Germany, 4% in Italy, 3% in Australia, and 20% in other international locations. To reduce the impact of changes in currency exchange rates, the Company has periodically entered into foreign currency forward contracts. Refer to "Financial Derivatives and Hedging Activities" in Note 2 of "Notes to Condensed Consolidated Financial Statements" for more information regarding foreign currency exchange risk.

**Item 4. CONTROLS AND PROCEDURES**

Wabtec's principal executive officer and its principal financial officer have evaluated the effectiveness of Wabtec's "disclosure controls and procedures," (as defined in Exchange Act Rule 13a-15(e)) as of March 31, 2017. Based upon their evaluation, the principal executive officer and principal financial officer concluded that Wabtec's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by Wabtec in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to provide reasonable assurance that information required to be disclosed by Wabtec in such reports is accumulated and communicated to Wabtec's Management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There was no change in Wabtec's "internal control over financial reporting" (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2017, that has materially affected, or is reasonably likely to materially affect, Wabtec's internal control over financial reporting.



## PART II—OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

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

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. On November 2, 2016, Siemens amended its complaint to add six additional patents they also claim are infringed by the Company's Positive Train Control Products. The Company has filed answers, and asserted counterclaims, in response to Siemens' complaints. The case is still in the preliminary stages, but the Company has begun filing for Inter-Parties Review proceedings before the U.S. Patent & Trademark Office seeking to invalidate the Siemens patents. Wabtec believes the claims are without merit and is vigorously defending 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, 2016.

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

The following table summarizes the Company's stock repurchase activity for the three months ended March 31, 2017:

| Month                              | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs (1) | Maximum Dollar Value of Shares That May Yet Be Purchased Under the Programs (1) |
|------------------------------------|----------------------------------|------------------------------|---|---|
| January 2017                       | —                                | —                            | —   | \$ —  |
| February 2017                      | —                                | \$ —                         | —   | \$ —  |
| March 2017                         | —                                | \$ —                         | —   | \$ —  |
| Total quarter ended March 31, 2017 | —                                | \$ —                         | —   | \$ —  |

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

### Item 4. MINE SAFETY DISCLOSURES

Not Applicable

### Item 6. EXHIBITS

The following exhibits are being filed with this report:

|         |   |
|---------|---|
| 4.1     | Fifth Supplemental Indenture, dated April 28, 2017, by and among Westinghouse Air Brake Technologies Corporation, the subsidiary guarantors named therein and Wells Fargo Bank, National Association, as Trustee  |
| 10.1    | Fist Amendment to Second Amended and Restated Refinancing Credit Agreement, dated as of April 19, 2017, by and among the Company, Wabtec Cooperatief UA, as borrowers, the subsidiary guarantors named therein, and the lenders party thereto and PNC Bank, National Association, as Administrative Agent |
| 31.1    | Rule 13a-14(a) Certification of Chief Executive Officer.  |
| 31.2    | Rule 13a-14(a) Certification of Chief Financial Officer.  |
| 32.1    | Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.  |
| 101.INS | XBRL Instance Document.   |
| 101.SCH | XBRL Taxonomy Extension Schema Document.  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document.   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document.   |



## EXHIBIT INDEX

|         |  |
|---------|--|
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| 31.1    | Rule 13a-14(a) Certification of Chief Executive Officer.   |
| 31.2    | Rule 13a-14(a) Certification of Chief Financial Officer.   |
| 32.1    | Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.   |
| 101.INS | XBRL Instance Document.  |
| 101.SCH | XBRL Taxonomy Extension Schema Document.   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.   |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document.  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document.  |

## FIFTH SUPPLEMENTAL INDENTURE

Dated as of April 28, 2017

to

## INDENTURE

Dated as of August 8, 2013

by and among

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION,  
as IssuerTHE GUARANTORS PARTY HERETO,  
as Guarantors

and

WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Trustee

THIS FIFTH SUPPLEMENTAL INDENTURE (this “**Supplemental Indenture**”) is made as of April 28, 2017, by and among WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION, a Delaware corporation (the “**Company**”), each of the GUARANTORS and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association, as trustee (the “**Trustee**”).

WHEREAS, the Company and the Trustee entered into that certain Indenture dated as of August 8, 2013 (the “**Original Indenture**” and as supplemented to date, the “**Indenture**”), which provides for the issuance by the Company from time to time of Securities, in one or more series as provided therein, and that certain First Supplemental Indenture dated as of August 8, 2013 (the “**First Supplemental Indenture**”), which provides for the issuance of \$250,000,000 aggregate principal amount of the Company’s 4.375% Senior Notes due 2023 (the “**2023 Notes**”);

WHEREAS, the Company, certain Guarantors and the Trustee entered into that certain Second Supplemental Indenture dated as of November 3, 2016 (the “**Second Supplemental Indenture**”), which provides for certain amendments to the Original Indenture and the First Supplemental Indenture, including amendments to, among other things, provides for the issuance of Guarantees from time to time by the Guarantors party to the Indenture, and that certain Third Supplemental Indenture dated as of November 3, 2016 (the “**Third Supplemental Indenture**”), which provides for the issuance of \$750,000,000 aggregate principal amount of the Company’s 3.450% Senior Notes due 2026 (the “**2026 Notes**” and together with the 2023 Notes, the “**Notes**”), and that certain Fourth Supplemental Indenture dated as of February 9, 2017 (the “**Fourth Supplemental Indenture**”), which provides for the inclusion of Workhorse Rail, LLC as a Guarantor with respect to the Notes;

WHEREAS, Section 9.1(d) of the Original Indenture provides for the Company and the Trustee to enter into an indenture supplemental to the Indenture to provide any guarantees of the Company’s Securities, and Section 9.1(m) of the Original Indenture provides for the Company and the Trustee to enter into an indenture supplemental to the Indenture to make any change to the Indenture that does not adversely affect the rights of any holder of any of its outstanding Securities in any material respect;

WHEREAS, the Company and the Guarantors desire and have requested the Trustee to join them in the execution and delivery of this Supplemental Indenture in order to cause Aero Transportation Products, Inc., a Missouri corporation and a wholly owned subsidiary of the Company, and Thermal Transfer Corporation, a Delaware corporation and a wholly owned subsidiary of the Company (collectively, the “**Guaranteeing Subsidiaries**”), to each provide a Guarantee with respect to the Notes and to each become a Guarantor with the same effect and to the same extent as if the Guaranteeing Subsidiaries had been named in the Indenture as Guarantors;

WHEREAS, this Supplemental Indenture shall not result in a material modification of the Notes for purposes of compliance with the Foreign Accounts Tax Compliance Act; and

WHEREAS, all the conditions and requirements necessary to make this Supplemental Indenture, when duly executed and delivered, a valid and binding agreement in accordance with its terms and for the purposes herein expressed, have been performed

and fulfilled;

NOW, THEREFORE, in consideration of the agreements and obligations set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

## Article 1 DEFINITIONS

### Section 1.01. *Definitions.*

For all purposes of this Supplemental Indenture, except as otherwise expressly provided for or unless the context otherwise requires:

- (a) Capitalized terms used but not defined herein shall have the respective meanings given them in the Indenture; and
- (b) All references herein to Articles and Sections, unless otherwise specified, refer to the corresponding Articles and Sections of this Supplemental Indenture.

## ARTICLE 2 GUARANTEES ISSUED BY THE GUARANTEEING SUBSIDIARIES

### Section 2.01. *Agreement to Guarantee.*

The Guaranteeing Subsidiaries hereby provide a Guarantee on the terms and subject to the conditions set forth in the Indenture including, but not limited to, Article IX-A thereof. From and after the date hereof, the Guaranteeing Subsidiaries shall each be a Guarantor for all purposes under the Indenture and the Notes.

## ARTICLE 3 MISCELLANEOUS PROVISIONS

### Section 3.01. *Recitals by Company.*

The recitals in this Supplemental Indenture are made by the Company and the Guarantors only and not by the Trustee, and all of the provisions contained in the Original Indenture in respect of the rights, privileges, immunities, powers and duties of the Trustee shall be applicable in respect of the Notes and of this Supplemental Indenture as fully and with like effect as if set forth herein in full.

### Section 3.02. *Application to the Notes Only.*

Each and every term and condition contained in this Supplemental Indenture that modifies, amends or supplements the terms and conditions of the Indenture shall apply only to the Notes and not to any future series of Securities established under the Indenture.

### Section 3.03. *Benefits.*

Nothing contained in this Supplemental Indenture shall or shall be construed to confer upon any person other than a Holder of Securities, the Company, the Guarantors and the Trustee any right or interest to avail itself of any benefit under any provision of the Indenture, the Notes or this Supplemental Indenture.

### Section 3.04. *Effective Date.*

This Supplemental Indenture shall be effective as of the date first above written upon the execution and delivery hereof by each of the parties hereto.

### Section 3.05. *Ratification.*

As supplemented hereby, the Indenture and the Notes are in all respects ratified and confirmed and all the terms, provisions and conditions thereof remain in full force and effect.

### Section 3.06. *Separability*

In case any provision in this Supplemental Indenture shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

### Section 3.07. *Counterparts*

This Supplemental Indenture may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. The exchange of copies of this Supplemental Indenture and of signature pages by facsimile or PDF transmission shall constitute effective execution and delivery of this Supplemental Indenture as to the parties hereto and may be used in lieu of the original Supplemental Indenture for all purposes. Signatures of the parties hereto transmitted by facsimile or PDF transmission shall be deemed to be their original signatures for all purposes.

Section 3.08. *GOVERNING LAW.*

THIS SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, AS APPLIED TO CONTRACTS MADE AND PERFORMED WITHIN THE STATE OF NEW YORK, INCLUDING, WITHOUT LIMITATION, SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW AND RULE 327(b) OF THE NEW YORK CIVIL PRACTICE LAWS AND RULES.

*[Signatures on Next Page]*

IN WITNESS WHEREOF, the parties hereto have caused this Fifth Supplemental Indenture to be duly executed, all as of the day and year first above written.

Westinghouse Air Brake Technologies Corporation

By: /s/ Patrick D. Dugan

Name: Patrick D. Dugan

Title: Executive Vice President and

Chief Financial Officer

Barber Steel Foundry Corp.  
Durox Company  
G&B Specialties, Inc.  
Longwood Elastomers, Inc.  
Longwood Industries, Inc.  
Longwood International, Inc.  
MotivePower, Inc.  
Railroad Friction Products Corporation  
RCL, L.L.C.  
RFPC Holding Corp.  
Ricon Corp.  
Schaeffer Equipment, Inc.  
Standard Car Truck Company  
TransTech of South Carolina, Inc.  
Turbonetics Holdings, Inc.  
WABTEC Holding Corp.  
WABTEC International, Inc.  
WABTEC Railway Electronics, Inc.  
WABTEC Railway Electronics Manufacturing, Inc.  
Xorail, Inc.  
Young Touchstone Company

By: /s/ Patrick D. Dugan

Name: Patrick D. Dugan

Title: Vice President, Finance of each

of the above

Railroad Controls, L.P.

By: RCL, L.L.C., its General Partner

By: /s/ Patrick D. Dugan  
Name: Patrick D. Dugan  
Title: Vice President, Finance

Workhorse Rail, LLC

By: /s/ Keith P. Hildum  
Name: Keith P. Hildum  
Title: Vice President and Treasurer

Aero Transportation Products, Inc.  
Thermal Transfer Corporation

By: /s/ Patrick D. Dugan  
Name: Patrick D. Dugan  
Title: Vice President and Treasurer



Wells Fargo Bank, National Association, as Trustee

By: /s/ Raymond Delli Colli  
Name: Raymond Delli Colli  
Title: Vice President

*[Trustee Signature Page to Fifth Supplemental Indenture]*

**FIRST AMENDMENT TO SECOND AMENDED AND RESTATED  
REFINANCING CREDIT AGREEMENT**

**THIS FIRST AMENDMENT TO SECOND AMENDED AND RESTATED REFINANCING CREDIT AGREEMENT** (the "*Amendment*"), dated as of April 19, 2017, is made by and among **WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**, a Delaware corporation, as a borrower (the "*Company*"), **WABTEC COÖPERATIEF U.A.**, a *coöperatieve vereniging met uitsluiting van aansprakelijkheid* under the laws of the Netherlands, as a borrower ("*WABTEC UA*" and together with the Company, collectively referred to as the "*Borrowers*" and each, a "*Borrower*"), the **GUARANTORS**, the **LENDERS** party to the Credit Agreement, and **PNC BANK, NATIONAL ASSOCIATION**, in its capacity as administrative agent for the Lenders (the "*Administrative Agent*").

**WHEREAS**, the parties hereto are parties to that certain Second Amended and Restated Refinancing Credit Agreement dated as of June 22, 2016 (the "*Credit Agreement*"), pursuant to which the Lenders provided a revolving credit facility and a delayed draw term loan to the Borrowers; and

**WHEREAS**, the Borrowers, the Lenders and the Administrative Agent desire to amend the Credit Agreement as hereinafter provided.

**NOW, THEREFORE**, the parties hereto, in consideration of their mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, covenant and agree as follows:

1. Recitals. The foregoing recitals are incorporated herein by reference.
2. Defined Terms. Capitalized terms not otherwise defined in this Amendment have the meanings given to them in the Credit Agreement.
3. Amendments to Credit Agreement.

(a) Effective as of March 31, 2017, Section 1.1 [Certain Definitions] of the Credit Agreement is hereby amended to amend and restate the following definitions in their entirety:

*EBITDA* shall mean, for any period, Consolidated Net Income for such period plus, to the extent deducted in determining such Consolidated Net Income, Interest Expense, income tax expense, depreciation, amortization, losses from Asset Dispositions, extraordinary losses, noncash losses from discontinued operations and other noncash charges to net income for such period, one-time transaction costs related to the LEY Acquisition in an aggregate amount not to exceed \$30,000,000, minus, to the extent added in determining such Consolidated Net Income, noncash credits to net

[SIGNATURE PAGE TO FIRST AMENDMENT TO SECOND AMENDED AND RESTATED REFINANCING CREDIT AGREEMENT]

income, gains from Asset Dispositions, noncash gains from discontinued operations, and other extraordinary income for such period; provided, however, that in the event of an acquisition or disposition of a Subsidiary or material line of business or a material division during the period of determination and solely for the purposes of Section 8.2.13.2 [Leverage Ratio], such calculation shall (a) in the case of such a disposition, exclude for the period of determination, EBITDA attributable to the disposed Subsidiary, line of business, or division as if such disposition had occurred at the beginning of such period of determination and (b) in the case of such an acquisition, include for the period of determination, EBITDA attributable to the acquired Subsidiary, line of business, or division as if such acquisition had occurred at the beginning of such period of determination.

*Total Debt* shall mean all Indebtedness of the Company and its Subsidiaries, determined on a consolidated basis, including Contingent Liabilities incurred in respect of letters of credit or bank guaranties (including Letters of Credit or bank guaranties issued hereunder), but excluding all other Contingent Liabilities, Hedging Liabilities, and obligations of a Loan Party arising from any Performance Letter of Credit, surety bonds, performance bonds, bid bonds, performance guaranties, or other similar obligations incurred in the ordinary course of business and that do not support Indebtedness.

(b) Section 1.1 [Certain Definitions] of the Credit Agreement is hereby amended to amend and restate the following definition in its entirety:

*Excluded Subsidiaries* shall mean (a) any Subsidiary substantially all of the assets of which consist of Capital Securities of other Subsidiaries, (b) any Subsidiary with respect to which the Administrative Agent and the Company reasonably agree that the joinder by such Subsidiary as a Guarantor would result in adverse tax consequences to the Company or any Subsidiary, and (c) the entities named on Schedule 1.1(E).

(c) Effective as of March 31, 2017, Section 1.1 [Certain Definitions] of the Credit Agreement is hereby amended to insert the following new definition in its appropriate alphabetical position:

*Performance Letter of Credit* shall mean (a) a standby Letter of Credit issued to secure performance obligations, including, without limitation, the performance of services and/or delivery of goods by or on behalf of the Company and its Subsidiaries, advance payment, retention or warranty obligations, in each case in connection with

[SIGNATURE PAGE TO FIRST AMENDMENT TO SECOND AMENDED AND RESTATED REFINANCING CREDIT AGREEMENT]

business activities of the Company or its Subsidiaries or bids for prospective projects, and (b) a standby Letter of Credit issued to back a bank guarantee, surety bond, performance bond, or other similar obligation in each case issued to support obligations of the type described in clause (a).

(d) Section 1.1 [Certain Definitions] of the Credit Agreement is hereby amended to insert the following new definition in its appropriate alphabetical position:

*First Amendment Closing Date* shall mean April 19, 2017.

(e) Section 6.1.8 [Equity Ownership; Subsidiaries] of the Credit Agreement is hereby amended by replacing in its entirety the phrase (i) "as of the Closing Date" with the phrase "as of the First Amendment Closing Date" and (ii) "As of the Closing Date" with the phrase "As of the First Amendment Closing Date".

(f) Section 8.1.8 [Further Assurances; Joinder of Loan Parties] of the Credit Agreement is hereby amended by replacing in its entirety the parenthetical "(including, upon the acquisition or creation thereof, any Subsidiary acquired or created after the Closing Date)" with the parenthetical "(including, upon the acquisition or creation thereof, any Subsidiary (other than any Excluded Subsidiary) acquired or created after the Closing Date)".

(g) Section 8.1.9 [Excluded Subsidiaries] of the Credit Agreement is hereby amended and restated in its entirety as follows:

8.1.9 Excluded Subsidiaries. In the event that (i) the operations or revenue of any Excluded Subsidiary is no longer immaterial to the operations or income of a Borrower and its other Subsidiaries, as reasonably determined by the Administrative Agent in consultation with the Company, (ii) any Subsidiary that is an Excluded Subsidiary pursuant to clauses (a) or (b) of the definition of Excluded Subsidiary ceases to constitute an Excluded Subsidiary pursuant to such clauses, or (iii) at any time the EBITDA of any Excluded Subsidiary shall equal or exceed 5% of the total EBITDA of the Company and its Subsidiaries, then in any such event, such entity shall cease to be an Excluded Subsidiary and shall guaranty the Obligations of each Loan Party under the Loan Documents and become a Loan Party hereunder by the execution and delivery of guaranties and other documents including a Loan Party Joinder substantially in the form of Exhibit 1.1(L).

(h) Section 11.16 [Joinder of Loan Parties] of the Credit Agreement is hereby amended and restated in its entirety as follows:

11.16 Joinder of Loan Parties. Each domestic Subsidiary (other than any Excluded Subsidiary) that is acquired, formed or in

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existence after the Closing Date shall join this Agreement as either a Borrower or a Guarantor, as designated by the Borrowers and agreed to by the Administrative Agent. The Loan Parties shall cause each such domestic Subsidiary to deliver to the Administrative Agent within thirty (30) days (unless such time period is extended in writing by the Administrative Agent) after the date of organization or acquisition of such domestic Subsidiary, (i) a Loan Party Joinder substantially in the form of Exhibit 1.1(L), pursuant to which such domestic Subsidiary shall join this Agreement and other Loan Documents, as a Borrower or a Guarantor, as applicable; and such domestic Subsidiary shall, after acceptance by the Administrative Agent of such Loan Party Joinder, join each of the other Loan Documents as set forth in such Loan Party Joinder, (ii) deliver documents and other deliverables in the forms described in Section 7 [First Loans and Letters of Credit], modified as appropriate to relate to such domestic Subsidiary, and (iii) do all such other acts and things as the Administrative Agent in its reasonable discretion may deem necessary or advisable from time to time in order to more effectively carry out the provisions and goals of this Agreement and the other Loan Documents.

(i) Schedules. The Credit Agreement is hereby amended by replacing (i) Schedule 1.1(E) [Excluded Subsidiaries], with the Schedule 1.1(E) attached to and made a part of this Amendment and (ii) Schedule 6.1.8 – [Subsidiaries], with the Schedule 6.1.8 attached to and made a part of this Amendment.

4. Conditions of Effectiveness of Amendments and Consent. The effectiveness of this Amendment is expressly conditioned upon satisfaction of each of the following conditions precedent:

(a) Execution and Delivery of Amendment. The Borrowers, the other Loan Parties, the Required Lenders, and the Administrative Agent shall have executed and delivered this Amendment to the Administrative Agent, and all other documentation necessary for effectiveness of this Amendment shall have been executed and delivered all to the satisfaction of the Administrative Agent.

(b) Officer's Certificate. There shall be delivered to the Administrative Agent for the benefit of each Lender a certificate, dated the date hereof and signed by an authorized officer certifying that (i) all representations and warranties of the Loan Parties set forth in the Credit Agreement and hereunder are true and correct in all material respects, (ii) the Loan Parties are in compliance with each of the covenants and conditions set forth in the Credit Agreement and hereunder, (iii) since the date of the last audited financial statements of the Borrowers delivered to the Administrative Agent there has been no material adverse change in the financial condition, operations, assets, business, or properties of the Loan Parties taken as a whole, and (iv) no Event of Default or Potential Default exists.

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(c) Secretary's Certificate. There shall be delivered to the Administrative Agent for the benefit of each Lender a certificate, dated the date hereof and signed by the Secretary, an Assistant Secretary or authorized officer of each Loan Party, certifying as appropriate as to:

(i) all action taken by such party in connection with this Amendment and the other documents executed and delivered in connection herewith, together with authorizing resolutions on behalf of each of the Loan Parties evidencing the same;

(ii) the names of the officer or officers authorized to sign this Amendment and the other documents executed and delivered in connection herewith and the true signatures of such officer or officers and specifying the authorized officers permitted to act on behalf of the Loan Parties for purposes of the Loan Documents and the true signatures of such officers, on which the Administrative Agent and each Lender may conclusively rely; and

(iii) copies of its organizational documents, including its certificate of incorporation, bylaws, certificate of limited partnership, partnership agreement, certificate of formation and limited liability company agreement, in each case as in effect on the date hereof, certified by the appropriate state official where such documents are filed in a state office together with certificates from the appropriate state officials as to the continued existence and good standing of the Loan Party in each state where organized or qualified to do business; provided, however, that the Loan Parties may, in lieu of delivering copies of the foregoing organizational documents and good standing certificates, certify that the organizational documents and good standing certificates previously delivered by the Loan Parties to the Administrative Agent remain in full force and effect and have not been modified, amended, or rescinded.

(d) Representations. Each of the Loan Parties represents and warrants to the Administrative Agent and the Lenders that, by its execution and delivery hereof to the Administrative Agent, after giving effect to this Amendment: (i) the representations and warranties of the Loan Parties contained in Article 6 of the Credit Agreement shall be true and correct on and as of the date hereof with the same effect as though such representations and warranties had been made on and as of such date (except representations and warranties which relate solely to an earlier date or time, which representations and warranties shall be true and correct on and as of the specific dates or times referred to therein); (ii) the Loan Parties shall have performed and complied with all covenants and conditions of the Credit Agreement and this Amendment; (iii) no Event of Default or Potential Default under the Credit Agreement shall have occurred and be continuing or shall exist, (iv) since the Closing Date of the Credit Agreement no event has occurred which would have a Material Adverse Effect, and (v) there are no actions, suits, investigations, litigation or governmental proceedings pending or, to the Loans Parties' knowledge, threatened against any of the Loan Parties that could reasonably be expected to have a Material Adverse Effect.

(e) Consents. All material consents required to effectuate the transactions contemplated by this Amendment and the other Loan Documents shall have been obtained and are in full force and effect.

**[SIGNATURE PAGE TO FIRST AMENDMENT TO SECOND AMENDED AND RESTATED REFINANCING CREDIT AGREEMENT]**

(f) Confirmation of Guaranty. Each of the Guarantors confirms that they have read and understand this Amendment. In order to induce the Lenders and the Administrative Agent to enter into this Amendment, each of the Guarantors: (i) consents to the Amendment and the transactions contemplated thereby; (ii) ratifies and confirms each of the Loan Documents to which it is a party; (iii) ratifies, agrees and confirms that it has been a Guarantor and a Loan Party at all times since it became a Guarantor and a Loan Party and from and after the date hereof, each Guarantor shall continue to be a Guarantor and a Loan Party in accordance with the terms of the Loan Documents, as the same may be amended in connection with this Amendment and the transactions contemplated thereby; and (iv) hereby ratifies and confirms its obligations under each of the Loan Documents (including all exhibits and schedules thereto), as the same may be amended in connection with this Amendment and the transactions contemplated thereby, by signing below as indicated and hereby acknowledges and agrees that nothing contained in any of such Loan Documents is intended to create, nor shall it constitute an interruption, suspension of continuity, satisfaction, discharge of prior duties, novation or termination of the indebtedness, loans, liabilities, expenses, guaranty or obligations of any of the Loan Parties under the Credit Agreement or any other such Loan Document.

(g) Legal Details. All legal details and proceedings in connection with the transactions contemplated by this Amendment and the other Loan Documents shall be in form and substance satisfactory to the Administrative Agent and counsel for the Administrative Agent, and the Administrative Agent shall have received all such other counterpart originals or certified or other copies of such documents and proceedings in connection with such transactions, in form and substance satisfactory to the Administrative Agent and its counsel, as the Administrative Agent or its counsel may reasonably request.

(h) Payment of Fees. The Borrowers shall have paid to the Administrative Agent all fees, costs and expenses payable to the Administrative Agent, for which the Administrative Agent is entitled to be reimbursed, including but not limited to the fees and expenses of the Administrative Agent's legal counsel.

5. Force and Effect. Except as otherwise expressly modified by this Amendment, the Credit Agreement and the other Loan Documents are hereby ratified and confirmed and shall remain in full force and effect after the date hereof.

6. Headings. The various headings of this Amendment are inserted for convenience only and shall not affect the meaning or interpretation of this Amendment or any provisions hereof.

7. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

8. Entire Agreement. This Amendment constitutes the entire understanding among the parties hereto with respect to the subject matter hereof and supersedes any prior agreements, written or oral, with respect thereto.

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9. Loan Document Pursuant to Credit Agreement. This Amendment is a Loan Document executed pursuant to the Credit Agreement and shall be construed, administered and applied in accordance with all of the terms and provisions of the Credit Agreement.

10. Governing Law. This Amendment shall be deemed to be a contract under the Laws of the State of New York and for all purposes shall be governed by and construed and enforced in accordance with the internal laws of the State of New York without regard to its conflict of laws principles.

11. Effective Date. This Amendment shall be dated as of and shall be binding, effective and enforceable upon the date of satisfaction of all conditions set forth in Section 4 hereof, and from and after such date this Amendment shall be binding upon the Borrowers, each Lender and the Administrative Agent, and their respective successors and assigns permitted by the Credit Agreement.

12. No Novation. This Amendment amends the Credit Agreement, but is not intended to constitute, and does not constitute, a novation of the Obligations of the Loan Parties under the Credit Agreement or any other Loan Document.

13. Counterparts. This Amendment may be signed in counterparts (by facsimile transmission or otherwise) but all of such counterparts together shall constitute one and the same instrument.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]  
[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto, by their officers thereunto duly authorized, have executed this Amendment as of the day and year first above written.

**BORROWERS:**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION,**  
a Delaware corporation

By: /s/Brian Kelly (SEAL)  
Name: Brian Kelly  
Title: Treasurer and Vice President of Tax

**WABTEC COÖPERATIEF U.A.,**  
*a coöperatieve vereniging met uitsluiting van aansprakelijkheid* under the laws of the Netherlands

By: /s/ Patrick D. Dugan (SEAL)  
Name: Patrick D. Dugan  
Title: Authorized Person

**GUARANTORS:**

**MOTIVEPOWER, INC.,**  
a Delaware corporation;  
**RAILROAD FRICTION PRODUCTS CORPORATION,**  
a Delaware corporation;  
**RICON CORP.,**  
a California corporation;  
**SCHAEFER EQUIPMENT, INC.,**  
an Ohio corporation;  
**YOUNG TOUCHSTONE COMPANY,**  
a Wisconsin corporation;



**STANDARD CAR TRUCK COMPANY,**  
a Delaware corporation;  
**DUROX COMPANY,**  
an Ohio corporation;  
**G&B SPECIALTIES, INC.,**  
a Pennsylvania corporation;  
**XORAIL, INC.,**  
a Florida corporation;  
**WABTEC INTERNATIONAL, INC.,**  
a Delaware corporation;  
**RFPC HOLDING CORP.,**  
a Delaware corporation;  
**WABTEC HOLDING CORP.,**  
a Delaware corporation;  
**TURBONETICS HOLDINGS, INC.,**  
a Delaware corporation;  
**BARBER STEEL FOUNDRY CORP.,**  
a Delaware corporation;  
**LONGWOOD ELASTOMERS, INC.,**  
a Virginia corporation;  
**LONGWOOD INDUSTRIES, INC.,**  
a New Jersey corporation;  
**LONGWOOD INTERNATIONAL, INC.,**  
a Delaware corporation;  
**RCL, L.L.C.,**  
a Tennessee limited liability company;  
**WABTEC RAILWAY ELECTRONICS, INC.,**  
a Delaware corporation;  
**WABTEC RAILWAY ELECTRONICS MANUFACTURING, INC.,**  
a Delaware corporation;  
**TRANSTECH OF SOUTH CAROLINA, INC.,**  
a Delaware corporation

By:  /s/ Patrick D. Dugan \_\_\_\_\_ (SEAL)  
Name: Patrick D. Dugan  
Title: Vice President, Finance of each Guarantor listed above

**WORKHORSE RAIL, LLC,**  
a Pennsylvania limited liability company

By:  /s/ David M. Seitz \_\_\_\_\_ (SEAL)  
Name: David M. Seitz  
Title: Vice President & Secretary

**RAILROAD CONTROLS, L.P.,**  
a Texas limited partnership

By: RCL, L.L.C., its General Partner

By:  /s/ Patrick D. Dugan \_\_\_\_\_ (SEAL)  
Name: Patrick D. Dugan  
Title: Vice President, Finance

**THERMAL TRANSFER CORPORATION,**  
a Delaware corporation

By:  /s/ David M. Seitz \_\_\_\_\_ (SEAL)  
Name: David M. Seitz  
Title: Vice President & Secretary

**AERO TRANSPORTATION PRODUCTS, INC.,**  
a Missouri corporation

By:  /s/ David M. Seitz \_\_\_\_\_ (SEAL)

Name: David M. Seitz  
Title: Vice President & Secretary

**PNC BANK, NATIONAL ASSOCIATION,**  
as a Lender and as Administrative Agent

By: /s/ Tracy J. DeCock  
Name: Tracy J. DeCock  
Title: Senior Vice President

**JPMORGAN CHASE BANK, N.A.**

By: /s/John Malone  
Name: John Malone  
Title: Managing Director

**BANK OF AMERICA, N.A.**

By: /s/Susan Rich  
Name: Susan Rich  
Title: Vice President

**HSBC BANK USA, NATIONAL ASSOCIATION**

By: /s/Ross Graney  
Name: Ross Graney  
Title: Assistant Vice President

**HSBC FRANCE, S.A.**

By: /s/Ludovic Lepic  
Name: Ludovic Lepic  
Title: Director

**SOCIÉTÉ GÉNÉRALE**

By: /s/Joseph Moreno  
Name: Joseph Moreno  
Title: Managing Director

**CITIZENS BANK OF PENNSYLVANIA**

By: /s/Carl S. Tabacjar, Jr.  
Name: Carl S. Tabacjar, Jr.  
Title: Senior Vice President

**BRANCH BANKING AND TRUST COMPANY**

By: /s/Daniel Miller  
Name: Danial Miller  
Title: Vice President

**THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.**

By: /s/George Stoecklein  
Name: George Stoecklein  
Title: Managing Director

**CREDIT AGRICOLE CORPORATE AND INVESTMENT BANK**

By: /s/Michael Madnick  
Name: Michael Madnick  
Title: Managing Director

By: /s/Alistair Anderson  
Name: Alistair Anderson  
Title: Vice President

**TD BANK, N.A.**

By: /s/Craig Welch  
Name: Craig Welch  
Title: Senior Vice President

**WELLS FARGO BANK, NATIONAL ASSOCIATION**

By: /s/ Thomas M. Molitor  
Name: Thomas M. Molitor  
Title: Managing Director

**THE BANK OF NOVA SCOTIA**

By: /s/ Sangeeta Shah  
Name: Sangeeta Shah  
Title: Director

**THE HUNTINGTON NATIONAL BANK**

By: /s/Michael Kiss  
Name: Michael Kiss  
Title: Vice President

**FIRST NATIONAL BANK OF PENNSYLVANIA**

By: /s/Brad Johnston  
Name: Brad Johnston  
Title: Vice President

**U.S. BANK NATIONAL ASSOCIATION**

By: /s/ Paul F. Johnson  
Name: Paul F. Johnson  
Title: Vice President

**BANK OF THE WEST**

By: /s/ Harry Yergey  
Name: Harry Yergey  
Title: Managing Director

By: /s/ Michael Weinert  
Name: Michael Weinert  
Title: Director

**CITIBANK, N.A.**

By: /s/Shawna Elkus  
Name: Shawna Elkus  
Title: Senior Vice President

**FIRST COMMONWEALTH BANK**

By: /s/ Neil Corry-Roberts  
Name: Neil Corry-Roberts  
Title: Senior Vice President

**THE PRIVATEBANK AND TRUST COMPANY**

By: /s/Anne M. Westbrook  
Name: Anne M. Westbrook  
Title: Managing Director

**DOLLAR BANK, FEDERAL SAVINGS BANK**

By: /s/ Brian E. Waychoff  
Name: Brian E. Waychoff  
Title: Vice President

**NORTHWEST BANK**

By: /s/ C. Forrest Tefft  
Name: C. Forrest Tefft  
Title: Senior Vice President

**KEYBANK NATIONAL ASSOCIATION**

By: /s/ Philip R. Medsger  
Name: Philip R. Medsger  
Title: Senior Vice President

**SCHEDULE 1.1(E)**

[Excluded Subsidiaries]

(Attached)

**SCHEDULE 6.1.8**

[Subsidiaries]

(Attached)

## CERTIFICATION

I, Raymond T. Betler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Westinghouse Air Brake Technologies Corporation.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

(d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

**Date:** May 4, 2017

**By:** /s/ RAYMOND T. BETLER

**Name:** Raymond T. Betler

**Title:** President and Chief Executive Officer

**CERTIFICATION**

I, Patrick D. Dugan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Westinghouse Air Brake Technologies Corporation.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

(d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

**Date:** May 4, 2017

By: /s/ PATRICK D. DUGAN

**Name:** Patrick D. Dugan

**Title:** Executive Vice President Finance and Chief Financial Officer



## CERTIFICATION

Pursuant to 18 U.S.C. § 1350, the undersigned officers of Westinghouse Air Brake Technologies Corporation (the “Company”), hereby certify, to the best of their knowledge, that the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ RAYMOND T. BETLER

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**Raymond T. Betler**  
President and Chief Executive Officer

**Date:** May 4, 2017

By: /s/ PATRICK D. DUGAN

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**Patrick D. Dugan,**  
Executive Vice President Finance and Chief Financial Officer

**Date:** May 4, 2017