

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

**FORM 10-Q**

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

For the quarterly period ended September 30, 2013

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: 1-13782

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

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

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

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

Class  
Common Stock, \$.01 par value per share

Outstanding at October 25, 2013  
96,304,944 shares

WESTINGHOUSE AIR BRAKE  
TECHNOLOGIES CORPORATION

September 30, 2013

FORM 10-Q

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**PART I—FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

| <i>In thousands, except shares and par value</i>  | Unaudited<br>September 30,<br>2013 | December 31,<br>2012 |
|---|------------------------------------|----------------------|
| <b>Assets</b>   |                                    |                      |
| <b>Current Assets</b>   |                                    |                      |
| Cash and cash equivalents   | \$ 281,007                         | \$ 215,766           |
| Accounts receivable   | 570,276                            | 389,915              |
| Inventories   | 400,295                            | 407,039              |
| Deferred income taxes   | 61,208                             | 60,894               |
| Other   | 31,648                             | 19,324               |
| Total current assets  | <u>1,344,434</u>                   | <u>1,092,938</u>     |
| Property, plant and equipment   | 585,355                            | 555,924              |
| Accumulated depreciation  | (318,405)                          | (311,836)            |
| Property, plant and equipment, net  | <u>266,950</u>                     | <u>244,088</u>       |
| <b>Other Assets</b>   |                                    |                      |
| Goodwill  | 790,756                            | 666,022              |
| Other intangibles, net  | 376,137                            | 308,321              |
| Other noncurrent assets   | 38,703                             | 40,173               |
| Total other assets  | <u>1,205,596</u>                   | <u>1,014,516</u>     |
| Total Assets  | <u>\$ 2,816,980</u>                | <u>\$ 2,351,542</u>  |
| <b>Liabilities and Shareholders' Equity</b>   |                                    |                      |
| <b>Current Liabilities</b>  |                                    |                      |
| Accounts payable  | \$ 288,026                         | \$ 248,593           |
| Customer deposits   | 70,896                             | 82,810               |
| Accrued compensation  | 51,608                             | 53,222               |
| Accrued warranty  | 43,767                             | 39,860               |
| Current portion of long-term debt   | 85                                 | 43                   |
| Other accrued liabilities   | 87,376                             | 128,531              |
| Total current liabilities   | <u>541,758</u>                     | <u>553,059</u>       |
| Long-term debt  | 539,606                            | 317,853              |
| Accrued postretirement and pension benefits   | 60,304                             | 66,388               |
| Deferred income taxes   | 118,460                            | 91,176               |
| Accrued warranty  | 18,517                             | 18,352               |
| Other long-term liabilities   | 21,286                             | 22,697               |
| Total liabilities   | <u>1,299,931</u>                   | <u>1,069,525</u>     |
| <b>Shareholders' Equity</b>   |                                    |                      |
| Preferred stock, 1,000,000 shares authorized, no shares issued  | —                                  | —                    |
| Common stock, \$.01 par value; 200,000,000 shares authorized: 132,349,534 shares issued and 96,304,944 and 95,407,368 outstanding at September 30, 2013 and December 31, 2012, respectively | 1,323                              | 1,323                |
| Additional paid-in capital  | 402,527                            | 381,348              |
| Treasury stock, at cost, 36,044,590 and 36,942,166 shares, at September 30, 2013 and December 31, 2012, respectively  | (345,603)                          | (349,388)            |
| Retained earnings   | 1,506,505                          | 1,297,111            |
| Accumulated other comprehensive loss  | (52,079)                           | (53,564)             |
| Total Westinghouse Air Brake Technologies Corporation shareholders' equity  | <u>1,512,673</u>                   | <u>1,276,830</u>     |
| Non-controlling interest  | 4,376                              | 5,187                |
| Total shareholders' equity  | <u>1,517,049</u>                   | <u>1,282,017</u>     |
| Total Liabilities and Shareholders' Equity  | <u>\$ 2,816,980</u>                | <u>\$ 2,351,542</u>  |

The accompanying notes are an integral part of these statements.

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

| <i>In thousands, except per share data</i>     | Unaudited<br>Three Months Ended<br>September 30, |            | Unaudited<br>Nine Months Ended<br>September 30, |              |
|--|--|------------|---|--------------|
|  | 2013   | 2012       | 2013  | 2012         |
| Net sales                                      | \$ 631,398                                       | \$ 587,593 | \$ 1,884,910                                    | \$ 1,780,722 |
| Cost of sales                                  | (443,265)  | (416,314)  | (1,321,008)                                     | (1,266,635)  |
| Gross profit                                   | 188,133  | 171,279    | 563,902   | 514,087      |
| Selling, general and administrative expense    | (63,402)   | (59,743)   | (191,576)                                       | (180,935)    |
| Engineering expense                            | (10,921)   | (10,753)   | (33,535)  | (31,047)     |
| Amortization expense                           | (3,939)  | (3,941)    | (12,699)  | (10,288)     |
| Total operating expenses                       | (78,262)   | (74,437)   | (237,810)                                       | (222,270)    |
| Income from operations                         | 109,871  | 96,842     | 326,092   | 291,817      |
| Other income and expenses                      |  |            |   |              |
| Interest expense, net                          | (3,829)  | (3,070)    | (10,714)  | (10,303)     |
| Other income (expense) , net                   | (1,658)  | (1,393)    | (1,833)   | (1,284)      |
| Income from operations before income taxes     | 104,384  | 92,379     | 313,545   | 280,230      |
| Income tax expense                             | (30,441)   | (29,385)   | (95,351)  | (93,263)     |
| Net income attributable to Wabtec shareholders | \$ 73,943  | \$ 62,994  | \$ 218,194                                      | \$ 186,967   |
| <b>Earnings Per Common Share</b>               |  |            |   |              |
| Basic  |  |            |   |              |
| Net income attributable to Wabtec shareholders | \$ 0.77  | \$ 0.66    | \$ 2.28   | \$ 1.95      |
| Diluted  |  |            |   |              |
| Net income attributable to Wabtec shareholders | \$ 0.76  | \$ 0.65    | \$ 2.25   | \$ 1.93      |
| Weighted average shares outstanding            |  |            |   |              |
| Basic  | 95,848   | 95,286     | 95,383  | 95,464       |
| Diluted  | 97,174   | 96,542     | 96,754  | 96,720       |

The accompanying notes are an integral part of these statements.

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

| <i>In thousands</i>  | Unaudited<br>Three Months Ended<br>September 30, |           | Unaudited<br>Nine Months Ended<br>September 30, |            |
|--|--|-----------|---|------------|
|  | 2013   | 2012      | 2013  | 2012       |
| Net income attributable to Wabtec shareholders                                   | \$ 73,943  | \$ 62,994 | \$ 218,194                                      | \$ 186,967 |
| Foreign currency translation gain (loss)   | 34,179   | 11,916    | (2,799)   | 6,298      |
| Unrealized (loss) gain on interest rate swap contracts                           | (411)  | (903)     | 599   | (3,064)    |
| Pension benefit plans and post-retirement benefit plans                          | 1,341  | (128)     | 6,746   | 2,158      |
| Other comprehensive income before tax  | 35,109   | 10,885    | 4,546   | 5,392      |
| Income tax (expense) benefit related to components of other comprehensive income | (1,075)  | 333       | (3,061)   | 425        |
| Other comprehensive income, net of tax   | 34,034   | 11,218    | 1,485   | 5,817      |
| Comprehensive income attributable to Wabtec shareholders                         | \$ 107,977                                       | \$ 74,212 | \$ 219,679                                      | \$ 192,784 |

The accompanying notes are an integral part of these statements.

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

| <i>In thousands</i>  | <b>Unaudited<br/>Nine Months Ended<br/>September 30,</b> |             |
|--|--|-------------|
|  | <b>2013</b>  | <b>2012</b> |
| <b>Operating Activities</b>  |  |             |
| Net income attributable to Wabtec shareholders   | \$ 218,194   | \$ 186,967  |
| Adjustments to reconcile net income to net cash provided by operations:  |  |             |
| Depreciation and amortization  | 37,135   | 31,488      |
| Stock-based compensation expense   | 17,596   | 15,007      |
| (Gain) loss on disposal of property, plant and equipment   | (641)  | 674         |
| Excess income tax benefits from exercise of stock options  | (9,445)  | (2,518)     |
| Changes in operating assets and liabilities, net of acquisitions   |  |             |
| Accounts receivable  | (167,175)  | (71,430)    |
| Inventories  | 29,025   | (26,599)    |
| Accounts payable   | 23,542   | (18,569)    |
| Accrued income taxes   | (2,032)  | (17,378)    |
| Accrued liabilities and customer deposits  | (45,407)   | 37,700      |
| Other assets and liabilities   | (15,796)   | (21,817)    |
| Net cash provided by operating activities  | 84,996   | 113,525     |
| <b>Investing Activities</b>  |  |             |
| Purchase of property, plant and equipment  | (23,595)   | (24,694)    |
| Proceeds from disposal of property, plant and equipment  | 6,168  | 931         |
| Acquisitions of business, net of cash acquired   | (222,058)  | (102,304)   |
| Net cash used for investing activities   | (239,485)  | (126,067)   |
| <b>Financing Activities</b>  |  |             |
| Proceeds from debt   | 868,538  | 211,000     |
| Payments of debt   | (649,359)  | (173,992)   |
| Proceeds from exercise of stock options and other benefit plans  | 4,736  | 3,021       |
| Excess income tax benefits from exercise of stock options  | 9,445  | 2,518       |
| Stock repurchase   | (5,486)  | (27,997)    |
| Cash dividends (\$0.09 and \$0.06 per share for the nine months ended September 30, 2013 and 2012, respectively) | (8,800)  | (5,256)     |
| Net cash provided by financing activities  | 219,074  | 9,294       |
| Effect of changes in currency exchange rates   | 656  | (312)       |
| Increase (decrease) in cash  | 65,241   | (3,560)     |
| Cash, beginning of year  | 215,766  | 285,615     |
| Cash, end of period  | \$ 281,007   | \$ 282,055  |

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 SEPTEMBER 30, 2013 (UNAUDITED)**

**1. BUSINESS**

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 19 countries. In the first nine months of 2013, about 49% 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, 2012. The December 31, 2012 information has been derived from the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

**Capital Structure** On May 14, 2013, our stockholders approved an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of our common stock to 200.0 million shares. In addition, on May 14, 2013, our Board of Directors approved a two-for-one split of the Company's issued and outstanding common stock in the form of a 100% stock dividend. The increase in the authorized shares and the stock split became effective on May 14, 2013 and June 11, 2013, respectively.

The Company issued approximately 66.2 million shares of its common stock as a result of the two-for-one stock split. The par value of the Company's common stock remained unchanged at \$0.01 per share.

Information regarding shares of common stock (except par value per share), retained earnings, and net income per common share attributable to Wabtec shareholders for all periods presented reflects the two-for-one split of the Company's common stock. The number of shares of the Company's common stock issuable upon exercise of outstanding stock options and vesting of other stock-based awards was proportionally increased, and the exercise price per share thereof was proportionally decreased, in accordance with the terms of the stock incentive plans.

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

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

In general, the Company recognizes revenues on long-term contracts based on the percentage of completion method of accounting. The units-of-delivery method or other input-based or output-based measures, as appropriate, are used to measure the progress toward completion of individual contracts. Contract revenues and cost estimates are reviewed and revised at a minimum quarterly and adjustments are reflected in the accounting period as such amounts are determined. Provisions are made currently for estimated losses on uncompleted contracts. Unbilled accounts receivables were \$213.5 million and \$97.1 million, customer deposits were \$70.9 million and \$82.8 million, and provisions for loss contracts were \$13.8 million and \$14.2 million at September 30, 2013 and December 31, 2012, respectively.

Certain pre-production costs relating to long-term production and supply contracts have been deferred and will be recognized over the life of the contracts. Deferred pre-production costs were \$17.8 million and \$20.5 million at September 30, 2013 and December 31, 2012, respectively.

**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** The Company has periodically entered into foreign currency forward contracts to reduce the impact of changes in currency exchange rates. Forward contracts are agreements with a counter-party to exchange two distinct currencies at a set exchange rate for delivery on a set date at some point in the future. There is no exchange of funds until the delivery date. At the delivery date the Company can either take delivery of the currency or settle on a net basis. At September 30, 2013, the Company had no material foreign currency forward contracts.

To reduce the impact of interest rate changes on a portion of its variable-rate debt, the Company entered into a forward starting interest rate swap agreement with a notional value of \$150.0 million. Effective July 31, 2013, with a termination date of November 7, 2016, this interest rate swap agreement converts a portion of the Company's then outstanding debt from a variable rate to a fixed-rate borrowing. The Company is exposed to credit risk in the event of nonperformance by the counterparty. However, since only the cash interest payments are exchanged, exposure is significantly less than the notional amount. The counterparty is a large financial institution with an excellent credit rating and history of performance. The Company currently believes the risk of nonperformance is negligible. The Company concluded that the interest rate swap agreement qualifies for special cash flow hedge accounting which requires the recording of the fair value of the interest rate swap agreement and permits the corresponding adjustment to other comprehensive income (loss), net of tax, on the balance sheet. During the term of the interest rate swap agreement the interest rate on the notional value will be fixed at 1.415% plus the Alternate Rate margin. As of September 30, 2013, the Company has recorded a current liability of \$3.3million and a corresponding offset in accumulated other comprehensive loss of \$2.0 million, net of tax, related to this agreement.

**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 year. 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. Foreign exchange transaction losses recognized in other income (expense), net were \$1.0 million and \$2.9 million for the three and nine months ended September 30, 2013, respectively. Foreign exchange transaction losses recognized in other income (expense), net were \$1.4 million and \$0.4 million for the three and nine months ended September 30, 2012, respectively.

**Non-controlling Interests** In accordance with ASC 810, the Company has classified non-controlling interests as equity on our condensed consolidated balance sheets as of September 30, 2013 and December 31, 2012. Net income attributable to non-controlling interests for the three and nine months ended September 30, 2013 and 2012 was not material.

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

The changes in accumulated other comprehensive loss by component, net of tax, for the nine months ended September 30, 2013 are as follows:

| <i>In thousands</i>  | Foreign<br>currency<br>translation | Interest<br>rate swap<br>contracts | Pension<br>and post<br>retirement<br>benefit<br>plans | Total              |
|--|------------------------------------|------------------------------------|---|--------------------|
| Balance at December 31, 2012                                     | \$ 11,981                          | \$ (2,459)                         | \$ (63,086)   | \$ (53,564)        |
| Other comprehensive income before reclassifications              | (2,799)                            | 335                                | 1,188   | (1,276)            |
| Amounts reclassified from accumulated other comprehensive income | —                                  | 13                                 | 2,748   | 2,761              |
| Net current period other comprehensive income                    | (2,799)                            | 348                                | 3,936   | 1,485              |
| Balance at September 30, 2013                                    | <u>\$ 9,182</u>                    | <u>\$ (2,111)</u>                  | <u>\$ (59,150)</u>                                    | <u>\$ (52,079)</u> |



Reclassifications out of accumulated other comprehensive loss for the three months ended September 30, 2013 are as follows:

| <u><i>In thousands</i></u>                                    | <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 | \$ (672)   | Cost of sales  |
| Amortization of net loss                                      | 1,832  | Cost of sales  |
|   | <u>1,160</u>   | Income from Operations   |
|   | <u>(371)</u>   | Income tax expense   |
|   | <u>\$ 789</u>  | Net income   |

Reclassifications out of accumulated other comprehensive loss for the nine months ended September 30, 2013 are as follows:

| <u><i>In thousands</i></u>                                    | <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 | \$ (1,896)   | Cost of sales  |
| Amortization of net loss                                      | 5,878  | Cost of sales  |
|   | <u>3,982</u>   | Income from Operations   |
|   | <u>(1,234)</u>   | Income tax expense   |
|   | <u>\$ 2,748</u>  | Net income   |

### 3. ACQUISITIONS

The Company has made the following acquisitions within the Transit Segment:

- On October 1, 2012, the Company acquired LH Group (“LH”), a UK-based provider of maintenance and overhaul services for the passenger transit market, for a net purchase price of approximately \$48.1 million, net of cash, resulting in preliminary goodwill of \$20.1 million, none of which will be deductible for tax purposes.
- On July 13, 2012, the Company acquired Tec Tran Corp. and its affiliates (“Tec Tran”), the only U.S.-owned manufacturer of hydraulic braking systems for transit cars, based in North Carolina, for a net purchase price of approximately \$8.3 million, net of cash, resulting in additional goodwill of \$1.7 million, which will be deductible for tax purposes.
- On June 14, 2012, the Company acquired Mors Smitt Holding (“Mors Smitt”), a leading manufacturer of electronic components for rail and industrial markets with operations in the Netherlands, the United Kingdom, the U.S., France, China and Hong-Kong, for a net purchase price of approximately \$90.0 million, net of cash, resulting in additional goodwill of \$42.9 million, none of which will be deductible for tax purposes.

The Company has made the following acquisitions within the Freight Segment:

- On September 24, 2013, the Company acquired Longwood Industries, Inc (“Longwood”), a manufacturer of specialty rubber products for transportation, oil and gas, and industrial markets, for a net purchase price of approximately \$83.9 million, net of cash, resulting in preliminary goodwill of \$41.5 million, none of which will be deductible for tax purposes.
- On July 30, 2013, the Company acquired Turbonetics Holdings, Inc (“Turbonetics”), a manufacturer of turbochargers and related components for various industrial markets, for a net purchase price of approximately \$23.1 million, net of cash, resulting in preliminary goodwill of \$6.9 million, none of which will be deductible for tax purposes.
- On February 26, 2013, the Company acquired Transdyne (“Transdyne”), a distributor of wear-protection components and other hardware used primarily on railroad freight cars, for a net purchase price of approximately \$2.4 million, net of cash, resulting in preliminary goodwill of \$0.5 million, which will be deductible for tax purposes.
- On January 31, 2013, the Company acquired Napier Turbochargers Ltd. (“Napier”), a UK-based provider of turbochargers and related parts for the worldwide power generation and marine markets, for a net purchase price of approximately \$112.3 million, net of cash, resulting in preliminary goodwill of \$68.4 million, none of which will be deductible for tax purposes.
- On July 31, 2012, the Company acquired Winco Equipamentos Ferroviarios Ltda. (“Winco”), an established marketing and sales company and provider of freight car components with capabilities including value-added engineering and assembly, service, technical support and logistics, based in Brazil, for an initial net payment of approximately \$3.7

million, net of cash, resulting in additional goodwill of \$3.8 million, none of which will be deductible for tax purposes. In addition to the \$3.7 million, the purchase agreement includes contingent consideration to be paid in future periods based on the achievement of certain financial results.

The acquisitions listed above include escrow deposits of \$20.8 million, which act as security for indemnity and other claims in accordance with the purchase and related escrow agreements.

For the Longwood, Turbonetics, Transdyne, LH, and Napier acquisitions, the following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition. For the Winco, Tec Tran and Mors Smitt acquisition, the following table summarizes the final fair values of the assets acquired and liabilities assumed at the date of acquisition.

| <i>In thousands</i>                  | <u>Longwood</u><br><u>September 24,</u><br><u>2013</u> | <u>Turbonetics</u><br><u>July 30,</u><br><u>2013</u> | <u>Transdyne</u><br><u>February 26,</u><br><u>2013</u> | <u>Napier</u><br><u>January 31,</u><br><u>2013</u> | <u>LH</u><br><u>October 1,</u><br><u>2012</u> | <u>Winco</u><br><u>July 31,</u><br><u>2012</u> | <u>Tec Tran</u><br><u>July 13,</u><br><u>2012</u> | <u>Mors Smitt</u><br><u>June 14,</u><br><u>2012</u> |
|--------------------------------------|--|--|--|--|---|--|---|---|
| Current assets                       | \$ 19,632  | \$ 5,550   | \$ 1,062   | \$ 15,934  | \$ 19,126                                     | \$ 1,584                                       | \$ 1,955  | \$ 23,649   |
| Property, plant & equipment          | 14,838   | 996  | 83   | 9,184  | 5,874   | 47   | 116   | 10,389  |
| Goodwill and other intangible assets | 73,013   | 18,088   | 1,485  | 106,373  | 38,712  | 6,471  | 6,717   | 79,730  |
| Other assets                         | 187  | —  | —  | —  | —   | 1,825  | —   | 944   |
| Total assets acquired                | <u>107,670</u>   | <u>24,634</u>  | <u>2,630</u>   | <u>131,491</u>                                     | <u>63,712</u>                                 | <u>9,927</u>                                   | <u>8,788</u>                                      | <u>114,712</u>                                      |
| Total liabilities assumed            | <u>(23,807 )</u>                                       | <u>(1,510 )</u>                                      | <u>(228 )</u>  | <u>(19,150 )</u>                                   | <u>(15,592 )</u>                              | <u>(6,271 )</u>                                | <u>(470 )</u>                                     | <u>(24,724 )</u>                                    |
| Net assets acquired                  | <u>\$ 83,863</u>                                       | <u>\$ 23,124</u>                                     | <u>\$ 2,402</u>  | <u>\$ 112,341</u>                                  | <u>\$ 48,120</u>                              | <u>\$ 3,656</u>                                | <u>\$ 8,318</u>                                   | <u>\$ 89,988</u>                                    |

The total goodwill and other intangible assets for acquisitions listed in the table above was \$330.5 million, of which \$185.8 million and \$144.7 million was related to goodwill and other intangible assets, respectively. Of the allocation of \$144.7 million of acquired intangible assets for the companies listed in the above table exclusive of goodwill, \$107.4 million was assigned to customer relationships, \$27.6 million was assigned to trade names, \$4.7 million was assigned to patents, \$0.6 million was assigned to non-compete agreements, \$0.8 million was assigned to favorable leasehold interest and \$3.6 million was assigned to customer backlog. The trade names are considered to have an indefinite useful life, while the customer relationships' average useful life is 20 years, the patents' useful life is twelve years, the favorable leasehold interest useful life is five years and the non-compete agreements average useful life is two years.

The following unaudited pro forma financial information presents income statement results as if the acquisitions listed above had occurred on January 1, 2012:

| <i>In thousands</i>                            | <u>Three Months Ended</u><br><u>September 30, 2013</u> | <u>Three Months Ended</u><br><u>September 30, 2012</u> | <u>Nine Months Ended</u><br><u>September 30, 2013</u> | <u>Nine Months Ended</u><br><u>September 30, 2012</u> |
|--|--|--|---|---|
| Net sales                                      | \$ 647,832   | \$ 640,557   | \$ 1,947,935  | \$ 1,980,752  |
| Gross profit                                   | 190,556  | 185,138  | 577,014   | 570,790   |
| Net income attributable to Wabtec shareholders | 74,496   | 68,077   | 222,999   | 206,059   |
| Diluted earnings per share                     |  |  |   |   |
| As Reported                                    | \$ 0.76  | \$ 0.65  | \$ 2.25   | \$ 1.93   |
| Pro forma                                      | \$ 0.76  | \$ 0.70  | \$ 2.30   | \$ 2.12   |

#### 4. INVENTORIES

The components of inventory, net of reserves, were:

| <i>In thousands</i> | <u>September 30,</u><br><u>2013</u> | <u>December 31,</u><br><u>2012</u> |
|---------------------|-------------------------------------|------------------------------------|
| Raw materials       | \$ 167,792                          | \$ 186,341                         |
| Work-in-process     | 135,530                             | 129,605                            |
| Finished goods      | 96,973                              | 91,093                             |
| Total inventories   | <u>\$ 400,295</u>                   | <u>\$ 407,039</u>                  |

## 5. INTANGIBLES

The change in the carrying amount of goodwill by segment for the nine months ended September 30, 2013 is as follows:

| <i>In thousands</i>                            | Freight<br>Segment | Transit<br>Segment | Total      |
|--|--------------------|--------------------|------------|
| Balance at December 31, 2012                   | \$ 397,184         | \$ 268,838         | \$ 666,022 |
| Acquisitions                                   | 123,431            | —                  | 123,431    |
| Adjustments to preliminary purchase allocation | (891)              | 1,269              | 378        |
| Foreign currency impact                        | (2,262)            | 3,187              | 925        |
| Balance at September 30, 2013                  | \$ 517,462         | \$ 273,294         | \$ 790,756 |

As of September 30, 2013 and December 31, 2012, the Company's trademarks had a net carrying amount of \$144.0 million and \$131.3 million, respectively, and the Company believes these intangibles have an indefinite life.

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

| <i>In thousands</i>  | September 30,<br>2013 | December 31,<br>2012 |
|--|-----------------------|----------------------|
| Patents and other, net of accumulated amortization of \$36,947 and \$35,556      | \$ 13,995             | \$ 11,835            |
| Customer relationships, net of accumulated amortization of \$40,911 and \$31,572 | 218,169               | 165,160              |
| Total  | \$ 232,164            | \$ 176,995           |

The weighted average remaining useful life of patents, customer relationships and intellectual property were nine years, 17 years and 16 years, respectively. Amortization expense for intangible assets was \$3.9 million and \$12.7 million for the three and nine months ended September 30, 2013, respectively, and \$3.9 million and \$10.3 million for the three and nine months ended September 30, 2012, respectively.

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

|                   |          |
|-------------------|----------|
| Remainder of 2013 | \$ 4,657 |
| 2014              | 17,416   |
| 2015              | 16,211   |
| 2016              | 16,059   |
| 2017              | 14,534   |

## 6. LONG-TERM DEBT

Long-term debt consisted of the following:

| <i>In thousands</i>           | September 30,<br>2013 | December 31,<br>2012 |
|-------------------------------|-----------------------|----------------------|
| 4.375% Senior Notes, due 2023 | \$ 250,000            | \$ —                 |
| 6.875% Senior Notes, due 2013 | —                     | 150,000              |
| Revolving Credit Facility     | 289,000               | 167,000              |
| Capital Leases                | 691                   | 896                  |
| Total                         | 539,691               | 317,896              |
| Less—current portion          | 85                    | 43                   |
| Long-term portion             | \$ 539,606            | \$ 317,853           |

### *2011 Refinancing Credit Agreement*

On November 7, 2011, the Company refinanced its existing revolving credit and term loan facility with a consortium of commercial banks. This "2011 Refinancing Credit Agreement" provides the Company with a \$600 million, five-year revolving credit facility. The Company incurred approximately \$1.9 million of deferred financing cost related to the 2011 Refinancing Credit Agreement. The facility expires on November 7, 2016. The 2011 Refinancing Credit Agreement borrowings bear variable interest rates indexed to the indices described below. At September 30, 2013, the Company had available bank borrowing capacity, net of \$60.1 million of letters of credit, of approximately \$250.9 million, subject to certain financial covenant restrictions.

Under the 2011 Refinancing Credit Agreement, the Company may elect a Base Rate of interest or an interest rate based on the London Interbank Offered Rate ("LIBOR") of interest ("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 quoted LIBOR rates plus a margin that ranges from 75 to 175 basis points. Both the Base Rate and Alternate Rate margins are dependent on the Company's consolidated total indebtedness to cash flow ratios. The current Base Rate margin is 0 basis points and the Alternate Rate margin is 100 basis points.

At September 30, 2013 the weighted average interest rate on the Company's variable rate debt was 1.19%. 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 is November 7, 2016. The impact of the interest rate swap agreement converts a portion of the Company's outstanding debt from a variable rate to a fixed-rate borrowing. During the term of the interest rate swap agreement the interest rate on the notional value will be fixed at 1.415% plus the Alternate Rate margin. The Company is exposed to credit risk in the event of nonperformance by the counterparty. However, since only the cash interest payments are exchanged, exposure is significantly less than the notional amount. The counterparty is a large financial institution with an excellent credit rating and history of performance. The Company currently believes the risk of nonperformance is negligible.

The 2011 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 2011 Refinancing Credit Agreement contains various other covenants and restrictions including the following limitations: incurrence of additional indebtedness; mergers, consolidations, sales of assets and acquisitions; additional liens; sale and leasebacks; permissible investments, loans and advances; certain debt payments; and imposes a minimum interest expense coverage ratio of 3.0 and a maximum debt to cash flow ratio of 3.25. The Company does not expect that these measurements will limit the Company 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.

The 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 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 Notes were issued and expects that these restrictions and covenants will not be any type of limiting factor in executing our operating activities.

#### *6.875% Senior Notes Due July 31, 2013*

In August 2003, the Company issued \$150.0 million of Senior Notes due in 2013 ("the 2003 Notes"). The 2003 Notes were issued at par. Interest on the 2003 Notes accrued at a rate of 6.875% per annum and was payable semi-annually on January 31 and July 31 of each year. The proceeds were used to repay debt outstanding under the Company's existing credit agreement, and for general corporate purposes. The Company paid off the 2003 Notes, which matured on July 31, 2013 utilizing available capacity under the 2011 Refinancing Credit Agreement.

## **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.

| <i>In thousands, except percentages</i> | U.S.                                |        | International                       |          |
|---|-------------------------------------|--------|-------------------------------------|----------|
|   | Three months ended<br>September 30, |        | Three months ended<br>September 30, |          |
|   | 2013                                | 2012   | 2013                                | 2012     |
| <b>Net periodic benefit cost</b>        |                                     |        |                                     |          |
| Service cost                            | \$ 111                              | \$ 94  | \$ 505                              | \$ 493   |
| Interest cost                           | 490                                 | 501    | 1,651                               | 1,773    |
| Expected return on plan assets          | (752)                               | (771)  | (2,087)                             | (2,035)  |
| Net amortization/deferrals              | 753                                 | 659    | 849                                 | 681      |
| Settlement loss recognized              | —                                   | —      | 166                                 | 844      |
| Net periodic benefit cost               | \$ 602                              | \$ 483 | \$ 1,084                            | \$ 1,756 |
| <b>Assumptions</b>                      |                                     |        |                                     |          |
| Discount rate                           | 3.90%                               | 4.30%  | 4.30%                               | 4.96%    |
| Expected long-term rate of return       | 7.50%                               | 7.50%  | 6.09%                               | 6.12%    |
| Rate of compensation increase           | 3.00%                               | 3.00%  | 3.10%                               | 3.21%    |

  

| <i>In thousands, except percentages</i> | U.S.                               |          | International                      |          |
|---|------------------------------------|----------|------------------------------------|----------|
|   | Nine months ended<br>September 30, |          | Nine months ended<br>September 30, |          |
|   | 2013                               | 2012     | 2013                               | 2012     |
| <b>Net periodic benefit cost</b>        |                                    |          |                                    |          |
| Service cost                            | \$ 323                             | \$ 285   | \$ 1,524                           | \$ 1,479 |
| Interest cost                           | 1,472                              | 1,585    | 4,984                              | 5,309    |
| Expected return on plan assets          | (2,232)                            | (2,321)  | (6,304)                            | (6,085)  |
| Net amortization/deferrals              | 2,431                              | 2,272    | 2,570                              | 2,032    |
| Settlement loss recognized              | —                                  | —        | 166                                | 1,137    |
| Net periodic benefit cost               | \$ 1,994                           | \$ 1,821 | \$ 2,940                           | \$ 3,872 |
| <b>Assumptions</b>                      |                                    |          |                                    |          |
| Discount rate                           | 3.90%                              | 4.30%    | 4.30%                              | 4.96%    |
| Expected long-term rate of return       | 7.50%                              | 7.50%    | 6.09%                              | 6.12%    |
| Rate of compensation increase           | 3.00%                              | 3.00%    | 3.10%                              | 3.21%    |

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 \$4.9 million to the international plans and does not expect to make a contribution to the U.S. plans during 2013.

#### 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 post retirement benefit plans summarized by U.S. and international components.

| <i>In thousands, except percentages</i> | U.S.                                |        | International                       |         |
|---|-------------------------------------|--------|-------------------------------------|---------|
|   | Three months ended<br>September 30, |        | Three months ended<br>September 30, |         |
|   | 2013                                | 2012   | 2013                                | 2012    |
| <b>Net periodic benefit cost</b>        |                                     |        |                                     |         |
| Service cost                            | \$ 22                               | \$ (1) | \$ 12                               | \$ 11   |
| Interest cost                           | 192                                 | 339    | 42                                  | 51      |
| Net amortization/deferrals              | (367)                               | (212)  | (75)                                | (83)    |
| Net periodic benefit (credit) cost      | \$ (153)                            | \$ 126 | \$ (21)                             | \$ (21) |
| <b>Assumptions</b>                      |                                     |        |                                     |         |
| Discount rate                           | 3.90%                               | 4.30%  | 4.30%                               | 5.15%   |

  

| <i>In thousands, except percentages</i> | U.S.                               |        | International                      |         |
|---|------------------------------------|--------|------------------------------------|---------|
|   | Nine months ended<br>September 30, |        | Nine months ended<br>September 30, |         |
|   | 2013                               | 2012   | 2013                               | 2012    |
| <b>Net periodic benefit cost</b>        |                                    |        |                                    |         |
| Service cost                            | \$ 36                              | \$ 18  | \$ 36                              | \$ 33   |
| Interest cost                           | 834                                | 1,040  | 129                                | 151     |
| Net amortization/deferrals              | (791)                              | (613)  | (228)                              | (247)   |
| Net periodic benefit (credit) cost      | \$ 79                              | \$ 445 | \$ (63)                            | \$ (63) |
| <b>Assumptions</b>                      |                                    |        |                                    |         |
| Discount rate                           | 3.90%                              | 4.30%  | 4.30%                              | 5.15%   |

## 8. STOCK-BASED COMPENSATION

As of September 30, 2013, the Company maintains employee stock-based compensation plans for stock options, restricted stock, restricted units, and incentive stock awards 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 ("Directors Plan"). No awards may be made under the 2000 Plan or the Directors Plan subsequent to October 31, 2016.

Stock-based compensation expense was \$17.6 million and \$15.4 million for the nine months ended September 30, 2013 and 2012, respectively. Included in the stock-based compensation expense for the nine months ended September 30, 2013 above is \$1.7 million of expense related to stock options, \$3.9 million related to restricted stock, \$1.3 million related to restricted units, \$10.0 million related to incentive stock awards and \$0.7 million related to awards issued for Directors' fees. At September 30, 2013, unamortized compensation expense related to stock options, restricted stock, restricted units and incentive stock awards expected to vest totaled \$25.9 million and will be recognized over a weighted average period of 1.4 years.

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

The following table summarizes the Company's stock option activity and related information for the 2011 Plan, the 2000 Plan and the Directors Plan for the nine months ended September 30, 2013:

|                                   | Options   | Weighted<br>Average<br>Exercise<br>Price | Weighted Average<br>Remaining<br>Contractual Life | Aggregate<br>intrinsic value<br>(in thousands) |
|-----------------------------------|-----------|--|---|--|
| Outstanding at December 31, 2012  | 1,465,678 | \$ 20.24                                 | 6.3   | \$ 34,487                                      |
| Granted                           | 116,392   | 48.29                                    |   | 1,661  |
| Exercised                         | (325,552) | 14.55                                    |   | (15,630)                                       |
| Canceled                          | (1,138)   | 46.91                                    |   | (18)   |
| Outstanding at September 30, 2013 | 1,255,380 | \$ 24.32                                 | 6.3   | \$ 48,009                                      |
| Exercisable at September 30, 2013 | 819,483   | \$ 18.83                                 | 5.5   | \$ 35,834                                      |

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:

|                         | Nine months ended<br>September 30, |        |
|-------------------------|------------------------------------|--------|
|                         | 2013                               | 2012   |
| Dividend yield          | .21%                               | .23%   |
| Risk-free interest rate | 1.38%                              | 1.35%  |
| Stock price volatility  | 43.8%                              | 44.95% |
| 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 or restricted units that generally vest over four years from the date of grant. Under the Directors Plan, restricted stock awards vest one year from the date of grant.

In addition, the Company has issued incentive stock awards 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 awards can vest and be awarded ranging from 0% to 200% of the initial incentive stock awards granted. The incentive stock awards 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 September 30, 2013, the Company estimates that it will achieve 200%, 168% and 100% for the incentive stock awards expected to vest based on performance for the three-year periods ending December 31, 2013, 2014, and 2015, respectively, and has recorded incentive compensation expense accordingly. If our estimate of the number of these stock awards 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 restricted stock and incentive stock awards 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 and unit activity for the 2011 Plan, the 2000 Plan and the Directors Plan, and incentive stock awards activity for the 2011 Plan and the 2000 Plan with related information for the nine months ended September 30, 2013:

|  | Restricted<br>Stock<br>and Units | Incentive<br>Stock<br>Awards | Weighted<br>Average Grant<br>Date Fair<br>Value |
|--|----------------------------------|------------------------------|---|
| Outstanding at December 31, 2012                       | 546,773                          | 1,329,078                    | \$ 26.69  |
| Granted  | 172,887                          | 200,090                      | 48.56   |
| Vested   | (204,494)                        | (570,918)                    | 20.86   |
| Adjustment for incentive stock awards expected to vest | —                                | 110,608                      | 34.97   |
| Canceled   | (1,288)                          | (6,350)                      | 20.50   |
| Outstanding at September 30, 2013                      | 513,878                          | 1,062,508                    | \$ 35.34  |

## 9. INCOME TAXES

The overall effective income tax rate was 29.2% and 30.4% for the three and nine months ended September 30, 2013, respectively, and 31.8% and 33.3% for the three and nine months ended September 30, 2012, respectively. For the three months ended September 30, 2013, the decrease in the effective rate is primarily due to a benefit recorded for the enacted reduction of a foreign statutory tax rate. For the nine months ended September 30, 2013, the effective rate also includes benefits for the retroactive extension of the R&D tax credit and an increase in foreign income taxed at a lower statutory rates.

As of September 30, 2013, the liability for income taxes associated with uncertain tax positions is \$10.9 million, of which \$4.1 million, if recognized, would favorably affect the Company's effective tax rate. As of December 31, 2012 the liability associated with uncertain tax positions was \$11.3 million, of which \$3.7 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 September 30, 2013 and December 31, 2012 the total accrued interest and penalties are \$2.5 million and \$1.4 million, respectively.

At this time, the Company believes that it is reasonably possible that unrecognized tax benefits of approximately \$1.6 million may change within the next 12 months due to the expiration of statutory review periods and current examinations. With limited exception, the Company is no longer subject to examination by various U.S. and foreign taxing authorities for years before 2011.



## 10. EARNINGS PER SHARE

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

| <i>In thousands, except per share</i>   | Three Months Ended<br>September 30, |                   |
|---|-------------------------------------|-------------------|
|   | 2013                                | 2012              |
| <b>Numerator</b>  |                                     |                   |
| Numerator for basic and diluted earnings per common share—net income attributable to Wabtec shareholders  | \$ 73,943                           | \$ 62,994         |
| Less: dividends declared—common shares and non-vested restricted stock                                    | (4,003)                             | (2,376)           |
| Undistributed earnings  | 69,940                              | 60,618            |
| Percentage allocated to common shareholders(1)  | 99.6%                               | 99.5%             |
|   | 69,660                              | 60,315            |
| Add: dividends declared—common shares   | 3,986                               | 2,370             |
| Numerator for basic and diluted earnings per common share   | <u>\$ 73,646</u>                    | <u>\$ 62,685</u>  |
| <b>Denominator</b>  |                                     |                   |
| Denominator for basic earnings per common share—weighted-average shares                                   | 95,848                              | 95,286            |
| Effect of dilutive securities:  |                                     |                   |
| Assumed conversion of dilutive stock-based compensation plans   | 1,326                               | 1,256             |
| Denominator for diluted earnings per common share—adjusted weighted-average shares and assumed conversion | <u>97,174</u>                       | <u>96,542</u>     |
| <b>Net income per common share attributable to Wabtec shareholders</b>                                    |                                     |                   |
| Basic   | \$ 0.77                             | \$ 0.66           |
| Diluted   | \$ 0.76                             | \$ 0.65           |
| <br>  |                                     |                   |
| (1) Basic weighted-average common shares outstanding  |                                     |                   |
| Basic weighted-average common shares outstanding and non-vested restricted stock expected to vest         | 95,848                              | 95,286            |
| Percentage allocated to common shareholders   | 96,273                              | 95,772            |
|   | 99.6%                               | 99.5%             |
| <br>  |                                     |                   |
| <i>In thousands, except per share</i>   | Nine Months Ended<br>September 30,  |                   |
|   | 2013                                | 2012              |
| <b>Numerator</b>  |                                     |                   |
| Numerator for basic and diluted earnings per common share—net income attributable to Wabtec shareholders  | \$ 218,194                          | \$ 186,967        |
| Less: dividends declared—common shares and non-vested restricted stock                                    | (8,799)                             | (5,256)           |
| Undistributed earnings  | 209,395                             | 181,711           |
| Percentage allocated to common shareholders(1)  | 99.5%                               | 99.5%             |
|   | 208,348                             | 180,802           |
| Add: dividends declared—common shares   | 8,757                               | 5,243             |
| Numerator for basic and diluted earnings per common share   | <u>\$ 217,105</u>                   | <u>\$ 186,045</u> |
| <b>Denominator</b>  |                                     |                   |
| Denominator for basic earnings per common share—weighted-average shares                                   | 95,383                              | 95,464            |
| Effect of dilutive securities:  |                                     |                   |
| Assumed conversion of dilutive stock-based compensation plans   | 1,371                               | 1,256             |
| Denominator for diluted earnings per common share—adjusted weighted-average shares and assumed conversion | <u>96,754</u>                       | <u>96,720</u>     |
| <b>Net income per common share attributable to Wabtec shareholders</b>                                    |                                     |                   |
| Basic   | \$ 2.28                             | \$ 1.95           |
| Diluted   | \$ 2.25                             | \$ 1.93           |
| <br>  |                                     |                   |
| (1) Basic weighted-average common shares outstanding  | 95,383                              | 95,464            |
| Basic weighted-average common shares outstanding and non-vested restricted stock expected to vest         | 95,850                              | 95,977            |
| Percentage allocated to common shareholders   | 99.5%                               | 99.5%             |

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:

| <i>In thousands</i>                                  | Nine Months Ended<br>September 30, |                  |
|--|------------------------------------|------------------|
|  | 2013                               | 2012             |
| Balance at December 31, 2012 and 2011, respectively  | \$ 58,212                          | \$ 50,640        |
| Warranty expense                                     | 18,677                             | 18,298           |
| Acquisitions   | 2,244                              | 494              |
| Warranty claim payments                              | (16,740)                           | (11,971)         |
| Foreign currency impact/other                        | (109)                              | 36               |
| Balance at September 30, 2013 and 2012, respectively | <u>\$ 62,284</u>                   | <u>\$ 57,497</u> |

## 12. 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 September 30, 2013, which are included in other current liabilities on the Condensed Consolidated Balance sheet:

| <i>In thousands</i>          | Total Carrying<br>Value at<br>September 30,<br>2013 | Fair Value Measurements at September 30, 2013 Using                     |   |  |
|------------------------------|---|---|---|--|
|                              |   | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Interest rate swap agreement | 3,343   | —   | 3,343   | —  |
| Total                        | <u>\$ 3,343</u>                                     | <u>\$ —</u>   | <u>\$ 3,343</u>                                     | <u>\$ —</u>  |

The following table provides the liabilities carried at fair value measured on a recurring basis as of December 31, 2012, which is included in other current liabilities on the Condensed Consolidated Balance sheet:

| <i>In thousands</i>          | Total Carrying<br>Value at<br>December 31,<br>2012 | Fair Value Measurements at December 31, 2012 Using                      |   |  |
|------------------------------|--|---|---|--|
|                              |  | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Interest rate swap agreement | 4,070  | —   | 4,070   | —  |
| Total                        | <u>\$ 4,070</u>                                    | <u>\$ —</u>   | <u>\$ 4,070</u>                                     | <u>\$ —</u>  |

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 September 30, 2013 and December 31, 2012. 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. The 2013 Notes and the 2003 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:

| <i>In thousands</i>          | September 30, 2013 |            | December 31, 2012 |            |
|------------------------------|--------------------|------------|-------------------|------------|
|                              | Carry Value        | Fair Value | Carry Value       | Fair Value |
| Interest rate swap agreement | \$ 3,343           | \$ 3,343   | \$ 4,070          | \$ 4,070   |
| 4.375% Senior Notes          | 250,000            | 249,698    | —                 | —          |
| 6.875% Senior Notes          | —                  | —          | 150,000           | 154,125    |

The fair value of the Company's interest rate swap agreement, the 2013 Notes and the 2003 Notes were based on dealer quotes and represent the estimated amount the Company would pay to the counterparty to terminate the agreement.

### 13. 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, 2012, in Note 18 therein, filed on February 22, 2013. During the first nine months for 2013, there were no material changes to the information described in the Form 10-K, except as regarding the disclosure related to the claim by Faiveley Transport USA. The Faiveley plaintiffs agreed to reduce the damage award to \$15.0 million, plus interest, in lieu of a new trial on damages. In accordance with the decision entered by the appellate court, Wabtec paid the Faiveley plaintiffs a total of approximately \$15.8 million, and the case is closed.

The Company is also subject to litigation from time to time arising out of its operations in the ordinary course of business, including claims based on product liability, contracts, intellectual property, or other causes of action. Further information and detail on any potentially material litigation is as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, in Note 18 therein, filed on February 22, 2013. During the first nine months of 2013, there were no material changes to the information described in the Form 10-K.

### 14. SEGMENT INFORMATION

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

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

**Transit Segment** primarily manufactures and services components for new and existing passenger transit vehicles, typically subway cars and buses, builds new commuter locomotives, friction products, and refurbishes subway cars. Customers include public transit authorities and municipalities, leasing companies, and manufacturers of subway cars and buses around the world.

The Company evaluates its business segments' operating results based on income from operations. Corporate activities include general corporate expenses, elimination of intersegment transactions, interest income and expense and other unallocated charges.

Since certain administrative and other operating expenses and other items 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 September 30, 2013 is as follows:

| <i>In thousands</i>                               | Freight Segment | Transit Segment | Corporate Activities and Elimination | Total      |
|---|-----------------|-----------------|--------------------------------------|------------|
| Sales to external customers                       | \$ 340,533      | \$ 290,865      | \$ —                                 | \$ 631,398 |
| Intersegment sales/(elimination)                  | 5,410           | 2,642           | (8,052)                              | —          |
| Total sales                                       | \$ 345,943      | \$ 293,507      | \$ (8,052)                           | \$ 631,398 |
| Income (loss) from operations                     | \$ 77,299       | \$ 36,335       | \$ (3,763)                           | \$ 109,871 |
| Interest expense and other, net                   | —               | —               | (5,487)                              | (5,487)    |
| Income (loss) from operations before income taxes | \$ 77,299       | \$ 36,335       | \$ (9,250)                           | \$ 104,384 |

Segment financial information for the three months ended September 30, 2012 is as follows:

| <i>In thousands</i>                               | Freight Segment | Transit Segment | Corporate Activities and Elimination | Total      |
|---|-----------------|-----------------|--------------------------------------|------------|
| Sales to external customers                       | \$ 354,659      | \$ 232,934      | \$ —                                 | \$ 587,593 |
| Intersegment sales/(elimination)                  | 5,662           | 3,231           | (8,893)                              | —          |
| Total sales                                       | \$ 360,321      | \$ 236,165      | \$ (8,893)                           | \$ 587,593 |
| Income (loss) from operations                     | \$ 75,702       | \$ 24,385       | \$ (3,245)                           | \$ 96,842  |
| Interest expense and other, net                   | —               | —               | (4,463)                              | (4,463)    |
| Income (loss) from operations before income taxes | \$ 75,702       | \$ 24,385       | \$ (7,708)                           | \$ 92,379  |

Segment financial information for the nine months ended September 30, 2013 is as follows:

| <i>In thousands</i>                               | Freight Segment | Transit Segment | Corporate Activities and Elimination | Total        |
|---|-----------------|-----------------|--------------------------------------|--------------|
| Sales to external customers                       | \$ 1,009,069    | \$ 875,841      | \$ —                                 | \$ 1,884,910 |
| Intersegment sales/(elimination)                  | 20,384          | 5,407           | (25,791)                             | —            |
| Total sales                                       | \$ 1,029,453    | \$ 881,248      | \$ (25,791)                          | \$ 1,884,910 |
| Income (loss) from operations                     | \$ 225,734      | \$ 110,809      | \$ (10,451)                          | \$ 326,092   |
| Interest expense and other, net                   | —               | —               | (12,547)                             | (12,547)     |
| Income (loss) from operations before income taxes | \$ 225,734      | \$ 110,809      | \$ (22,998)                          | \$ 313,545   |

Segment financial information for the nine months ended September 30, 2012 is as follows:

| <i>In thousands</i>                               | Freight Segment | Transit Segment | Corporate Activities and Elimination | Total        |
|---|-----------------|-----------------|--------------------------------------|--------------|
| Sales to external customers                       | \$ 1,159,653    | \$ 621,069      | \$ —                                 | \$ 1,780,722 |
| Intersegment sales/(elimination)                  | 17,214          | 8,659           | (25,873)                             | —            |
| Total sales                                       | \$ 1,176,867    | \$ 629,728      | \$ (25,873)                          | \$ 1,780,722 |
| Income (loss) from operations                     | \$ 234,734      | \$ 68,934       | \$ (11,851)                          | \$ 291,817   |
| Interest expense and other, net                   | —               | —               | (11,587)                             | (11,587)     |
| Income (loss) from operations before income taxes | \$ 234,734      | \$ 68,934       | \$ (23,438)                          | \$ 280,230   |

Sales by product are as follows:

| <i>In thousands</i>               | Three Months Ended<br>September 30, |                   |
|-----------------------------------|-------------------------------------|-------------------|
|                                   | 2013                                | 2012              |
| Specialty Products & Electronics  | \$ 276,482                          | \$ 264,094        |
| Brake Products                    | 137,189                             | 129,597           |
| Remanufacturing, Overhaul & Build | 148,970                             | 127,027           |
| Other Transit Products            | 50,270                              | 49,141            |
| Other                             | 18,487                              | 17,734            |
| Total sales                       | <u>\$ 631,398</u>                   | <u>\$ 587,593</u> |

Sales by product are as follows:

| <i>In thousands</i>               | Nine Months Ended<br>September 30, |                     |
|-----------------------------------|------------------------------------|---------------------|
|                                   | 2013                               | 2012                |
| Specialty Products & Electronics  | \$ 799,850                         | \$ 841,382          |
| Brake Products                    | 417,921                            | 386,640             |
| Remanufacturing, Overhaul & Build | 453,763                            | 348,252             |
| Other Transit Products            | 153,698                            | 149,941             |
| Other                             | 59,678                             | 54,507              |
| Total sales                       | <u>\$ 1,884,910</u>                | <u>\$ 1,780,722</u> |

## 15. GUARANTOR SUBSIDIARIES FINANCIAL INFORMATION

Effective August 2003, the Company issued \$150 million of Senior Notes due in 2013 (“the 2003 Notes”). The Company paid off the 2003 Notes, which matured on July 31, 2013 and subsequently issued \$250.0 million of Senior Notes due in 2023 (“the 2013 Notes”). The obligations under the 2003 Notes are fully and unconditionally guaranteed by all U.S. subsidiaries as guarantors. The obligations under the 2013 Notes are not guaranteed by any of our subsidiaries. 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 as of September 30, 2013:

| <i>In thousands</i>                        | Parent              | Guarantors          | Non-Guarantors      | Elimination           | Consolidated        |
|--|---------------------|---------------------|---------------------|-----------------------|---------------------|
| Cash and cash equivalents                  | \$ 45,257           | \$ 6,538            | \$ 229,212          | \$ —                  | \$ 281,007          |
| Accounts receivable                        | 300                 | 357,233             | 212,743             | —                     | 570,276             |
| Inventories                                | —                   | 258,651             | 141,644             | —                     | 400,295             |
| Other current assets                       | 69,851              | 8,387               | 14,618              | —                     | 92,856              |
| Total current assets                       | <u>115,408</u>      | <u>630,809</u>      | <u>598,217</u>      | <u>—</u>              | <u>1,344,434</u>    |
| Property, plant and equipment              | 5,462               | 144,612             | 116,876             | —                     | 266,950             |
| Goodwill                                   | 7,980               | 457,591             | 325,185             | —                     | 790,756             |
| Investment in subsidiaries                 | 3,711,564           | 391,820             | —                   | (4,103,384)           | —                   |
| Other intangibles                          | —                   | 206,964             | 169,173             | —                     | 376,137             |
| Other long term assets                     | (7,282)             | (1,396)             | 47,381              | —                     | 38,703              |
| Total Assets                               | <u>\$ 3,833,132</u> | <u>\$ 1,830,400</u> | <u>\$ 1,256,832</u> | <u>\$ (4,103,384)</u> | <u>\$ 2,816,980</u> |
| Current liabilities                        | \$ 15,780           | \$ 348,286          | \$ 177,692          | \$ —                  | \$ 541,758          |
| Inter-company                              | 1,692,557           | (1,784,172)         | 91,615              | —                     | —                   |
| Long-term debt                             | 539,000             | 238                 | 368                 | —                     | 539,606             |
| Other long term liabilities                | 68,746              | 50,279              | 99,542              | —                     | 218,567             |
| Total liabilities                          | <u>2,316,083</u>    | <u>(1,385,369)</u>  | <u>369,217</u>      | <u>—</u>              | <u>1,299,931</u>    |
| Stockholders' equity                       | 1,517,049           | 3,215,769           | 887,615             | (4,103,384)           | 1,517,049           |
| Total Liabilities and Stockholders' Equity | <u>\$ 3,833,132</u> | <u>\$ 1,830,400</u> | <u>\$ 1,256,832</u> | <u>\$ (4,103,384)</u> | <u>\$ 2,816,980</u> |

Balance Sheet as of December 31, 2012:

| <i>In thousands</i>                        | Parent       | Guarantors   | Non-Guarantors | Elimination    | Consolidated |
|--|--------------|--------------|----------------|----------------|--------------|
| Cash and cash equivalents                  | \$ 22,335    | \$ 5,473     | \$ 187,958     | \$ —           | \$ 215,766   |
| Accounts receivable                        | 1,210        | 213,895      | 174,810        | —              | 389,915      |
| Inventories                                | —            | 278,610      | 128,429        | —              | 407,039      |
| Other current assets                       | 63,496       | 5,400        | 11,322         | —              | 80,218       |
| Total current assets                       | 87,041       | 503,378      | 502,519        | —              | 1,092,938    |
| Property, plant and equipment, net         | 4,685        | 127,165      | 112,238        | —              | 244,088      |
| Goodwill                                   | 7,980        | 402,510      | 255,532        | —              | 666,022      |
| Investment in subsidiaries                 | 3,146,931    | 279,731      | —              | (3,426,662)    | —            |
| Other intangibles, net                     | —            | 169,374      | 138,947        | —              | 308,321      |
| Other long term assets                     | (10,491)     | 4,309        | 46,355         | —              | 40,173       |
| Total Assets                               | \$ 3,236,146 | \$ 1,486,467 | \$ 1,055,591   | \$ (3,426,662) | \$ 2,351,542 |
| Current liabilities                        | \$ 64,404    | \$ 321,675   | \$ 166,980     | \$ —           | \$ 553,059   |
| Intercompany                               | 1,506,541    | (1,598,419)  | 91,878         | —              | —            |
| Long-term debt                             | 317,000      | 168          | 685            | —              | 317,853      |
| Other long term liabilities                | 66,184       | 37,845       | 94,584         | —              | 198,613      |
| Total liabilities                          | 1,954,129    | (1,238,731)  | 354,127        | —              | 1,069,525    |
| Stockholders' equity                       | 1,282,017    | 2,725,198    | 701,464        | (3,426,662)    | 1,282,017    |
| Total Liabilities and Stockholders' Equity | \$ 3,236,146 | \$ 1,486,467 | \$ 1,055,591   | \$ (3,426,662) | \$ 2,351,542 |

Income Statement for the Three Months Ended September 30, 2013:

| <i>In thousands</i>   | Parent     | Guarantors | Non-Guarantors | Elimination(1) | Consolidated |
|---|------------|------------|----------------|----------------|--------------|
| Net sales   | \$ —       | \$ 419,641 | \$ 258,182     | \$ (46,425)    | \$ 631,398   |
| Cost of sales   | 991        | (265,497)  | (201,575)      | 22,816         | (443,265)    |
| Gross profit  | 991        | 154,144    | 56,607         | (23,609)       | 188,133      |
| Operating expenses  | (14,801)   | (37,427)   | (26,034)       | —              | (78,262)     |
| Operating (loss) profit   | (13,810)   | 116,717    | 30,573         | (23,609)       | 109,871      |
| Interest (expense) income, net                                  | (5,564)    | 1,430      | 305            | —              | (3,829)      |
| Other income (expense), net                                     | 6,866      | (338)      | (8,186)        | —              | (1,658)      |
| Equity earnings   | 105,054    | 29,333     | —              | (134,387)      | —            |
| Income (loss) from operations before income tax                 | 92,546     | 147,142    | 22,692         | (157,996)      | 104,384      |
| Income tax expense  | (18,603)   | (3,242)    | (8,596)        | —              | (30,441)     |
| Net income (loss) attributable to Wabtec shareholders           | \$ 73,943  | \$ 143,900 | \$ 14,096      | \$ (157,996)   | \$ 73,943    |
| Comprehensive income (loss) attributable to Wabtec shareholders | \$ 107,977 | \$ 143,900 | \$ 48,386      | \$ (192,286)   | \$ 107,977   |

(1) Includes elimination of gross profit realized with certain intercompany transactions between Guarantor and Non-Guarantor subsidiaries.

Income Statement for the Three Months Ended September 30, 2012:

| <i>In thousands</i>   | Parent    | Guarantors | Non-Guarantors | Elimination(1) | Consolidated |
|---|-----------|------------|----------------|----------------|--------------|
| Net sales   | \$ —      | \$ 405,624 | \$ 219,621     | \$ (37,652)    | \$ 587,593   |
| Cost of sales   | (428)     | (264,211)  | (169,652)      | 17,977         | (416,314)    |
| Gross (loss) profit   | (428)     | 141,413    | 49,969         | (19,675)       | 171,279      |
| Operating expenses  | (14,584)  | (37,786)   | (22,067)       | —              | (74,437)     |
| Operating (loss) profit   | (15,012)  | 103,627    | 27,902         | (19,675)       | 96,842       |
| Interest (expense) income, net                                  | (5,459)   | 3,305      | (916)          | —              | (3,070)      |
| Other income (expense), net                                     | 100       | (860)      | (633)          | —              | (1,393)      |
| Equity earnings   | 102,624   | 24,971     | —              | (127,595)      | —            |
| Income (loss) from operations before income tax                 | 82,253    | 131,043    | 26,353         | (147,270)      | 92,379       |
| Income tax expense  | (19,259)  | (3,428)    | (6,698)        | —              | (29,385)     |
| Net income (loss) attributable to Wabtec shareholders           | \$ 62,994 | \$ 127,615 | \$ 19,655      | \$ (147,270)   | \$ 62,994    |
| Comprehensive income (loss) attributable to Wabtec shareholders | \$ 74,212 | \$ 127,615 | \$ 31,571      | \$ (159,186)   | \$ 74,212    |

(1) Includes elimination of gross profit realized with certain intercompany transactions between Guarantor and Non-Guarantor subsidiaries.

Income Statement for the Nine Months Ended September 30, 2013:

| <i>In thousands</i>   | Parent     | Guarantors   | Non-Guarantors | Elimination(1) | Consolidated |
|---|------------|--------------|----------------|----------------|--------------|
| Net sales   | \$ —       | \$ 1,273,676 | \$ 755,652     | \$ (144,418)   | \$ 1,884,910 |
| Cost of sales   | 2,092      | (798,353)    | (592,119)      | 67,372         | (1,321,008)  |
| Gross profit  | 2,092      | 475,323      | 163,533        | (77,046)       | 563,902      |
| Operating expenses  | (42,510)   | (115,300)    | (80,000)       | —              | (237,810)    |
| Operating (loss) profit   | (40,418)   | 360,023      | 83,533         | (77,046)       | 326,092      |
| Interest (expense) income, net                                  | (15,408)   | 4,261        | 433            | —              | (10,714)     |
| Other income (expense), net                                     | 20,533     | (3,624)      | (18,742)       | —              | (1,833)      |
| Equity earnings   | 318,899    | 73,927       | —              | (392,826)      | —            |
| Income (loss) from operations before income tax                 | 283,606    | 434,587      | 65,224         | (469,872)      | 313,545      |
| Income tax expense  | (65,412)   | (10,023)     | (19,916)       | —              | (95,351)     |
| Net income (loss) attributable to Wabtec shareholders           | \$ 218,194 | \$ 424,564   | \$ 45,308      | \$ (469,872)   | \$ 218,194   |
| Comprehensive income (loss) attributable to Wabtec shareholders | \$ 219,679 | \$ 424,564   | \$ 42,417      | \$ (466,981)   | \$ 219,679   |

(1) Includes elimination of gross profit realized with certain intercompany transactions between Guarantor and Non-Guarantor subsidiaries.

Income Statement for the Nine Months Ended September 30, 2012:

| <i>In thousands</i>   | Parent     | Guarantors   | Non-Guarantors | Elimination(1) | Consolidated |
|---|------------|--------------|----------------|----------------|--------------|
| Net sales   | \$ —       | \$ 1,251,666 | \$ 653,230     | \$ (124,174)   | \$ 1,780,722 |
| Cost of sales   | (776)      | (810,101)    | (507,413)      | 51,655         | (1,266,635)  |
| Gross profit  | (776)      | 441,565      | 145,817        | (72,519)       | 514,087      |
| Operating expenses  | (47,356)   | (115,649)    | (59,265)       | —              | (222,270)    |
| Operating (loss) profit   | (48,132)   | 325,916      | 86,552         | (72,519)       | 291,817      |
| Interest (expense) income, net                                  | (16,291)   | 5,489        | 499            | —              | (10,303)     |
| Other income (expense), net                                     | 8,221      | (6,954)      | (2,551)        | —              | (1,284)      |
| Equity earnings   | 304,263    | 61,931       | —              | (366,194)      | —            |
| Income (loss) from operations before income tax                 | 248,061    | 386,382      | 84,500         | (438,713)      | 280,230      |
| Income tax expense  | (61,094)   | (10,239)     | (21,930)       | —              | (93,263)     |
| Net income (loss) attributable to Wabtec shareholders           | \$ 186,967 | \$ 376,143   | \$ 62,570      | \$ (438,713)   | \$ 186,967   |
| Comprehensive income (loss) attributable to Wabtec shareholders | \$ 192,784 | \$ 376,143   | \$ 68,868      | \$ (445,011)   | \$ 192,784   |

(1) Includes elimination of gross profit realized with certain intercompany transactions between Guarantor and Non-Guarantor subsidiaries.

Condensed Statement of Cash Flows for the Nine Months Ended September 30, 2013:

| <i>In thousands</i>                                  | Parent       | Guarantors | Non-Guarantors | Elimination  | Consolidated |
|--|--------------|------------|----------------|--------------|--------------|
| Net cash (used for) provided by operating activities | \$ (192,400) | \$ 544,359 | \$ 202,909     | \$ (469,872) | \$ 84,996    |
| Net cash used for investing activities               | (4,011)      | (118,808)  | (116,666)      | —            | (239,485)    |
| Net cash provided by (used for) financing activities | 219,333      | (424,486)  | (45,645)       | 469,872      | 219,074      |
| Effect of changes in currency exchange rates         | —            | —          | 656            | —            | 656          |
| Increase in cash                                     | 22,922       | 1,065      | 41,254         | —            | 65,241       |
| Cash, beginning of year                              | 22,335       | 5,473      | 187,958        | —            | 215,766      |
| Cash, end of period                                  | \$ 45,257    | \$ 6,538   | \$ 229,212     | \$ —         | \$ 281,007   |

Condensed Statement of Cash Flows for the Nine Months Ended September 30, 2012:

| <i>In thousands</i>                                  | Parent     | Guarantors | Non-Guarantors | Elimination  | Consolidated |
|--|------------|------------|----------------|--------------|--------------|
| Net cash (used for) provided by operating activities | \$ (4,856) | \$ 390,163 | \$ 166,931     | \$ (438,713) | \$ 113,525   |
| Net cash used for investing activities               | (3,841)    | (22,366)   | (99,860)       | —            | (126,067)    |
| Net cash provided by (used for) financing activities | 9,286      | (376,199)  | (62,506)       | 438,713      | 9,294        |
| Effect of changes in currency exchange rates         | —          | —          | (312)          | —            | (312)        |
| Increase (decrease) in cash                          | 589        | (8,402)    | 4,253          | —            | (3,560)      |
| Cash, beginning of year                              | 75,621     | 14,024     | 195,970        | —            | 285,615      |
| Cash, end of period                                  | \$ 76,210  | \$ 5,622   | \$ 200,223     | \$ —         | \$ 282,055   |

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

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

| <i>In thousands</i>                  | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--------------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                                      | 2013                                | 2012       | 2013                               | 2012       |
| Foreign currency loss                | \$ (1,002)                          | \$ (1,468) | \$ (2,933)                         | \$ (427)   |
| Other miscellaneous income (expense) | (656)                               | 75         | 1,100                              | (857)      |
| Total other income (expense), net    | \$ (1,658)                          | \$ (1,393) | \$ (1,833)                         | \$ (1,284) |



## 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, 2012, filed with the Securities and Exchange Commission on February 22, 2013.*

### 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 19 countries. In the first nine months of 2013, about 49% 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 in excess of net income, maintain a strong credit profile while minimizing our overall cost of capital, increase margins through strict attention to cost controls and implementation of the Wabtec Performance System, and increase revenues through a focused growth strategy, including global and market expansion, new products and technologies, aftermarket products and services, and acquisitions. In addition, management evaluates the Company's current operational performance through measures such as quality and on-time delivery.

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

In North America, the AAR compiles freight rail industry statistics such as carloadings, generally referred to as "rail traffic," and the Railway Supply Institute (RSI) releases data on freight car orders, deliveries, and backlog. Through October 12, 2013 carloadings in North America increased 1.6%, including a 3.7% increase in intermodal traffic. According to the RSI, in the third quarter of 2013, the industry multi-year backlog of freight cars on order increased to about 74,000, the highest since the fourth quarter of 2007. In 2013, with some carbuilders already at capacity, we expect deliveries of new locomotives and new freight cars to be slightly lower than in 2012. Future demand depends largely on the strength in the overall economy and in rail traffic volumes.

The American Public Transportation Association (APTA) provides quarterly transit ridership statistics for the U.S. and Canada. In its most recent report, APTA said second quarter 2013 ridership increased 1.2% in the U.S. and 1.0% in Canada. In 2012, the U.S. Congress passed a new, two-year transportation funding bill, which maintained transit spending at about the same level, about \$10.7 billion, as in prior years. Spending in 2013 is expected to remain at about the same level. The Company also expects deliveries of new subway cars and buses in 2013 to remain about the same as in 2012.

In 2008, the U.S. federal government enacted a rail safety bill that mandates the use of PTC technology, which includes on-board locomotive computer and related software, on a majority of the locomotives and track in the U.S. With our Electronic Train Management System<sup>®</sup>, we are the leading supplier of this on-board train control equipment, and we are working with the U.S. Class I railroads, commuter rail authorities and other industry suppliers to implement this technology by the December 31, 2015 deadline set in the rail safety bill. The railroads and commuter rail authorities have said they cannot complete full implementation by the deadline. In 2012, the U.S. Congress discussed extending the deadline but did not do so. An extension of the deadline could affect the rate of industry spending on this technology. Wabtec's PTC revenue was about \$170 million for the nine months ended September 30, 2013.

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

advantage of this growth. Economic growth in Australia has been an area of expansion for the Company as commodity suppliers use our products to meet the demands of their regional customers. In Brazil, the Company is delivering on a PTC contract, has expanded locations and has completed two acquisitions, allowing us to increase our sales in that market.

Current conditions in these international markets vary based on general economic factors and specific freight rail and passenger transit drivers, as mentioned above. In its most recent quarterly data, the Office of Rail Regulation in the U.K. reported an increase in passenger ridership of 7.3% and a 3.7% increase in freight moved. In Germany, the government statistics bureau reported an increase of 0.4% for bus and rail ridership in the first half of 2013, and a decrease in rail freight transport of 1.1% for the same period. In France, SNCF, the country's largest rail system operator, had a 0.6% decrease in regional train ridership in the first half of 2013. Brazil's National Association of Rail Transport reported a 1.3% increase in freight rail traffic in 2012, and a 6.6% increase in spending on new infrastructure and equipment. In China, spending on rolling stock increased about 3% in 2012, and earlier this year the government established China Railway Corp. to manage its rail system. Russian Railways announced an increase of 4.4% in passenger ridership in the first nine months of 2013 compared to the year-ago period, and a decrease of 3.0% in freight tons loaded.

In 2013 and beyond, general economic and market conditions in our key markets could have an impact on our sales and operations. To the extent that these factors cause instability of capital 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.

## RESULTS OF OPERATIONS

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

| <i>In millions</i>                             | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|----------|------------------------------------|------------|
|  | 2013                                | 2012     | 2013                               | 2012       |
| Net sales                                      | \$ 631.4                            | \$ 587.6 | \$ 1,884.9                         | \$ 1,780.7 |
| Cost of sales                                  | (443.3)                             | (416.3)  | (1,321.0)                          | (1,266.6)  |
| Gross profit                                   | 188.1                               | 171.3    | 563.9                              | 514.1      |
| Selling, general and administrative expenses   | (63.4)                              | (59.8)   | (191.6)                            | (180.9)    |
| Engineering expenses                           | (10.9)                              | (10.8)   | (33.5)                             | (31.1)     |
| Amortization expense                           | (3.9)                               | (3.9)    | (12.7)                             | (10.3)     |
| Total operating expenses                       | (78.2)                              | (74.5)   | (237.8)                            | (222.3)    |
| Income from operations                         | 109.9                               | 96.8     | 326.1                              | 291.8      |
| Interest expense, net                          | (3.8)                               | (3.0)    | (10.7)                             | (10.3)     |
| Other income (expense), net                    | (1.7)                               | (1.4)    | (1.8)                              | (1.3)      |
| Income from operations before income taxes     | 104.4                               | 92.4     | 313.6                              | 280.2      |
| Income tax expense                             | (30.4)                              | (29.4)   | (95.4)                             | (93.2)     |
| Net income attributable to Wabtec shareholders | \$ 74.0                             | \$ 63.0  | \$ 218.2                           | \$ 187.0   |

## THIRD QUARTER 2013 COMPARED TO THIRD QUARTER 2012

The following table summarizes the results of operations for the period:

| <i>In thousands</i>                            | Three months ended September 30, |            | Percent<br>Change |
|--|----------------------------------|------------|-------------------|
|  | 2013                             | 2012       |                   |
| Freight Segment                                | \$ 340,533                       | \$ 354,659 | (4.0)%            |
| Transit Segment                                | 290,865                          | 232,934    | 24.9 %            |
| Net sales                                      | 631,398                          | 587,593    | 7.5 %             |
| Income from operations                         | 109,871                          | 96,842     | 13.5 %            |
| Net income attributable to Wabtec shareholders | \$ 73,943                        | \$ 62,994  | 17.4 %            |

The following table shows the major components of the change in sales in the third quarter of 2013 from the third quarter of 2012:

| <i>In thousands</i>                     | <u>Freight Segment</u> | <u>Transit Segment</u> | <u>Total</u>      |
|---|------------------------|------------------------|-------------------|
| Third Quarter 2012 Net Sales            | \$ 354,659             | \$ 232,934             | \$ 587,593        |
| Acquisitions                            | 14,828                 | 20,017                 | 34,845            |
| <i>Change in Sales by Product Line:</i> |                        |                        |                   |
| Brake Products                          | (2,157)                | 10,491                 | 8,334             |
| Specialty Products & Electronics        | (5,774)                | 10,821                 | 5,047             |
| Other Transit Products                  | —                      | 937                    | 937               |
| Remanufacturing, Overhaul & Build       | (13,219)               | 13,201                 | (18)              |
| Other                                   | 477                    | 446                    | 923               |
| Foreign Exchange                        | (8,281)                | 2,018                  | (6,263)           |
| Third Quarter 2013 Net Sales            | <u>\$ 340,533</u>      | <u>\$ 290,865</u>      | <u>\$ 631,398</u> |

Net sales increased by \$43.8 million to \$631.4 million from \$587.6 million for the three months ended September 30, 2013 and 2012, respectively. The increase is due to sales from acquisitions of \$34.8 million; \$8.3 million for Brake Products sales due to higher demand for aftermarket brakes from certain transit authorities; and \$5.0 million for Specialty Products and Electronics sales from higher demand for transit original equipment electronic products.

Company net sales decreased \$6.3 million and income from operations decreased \$0.9 million due to unfavorable effects of foreign exchange. Net income for the three months ended September 30, 2013 was \$74.0 million or \$0.76 per diluted share. Net income for the three months ended September 30, 2012 was \$63.0 million or \$0.65 per diluted share. Net income increased due to higher sales volume and a decrease in the effective income tax rate discussed below.

Freight Segment sales decreased by \$14.1 million, or 4.0%, due to a decrease of \$13.2 million for freight original equipment locomotives as contract mix shifted to transit locomotives; \$5.8 million decrease for Specialty Products and Electronics sales from lower demand for freight original equipment rail products; and \$2.2 million from decreased demand for original equipment brake products. These decreases were partially offset by \$14.8 million in sales from acquisitions. For the Freight Segment, net sales decreased by \$8.3 million due to unfavorable effects of foreign exchange.

Transit Segment sales increased by \$57.9 million, or 24.9%, due to \$20.0 million from acquisitions; higher sales of \$13.2 million for original equipment transit locomotives as contract mix shifted from freight locomotives; \$10.8 million for Specialty Products and Electronics sales from higher demand for transit original equipment electronic products; and \$10.5 million from increased demand for original equipment brakes. For the Transit Segment, net sales increased by \$2.0 million due to favorable effects of foreign exchange.

**Cost of Sales and Gross Profit.** Cost of Sales increased by \$27.0 million to \$443.3 million in the third quarter of 2013 compared to \$416.3 million in the same period of 2012. In the third quarter of 2013, cost of sales, as a percentage of sales was 70.2% compared to 70.9% in the same period of 2012.

Raw material costs were approximately 43% as a percentage of sales in the third quarter of 2013 and 2012. Labor costs were approximately 12% as a percentage of sales in the third quarter of 2013 and 2012. Overhead costs decreased as a percentage of sales to approximately 15% in the third quarter of 2013 from approximately 16% in the same period of 2012. Freight Segment raw material costs decreased as a percentage of sales to approximately 39% in the third quarter of 2013 from 43% in the same period of 2012. Freight Segment labor costs were approximately 11% as a percentage of sales in the third quarter of 2013 and 2012, and overhead costs were approximately 15% as a percentage of sales in the third quarter of 2013 and 2012. Transit Segment raw material costs increased as a percentage of sales to approximately 47% in the third quarter of 2013 from approximately 43% in the same period of 2012. Transit Segment labor costs were approximately 13% as a percentage of sales in the third quarter of 2013 and 2012, and overhead costs decreased as a percentage of sales to approximately 17% in the third quarter of 2013 from approximately 19% in the same period of 2012. Freight Segment material costs decreased as a percentage of sales and transit material costs increased as a percentage of sales due to a shift in contract mix for original equipment locomotives from freight in the third quarter of 2012 to transit in the third quarter of 2013. Overhead costs vary as a percentage of sales depending on product mix and changes in sales volume.

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 \$0.4 million lower in the third quarter of 2013 compared to the same period of 2012. As a percentage of sales, warranty expense was 0.8% for the third quarter of 2013 compared to 0.9% for the same period in the previous year.

Gross profit increased to \$188.1 million in the third quarter of 2013 compared to \$171.3 million in the same period of 2012, due to higher sales volume and the reasons discussed above. For the third quarter of 2013, gross profit, as a percentage of sales, was 29.8% compared to 29.1%, for the third quarter of 2012.

**Operating expenses** The following table shows our operating expenses:

| <i>In thousands</i>                          | Three months ended September 30, |                  |                |
|--|----------------------------------|------------------|----------------|
|  | 2013                             | 2012             | Percent Change |
| Selling, general and administrative expenses | \$ 63,402                        | \$ 59,743        | 6.1 %          |
| Engineering expenses                         | 10,921                           | 10,753           | 1.6 %          |
| Amortization expense                         | 3,939                            | 3,941            | (0.1)%         |
| Total operating expenses                     | <u>\$ 78,262</u>                 | <u>\$ 74,437</u> | <u>5.1 %</u>   |

Selling, general, and administrative expenses increased \$3.7 million in the third quarter of 2013 compared to the same period of 2012 primarily due to \$3.4 million of expenses from acquisitions. Engineering expense increased by \$0.2 million in the third quarter of 2013 compared to the same period of 2012 due to \$0.8 million of engineering expense from acquisitions. Costs related to engineering for specific customer contracts are included in cost of sales. Amortization expense remained about the same in the third quarter of 2013 compared to the same period in 2012 due to amortization of intangibles associated with acquisitions. Total operating expenses were 12.4% of sales for the third quarter of 2013 compared to 12.7% for the same period in the previous year.

The following table shows our segment operating expense:

| <i>In thousands</i>      | Three months ended September 30, |                  |                |
|--------------------------|----------------------------------|------------------|----------------|
|                          | 2013                             | 2012             | Percent Change |
| Freight Segment          | \$ 38,004                        | \$ 37,621        | 1.0%           |
| Transit Segment          | 36,496                           | 33,571           | 8.7%           |
| Corporate                | 3,762                            | 3,245            | 15.9%          |
| Total operating expenses | <u>\$ 78,262</u>                 | <u>\$ 74,437</u> | <u>5.1%</u>    |

Segment operating expenses consist of specific segment costs such as, sales and marketing, information technology, insurance, and audit and tax fees, allocated corporate costs, and other segment specific discrete charges. Corporate costs are allocated to the Freight and Transit Segments based on segment revenues. Certain corporate departmental expenses are not allocated.

Freight Segment operating expenses increased \$0.4 million in the third quarter of 2013 compared to the same period of 2012 because of \$0.9 million of incremental selling, general and administrative expense from acquisitions and \$0.8 million of incremental engineering expense from acquisitions, partially offset by a \$1.1 million decrease in allocated operating expenses. Freight Segment operating expenses were 11.0% and 10.4% of Freight Segment sales for the third quarter of 2013 and 2012, respectively.

Transit Segment operating expenses increased \$2.9 million in the third quarter of 2013 compared to the same period of 2012 because of \$2.5 million of incremental selling, general and administrative expense from acquisitions. Allocated operating expenses increased \$0.4 million. Transit Segment operating expenses were 12.4% and 14.5% of Transit Segment sales for the third quarter of 2013 and 2012, respectively.

Corporate non-allocated operating expenses increased \$0.5 million in the third quarter of 2013 compared to the same period of 2012.

**Income from operations** Income from operations totaled \$109.9 million or 17.4% of sales in the third quarter of 2013 compared to \$96.8 million or 16.5% of sales in the same period of 2012. Income from operations increased due to higher sales volume, partially offset by higher operating expenses discussed above.

**Interest expense, net** Overall interest expense, net, was comparable to the prior period.

**Other income (expense), net** The Company recorded foreign exchange losses of \$1.0 million and \$1.4 million, in the third quarter of 2013 and 2012, respectively, due to the effect of currency exchange rate changes on intercompany transactions that are non U.S. dollar denominated and charged or credited to earnings.

**Income taxes** The effective income tax rate was 29.2% and 31.8% for the third quarter of 2013 and 2012, respectively. The decrease in the effective rate is primarily due to a benefit recorded for the enacted reduction of a foreign statutory tax rate.

**Net income** Net income for the third quarter of 2013 increased \$11.0 million, compared with the same period of 2012. The increase in net income is due to higher sales volume and lower effective tax rate, partially offset by higher operating expenses discussed above.

## FIRST NINE MONTHS OF 2013 COMPARED TO FIRST NINE MONTHS OF 2012

The following table summarizes the results of operations for the period:

|  | Nine months ended September 30, |              |                |
|--|---------------------------------|--------------|----------------|
|  | 2013                            | 2012         | Percent Change |
| Freight Segment                                | \$ 1,009,069                    | \$ 1,159,653 | (13.0)%        |
| Transit Segment                                | 875,841                         | 621,069      | 41.0 %         |
| Net sales                                      | 1,884,910                       | 1,780,722    | 5.9 %          |
| Income from operations                         | 326,092                         | 291,817      | 11.7 %         |
| Net income attributable to Wabtec shareholders | \$ 218,194                      | \$ 186,967   | 16.7 %         |

The following table shows the major components of the change in sales in the first nine months of 2013 from the first nine months of 2012:

| <i>In thousands</i>                     | Freight Segment | Transit Segment | Total        |
|---|-----------------|-----------------|--------------|
| First Nine Months of 2012 Net Sales     | \$ 1,159,653    | \$ 621,069      | \$ 1,780,722 |
| Acquisitions                            | 39,747          | 85,463          | 125,210      |
| <i>Change in Sales by Product Line:</i> |                 |                 |              |
| Brake Products                          | (18,300)        | 46,688          | 28,388       |
| Remanufacturing, Overhaul & Build       | (72,033)        | 95,100          | 23,067       |
| Other Transit Products                  | —               | 3,420           | 3,420        |
| Specialty Products & Electronics        | (85,405)        | 21,560          | (63,845)     |
| Other                                   | (571)           | 1,726           | 1,155        |
| Foreign Exchange                        | (14,022)        | 815             | (13,207)     |
| First Nine Months of 2013 Net Sales     | \$ 1,009,069    | \$ 875,841      | \$ 1,884,910 |

Net sales increased by \$104.2 million to \$1,884.9 million from \$1,780.7 million for the nine months ended September 30, 2013 and 2012, respectively. The increase is due to sales related to acquisitions of \$125.2 million; higher Brake Products sales of \$28.4 million due to higher demand for transit original equipment brakes; higher Remanufacturing, Overhaul and Build sales of \$23.1 million from increased demand for transit original equipment locomotives and aftermarket services for locomotives; and an increase in Other Transit Products of \$3.4 million. These increases were partially offset by a \$63.8 million decrease for Specialty Products and Electronics sales from lower demand for freight original equipment rail products. Company net sales decreased \$13.2 million and income from operations decreased \$1.3 million due to unfavorable effects of foreign exchange. Net income for the nine months ended September 30, 2013 was \$218.2 million or \$2.25 per diluted share. Net income for the nine months ended September 30, 2012 was \$187.0 million or \$1.93 per diluted share. Net income increased due to higher sales volume and a decrease in the effective income tax rate discussed below.

Freight Segment sales decreased by \$150.6 million, or 13.0%, due to a decrease of \$85.4 million for Specialty Products and Electronics sales from lower demand for freight original equipment rail products; \$72.0 million decrease for freight original equipment locomotives as contract mix shifted to transit locomotives; and \$18.3 million from decreased demand for original equipment brake products. These decreases were partially offset by \$39.7 million in sales from acquisitions. For the Freight Segment, net sales decreased by \$14.0 million due to unfavorable effects of foreign exchange.

Transit Segment sales increased by \$254.8 million, or 41.0%, due to higher sales of \$95.1 million for original equipment transit locomotives as contract mix shifted from freight locomotives; \$85.5 million from acquisitions; \$46.7 million from increased demand for original equipment brakes; \$21.6 million from increased demand for positive train control electronics; and an increase of \$3.4 million from certain transit car build contracts. For the Transit Segment, net sales increased by \$0.8 million due to favorable effects of foreign exchange.

**Cost of Sales and Gross Profit** Cost of Sales increased by \$54.4 million to \$1,321.0 million in the first nine months of 2013 compared to \$1,266.6 million in the same period of 2012. In the first nine months of 2013, cost of sales, as a percentage of sales was 70.0% compared to 71.1% in the same period of 2012.

Raw material costs decreased as a percentage of sales to approximately 42% in the first nine months of 2013 from approximately 43% in the same period of 2012. Labor costs increased as a percentage of sales to approximately 12% in the first nine

months of 2013 from approximately 11% in the same period of 2012. Overhead costs as a percentage of sales decreased as a percentage of sales to approximately 16% in the first nine months of 2013 from approximately 17% in the same period of 2012. Freight Segment raw material costs decreased as a percentage of sales to approximately 40% in the first nine months of 2013 from approximately 44% in the same period of 2012. Freight Segment labor costs were approximately 11% as a percentage of sales in the first nine months of 2013 and 2012, and overhead costs as a percentage of sales were approximately 15% in the first nine months of 2013 and 2012. Transit Segment raw material costs increased as a percentage of sales to approximately 45% in the first nine months of 2013 from 42% in the same period of 2012. Transit Segment labor costs as a percentage of sales were approximately 13% in the first nine months of 2013 and 2012, and overhead costs decreased as a percentage of sales to approximately 17% in the first nine months of 2013 from 19% in the same period of 2012. Freight Segment material costs decreased as a percentage of sales and transit material costs increased as a percentage of sales due to a shift in contract mix for original equipment locomotives from freight in the first nine months of 2012 to transit in the first nine months of 2013.

In general, raw material costs decreased as a percentage of sales reflecting the lower mix of revenue generated from freight original equipment sales, which has a higher raw material component as cost of sales. Overhead costs vary as a percentage of sales depending on product mix and changes in sales volume.

In addition, 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 for the first nine months of 2013 was \$0.4 million higher compared to the same period of 2012, due to increased sales. As a percentage of sales, warranty expense was 1.0% for the first nine months of 2013 and 2012.

Gross profit increased to \$563.9 million in the first nine months of 2013 compared to \$514.1 million in the same period of 2012, for the reasons discussed above. Accordingly, for the first nine months of 2013, gross profit, as a percentage of sales, was 29.9% compared to 28.9%, for the first nine months of 2012.

**Operating expenses** The following table shows our operating expenses:

| <i>In thousands</i>                          | Nine months ended September 30, |                   |                |
|--|---------------------------------|-------------------|----------------|
|  | 2013                            | 2012              | Percent Change |
| Selling, general and administrative expenses | \$ 191,576                      | \$ 180,935        | 5.9%           |
| Engineering expenses                         | 33,535                          | 31,047            | 8.0%           |
| Amortization expense                         | 12,699                          | 10,288            | 23.4%          |
| Total operating expenses                     | <u>\$ 237,810</u>               | <u>\$ 222,270</u> | <u>7.0%</u>    |

Selling, general, and administrative expenses increased \$10.6 million in the first nine months of 2013 compared to the same period of 2012 primarily due to \$15.2 million of expenses from acquisitions, partially offset by a release of \$3.9 million of certain legal reserves for a court ruling and a decrease of \$1.8 million for incentive and non-cash compensation expense. Engineering expense increased by \$2.5 million in the first nine months of 2013 compared to the same period of 2012 due to engineering expense from acquisitions. Costs related to engineering for specific customer contracts are included in cost of sales. Amortization expense increased in the first nine months of 2013 compared to the same period in 2012 due to amortization of intangibles associated with acquisitions. Total operating expenses were 12.6% and 12.5% of sales for the first nine months of 2013 and 2012, respectively.

The following table shows our segment operating expense:

| <i>In thousands</i>      | Nine months ended September 30, |                   |                |
|--------------------------|---------------------------------|-------------------|----------------|
|                          | 2013                            | 2012              | Percent Change |
| Freight Segment          | \$ 114,055                      | \$ 118,661        | (3.9)%         |
| Transit Segment          | 113,304                         | 91,758            | 23.5 %         |
| Corporate                | 10,451                          | 11,851            | (11.8)%        |
| Total operating expenses | <u>\$ 237,810</u>               | <u>\$ 222,270</u> | <u>7.0 %</u>   |

Segment operating expenses consist of specific segment costs such as, sales and marketing, information technology, insurance, and audit and tax fees, allocated corporate costs, and other segment specific discrete charges. Corporate costs are allocated to the Freight and Transit Segments based on segment revenues. Certain corporate departmental expenses are not allocated. Allocated operating expenses decreased \$4.2 million for the first nine months of 2013 compared to the same period of the prior year, primarily due to a decrease of incentive and non-cash compensation expense and a decrease in allocated legal expenses.

Freight Segment operating expenses decreased \$4.6 million in the first nine months of 2013 compared to the same period of 2012 because of a decrease of \$5.5 million in allocated operating expenses and a \$1.7 million decrease in other segment specific discrete charges, partially offset by \$2.7 million of higher expense related to acquisitions. Freight Segment operating expenses were 11.1% and 10.1% of Freight Segment sales for the first nine months of 2013 and 2012, respectively.

Transit Segment operating expenses increased \$21.5 million in the first nine months of 2013 compared to the same period of 2012 because of \$13.0 million of incremental selling, general and administrative expense from acquisitions and \$1.1 million of incremental engineering expense from acquisitions, higher amortization expense related to acquisitions, and \$1.3 million increase in allocated operating expenses. In addition, operating expenses increased to support the higher sales volume. Transit Segment operating expenses were 12.9% and 14.7% of Transit Segment sales for the first nine months of 2013 and 2012, respectively.

Corporate non-allocated operating expenses decreased \$1.4 million in the first nine months of 2013 compared to the same period of 2012 primarily due to a release of \$2.8 million of certain legal reserves for a court ruling, partially offset by an increase in certain non-allocated administrative expenses.

**Income from operations** Income from operations totaled \$326.1 million or 17.3% of sales in the first nine months of 2013 compared to \$291.8 million or 16.4% of sales in the same period of 2012. Income from operations increased due to higher sales volume, partially offset by higher operating expenses discussed above.

**Interest expense, net** Overall interest expense, net, was comparable to the prior period.

**Other income (expense), net** The Company recorded foreign exchange losses of \$2.9 million and \$0.4 million in the first nine months of 2013 and 2012, respectively, due to the effect of currency exchange rate changes on intercompany transactions that are non U.S. dollar denominated and charged or credited to earnings.

**Income taxes** The effective income tax rate was 30.4% and 33.3% for the first nine months of 2013 and 2012, respectively. The decrease in the effective rate is primarily due to retroactive extension of the R&D tax credit, an increase in foreign income taxed at a lower statutory rates, and a benefit recorded for the enacted reduction of a foreign statutory tax rate.

**Net income** Net income for the first nine months of 2013 increased \$31.2 million, compared with the same period of 2012. The increase in net income is due to higher sales volume and lower effective tax rate, partially offset by higher operating expenses discussed above.

### 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:

| <i>In thousands</i>          | Nine months ended<br>September 30, |            |
|------------------------------|------------------------------------|------------|
|                              | 2013                               | 2012       |
| Cash provided by (used for): |                                    |            |
| Operating activities         | \$ 84,996                          | \$ 113,525 |
| Investing activities         | (239,485)                          | (126,067)  |
| Financing activities         | 219,074                            | 9,294      |
| Increase (Decrease) in cash  | \$ 65,241                          | \$ (3,560) |

**Operating activities** In the first nine months of 2013 and 2012, cash provided by operations was \$85.0 million and \$113.5 million, respectively. In comparison to the first nine months of 2012, cash provided by operations in 2013 resulted from higher operating results offset by higher cash outflows for working capital. The major components of the higher cash outflows were as follows: a negative change in accounts receivable of \$95.7 million as the number of days to collect cash remained relatively stable and sales increased, a negative change in customer deposits due to the completion of certain large contracts, and a \$15.8 million payment in the prior quarter for a court ruling. These cash outflows were partially offset by the following cash inflows: a favorable change in accounts payable of \$23.5 million due to payment timing, and a favorable change or decrease of \$55.5 million in inventory as our days' supply in inventory (DSI) decreased to 68 days from 72 days during the first nine months of 2013 due to the completion of certain original equipment contracts.

**Investing activities** In the first nine months of 2013 and 2012, cash used in investing activities was \$239.5 million and \$126.1 million, respectively. The major components of the cash outflow are as follows: planned additions to property, plant and equipment of \$23.6 million for continued investments in our facilities and manufacturing processes and acquisitions of \$222.1 million. This compares to \$24.7 million in property, plant, and equipment and \$102.3 million in net cash paid for acquisitions in 2012. Refer to Note 3 of the "Notes to Condensed Consolidated Financial Statements" for additional information on acquisitions.

**Financing activities** In the first nine months of 2013, cash provided by financing activities was \$219.1 million, which included \$621.1 million in proceeds from the revolving credit facility debt, proceeds of \$247.4 million from the issuance of 4.375% Senior Notes, net of issuance costs, \$499.4 million of repayments of debt on the revolving credit facility, \$150.0 million on the 2003 Senior Notes, and \$8.8 million of dividend payments. In the first nine months of 2012, cash provided by financing activities was \$9.3 million, which included \$211.0 million in proceeds from debt and \$173.9 million of repayments of debt on the revolving credit facility and \$5.3 million of dividend payments and \$27.9 million for the repurchase of 376,300 shares of stock.

The following table shows outstanding indebtedness at September 30, 2013 and December 31, 2012.

| <i>In thousands</i>           | September 30,<br>2013 | December 31,<br>2012 |
|-------------------------------|-----------------------|----------------------|
| 4.375% Senior Notes, due 2023 | \$ 250,000            | \$ —                 |
| 6.875% Senior Notes, due 2013 | —                     | 150,000              |
| Revolving Credit Facility     | 289,000               | 167,000              |
| Capital Leases                | 691                   | 896                  |
| Total                         | 539,691               | 317,896              |
| Less—current portion          | 85                    | 43                   |
| Long-term portion             | \$ 539,606            | \$ 317,853           |

Cash balance at September 30, 2013 and December 31, 2012 was \$281.0 million and \$215.8 million, respectively.

#### *2011 Refinancing Credit Agreement*

On November 7, 2011, the Company refinanced its existing revolving credit and term loan facility with a consortium of commercial banks. This “2011 Refinancing Credit Agreement” provides the company with a \$600 million, five-year revolving credit facility. The Company incurred approximately \$1.9 million of deferred financing cost related to the 2011 Refinancing Credit Agreement. The facility expires on November 7, 2016.

Refer to Note 6 of the “Notes to Condensed Consolidated Financial Statements” for additional information regarding the 2011 Refinancing Credit Agreement.

#### *4.375% Senior Notes Due August 2013*

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.

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.

#### *6.875% Senior Notes Due July 31, 2013*

In August 2003, the Company issued \$150.0 million of Senior Notes due in 2013 (“the 2003 Notes”). The 2003 Notes were issued at par. Interest on the 2003 Notes accrued at a rate of 6.875% per annum and was payable semi-annually on January 31 and July 31 of each year. The proceeds were used to repay debt outstanding under the Company’s existing credit agreement, and for general corporate purposes. The Company paid off the 2003 Notes, which matured on July 31, 2013 utilizing available capacity under the 2011 Refinancing Credit Agreement.

Management believes that based on current levels of operations and forecasted earnings, cash flow and liquidity will be sufficient to fund working capital and capital equipment needs as well as meeting debt service requirements. If sources of funds were to fail to satisfy the Company’s cash requirements, the Company may need to refinance our existing debt or obtain additional financing. There is no assurance that such new financing alternatives would be available, and, in any case, such new financing, if available, may be more costly and burdensome than the debt agreements currently in place.



### *Company Stock Repurchase Plan*

On May 11, 2011, the Board of Directors increased its stock repurchase authorization to \$150 million of the Company's outstanding shares. Through September 30, 2013, repurchases are \$78.0 million, leaving \$71.9 million under the authorization. This share repurchase authorization supersedes the previous authorization of \$150 million of which \$39.4 million was remaining.

The Company intends to purchase shares on the open market or in negotiated or block trades. No time limit was set for the completion of the programs which conforms to the requirements under the 2011 Refinancing Credit Agreement, as well as the Notes currently outstanding.

During the first nine months of 2013, the Company repurchased 93,205 shares at an average price of \$58.86 per share. During 2012, the Company repurchased 1,214,800 shares of its stock at an average price of \$38.33 per share. All purchases were on the open market.

### *Capital Structure*

On May 14, 2013, our stockholders approved an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of our common stock to 200.0 million shares. In addition, on May 14, 2013, our Board of Directors approved a two-for-one split of the Company's issued and outstanding common stock in the form of a 100% stock dividend. The increase in the authorized shares and the stock split became effective on May 14, 2013 and June 11, 2013, respectively.

The Company issued approximately 66.2 million shares of its common stock as a result of the two-for-one stock split. The par value of the Company's common stock remained unchanged at \$0.01 per share.

Information regarding shares of common stock (except par value per share), retained earnings, and net income per common share attributable to Wabtec shareholders for all periods presented reflects the two-for-one split of the Company's common stock. The number of shares of the Company's common stock issuable upon exercise of outstanding stock options and vesting of other stock-based awards was proportionally increased, and the exercise price per share thereof was proportionally decreased, in accordance with the terms of the stock incentive plans.

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

As of September 30, 2013, the Company has recognized a total liability of \$10.9 million for unrecognized tax benefits related to uncertain tax positions. At this time, the Company is unable to make a reasonably reliable estimate of the timing of cash settlement for any of the unrecognized tax benefits due to the uncertainty of the timing and outcome of its audits and other factors.

Since December 31, 2012, there have been no other significant changes in the total amount of the Company's contractual obligations or the timing of cash flows in accordance with those obligations, as reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

### **Forward Looking Statements**

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

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

#### Economic and industry conditions

- prolonged unfavorable economic and industry conditions in the markets served by us, including North America, South America, Europe, Australia, Asia and South Africa;
- decline in demand for freight cars, locomotives, passenger transit cars, buses, power generation equipment and related products and services;
- reliance on major original equipment manufacturer customers;
- original equipment manufacturers' program delays;
- demand for services in the freight and passenger rail industry;

- demand for our products and services;
- orders either being delayed, cancelled, 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;
- completion and integration of acquisitions; or
- the development and use of new technology;

#### Competitive factors

- the actions of competitors;

#### Political/governmental factors

- political stability in relevant areas of the world;
- future regulation/deregulation of our customers and/or the rail industry;
- levels of governmental funding on transit projects, including for some of our customers;
- political developments and laws and regulations, including those related to Positive Train Control;
- federal and state income tax legislation; or
- the outcome of our existing or any future legal proceedings, including litigation involving our principal customers and any litigation with respect to environmental, asbestos-related matters and pension liabilities; 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, 2012.

#### **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, 2012. 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, 2012.

### **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 26% and 40% of total long-term debt at September 30, 2013 and December 31, 2012, respectively. On an annual basis a 1% change in the interest rate for variable rate debt at September 30, 2013 would increase or decrease interest expense by about \$1.4 million. To reduce the impact of interest rate changes on a portion of this variable-rate debt, the Company entered into a forward interest rate swap agreement which converts a portion of the debt from variable to fixed-rate borrowings during the term of the swap contract. Refer to "Financial Derivatives and Hedging Activities" in Note 2 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 nine months of 2013, approximately 51% of Wabtec's net sales were to customers in the United States, 12% in the United Kingdom, 7% in Canada, 6% in Australia, 5% in Mexico, 3% in Brazil, 2% in Germany and 14% 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 September 30, 2013. 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 September 30, 2013, 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

There have been no material changes regarding the Company's commitments and contingencies as described in Note 18 of the Company's Annual Report on Form 10-K for the year ended December 31, 2012, except as regarding the disclosure related to the claim by Faiveley Transport USA. The Faiveley plaintiffs agreed to reduce the damage award to \$15.0 million, plus interest, in lieu of a new trial on damages. In accordance with the decision entered by the appellate court, Wabtec paid the Faiveley plaintiffs a total of approximately \$15.8 million, and the case is closed.

### 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, 2012.

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

On May 11, 2011, the Board of Directors increased its stock repurchase authorization to \$150 million of the Company's outstanding shares. Through September 30, 2013 repurchases are \$78.1 million, leaving \$71.9 million under the authorization. This share repurchase authorization supersedes the previous authorization of \$150 million, of which \$39.4 million was remaining.

The Company intends to purchase shares on the open market or in negotiated or block trades. No time limit was set for the completion of the programs which conforms to the requirements under the 2011 Refinancing Credit Agreement, as well as the Notes currently outstanding.

During the first nine months of 2013, the Company repurchased 93,205 shares of its stock at an average price of \$58.96 per share. All purchases were made on the open market.

### Item 4. MINE SAFETY DISCLOSURES

Not Applicable

### Item 6. EXHIBITS

The following exhibits are being filed with this report:

|          |  |
|----------|--|
| 31.1     | Rule 13a-14(a) Certification of Chief Executive Officer.                           |
| 31.2     | Rule 13a-14(a) Certification of Chief Financial Officer.                           |
| 32.1     | Section 1350 Certification of Chief Executive Officer and Chief Financial Officer. |
| 101.INS* | XBRL Instance Document.  |
| 101.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.                            |

\* Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

**SIGNATURES**

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

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

By: \_\_\_\_\_ /s/ ALVARO GARCIA-TUNON

**Alvaro Garcia-Tunon,  
Executive Vice President,  
Chief Financial Officer**

(Duly Authorized Officer and Principal Financial Officer)

DATE: October 31, 2013

## EXHIBIT INDEX

|          |  |
|----------|--|
| 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.  |
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\* Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

**CERTIFICATION**

I, Albert J. Neupaver, 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: October 31, 2013

By:   /s/ ALBERT J. NEUPAVER    
 Name: **Albert J. Neupaver**  
 Title: **Chief Executive Officer, Chairman of the Board and Director**

## CERTIFICATION

I, Alvaro Garcia-Tunon, 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: October 31, 2013

By: \_\_\_\_\_ /s/ ALVARO GARCIA-TUNON  
 Name: Alvaro Garcia-Tunon  
 Title: Executive Vice President,  
 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 September 30, 2013 (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.

Company Name

By:           /s/ ALBERT J. NEUPAVER            
**Albert J. Neupaver**  
**Chief Executive Officer, Chairman of the**  
**Board and Director**

Date: October 31, 2013

By:           /s/ ALVARO GARCIA-TUNON            
**Alvaro Garcia-Tunon,**  
**Executive Vice President,**  
**Chief Financial Officer**

Date: October 31, 2013

