

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

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended June 30, 2019**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from**                      **to**

**Commission file number: 033-90866**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES  
CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction  
of incorporation or organization)

**25-1615902**

(I.R.S. Employer  
Identification No.)

**1001 Air Brake Avenue**

**Wilmerding**

**PA**

**15148**

(Address of principal executive offices)

(Zip code)

**412-825-1000**

(Registrant's telephone number, including area code)

**N/A**

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

Securities registered pursuant to Section 12(b) of the Act:

| Class | Trading Symbol(s) | Name of each exchange on which registered |
|-------|-------------------|---|
|-------|-------------------|---|

Common Stock, \$.01 par value per share

WAB

New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

Smaller reporting company

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

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

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

As of July 29, 2019, there were 188,155,130 shares of common stock, par value \$.01 per share, of the registrant outstanding.

WESTINGHOUSE AIR BRAKE  
TECHNOLOGIES CORPORATION

June 30, 2019

FORM 10-Q

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PART I—FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS

|  | Unaudited        |                      |
|--|------------------|----------------------|
|  | June 30,<br>2019 | December 31,<br>2018 |
| <i>In thousands, except shares and par value</i>   |                  |                      |
| <b>Assets</b>  |                  |                      |
| <b>Current Assets</b>  |                  |                      |
| Cash and cash equivalents  | \$ 461,371       | \$ 580,908           |
| Restricted cash  | —                | 1,761,446            |
| Accounts receivable  | 1,247,450        | 801,193              |
| Unbilled accounts receivable   | 459,959          | 345,585              |
| Inventories  | 1,881,791        | 844,886              |
| Other current assets   | 178,569          | 115,649              |
| Total current assets   | 4,229,140        | 4,449,667            |
| Property, plant and equipment  | 2,170,618        | 1,036,550            |
| Accumulated depreciation   | (524,521)        | (472,813)            |
| Property, plant and equipment, net   | 1,646,097        | 563,737              |
| <b>Other Assets</b>  |                  |                      |
| Goodwill   | 8,150,671        | 2,396,544            |
| Other intangibles, net   | 4,364,356        | 1,129,880            |
| Other noncurrent assets  | 552,329          | 109,406              |
| Total other assets   | 13,067,356       | 3,635,830            |
| Total Assets   | \$ 18,942,593    | \$ 8,649,234         |
| <b>Liabilities and Shareholders' Equity</b>  |                  |                      |
| <b>Current Liabilities</b>   |                  |                      |
| Accounts payable   | \$ 1,232,597     | \$ 589,449           |
| Customer deposits  | 648,503          | 373,538              |
| Accrued compensation   | 287,873          | 173,183              |
| Accrued warranty   | 223,764          | 135,636              |
| Current portion of long-term debt  | 104,413          | 64,099               |
| Other accrued liabilities  | 714,165          | 310,785              |
| Total current liabilities  | 3,211,315        | 1,646,690            |
| Long-term debt   | 4,528,768        | 3,792,774            |
| Accrued postretirement and pension benefits  | 95,625           | 95,446               |
| Deferred income taxes  | 169,861          | 198,269              |
| Accrued warranty   | 32,252           | 18,066               |
| Other long-term liabilities  | 1,069,615        | 28,914               |
| Total Liabilities  | 9,107,436        | 5,780,159            |
| Commitments and contingencies (Note 16)  |                  |                      |
| <b>Equity</b>  |                  |                      |
| Convertible preferred stock, \$0.01 par value; 1,000,000 shares authorized, 1,220 and no shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively                                    | —                | —                    |
| Common stock, \$0.01 par value; 500,000,000 shares authorized:<br>223,431,716 and 132,349,534 shares issued and 188,183,106 and 96,614,946 outstanding<br>at June 30, 2019 and December 31, 2018, respectively | 1,981            | 1,323                |
| Additional paid-in capital   | 7,807,109        | 914,568              |
| Treasury stock, at cost, 35,248,610 and 35,734,588 shares,<br>at June 30, 2019 and December 31, 2018, respectively   | (805,618)        | (816,145)            |
| Retained earnings  | 3,087,468        | 3,021,968            |
| Accumulated other comprehensive loss   | (289,180)        | (256,583)            |
| Total Westinghouse Air Brake Technologies Corporation shareholders' equity   | 9,801,760        | 2,865,131            |
| Noncontrolling interest  | 33,397           | 3,944                |
| Total Equity   | 9,835,157        | 2,869,075            |
| Total Liabilities and Equity   | \$ 18,942,593    | \$ 8,649,234         |

The accompanying notes are an integral part of these statements.

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

|  | Unaudited<br>Three Months Ended<br>June 30, |                      | Unaudited<br>Six Months Ended<br>June 30, |                       |
|--|---|----------------------|---|-----------------------|
|  | 2019  | 2018                 | 2019                                      | 2018                  |
| <i>In thousands, except per share data</i>             |   |                      |   |                       |
| Net sales:   |   |                      |   |                       |
| Sales of goods   | \$ 1,892,508                                | \$ 1,065,893         | \$ 3,327,017                              | \$ 2,076,570          |
| Sales of services                                      | 343,776                                     | 45,787               | 502,884                                   | 91,287                |
| Total net sales  | <u>2,236,284</u>                            | <u>1,111,680</u>     | <u>3,829,901</u>                          | <u>2,167,857</u>      |
| Cost of sales:   |   |                      |   |                       |
| Cost of goods  | (1,377,758)                                 | (749,097)            | (2,451,329)                               | (1,458,375)           |
| Cost of services                                       | (243,850)                                   | (38,616)             | (374,879)                                 | (74,634)              |
| Total cost of sales                                    | <u>(1,621,608)</u>                          | <u>(787,713)</u>     | <u>(2,826,208)</u>                        | <u>(1,533,009)</u>    |
| Gross profit   | 614,676                                     | 323,967              | 1,003,693                                 | 634,848               |
| Operating expenses:                                    |   |                      |   |                       |
| Selling, general and administrative expenses           | (290,959)                                   | (171,157)            | (550,682)                                 | (318,358)             |
| Engineering expenses                                   | (57,120)                                    | (19,388)             | (91,665)                                  | (41,437)              |
| Amortization expense                                   | (65,960)                                    | (9,899)              | (93,402)                                  | (20,251)              |
| Total operating expenses                               | <u>(414,039)</u>                            | <u>(200,444)</u>     | <u>(735,749)</u>                          | <u>(380,046)</u>      |
| Income from operations                                 | 200,637                                     | 123,523              | 267,944                                   | 254,802               |
| Other income and expenses:                             |   |                      |   |                       |
| Interest expense, net                                  | (58,560)                                    | (31,920)             | (103,129)                                 | (52,204)              |
| Other income (expense), net                            | 2,177                                       | 2,171                | (6,051)                                   | 4,757                 |
| Income from operations before income taxes             | <u>144,254</u>                              | <u>93,774</u>        | <u>158,764</u>                            | <u>207,355</u>        |
| Income tax expense                                     | (41,400)                                    | (10,503)             | (59,923)                                  | (36,627)              |
| Net income   | <u>102,854</u>                              | <u>83,271</u>        | <u>98,841</u>                             | <u>170,728</u>        |
| Less: Net loss attributable to noncontrolling interest | 1,381                                       | 1,145                | 922                                       | 2,054                 |
| Net income attributable to Wabtec shareholders         | <u><u>104,235</u></u>                       | <u><u>84,416</u></u> | <u><u>99,763</u></u>                      | <u><u>172,782</u></u> |
| <b>Earnings Per Common Share</b>                       |   |                      |   |                       |
| Basic  |   |                      |   |                       |
| Net income attributable to Wabtec shareholders         | <u>\$ 0.58</u>                              | <u>\$ 0.88</u>       | <u>\$ 0.66</u>                            | <u>\$ 1.80</u>        |
| Diluted  |   |                      |   |                       |
| Net income attributable to Wabtec shareholders         | <u>\$ 0.54</u>                              | <u>\$ 0.87</u>       | <u>\$ 0.61</u>                            | <u>\$ 1.79</u>        |
| Weighted average shares outstanding                    |   |                      |   |                       |
| Basic  | 177,348                                     | 95,992               | 149,553                                   | 95,867                |
| Diluted  | 191,453                                     | 96,575               | 162,155                                   | 96,471                |

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>June 30, |              | Unaudited<br>Six Months Ended<br>June 30, |            |
|---|---|--------------|---|------------|
|   | 2019  | 2018         | 2019                                      | 2018       |
| Net income attributable to Wabtec shareholders                                      | \$ 104,235                                  | \$ 84,416    | \$ 99,763                                 | \$ 172,782 |
| Foreign currency translation gain (loss)  | 18,832                                      | (192,778)    | (27,721)                                  | (114,811)  |
| Unrealized loss on derivative contracts   | (22)  | (7,567)      | (4,115)                                   | (5,501)    |
| Unrealized gain (loss) on pension benefit plans and post-retirement benefit plans   | 1,328                                       | 10,665       | (2,294)                                   | 10,235     |
| Other comprehensive income (loss) before tax  | 20,138                                      | (189,680)    | (34,130)                                  | (110,077)  |
| Income tax (benefit) expense related to components of<br>other comprehensive income | (318)                                       | (537)        | 1,533                                     | (1,132)    |
| Other comprehensive income (loss), net of tax                                       | 19,820                                      | (190,217)    | (32,597)                                  | (111,209)  |
| Comprehensive income (loss) attributable to Wabtec shareholders                     | \$ 124,055                                  | \$ (105,801) | \$ 67,166                                 | \$ 61,573  |

The accompanying notes are an integral part of these statements.

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

| <i>In thousands, except per share data</i>                          | <b>Unaudited<br/>Six Months Ended<br/>June 30,</b> |             |
|---|--|-------------|
|   | <b>2019</b>  | <b>2018</b> |
| <b>Operating Activities</b>   |  |             |
| Net income  | \$ 98,841  | \$ 170,728  |
| Adjustments to reconcile net income to cash provided by operations: |  |             |
| Depreciation and amortization                                       | 165,064  | 53,227      |
| Stock-based compensation expense                                    | 23,932   | 13,983      |
| Below market intangible amortization                                | (9,400)  | —           |
| Loss on disposal of property, plant and equipment                   | 461  | 1,353       |
| Changes in operating assets and liabilities, net of acquisitions    |  |             |
| Accounts receivable and unbilled accounts receivable                | (35,705)   | (59,979)    |
| Inventories   | 147,424  | (116,131)   |
| Accounts payable  | (71,935)   | 59,411      |
| Accrued income taxes  | 21,399   | (202)       |
| Accrued liabilities and customer deposits                           | 24,188   | 27,545      |
| Other assets and liabilities  | 79,655   | (82,031)    |
| Net cash provided by operating activities                           | 443,924  | 67,904      |
| <b>Investing Activities</b>   |  |             |
| Purchase of property, plant and equipment                           | (61,867)   | (39,723)    |
| Proceeds from disposal of property, plant and equipment             | 3,055  | 8,900       |
| Acquisitions of businesses, net of cash acquired                    | (2,981,552)  | (38,277)    |
| Net cash used for investing activities                              | (3,040,364)  | (69,100)    |
| <b>Financing Activities</b>   |  |             |
| Proceeds from debt  | 2,325,934  | 591,890     |
| Payments of debt  | (1,552,121)  | (546,394)   |
| Proceeds from exercise of stock options and other benefit plans     | 775  | 6,867       |
| Payment of income tax withholding on share-based compensation       | (4,117)  | (6,503)     |
| Payment of contingent consideration on acquisitions                 | (10,100)   | —           |
| Cash dividends  | (34,263)   | (23,096)    |
| Net cash provided by financing activities                           | 726,108  | 22,764      |
| Effect of changes in currency exchange rates                        | (10,651)   | (9,395)     |
| (Decrease) increase in cash   | (1,880,983)  | 12,173      |
| Cash, cash equivalents and restricted cash beginning of period      | 2,342,354  | 233,401     |
| Cash and cash equivalents end of period                             | \$ 461,371   | \$ 245,574  |

The accompanying notes are an integral part of these statements.

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(Unaudited)

| <i>In thousands, except share and per share data</i>   | Common<br>Stock<br>Shares | Common<br>Stock<br>Amount | Additional<br>Paid-in<br>Capital | Treasury<br>Stock<br>Shares | Treasury<br>Stock<br>Amount | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Non-<br>controlling<br>Interest | Total        |
|--|---------------------------|---------------------------|----------------------------------|-----------------------------|-----------------------------|----------------------|---|---------------------------------|--------------|
| <b>Balance, December 31, 2017</b>  | 132,349,534               | 1,323                     | 906,616                          | (36,315,182)                | (827,379)                   | 2,773,300            | (44,992)                                      | 19,664                          | 2,828,532    |
| Cash dividends (\$0.12 dividend per share)   | —                         | —                         | —                                | —                           | —                           | (11,531)             | —   | —                               | (11,531)     |
| Proceeds from treasury stock issued from the exercise of stock options and other benefit plans, net of tax | —                         | —                         | (4,511)                          | 193,013                     | 3,222                       | —                    | —   | —                               | (1,289)      |
| Stock based compensation   | —                         | —                         | 5,696                            | —                           | —                           | —                    | —   | —                               | 5,696        |
| Net income (loss)  | —                         | —                         | —                                | —                           | —                           | 88,366               | —   | (909)                           | 87,457       |
| Other comprehensive income, net of tax   | —                         | —                         | —                                | —                           | —                           | —                    | 79,008  | —                               | 79,008       |
| Other owner changes  | —                         | —                         | —                                | —                           | —                           | —                    | —   | 356                             | 356          |
| <b>Balance, March 31, 2018</b>   | 132,349,534               | \$ 1,323                  | \$ 907,801                       | (36,122,169)                | \$ (824,157)                | \$ 2,850,135         | \$ 34,016                                     | \$ 19,111                       | \$ 2,988,229 |
| Cash dividends (\$0.12 dividend per share)   | —                         | —                         | —                                | —                           | —                           | (11,565)             | —   | —                               | (11,565)     |
| Proceeds from treasury stock issued from the exercise of stock options and other benefit plans, net of tax | —                         | —                         | (5,738)                          | 159,014                     | 2,979                       | —                    | —   | —                               | (2,759)      |
| Stock based compensation   | —                         | —                         | 8,287                            | —                           | —                           | —                    | —   | —                               | 8,287        |
| Net income (loss)  | —                         | —                         | —                                | —                           | —                           | 84,416               | —   | (1,145)                         | 83,271       |
| Other comprehensive loss, net of tax   | —                         | —                         | —                                | —                           | —                           | —                    | (190,217)                                     | —                               | (190,217)    |
| Other owner changes  | —                         | —                         | —                                | —                           | —                           | —                    | —   | (618)                           | (618)        |
| <b>Balance, June 30, 2018</b>  | 132,349,534               | \$ 1,323                  | \$ 910,350                       | (35,963,155)                | \$ (821,178)                | \$ 2,922,986         | \$ (156,201)                                  | \$ 17,348                       | \$ 2,874,628 |
| <b>Balance, December 31, 2018</b>  | 132,349,534               | 1,323                     | 914,568                          | (35,734,588)                | (816,145)                   | 3,021,968            | (256,583)                                     | 3,944                           | 2,869,075    |
| Cash dividends (\$0.12 dividend per share)   | —                         | —                         | —                                | —                           | —                           | (11,687)             | —   | —                               | (11,687)     |
| Proceeds from treasury stock issued from the exercise of stock options and other benefit plans, net of tax | —                         | —                         | (14,446)                         | 420,472                     | 8,931                       | —                    | —   | —                               | (5,515)      |
| Stock based compensation   | —                         | —                         | 8,526                            | —                           | —                           | —                    | —   | —                               | 8,526        |
| Net income (loss)  | —                         | —                         | —                                | —                           | —                           | (4,472)              | —   | 459                             | (4,013)      |
| Other comprehensive loss, net of tax   | —                         | —                         | —                                | —                           | —                           | —                    | (52,417)                                      | —                               | (52,417)     |
| Acquisitions   | 65,782,182                | 658                       | 6,887,622                        | —                           | —                           | —                    | —   | 86,765                          | 6,975,045    |
| Other owner changes  | —                         | —                         | —                                | —                           | —                           | —                    | —   | 1,432                           | 1,432        |
| <b>Balance, March 31, 2019</b>   | 198,131,716               | \$ 1,981                  | \$ 7,796,270                     | (35,314,116)                | \$ (807,214)                | \$ 3,005,809         | \$ (309,000)                                  | \$ 92,600                       | \$ 9,780,446 |
| Cash dividends (\$0.12 dividend per share)   | —                         | —                         | —                                | —                           | —                           | (22,576)             | —   | —                               | (22,576)     |
| Proceeds from treasury stock issued from the exercise of stock options and other benefit plans, net of tax | —                         | —                         | (4,567)                          | 65,506                      | 1,596                       | —                    | —   | —                               | (2,971)      |
| Stock based compensation   | —                         | —                         | 15,406                           | —                           | —                           | —                    | —   | —                               | 15,406       |
| Net income (loss)  | —                         | —                         | —                                | —                           | —                           | 104,235              | —   | (1,381)                         | 102,854      |
| Other comprehensive income, net of tax   | —                         | —                         | —                                | —                           | —                           | —                    | 19,820  | —                               | 19,820       |
| Acquisitions   | —                         | —                         | —                                | —                           | —                           | —                    | —   | (56,179)                        | (56,179)     |
| Other owner changes  | 25,300,000                | —                         | —                                | —                           | —                           | —                    | —   | (1,643)                         | (1,643)      |
| <b>Balance, June 30, 2019</b>  | 223,431,716               | \$ 1,981                  | \$ 7,807,109                     | (35,248,610)                | \$ (805,618)                | \$ 3,087,468         | \$ (289,180)                                  | \$ 33,397                       | \$ 9,835,157 |

The accompanying notes are an integral part of these statements

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2019 (UNAUDITED)**

**1. BUSINESS**

Westinghouse Air Brake Technologies Corporation ("Wabtec" or the "Company") is one of the world's largest providers of value-added, technology-based equipment, systems and services for the global freight rail and passenger transit industries. Our highly engineered products enhance safety, improve productivity and reduce maintenance costs for customers and can be found on most locomotives, freight cars, passenger transit cars and buses around the world. 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 over 50 countries and our products can be found in more than 100 countries throughout the world. In the first six months of 2019, approximately 59% of the Company's revenues came from customers outside the United States.

**2. ACCOUNTING POLICIES**

**Basis of Presentation** The unaudited condensed consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in the United States of America and the rules and regulations of the Securities and Exchange Commission and include the accounts of Wabtec and its subsidiaries in which Wabtec has a controlling interest. 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, 2018. The December 31, 2018 information has been derived from the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

**Revenue Recognition** On January 1, 2018, the Company adopted ASC 606 "Revenue from Contracts with Customers". This new guidance provides a five-step analysis of transactions to determine when and how revenue is recognized, and requires entities to recognize revenue at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer.

Approximately 75% of the Company's revenues are derived from performance obligations that are satisfied at a point in time when control passes to the customer. The remaining revenues are earned over time. Generally, for performance obligations satisfied at a point in time control passes at the time of shipment in accordance with agreed upon delivery terms.

The Company also has long-term customer agreements involving the design and production of highly engineered products that require revenue to be recognized over time because these products have no alternative use without significant economic loss and the agreements contain an enforceable right to payment including a reasonable profit margin from the customer in the event of contract termination. Additionally, the Company has customer agreements involving the creation or enhancement of an asset that the customer controls which also require revenue to be recognized over time. Generally, the Company uses an input method for determining the amount of revenue, cost and gross margin to recognize over time for these customer agreements. The input methods used for these agreements include costs of material and labor, both of which give an accurate representation of the progress made toward complete satisfaction of a particular performance obligation. Contract revenues and cost estimates are reviewed and revised periodically through the year and adjustments are reflected in the accounting period as such amounts are determined.

Contract assets include unbilled amounts resulting from sales under long-term contracts where revenue is recognized over time and revenue exceeds the amount that can be billed to the customer based on the terms of the contract. The current portion of the contract assets are classified as current assets under the caption "Unbilled Accounts Receivable" while the noncurrent contract assets are classified as other assets under the caption "Other Noncurrent Assets" on the consolidated balance sheet. Noncurrent contract assets were \$122.5 million at June 30, 2019 and were not material at December 31, 2018, respectively. Included in noncurrent contract assets are certain costs that are specifically related to a contract, however, do not directly contribute to the transfer of control of the tangible product being created, such as non-recurring engineering costs. The Company has elected to use the practical expedient and does not consider unbilled amounts anticipated to be paid within one year as significant financing components.

Contract liabilities include customer deposits that are made prior to the incurrence of costs related to a newly agreed upon contract and advanced customer payments that are in excess of revenue recognized. The current portion of contract

liabilities are classified as current liabilities under the caption "Customer Deposits" while the noncurrent contract liabilities are classified as noncurrent liabilities under the caption "Other Long-Term Liabilities" on the consolidated balance sheet. Noncurrent contract liabilities were \$36.9 million at June 30, 2019 and were not material at December 31, 2018. These contract liabilities are not considered a significant financing component because they are used to meet working capital demands that can be higher in the early stages of a contract or revenue associated with the contract liabilities is expected to be recognized within one year. Contract liabilities also include provisions for estimated losses from uncompleted contracts. Provisions for loss contracts were \$103.6 million and \$71.2 million at June 30, 2019 and December 31, 2018, respectively. These provisions for estimated losses are classified as current liabilities and included within the caption "Other Accrued Liabilities" on the consolidated balance sheet.

Due to the nature of work required to be performed on the Company's long-term projects, the estimation of total revenue and cost at completion is subject to many variables and requires significant judgment. Contract estimates related to long-term projects are based on various assumptions to project the outcome of future events that could span several years. These assumptions include cost of materials; labor availability and productivity; complexity of the work to be performed; and the performance of suppliers, customers and subcontractors that may be associated with the contract. We have a disciplined process where management reviews the progress of long term-projects periodically throughout the year. As part of this process, management reviews information including key contract matters, progress towards completion, identified risks and opportunities and any other information that could impact the Company's estimates of revenue and costs. After completing this analysis, any adjustments to net sales, cost of goods sold, and the related impact to operating income are recognized as necessary in the period they become known.

Generally, the Company's revenue contains a single performance obligation for each distinct good; however, a single contract may have multiple performance obligations comprising multiple promises to customers. Performance obligations are determined based on customer's intended use of products and services. Less complex products principally result in each completed product being a separate performance obligation recognized at a point in time. More complex products or services principally result in a single performance obligation as a customer is either procuring a bundled offering that is managed or utilized on a combined basis or there are multiple complex goods or services in the contract, which are substantially the same and recognized over time. When there are multiple performance obligations, revenue is allocated based on the relative stand-alone selling price. Pricing is defined in our contracts on a line item basis and includes an estimate of variable consideration when required by the terms of the individual customer contract. Types of variable consideration the Company typically has include volume discounts, prompt payment discounts, liquidating damages, and performance bonuses. Sales returns and allowances are also estimated and recognized in the same period the related revenue is recognized, based upon the Company's experience.

Remaining performance obligations represent the transaction price of firm customer orders subject to standard industry cancellation provisions and substantial scope-of-work adjustments. As of June 30, 2019, the Company's remaining performance obligations were \$21.3 billion. The Company expects to recognize revenue of approximately 26% of remaining performance obligation over the next 12 months, with the remainder recognized thereafter.

**Reclassifications** Certain prior year amounts have been reclassified, where necessary, to conform to the current year presentation, including the reclassification of "Net Sales" to "Sales of Goods" and "Sales of Services".

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

**Financial Derivatives and Hedging Activities** As part of its risk management strategy, the Company utilizes derivative financial instruments to mitigate the impact of changes in foreign currency exchange rates and interest rates on earnings and cash flow. For further information regarding financial derivatives and hedging activities, refer to Footnotes 14 and 15.

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

**Noncontrolling Interests** In accordance with ASC 810 "Consolidation", the Company has classified noncontrolling interests as equity on the condensed consolidated balance sheets as of June 30, 2019 and December 31, 2018. Net loss attributable to noncontrolling interests was \$1.4 million and \$1.1 million for the three months ended June 30, 2019 and 2018, respectively. Net loss attributable to noncontrolling interests was \$0.9 million and \$2.1 million for the six months ended June 30, 2019 and 2018, respectively.

**Recently Issued Accounting Pronouncements** In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". The amendments in this update eliminate the requirement to perform Step 2 of the goodwill impairment test. Instead, an entity should perform a goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value up to the carrying amount of the goodwill. The ASU is effective for public companies in the fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The impact of adopting this guidance could result in a change in the overall conclusion as to whether or not a reporting unit's goodwill is impaired and the amount of an impairment charge recognized in the event a reporting unit's carrying value exceeds its fair value. All of the Company's reporting units had fair values that were substantially greater than the carrying value as of the Company's last quantitative goodwill impairment test, which was performed as of October 1, 2018.

**Recently Adopted Accounting Pronouncements** In February 2018, FASB issued ASU No. 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income". The amendments in this update address certain stranded income tax effects in accumulated other comprehensive income ("AOCI") resulting from the Tax Cuts and Jobs Act (the "Tax Act"). Current guidance requires the effect of a change in tax laws or rates on deferred tax balances to be reported in income from continuing operations in the accounting period that includes the period of enactment, even if the related income tax effects were originally charged or credited directly to AOCI. The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded effects resulting from the Tax Act. The amount of the reclassification would include the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances, if any, at the date of the enactment of the Tax Act related to items in AOCI. The updated guidance became effective for reporting periods beginning after December 15, 2018. The Company adopted this accounting standard at the beginning of the period and elected to not retrospectively apply the new standard. The impact of adopting the new standard was not material to the consolidated statement of income or the consolidated balance sheet.

In February 2016, FASB issued ASU No. 2016-02, "Leases (Topic 814)" which requires lessees to recognize a right of use asset and lease liability on the balance sheet for all leases with terms longer than 12 months. For leases with terms less than 12 months, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize a right of use asset and lease liability. This guidance became effective for the Company on January 1, 2019. The Company elected the practical expedient which does not require the capitalization of leases with terms of 12 months or less. And the Company did not elect the practical expedient which allows hindsight to be used to determine the term of a lease. The Company adopted the standard using the transition alternative, which allowed for the application of the guidance at beginning of the period in which it is adopted, rather than requiring the adjustment of prior comparative periods. For further information regarding the Company's adoption of the new standard, see Footnote 7.

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

The changes in accumulated other comprehensive income (loss) by component, net of tax, for the six months ended June 30, 2019 are as follows:

| <u>In thousands</u>   | Foreign<br>currency<br>translation | Derivative<br>contracts | Pension and<br>post<br>retirement<br>benefit plans | Total        |
|---|------------------------------------|-------------------------|--|--------------|
| Balance at December 31, 2018  | \$ (202,204)                       | \$ (53)                 | \$ (54,326)  | \$ (256,583) |
| Other comprehensive income (loss) before reclassifications          | (27,721)                           | (3,128)                 | (2,849)  | (33,698)     |
| Amounts reclassified from accumulated other<br>comprehensive income | —                                  | —                       | 1,101  | 1,101        |
| Net current period other comprehensive income (loss)                | (27,721)                           | (3,128)                 | (1,748)  | (32,597)     |
| Balance at June 30, 2019  | \$ (229,925)                       | \$ (3,181)              | \$ (56,074)  | \$ (289,180) |

Reclassifications out of accumulated other comprehensive income (loss) for the three months ended June 30, 2019 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 Income</u> |
|---|--|--|
| Amortization of defined pension and post retirement items     |  |  |
| Amortization of initial net obligation and prior service cost | \$ (366)   | Other income (expense), net  |
| Amortization of net loss                                      | 1,092  | Other income (expense), net  |
|   | <u>726</u>   | Other income (expense), net  |
|   | <u>(176)</u>   | Income tax expense   |
|   | <u>\$ 550</u>  | Net income   |

Reclassifications out of accumulated other comprehensive income (loss) for the six months ended June 30, 2019 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 Income</u> |
|---|--|--|
| Amortization of defined pension and post retirement items     |  |  |
| Amortization of initial net obligation and prior service cost | \$ (732)   | Other income (expense), net  |
| Amortization of net loss                                      | 2,184  | Other income (expense), net  |
|   | <u>1,452</u>   | Other income (expense), net  |
|   | <u>(351)</u>   | Income tax expense   |
|   | <u>\$ 1,101</u>  | Net income   |

The changes in accumulated other comprehensive loss by component, net of tax, for the six months ended June 30, 2018 are as follows:

|   | <u>Foreign<br/>currency<br/>translation</u> | <u>Derivative<br/>contracts</u> | <u>Pension and<br/>post<br/>retirement<br/>benefit plans</u> | <u>Total</u>        |
|---|---|---------------------------------|--|---------------------|
| Balance at December 31, 2017  | \$ 5,063                                    | \$ 4,015                        | \$ (54,070)  | \$ (44,992)         |
| Other comprehensive income (loss) before reclassifications          | (114,811)                                   | (4,760)                         | 6,744  | (112,827)           |
| Amounts reclassified from accumulated other<br>comprehensive income | —   | 579                             | 1,039  | 1,618               |
| Net current period other comprehensive income (loss)                | <u>(114,811)</u>                            | <u>(4,181)</u>                  | <u>7,783</u>   | <u>(111,209)</u>    |
| Balance at June 30, 2018  | <u>\$ (109,748)</u>                         | <u>\$ (166)</u>                 | <u>\$ (46,287)</u>   | <u>\$ (156,201)</u> |

Reclassifications out of accumulated other comprehensive loss for the three months ended June 30, 2018 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 | \$ (375)   | Other income (expense), net  |
| Amortization of net loss                                      | 1,093  | Other income (expense), net  |
|   | <u>718</u>   | Other income (expense), net  |
|   | <u>(198)</u>   | Income tax expense   |
|   | <u>\$ 520</u>  | Net income   |
| <br>  |  |  |
| Derivative contracts  |  |  |
| Realized loss on derivative contracts                         | \$ 176   | Interest expense, net  |
|   | <u>(42)</u>  | Income tax expense   |
|   | <u>\$ 134</u>  | Net income   |

Reclassifications out of accumulated other comprehensive loss for the six months ended June 30, 2018 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 | \$ (751)   | Other income (expense), net  |
| Amortization of net loss                                      | 2,186  | Other income (expense), net  |
|   | <u>1,435</u>   | Other income (expense), net  |
|   | <u>(396)</u>   | Income tax expense   |
|   | <u>\$ 1,039</u>  | Net income   |
| <br>  |  |  |
| Derivative contracts  | \$ 855   | Interest expense, net  |
| Realized loss on derivative contracts                         | <u>(276)</u>   | Income tax expense   |
|   | <u>\$ 579</u>  | Net income   |

### 3. ACQUISITIONS

#### *General Electric Transportation*

Wabtec, General Electric Company ("GE"), GE Transportation, a Wabtec Company formerly known as Transportation System Holdings Inc. ("SpinCo"), which was a newly formed wholly owned subsidiary of GE, and Wabtec US Rail Holdings, Inc. ("Merger Sub"), which was a newly formed wholly owned subsidiary of the Company, entered into the Original Merger Agreement on May 20, 2018, and GE, SpinCo, Wabtec and Wabtec US Rail, Inc. ("Direct Sale Purchaser") entered into the Original Separation Agreement on May 20, 2018, which together provided for the combination of Wabtec and GE Transportation. The Original Merger Agreement and Original Separation Agreement were subsequently amended on January 25, 2019 and the Merger was completed on February 25, 2019.

As part of the Merger, certain assets of GE Transportation ("GET"), including the equity interests of certain pre-Transaction subsidiaries of GE that compose part of GE Transportation, were sold to Direct Sale Purchaser for a cash payment of \$2.875 billion, and Direct Sale Purchaser assumed certain liabilities of GE Transportation in connection with this purchase (the "Direct Sale"). Thereafter, GE transferred the SpinCo business to SpinCo and its subsidiaries (to the extent not already held

by SpinCo and its subsidiaries), and SpinCo issued to GE shares of SpinCo Class A preferred stock, SpinCo Class B preferred stock, SpinCo Class C preferred stock and additional shares of SpinCo common stock in the SpinCo Transfer. Following this issuance of additional SpinCo common stock to GE, and immediately prior to the Distribution (as defined below), GE owned 8,700,000,000 shares of SpinCo common stock, 15,000 shares of SpinCo Class A preferred stock, 10,000 shares of SpinCo Class B preferred stock and one share of SpinCo Class C preferred stock, which constituted all of the outstanding stock of SpinCo.

Following the Direct Sale, GE distributed the distribution shares of SpinCo in a spin-off transaction to its stockholder (the "Distribution"). Immediately after the Distribution, Merger Sub merged with and into SpinCo (the "Merger"), whereby the separate corporate existence of Merger Sub ceased and SpinCo continued as the surviving company and a wholly owned subsidiary of Wabtec (except with respect to shares of SpinCo Class A preferred stock held by GE). In the Merger, subject to adjustment in accordance with the Merger Agreement, each share of SpinCo common stock converted into the right to receive a number of shares of Wabtec common stock based on the common stock exchange ratio set forth in the Merger Agreement and the share of SpinCo Class C preferred stock was converted into the right to receive (a) 10,000 shares of Wabtec convertible preferred stock and (b) a number of shares of Wabtec common stock equal to 9.9% of the fully-diluted pro forma Wabtec shares. Immediately prior to the Merger, Wabtec paid \$10.0 million in cash to GE in exchange for all of the shares of SpinCo Class B preferred stock.

Upon consummation of the Merger, Wabtec issued 46,763,975 shares of common stock to the holders of GE common stock, 19,018,207 shares of common stock to GE and 10,000 shares of preferred stock to GE and made a cash payment to GE of \$2.885 billion. As a result and calculated based on Wabtec's outstanding common stock on a fully-diluted, as-converted and as-exercised basis, as of December 31, 2018, approximately 49.2% of the outstanding shares of Wabtec common stock was held collectively by GE and holders of GE common stock (with 9.9% to be held by GE directly in shares of Wabtec common stock and 15% underlying the shares of Wabtec convertible preferred stock to be held by GE) and approximately 50.8% of the outstanding shares of Wabtec common stock would be held by pre-Merger Wabtec stockholders, in each case calculated on a fully-diluted, as-converted and as-exercised basis. Following the Merger, GE also retained 15,000 shares of SpinCo Class A non-voting preferred stock, and Wabtec held 10,000 shares of SpinCo Class B non-voting preferred stock. The shares of Wabtec common stock and Wabtec convertible preferred stock held by GE are subject to GE's obligations under the shareholders agreement, including, among other things, and in each case subject to certain exceptions, (i) restrictions on the ability to sell, transfer or otherwise divest such shares for a period of 30 days and (ii) an obligation to sell, transfer or otherwise divest (A) by no later than 120 days following the closing date of the Merger, GE's (and its affiliates') ownership of Wabtec common stock and/or Wabtec convertible preferred stock so that GE (together with its affiliates) beneficially owns not less than 14.9% and not more than 19.9% of the number of shares of Wabtec common stock that were outstanding immediately after the closing of the Merger, (B) by no later than one year following the closing date of the Merger, GE's (and its affiliates') ownership of Wabtec common stock and/or Wabtec convertible preferred stock so that GE (together with its affiliates) beneficially owns not more than 18.5% of the number of shares of Wabtec common stock that were outstanding immediately after the closing of the Merger, in each case of clauses (A) and (B) treating the Wabtec convertible preferred stock as the Wabtec common stock into which it is convertible both for purposes of determining the number of shares of Wabtec common stock owned and for purposes of determining the number of shares of Wabtec common stock outstanding and (C) by no later than the third anniversary of the closing date of the Merger, all of the subject shares that GE (together with its affiliates) beneficially owns, and (iii) an obligation to vote all of such shares of Wabtec common stock in the proportion required under the Shareholders Agreement.

After the Merger, SpinCo, which is Wabtec's wholly owned subsidiary (except with respect to shares of SpinCo Class A preferred stock held by GE), holds the SpinCo business and Direct Sale Purchaser, which also is Wabtec's wholly owned subsidiary, holds the assets purchased and the liabilities assumed in connection with the Direct Sale. Together, SpinCo and Direct Sale Purchaser own and operate the post-transaction GE Transportation. All shares of the Company's common stock, including those issued in the Merger, are listed on the NYSE under the Company's current trading symbol "WAB." On the date of the Distribution, GE or its subsidiaries and SpinCo or the SpinCo Transferred Subsidiaries entered into additional agreements relating to, among other things, intellectual property, employee matters, tax matters, research and development and transition services.

On May 6, 2019, GE completed the sale of approximately 8,780 shares of Wabtec's Series A Preferred stock which converted upon the sale to 25,300,000 shares of Wabtec's common stock. After the sale Wabtec had approximately 1,220 shares of Series A Preferred Stock outstanding convertible to approximately 3,515,500 shares of common stock and GE's aggregate beneficial ownership percentage of the Company was reduced from approximately 24.9% to approximately 11.7% on a fully-diluted, as-converted and as-exercised basis. In conjunction with this secondary offering the Company waived the requirement under the shareholders agreement for GE to maintain ownership of at least 14.9% of Wabtec's stock for 120 days following the closing date of the Merger. The Company did not receive any proceeds from the sale of these shares.

Total future consideration to be paid by Wabtec to GE includes a fixed payment of \$470.0 million, which is directly related to the timing of tax benefits expected to be realized by Wabtec as a result of the merger. This payment is considered

contingent consideration because the timing of cash payments to GE is directly related to the future timing of tax benefits received by the Company as a result of the merger. The estimated total value of the consideration to be paid by Wabtec in the Transactions is approximately \$10.3 billion, including the cash paid for the Direct Sales Assets, equity transferred for SpinCo, contingent consideration, assumed debt and net of cash acquired. The estimated consideration is based on the Company's closing share price of \$73.36 on February 22, 2019 and the preliminary fair value of the contingent consideration. The value of the preliminary purchase price consideration could change when the Company has completed the detailed valuation of the contingent consideration and other necessary calculations.

The fair values of the assets acquired and liabilities assumed were determined using the income, cost and market approaches. The fair value measurements were primarily based on significant inputs that are not observable in the market and are considered Level 3. The June 30, 2019 consolidated balance sheet includes the assets and liabilities of GET, which have been initially measured at fair value. The noncontrolling interest includes equity interests in GET's Brazil operations held by third parties on the date of acquisition. At the time of acquisition, quotable market prices of the noncontrolling interest existed; therefore, the noncontrolling interest in the GET Brazil operations were measured using a Level 1 input. In April 2019, the Company acquired the noncontrolling interest in GET's Brazil operations for \$56.2 million which approximated the fair value assigned to the noncontrolling interest on the date of acquisition. The remaining noncontrolling interest value was determined based on inputs that are not observable in the market and are considered Level 3.

The following table summarizes the preliminary fair values of the GET assets acquired and liabilities assumed:

*In thousands*

**Assets acquired**

|                                |                   |
|--------------------------------|-------------------|
| Cash and cash equivalents      | \$ 174,334        |
| Accounts receivable            | 525,966           |
| Inventories                    | 1,185,574         |
| Other current assets           | 64,115            |
| Property, plant, and equipment | 1,086,245         |
| Goodwill                       | 5,758,264         |
| Trade names                    | 50,000            |
| Customer relationships         | 550,000           |
| Intellectual property          | 1,210,000         |
| Backlog                        | 1,530,000         |
| Other noncurrent assets        | 211,081           |
| Total assets acquired          | <u>12,345,579</u> |

**Liabilities assumed**

|                              |                  |
|------------------------------|------------------|
| Current liabilities          | 1,514,189        |
| Contingent consideration     | 440,000          |
| Other noncurrent liabilities | 522,465          |
| Total liabilities assumed    | <u>2,476,654</u> |
| Net assets acquired          | <u>9,868,925</u> |
| Noncontrolling interest      | <u>\$ 86,765</u> |

These estimates are preliminary in nature and subject to adjustments, which could be material. Any necessary adjustments will be finalized within one year from the date of acquisition. During the three months ended June 30, 2019, the estimated fair values for acquired backlog and customer relationships increased \$50.0 million and \$20.0 million, respectively. Additionally, the estimated fair value for other noncurrent assets decreased by \$23.7 million primarily due to estimate revisions for long-term contract assets. These changes to initial estimates were based on information that existed at the date of acquisition. Substantially all of the accounts receivable acquired are expected to be collectible. Trade names, customer relationships, patents and backlog intangible assets are all subject to amortization. Contingent liabilities assumed as part of the transaction were not material. The contingent liabilities are related to legal and tax matters. Contingent liabilities are recorded at fair value in purchase accounting, aside from those pertaining to uncertainty in income taxes which are an exception to the fair value basis of accounting. Included in other noncurrent liabilities are customer contracts whose terms are unfavorable compared to market terms at the date of acquisition.

Goodwill was calculated as the difference between the acquisition date fair value of the consideration transferred and the fair value of the net assets acquired, and represents the future economic benefits, including synergies, and assembled workforce, that are expected to be achieved as a result of the acquisition. Substantially all of the purchased goodwill is expected to be deductible for tax purposes. The goodwill has been preliminarily allocated to the Freight segment.

Included in the Company's consolidated statement of income for the six months ended June 30, 2019 is \$1,617.1 million of revenues and \$88.2 million of operating income from GET. Acquisition related costs were approximately \$55.3 million for the six months ended June 30, 2019 and are included in selling, general and administrative expenses on the consolidated statements of income.

#### Other Acquisitions

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

- On March 22, 2018, the Company acquired Annax GmbH ("Annax"), a leading supplier of public address and passenger information systems for transit vehicles, for a purchase price of approximately \$45.2 million, net of cash acquired and including contingent consideration, resulting in final goodwill of \$38.5 million, none of which will be deductible for tax purposes. A payment of \$10.1 million was made in the three months ended June 30, 2019 related to contingent consideration associated with the purchase of Annax.

The following table summarizes the final fair values of the assets acquired and liabilities assumed at the date of the acquisition for Annax.

| <i>In thousands</i>         | <u>Annax</u><br><u>March 22,</u><br><u>2018</u> |
|-----------------------------|---|
| Current assets              | \$ 32,827                                       |
| Property, plant & equipment | 674   |
| Goodwill                    | 38,511  |
| Other intangible assets     | 11,715  |
| Total assets acquired       | <u>83,727</u>                                   |
| Total liabilities assumed   | <u>(55,064)</u>                                 |
| Net assets acquired         | <u>\$ 28,663</u>                                |

The allocation of \$11.7 million of total acquired other intangible assets includes \$3.8 million assigned to trade names and \$7.5 million assigned to customer relationships. The trade names were determined to have indefinite useful lives, while the customer relationships' average useful lives are 20 years.

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

The following unaudited pro forma consolidated financial information presents income statement results as if the acquisitions listed above had occurred on January 1, 2018:

| <i>In thousands</i>                            | <u>Three Months Ended</u><br><u>June 30, 2019</u> | <u>Three Months Ended</u><br><u>June 30, 2018</u> | <u>Six Months Ended</u><br><u>June 30, 2019</u> | <u>Six Months Ended</u><br><u>June 30, 2018</u> |
|--|---|---|---|---|
| Net sales                                      | \$ 2,236,284                                      | \$ 2,023,848                                      | \$ 4,316,055                                    | \$ 3,905,572                                    |
| Gross profit                                   | 703,676   | 634,868   | 1,247,156                                       | 1,019,549                                       |
| Net income attributable to Wabtec shareholders | 171,875   | 151,475   | 255,152   | 99,206  |
| Diluted earnings per share                     |   |   |   |   |
| As Reported                                    | \$ 0.54   | \$ 0.87   | \$ 0.61   | \$ 1.79   |
| Pro forma                                      | \$ 0.90   | \$ 0.79   | \$ 1.34   | \$ 0.52   |

#### 4. INVENTORIES

The components of inventory, net of reserves, were:

| <i>In thousands</i> | <u>June 30,</u><br><u>2019</u> | <u>December 31,</u><br><u>2018</u> |
|---------------------|--------------------------------|------------------------------------|
| Raw materials       | \$ 786,281                     | \$ 465,873                         |
| Work-in-progress    | 434,731                        | 154,485                            |
| Finished goods      | 660,779                        | 224,528                            |
| Total inventories   | <u>\$ 1,881,791</u>            | <u>\$ 844,886</u>                  |

#### 5. INTANGIBLES

The change in the carrying amount of goodwill by segment for the six months ended June 30, 2019 is as follows:

| <i>In thousands</i>          | <u>Freight</u><br><u>Segment</u> | <u>Transit</u><br><u>Segment</u> | <u>Total</u>        |
|------------------------------|----------------------------------|----------------------------------|---------------------|
| Balance at December 31, 2018 | \$ 713,391                       | \$ 1,683,153                     | \$ 2,396,544        |
| Additions                    | 5,754,115                        | 15,420                           | 5,769,535           |
| Foreign currency impact      | (11,687)                         | (3,721)                          | (15,408)            |
| Balance at June 30, 2019     | <u>\$ 6,455,819</u>              | <u>\$ 1,694,852</u>              | <u>\$ 8,150,671</u> |

As of June 30, 2019 and December 31, 2018, the Company's trade names had a net carrying amount of \$626.6 million and \$582.8 million, respectively. The Company believes these intangibles have indefinite lives, with the exception of the GE Transportation trade name, to which the company has assigned a useful life of 5 years.

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

| <u><i>In thousands</i></u>   | <u>June 30,<br/>2019</u> | <u>December 31,<br/>2018</u> |
|--|--------------------------|------------------------------|
| Backlog, intellectual property, patents, and other intangibles, net of accumulated amortization of \$76,059 and \$42,446 | \$ 2,689,022             | \$ 15,328                    |
| Customer relationships, net of accumulated amortization of \$183,933 and \$158,533                                       | 1,048,774                | 531,761                      |
| Total  | <u>\$ 3,737,796</u>      | <u>\$ 547,089</u>            |

The weighted average remaining useful life of backlog, intellectual property, customer relationships and other intangibles were 18 years, 10 years, 18 years and 13 years, respectively. Amortization expense for intangible assets was \$66.0 million and \$93.4 million for the three and six months ended June 30, 2019, and \$9.9 million and \$20.3 million for the three and six months ended June 30, 2018, respectively.

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

|                   |            |
|-------------------|------------|
| Remainder of 2019 | \$ 130,967 |
| 2020              | 259,206    |
| 2021              | 259,117    |
| 2022              | 258,805    |
| 2023              | 258,174    |

## 6. CONTRACT ASSETS AND CONTRACT LIABILITIES

Contract assets include unbilled amounts resulting from sales under long-term contracts where revenue is recognized over time and revenue exceeds the amount that can be billed to the customer based on the terms of the contract. Contract liabilities include customer deposits that are made prior to the incurrence of costs related to a newly agreed upon contract, advanced customer payments that are in excess of revenue recognized, and provisions for estimated losses from uncompleted contracts.

The change in the carrying amount of contract assets and contract liabilities for the six months ended June 30, 2019 is as follows:

| <i><u>In thousands</u></i>          | <u>Contract Assets</u> |
|-------------------------------------|------------------------|
| Balance at beginning of year        | \$ 345,585             |
| Acquisitions                        | 213,605                |
| Recognized in current year          | 324,940                |
| Reclassified to accounts receivable | (300,714)              |
| Foreign currency impact             | (925)                  |
| Balance at June 30, 2019            | <u>\$ 582,491</u>      |

| <i><u>In thousands</u></i>                           | <u>Contract Liabilities</u> |
|--|-----------------------------|
| Balance at beginning of year                         | \$ 444,805                  |
| Acquisitions   | 282,054                     |
| Recognized in current year                           | 572,644                     |
| Amounts in beginning balance reclassified to revenue | (251,980)                   |
| Current year amounts reclassified to revenue         | (257,640)                   |
| Foreign currency impact                              | (867)                       |
| Balance at June 30, 2019                             | <u>\$ 789,016</u>           |

## 7. LEASES

During the first quarter of 2019, the Company adopted ASU No. 2016-02, "Leases (Topic 842)," which requires leases with durations greater than twelve months to be recognized on the balance sheet. The Company adopted the standard using the modified retrospective approach with an effective date as of the beginning of our fiscal year, January 1, 2019. Prior year financial statements were not recast under the new standard and, therefore, those amounts are not presented below.

The Company leases property and equipment under finance and operating leases. For leases with terms greater than 12 months, the Company records the related asset and obligation at the present value of lease payments. Many of the Company's leases include rental escalation clauses, renewal options, and/or termination options that are factored into our determination of lease payments when appropriate. The Company does not separate lease and non-lease components contracts.

As most of the Company's leases do not provide a readily stated discount rate, the Company must estimate our incremental borrowing rate to discount lease payments. The Company has established discount rates by geographic region ranging from 1.2% to 12.3%.

The components of lease expense are as follows:

| <i>(in thousands)</i>                 | <b>Three Months<br/>Ended<br/>June 30,<br/>2019</b> | <b>Six Months<br/>Ended<br/>June 30,<br/>2019</b> |
|---------------------------------------|---|---|
| Operating lease expense               | \$ 13,387   | \$ 26,784   |
| Finance lease expense                 |   |   |
| Amortization of leased assets         | 272   | 543   |
| Interest on lease liabilities         | 4   | 8   |
| Short-term and variable lease expense | 172   | 277   |
| Sublease income                       | (138)   | (276)   |
| Total                                 | <u>\$ 13,697</u>                                    | <u>\$ 27,336</u>                                  |

Scheduled payments of lease liabilities are as follows:

| <i>(in thousands)</i>           | <b>Operating Leases</b> | <b>Finance<br/>Leases</b> | <b>Total</b>      |
|---------------------------------|-------------------------|---------------------------|-------------------|
| Remaining 2019                  | \$ 25,598               | \$ 188                    | \$ 25,786         |
| 2020                            | 45,910                  | 383                       | 46,293            |
| 2021                            | 37,570                  | 185                       | 37,755            |
| 2022                            | 30,788                  | 121                       | 30,909            |
| 2023                            | 26,252                  | 121                       | 26,373            |
| Thereafter                      | 107,810                 | 349                       | 108,159           |
| Total lease payments            | <u>273,928</u>          | <u>1,347</u>              | <u>275,275</u>    |
| Less: Present value discount    | (29,311)                | (2)                       | (29,313)          |
| Present value lease liabilities | <u>\$ 244,617</u>       | <u>\$ 1,345</u>           | <u>\$ 245,962</u> |

The following table summarizes the remaining lease term and discount rate assumptions used to develop the present value of lease liabilities:

|   | <b>June 30,<br/>2019</b> |
|---|--------------------------|
| Weighted-average remaining lease term (years) |                          |
| Operating leases                              | 8.3                      |
| Finance leases                                | 5.5                      |
| Weighted-average discount rate                |                          |
| Operating leases                              | 3.0%                     |
| Finance leases                                | 1.2%                     |

## 8. LONG-TERM DEBT

Long-term debt consisted of the following:

| <u>In thousands</u>   | <u>June 30,<br/>2019</u> | <u>December 31,<br/>2018</u> |
|---|--------------------------|------------------------------|
| Floating Senior Notes, due 2021, net of unamortized debt issuance costs of \$2,604 and \$3,204            | \$ 497,396               | \$ 496,796                   |
| 4.15% Senior Notes, due 2024, net of unamortized debt issuance costs of \$6,362 and \$7,043               | 743,638                  | 742,957                      |
| 4.70% Senior Notes, due 2028, net of unamortized debt issuance costs of \$9,809 and \$10,343              | 1,240,191                | 1,239,657                    |
| 3.45% Senior Notes, due 2026, net of unamortized debt issuance costs of \$1,604 and \$1,718               | 748,396                  | 748,282                      |
| 4.375% Senior Notes, due 2023, net of unamortized discount and debt issuance costs of \$1,048 and \$1,177 | 248,952                  | 248,823                      |
| Revolving Credit Facility, net of unamortized debt issuance costs of \$2,592 and \$3,138                  | 1,113,269                | 338,112                      |
| Other Borrowings  | 41,339                   | 42,246                       |
| Total   | 4,633,181                | 3,856,873                    |
| Less: current portion   | 104,413                  | 64,099                       |
| Long-term portion   | <u>\$ 4,528,768</u>      | <u>\$ 3,792,774</u>          |

On September 14, 2018, the Company issued \$2.5 billion of senior notes with three different maturities.

- Floating Rate Senior Notes due 2021 - The Company issued \$500.0 million of Floating Rate Senior Notes due 2021 (the "Floating Rate Notes"). The Floating Rate Notes, which are non-callable for one year, were issued at 100% of face value. Interest on the Floating Rate Notes accrues at a floating rate per annum equal to three-month Libor plus 105 basis points. The interest rate for the Floating Rate Notes for the initial interest period was the three-month Libor plus 105 basis points determined on September 12, 2018 and is payable quarterly on December 15, March 15, June 15, and September 15 of each year. The Company incurred \$3.5 million of deferred financing costs related to the issuance of the Floating Rate Notes.
- 4.15% Senior Notes due 2024 - The Company issued \$750.0 million of 4.15% Senior Notes due 2024 (the "2024 Notes"). The 2024 Notes were issued at 99.805% of face value. Interest on the 2024 Notes accrues at a rate of 4.15% per annum and is payable semi-annually on March 15 and September 15 of each year. The Company incurred \$7.4 million of deferred financing costs related to the issuance of the 2024 Notes.
- 4.70% Senior Notes Due 2028 - The Company issued \$1,250.0 million of 4.70% Senior Notes due 2028 (the "2028 Notes" and together with the Floating Rate Notes and 2024 Notes, the "Senior Notes"). The 2028 Notes were issued at 99.889% of face value. Interest on the 2028 Notes accrues at a rate of 4.70% per annum and is payable semi-annually on March 15 and September 15 of each year. The Company incurred \$10.6 million of deferred financing costs related to the issuance of the 2028 Notes.

The net proceeds from the issuance and sale of the Senior Notes were used to finance the cash portion of the GE Transportation acquisition. The principal balances are due in full at maturity. The Senior 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 Senior Notes were issued contains covenants and restrictions which limit among other things, the following: the incurrence of indebtedness, payment of dividends and certain distributions, sales of assets, change in control, mergers and consolidations and the incurrence of liens.

On February 12, 2019, the rating assigned by Moody's was decreased to Ba1. Accordingly, pursuant to the respective terms of the Senior Notes issued on September 14, 2018, the interest rate increased by 0.25%. The interest rate increase took effect during the interest period following February 12, 2019.

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

### *3.45% Senior Notes Due November 2026*

On November 3, 2016, the Company issued \$750.0 million of 3.45% Senior Notes due in 2026 (the "2016 Notes"). The 2016 Notes were issued at 99.965% of face value. Interest on the 2016 Notes accrues at a rate of 3.45% per annum and is payable semi-annually on May 15 and November 15 of each year. The proceeds were used to finance the cash portion of the Faiveley Transport acquisition, refinance Faiveley Transport's indebtedness, and for general corporate purposes. The principal balance is due in full at maturity. The Company incurred \$2.7 million of deferred financing costs related to the issuance of the 2016 Notes.

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

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

### *4.375% Senior Notes Due August 2023*

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

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

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

### *2018 Refinancing Credit Agreement*

On June 8, 2018, the Company entered into a credit agreement (the "2018 Refinancing Credit Agreement"), which replaced the Company's then-existing 2016 Refinancing Credit Agreement. As part of the 2018 Refinancing Credit Agreement, the Company entered into (i) a \$1.2 billion revolving credit facility (the "Revolving Credit Facility"), which replaced the Company's revolving credit facility under the 2016 Refinancing Credit Agreement, and includes a letter of credit sub-facility of up to \$450.0 million and a swing line sub-facility of \$75.0 million, (ii) a \$350.0 million term loan (the "Refinancing Term Loan"), which refinanced the term loan under the 2016 Refinancing Credit Agreement, and (iii) a new \$400.0 million delayed draw term loan (the "Delayed Draw Term Loan"). The 2018 Refinancing Credit Agreement also provided for a bridge loan facility (the "Bridge Loan Facility") in an amount not to exceed \$2.5 billion, which would only become effective at the Company's request. Commitments in respect of the Bridge Loan Facility were terminated upon the issuance and sale of the Senior Notes on September 14, 2018. In addition, the 2018 Refinancing Credit Agreement contains an uncommitted accordion feature allowing the Company to request, in an aggregate amount not to exceed \$600.0 million, increases to the borrowing commitments under the Revolving Credit Facility or a new incremental term loan commitment. At June 30, 2019, the Company had approximately \$780.3 million of available bank borrowing capacity subject to certain financial covenant restrictions, net of \$27.6 million of letters of credit.

The Revolving Credit Facility matures on June 8, 2023 and is unsecured. The Refinancing Term Loan matures on June 8, 2021 and is unsecured. The Delayed Draw Term Loan matures on the third anniversary of the date on which it is borrowed and is unsecured. The applicable interest rate for borrowings under the 2018 Refinancing Credit Agreement includes interest rate spreads based on the lower of the pricing corresponding to (i) the Company's ratio of total debt (less unrestricted cash up to \$300.0 million) to EBITDA ("Leverage Ratio") or (ii) the Company's public rating, in each case that range between 1.000% and 1.875% for LIBOR/CDOR-based borrowings and 0.0% and 0.875% for Alternate Base Rate based borrowings. The obligations of the Company under the 2018 Refinancing Credit Agreement have been guaranteed by certain of the Company's subsidiaries.

The Delayed Draw Term Loan was initially drawn on February 25, 2019. The Company incurred a 17.5 basis point commitment fee from June 8, 2018 until the initial draw.

The 2018 Refinancing Credit Agreement contains customary representations and warranties by the Company and its subsidiaries, including customary use of materiality, material adverse effect, and knowledge qualifiers. The Company and its subsidiaries are also subject to (i) customary affirmative covenants that impose certain reporting obligations on the Company and its subsidiaries and (ii) customary negative covenants, including limitations on: indebtedness; liens; restricted payments; fundamental changes; business activities; transactions with affiliates; restrictive agreements; changes in fiscal year; and use of proceeds. In addition, the Company is required to maintain (i) an Interest Coverage ratio at least 3.00 to 1.00 over each period of four consecutive fiscal quarters ending on the last day of a fiscal quarter and (ii) a Leverage Ratio, calculated as of the last day of a fiscal quarter for a period of four consecutive fiscal quarters, of 3.25 to 1.00 or less; provided that, in the event the Company completes the Direct Sale and the Merger or any other material acquisition in which the cash consideration paid exceeds \$500.0 million, the maximum Leverage Ratio permitted will be 3.75 to 1.00 at the end of the fiscal quarter in which such acquisition is consummated and each of the three fiscal quarters immediately following such fiscal quarter and 3.50 to 1.00 at the end of each of the fourth and fifth full fiscal quarters after the consummation of such acquisition. The Company is in compliance with the restrictions and covenants of the 2018 Refinancing Credit Agreement and does not expect that these measurements will limit the Company in executing its operating activities.

At June 30, 2019, the weighted average interest rate on the Company's variable rate debt was 3.28%. On June 5, 2014, the Company entered into a forward starting interest rate swap agreement with a notional value of \$150.0 million. The effective date of the interest rate swap agreement was November 7, 2016, and the termination date was December 19, 2018.

#### *2016 Refinancing Credit Agreement*

On June 22, 2016, the Company amended its existing revolving credit facility with a consortium of commercial banks. This 2016 Refinancing Credit Agreement provided the Company with a \$1.2 billion, 5 year revolving credit facility and a \$400 million delayed draw term loan (the "Term Loan"). The Company incurred approximately \$3 million of deferred financing cost related to the 2016 Refinancing Credit Agreement. The 2016 Refinancing Credit Agreement borrowings bore variable interest rates indexed as described below.

Under the 2016 Refinancing Credit Agreement, the Company could elect a Base Rate of interest for U.S. Dollar denominated loans or, for certain currencies, an interest rate based on the London Interbank Offered Rate ("LIBOR") of interest, or other rates appropriate for such currencies (in any case, "the Alternate Rate"). The Base Rate adjusted on a daily basis and was the greater of the Federal Funds Effective Rate plus 0.50% per annum, the PNC, N.A. prime rate or the Daily LIBOR Rate plus 100 basis points, plus a margin that ranged from 0 to 75 basis points. The Alternate Rate was based on the quoted rates specific to the applicable currency, plus a margin that ranged from 75 to 175 basis points. Both the Base Rate and Alternate Rate margins were dependent on the Company's consolidated total indebtedness to EBITDA ratios. The initial Base Rate margin was 0 basis points and the Alternate Rate margin is 175 basis points.

## 9. 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</i>                | U.S.                        |               | International               |                 |
|------------------------------------|-----------------------------|---------------|-----------------------------|-----------------|
|                                    | Three Months Ended June 30, |               | Three Months Ended June 30, |                 |
|                                    | 2019                        | 2018          | 2019                        | 2018            |
| <b>Net periodic benefit cost</b>   |                             |               |                             |                 |
| Service cost                       | \$ 71                       | \$ 87         | \$ 611                      | \$ 691          |
| Interest cost                      | 372                         | 333           | 1,711                       | 1,834           |
| Expected return on plan assets     | (433)                       | (445)         | (2,927)                     | (3,466)         |
| Net amortization/deferrals         | 207                         | 243           | 641                         | 554             |
| Net periodic benefit cost (credit) | <u>\$ 217</u>               | <u>\$ 218</u> | <u>\$ 36</u>                | <u>\$ (387)</u> |

| <i>In thousands</i>                | U.S.                      |               | International             |                 |
|------------------------------------|---------------------------|---------------|---------------------------|-----------------|
|                                    | Six Months Ended June 30, |               | Six Months Ended June 30, |                 |
|                                    | 2019                      | 2018          | 2019                      | 2018            |
| <b>Net periodic benefit cost</b>   |                           |               |                           |                 |
| Service cost                       | \$ 142                    | \$ 174        | \$ 1,222                  | \$ 1,382        |
| Interest cost                      | 744                       | 666           | 3,422                     | 3,668           |
| Expected return on plan assets     | (866)                     | (890)         | (5,854)                   | (6,932)         |
| Net amortization/deferrals         | 414                       | 486           | 1,282                     | 1,108           |
| Net periodic benefit cost (credit) | <u>\$ 434</u>             | <u>\$ 436</u> | <u>\$ 72</u>              | <u>\$ (774)</u> |

### Assumptions

|                                   |      |      |      |      |
|-----------------------------------|------|------|------|------|
| Discount Rate                     | 4.3% | 3.6% | 2.5% | 2.4% |
| Expected long-term rate of return | 5.4% | 5.2% | 5.0% | 5.1% |
| Rate of compensation increase     | 3.0% | 3.0% | 2.6% | 2.6% |

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 \$6.4 million to the international plans during 2019. The Company does not expect to make contributions to the U.S. plans during 2019.

### Post Retirement Benefit Plans

In addition to providing pension benefits, the Company has provided certain unfunded postretirement health care and life insurance benefits for a portion of North American employees. The Company is not obligated to pay health care and life insurance benefits to individuals who had retired prior to 1990. The Company uses a December 31 measurement date for all post retirement plans.

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

| <i>In thousands</i>              | U.S.                        |      | International               |       |
|----------------------------------|-----------------------------|------|-----------------------------|-------|
|                                  | Three Months Ended June 30, |      | Three Months Ended June 30, |       |
|                                  | 2019                        | 2018 | 2019                        | 2018  |
| <b>Net periodic benefit cost</b> |                             |      |                             |       |
| Service cost                     | \$ 1                        | \$ 1 | \$ 2                        | \$ 8  |
| Interest cost                    | 89                          | 81   | 20                          | 26    |
| Net amortization/deferrals       | (101)                       | (76) | (22)                        | (4)   |
| Net periodic benefit cost        | \$ (11)                     | \$ 6 | \$ —                        | \$ 30 |

  

| <i>In thousands</i>              | U.S.                      |       | International             |       |
|----------------------------------|---------------------------|-------|---------------------------|-------|
|                                  | Six Months Ended June 30, |       | Six Months Ended June 30, |       |
|                                  | 2019                      | 2018  | 2019                      | 2018  |
| <b>Net periodic benefit cost</b> |                           |       |                           |       |
| Service cost                     | \$ 2                      | \$ 2  | \$ 4                      | \$ 16 |
| Interest cost                    | 178                       | 162   | 40                        | 52    |
| Net amortization/deferrals       | (202)                     | (152) | (44)                      | (8)   |
| Net periodic benefit cost        | \$ (22)                   | \$ 12 | \$ —                      | \$ 60 |

  

| <b>Assumptions</b> |       |       |       |       |
|--------------------|-------|-------|-------|-------|
| Discount Rate      | 4.17% | 3.43% | 3.49% | 3.21% |

## 10. STOCK-BASED COMPENSATION

As of June 30, 2019, the Company maintains employee stock-based compensation plans for stock options, restricted stock, and incentive stock units as governed by the 2011 Stock Incentive Compensation Plan, as amended and restated (the "2011 Plan") and the 2000 Stock Incentive Plan, as amended (the "2000 Plan"). The 2011 Plan has a term through May 10, 2027 and provides a maximum of 3,800,000 shares for grants or awards, plus any shares which remain available under the 2000 Plan. The amendment and restatement of the 2011 Plan was approved by stockholders of Wabtec on May 10, 2017. The Company also maintains a 1995 Non-Employee Directors' Fee and Stock Option Plan as amended and restated ("the Directors Plan").

Stock-based compensation expense was \$15.8 million and \$8.3 million for the three months ended June 30, 2019 and 2018, respectively. Included in stock-based compensation expense for the three months ended June 30, 2019 is \$1.0 million of expense related to stock options, \$8.1 million related to restricted stock, \$2.9 million related to restricted stock units, \$3.5 million related to incentive stock units and \$0.3 million related to units issued for Directors' fees.

Stock-based compensation expense was \$24.3 million and \$14.0 million for the six months ended June 30, 2019 and 2018, respectively. Included in stock-based compensation expense for the six months ended June 30, 2019 is \$1.3 million of expense related to stock options, \$10.8 million related to restricted stock, \$3.7 million related to restricted stock units, \$7.9 million related to incentive stock units and \$0.6 million related to units issued for Directors' fees. At June 30, 2019, unamortized compensation expense related to stock options, non-vested restricted shares and incentive stock units expected to vest totaled \$61.7 million.

**Stock Options** Stock options are granted to eligible employees at an exercise price equivalent to the stock's 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 granted prior to 2019 become exercisable over a four-year vesting period, while options granted in 2019 become exercisable over a three-year vesting period. Both vesting periods expire 10 years from the date of grant.

The following table summarizes the Company's stock option activity and related information for the 2011 Plan, the 2000 Plan and the Directors Plan for the six months ended June 30, 2019:

|                                  | Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate Intrinsic value (in thousands) |
|----------------------------------|---------|---------------------------------|---|--|
| Outstanding at December 31, 2018 | 466,677 | \$ 61.04                        | 5.7   | \$ 5,003                                 |
| Granted                          | 132,155 | 70.46                           |   | 172                                      |
| Exercised                        | (468)   | 64.54                           |   | (19)                                     |
| Canceled                         | (3,148) | 73.34                           |   | —  |
| Outstanding at June 30, 2019     | 595,216 | 63.08                           | 6.2   | 5,168                                    |
| Exercisable at June 30, 2019     | 388,634 | 54.89                           | 5.2   | 6,558                                    |

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

|                | Six Months Ended June 30, |       |
|----------------|---------------------------|-------|
|                | 2019                      | 2018  |
| Dividend yield | 0.66%                     | 0.31% |

|                         |       |       |
|-------------------------|-------|-------|
| Risk-free interest rate | 2.61% | 2.78% |
| Stock price volatility  | 25.8% | 23.9% |
| Expected life (years)   | 5.0   | 5.0   |

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

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

In addition, the Company has issued incentive stock units to eligible employees that vest upon attainment of certain cumulative three-year performance goals. Based on the Company's performance for each three-year period then ended, the incentive stock units can vest, with underlying shares of common stock being awarded in an amount ranging from 0% to 200% of the amount of initial incentive stock units granted. The incentive stock units included in the table below represent the number of incentive stock units that are expected to vest based on the Company's estimate for meeting those established performance targets. As of June 30, 2019, the Company estimates that it will achieve 107%, 105% and 103% for the incentive stock awards expected to vest based on performance for the three-year periods ending December 31, 2019, 2020, and 2021, respectively, and has recorded incentive compensation expense accordingly. If the estimate of the number of these incentive stock units expected to vest changes in a future accounting period, cumulative compensation expense could increase or decrease and will be recognized in the current period for the elapsed portion of the vesting period and would change future expense for the remaining vesting period.

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

The following table summarizes the restricted stock activity and related information for the 2011 Plan, the 2000 Plan and the Directors Plan, and incentive stock units activity for the 2011 Plan and the 2000 Plan with related information for the six months ended June 30, 2019:

|  | <b>Restricted<br/>Stock<br/>and Units</b> | <b>Incentive<br/>Stock<br/>Units</b> | <b>Weighted<br/>Average Grant<br/>Date Fair<br/>Value</b> |
|--|---|--------------------------------------|---|
| Outstanding at December 31, 2018                       | 445,089                                   | 415,243                              | \$ 75.51  |
| Granted  | 568,052                                   | 258,100                              | 70.48   |
| Vested   | (207,656)                                 | (119,835)                            | 71.59   |
| Adjustment for incentive stock awards expected to vest | —   | 43,257                               | 78.82   |
| Canceled   | (11,041)                                  | (38,116)                             | 74.38   |
| Outstanding at June 30, 2019                           | <u>794,444</u>                            | <u>558,649</u>                       | 73.53   |

## 11. INCOME TAXES

The overall effective tax rate was 28.7% and 38.3% for the three and six months ended June 30, 2019, respectively and 11.2% and 17.7% for the three and six months ended June 30, 2018, respectively. The increase in the effective rate is primarily the result of non-deductible transaction related expenses incurred as a result of the acquisition of GE Transportation as well as increased estimated liabilities resulting from provisions of the Tax Cuts and Jobs Act.

As of June 30, 2019, the liability for income taxes associated with uncertain tax positions was \$12.1 million, of which \$11.0 million, if recognized, would favorably affect the Company's effective income tax rate. As of December 31, 2018, the liability for income taxes associated with unrecognized tax benefits was \$9.5 million, of which \$8.4 million, if recognized, would favorably affect the Company's effective tax rate.

The Company includes interest and penalties related to uncertain tax positions in income tax expense. As of June 30, 2019, the total interest and penalties accrued was approximately \$1.1 million. As of December 31, 2018, the total interest and penalties accrued was approximately \$0.9 million.

At this time, the Company believes it is reasonably possible that unrecognized tax benefits of approximately \$6.2 million may change within the next 12 months due to the expiration of statutory review periods and current examinations.

## 12. EARNINGS PER SHARE

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

|   | Three Months Ended<br>June 30, |                  |
|---|--------------------------------|------------------|
|   | 2019                           | 2018             |
| <i>In thousands, except per share data</i>  |                                |                  |
| <b>Numerator</b>  |                                |                  |
| Numerator for basic and diluted earnings per common share - net income attributable to Wabtec shareholders  | \$ 104,235                     | \$ 84,416        |
| Less: dividends declared - common shares and non-vested restricted stock                                    | (22,576)                       | (11,565)         |
| Undistributed earnings  | 81,659                         | 72,851           |
| Percentage allocated to common shareholders (1)   | 99.7%                          | 99.7%            |
|   | 81,414                         | 72,632           |
| Add: dividends declared - common shares   | 22,508                         | 11,531           |
| Less: dividends declared - preferred shares   | (422)                          | —                |
| Numerator for basic earnings per common share   | <u>\$ 103,500</u>              | <u>\$ 84,163</u> |
| Add: dividends declared - preferred shares  | 422                            | —                |
| Numerator for diluted earnings per common share   | <u>103,922</u>                 | <u>84,163</u>    |
| <b>Denominator</b>  |                                |                  |
| Denominator for basic earnings per common share - weighted average shares                                   | 177,348                        | 95,992           |
| Effect of dilutive securities:  |                                |                  |
| Assumed conversion of preferred shares  | 13,743                         | —                |
| Assumed conversion of dilutive stock-based compensation plans   | 362                            | 583              |
| Denominator for diluted earnings per common share - adjusted weighted average shares and assumed conversion | <u>191,453</u>                 | <u>96,575</u>    |
| <b>Net income attributable to Wabtec shareholders per common share</b>                                      |                                |                  |
| Basic   | \$ 0.58                        | \$ 0.88          |
| Diluted   | \$ 0.54                        | \$ 0.87          |
| (1) Basic weighted-average common shares outstanding  | 177,348                        | 95,992           |
| Basic weighted-average common shares outstanding and non-vested restricted stock expected to vest           | 177,922                        | 96,276           |
| Percentage allocated to common shareholders   | 99.7%                          | 99.7%            |

|   | Six Months Ended<br>June 30, |            |
|---|------------------------------|------------|
|   | 2019                         | 2018       |
| <i>In thousands, except per share data</i>  |                              |            |
| <b>Numerator</b>  |                              |            |
| Numerator for basic and diluted earnings per common share - net income attributable to Wabtec shareholders  | \$ 99,763                    | \$ 172,782 |
| Less: dividends declared - common shares and non-vested restricted stock                                    | (34,264)                     | (23,096)   |
| Undistributed earnings  | 65,499                       | 149,686    |
| Percentage allocated to common shareholders (1)   | 99.7%                        | 99.7%      |
|   | 65,303                       | 149,237    |
| Add: dividends declared - common shares   | 34,154                       | 23,027     |
| Less: dividends declared - preferred shares   | (422)                        | —          |
| Numerator for basic earnings per common share   | \$ 99,035                    | \$ 172,264 |
| Add: dividends declared - preferred shares  | 422                          | —          |
| Numerator for diluted earnings per common share   | 99,457                       | 172,264    |
| <b>Denominator</b>  |                              |            |
| Denominator for basic earnings per common share - weighted average shares                                   | 149,553                      | 95,867     |
| Effect of dilutive securities:  |                              |            |
| Assumed conversion of preferred shares  | 12,213                       | —          |
| Assumed conversion of dilutive stock-based compensation plans   | 389                          | 604        |
| Denominator for diluted earnings per common share - adjusted weighted average shares and assumed conversion | 162,155                      | 96,471     |
| <b>Net income attributable to Wabtec shareholders per common share</b>                                      |                              |            |
| Basic   | \$ 0.66                      | \$ 1.80    |
| Diluted   | \$ 0.61                      | \$ 1.79    |
| (1) Basic weighted-average common shares outstanding  | 149,553                      | 95,867     |
| Basic weighted-average common shares outstanding and non-vested restricted stock expected to vest           | 150,013                      | 96,153     |
| Percentage allocated to common shareholders   | 99.7%                        | 99.7%      |

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

### 13. WARRANTIES

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

| <i>In thousands</i>           | 2019       | 2018       |
|-------------------------------|------------|------------|
| Balance at beginning of year  | \$ 153,702 | \$ 153,063 |
| Acquisitions                  | 97,559     | 1,089      |
| Warranty expense              | 65,797     | 27,475     |
| Warranty claim payments       | (60,643)   | (26,405)   |
| Foreign currency impact/other | (399)      | (1,380)    |
| Balance at June 30            | \$ 256,016 | \$ 153,842 |

## 14. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

**Foreign Currency Hedging** The Company uses forward contracts to mitigate its foreign currency exchange rate exposure due to forecasted sales of finished goods and future settlement of foreign currency denominated assets and liabilities. Derivatives used to hedge forecasted transactions and specific cash flows associated with foreign currency denominated financial assets and liabilities that meet the criteria for hedge accounting are designated as cash flow hedges. The effective portion of gain and losses is deferred as a component of accumulated other comprehensive income and is recognized in earnings at the time the hedged item affects earnings, in the same line item as the underlying hedged item. The contracts are scheduled to mature within two years. For the three and six months ended June 30, 2019 and June 30, 2018, the amounts reclassified into income were not material.

**Other Activities** The Company enters into certain derivative contracts in accordance with its risk management strategy that do not meet the criteria for hedge accounting but which have the impact of largely mitigating foreign currency exposure. These foreign exchange contracts are accounted for on a full mark to market basis through earnings, with gains and losses recorded as a component of other expense, net. The net unrealized loss related to these contracts was \$0.5 million for the six months ended June 30, 2019. These contracts are scheduled to mature within one year.

The following table summarizes the gross notional amounts and fair values of the designated and non-designated hedges discussed in the above sections as of June 30, 2019.

| <u>In millions</u>        | <u>Designated</u> | <u>Non-Designated</u> | <u>Total</u> |
|---------------------------|-------------------|-----------------------|--------------|
| Gross notional amount     | \$ 2,574.0        | \$ 608.0              | \$ 3,182.0   |
| Fair Value:               |                   |                       |              |
| Other current assets      | \$ 3.2            | \$ —                  | \$ 3.2       |
| Other current liabilities | —                 | (3.2)                 | (3.2)        |
| Total                     | \$ 3.2            | \$ (3.2)              | \$ —         |

The following table summarizes the gross notional amounts and fair values of the designated and non-designated hedges discussed in the above sections as of December 31, 2018.

| <u>In millions</u>        | <u>Designated</u> | <u>Non-Designated</u> | <u>Total</u> |
|---------------------------|-------------------|-----------------------|--------------|
| Gross notional amount     | \$ 863.0          | \$ 834.0              | \$ 1,697.0   |
| Fair Value:               |                   |                       |              |
| Other current assets      | \$ —              | \$ 1.3                | \$ 1.3       |
| Other current liabilities | (2.3)             | —                     | (2.3)        |
| Total                     | \$ (2.3)          | \$ 1.3                | \$ (1.0)     |

**Interest Rate Hedging** The Company has historically used interest rate swaps to manage interest rate exposures. The Company is exposed to interest rate volatility with regard to existing floating rate debt. Primary exposure includes the London Interbank Offered Rates (LIBOR). Derivatives used to hedge risk associated with changes in the fair value of certain variable-rate debt were primarily designated as fair value hedges. Consequently, changes in the fair value of these derivatives, along with changes in the fair value of debt obligations were recognized in current period earnings. Refer to footnote 15 for further information on interest rate swaps.

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

ASC 820 "Fair Value Measurements and Disclosures" ("ASC 820") 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.

To reduce the impact of interest rate changes on a portion of its variable-rate debt, the Company historically 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 mitigates these risks through entering into foreign currency forward contracts. The foreign currency forward contracts are valued using broker quotations, or market transactions in either the listed or over-the-counter markets. As such, these derivative instruments are classified within Level 2.

The Company's cash and cash equivalents are highly liquid investments purchased with an original maturity of three months or less and are considered Level 1 on the fair value valuation hierarchy. The fair value of cash and cash equivalents approximated the carrying value at June 30, 2019 and December 31, 2018. The Company's defined benefit pension plan assets consist primarily of equity security funds, debt security funds and temporary cash and cash equivalent investments. Generally, all plan assets are considered Level 2 based on the fair value valuation hierarchy. These investments are comprised of a number of investment funds that invest in a diverse portfolio of assets including equity securities, corporate and governmental bonds, and money markets. Trusts are valued at the net asset value ("NAV") as determined by their custodian. NAV represent the accumulation of the unadjusted quoted close prices on the reporting date for the underlying investments divided by the total shares outstanding at the reporting dates. The 2013 Notes, 2016 Notes, and the Senior 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>      | June 30, 2019  |              | December 31, 2018 |              |
|--------------------------|----------------|--------------|-------------------|--------------|
|                          | Carrying Value | Fair Value   | Carrying Value    | Fair Value   |
| 4.375% Senior Notes      | \$ 248,952     | \$ 259,010   | \$ 248,823        | \$ 254,218   |
| 3.45% Senior Notes       | \$ 748,396     | \$ 737,123   | \$ 748,282        | \$ 675,075   |
| Floating Rate Notes 2021 | \$ 497,396     | \$ 496,830   | \$ 496,796        | \$ 497,425   |
| 4.15% Senior Notes       | \$ 743,638     | \$ 792,390   | \$ 742,957        | \$ 729,350   |
| 4.7% Senior Notes        | \$ 1,240,191   | \$ 1,349,025 | \$ 1,239,657      | \$ 1,179,625 |

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

## 16. 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, 2018, in Note 21 therein, filed on February 27, 2019. During the first six months of 2019, there were no material changes to the information described in the Form 10-K related to claims arising from asbestos exposure.

From time to time, the Company is involved in litigation related to claims arising out of the Company's operations in the ordinary course of business, including claims based on product liability, contracts, intellectual property, or other causes of action. Further information and detail on any potentially material litigation is as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, in Note 21 therein, filed on February 27, 2019. Except as described below, there have been no material changes to the information described in the Form 10-K related to claims arising from Company's ordinary operations.

On April 21, 2016, Siemens Industry, Inc. filed a lawsuit against the Company in federal district court in Delaware alleging that the Company has infringed seven patents owned by Siemens related to the Company's Positive Train Control (PTC) technology. On November 2, 2016, Siemens amended its complaint to add six additional patents they also claim are infringed by the Company's PTC Products or End of Train (EOT) Products (Siemens Patent Case). The Company has filed Answers, and asserted counterclaims, in response to Siemens' complaints. Additionally, after filings by the Company, the US Patent & Trademark Office's Patent Trial and Appeal Board (PTAB) has granted Inter-Parties Review (IPR) proceedings on eight (8) of the patents asserted by Siemens to contest their validity. Following pre-trial rulings that greatly reduced Siemens' alleged damages, a jury trial was held in federal district court in Delaware in January 2019 on eight patents, two of which were still subject to an IPR decision on validity from the PTAB. At the conclusion of the trial, the jury awarded Siemens damages of \$5.6 million related to PTC patents and \$1.1 million related to EOT patents. Since the jury's verdict was issued, one of the PTC patents found to be infringed was held to be invalid by the PTAB. All PTAB proceedings have been now been completed, pending appeals; five (5) of the (8) Siemens patents reviewed by the PTAB were found to be invalid. On February 26, 2019, the Court entered a Judgment on the verdict, subject to post-trial motions. On May 28, 2019, the Court held a hearing on both parties' post-trial motions, any of which, if granted, could potentially affect the final Judgment. After the Court's ruling on the post-trial motions, a final Judgment will be entered and either party may file appeals to the Federal Circuit.

On March 20, 2019, Siemens filed a new action in federal district court in Delaware alleging violations of federal antitrust and state trade practices laws since before 2008, related to Wabtec's PTC sales, including on-board, back-office, wayside and aftermarket support systems (Siemens originally raised these antitrust claims as counterclaims in a separate Delaware patent case filed by Wabtec alleging that Siemens has violated three (3) of Wabtec's patents; the antitrust claims were ultimately severed from that case in January, 2019, resulting in Siemens re-filing them as another separate proceeding in Delaware.) Wabtec believes Siemens' antitrust claims are without merit and will vigorously defend itself against these claims.

Xorail, Inc., a wholly owned subsidiary of the Company ("Xorail"), has received notices from Denver Transit Constructors ("DTC") alleging breach of contract related to the operating of constant warning wireless crossings, and late delivery of the Train Management & Dispatch System ("TMDS") for the Denver Eagle P3 Project, which is owned by the Denver Regional Transit District ("RTD"). No damages have been asserted for the alleged late delivery of the TMDS, and no formal claim has been filed. Xorail is in the final stages of successfully implementing a recovery plan concerning the TMDS issues. With regard to the wireless crossing issue, as of September 8, 2017, DTC alleged that total damages were \$36.8 million through July 31, 2017 and are continuing to accumulate. The majority of the damages stems from a delay in approval of the wireless crossing system by the Federal Railway Administration ("FRA") and the Public Utility Commission ("PUC"), resulting in the use of flaggers at all of the crossings pending approval of the wireless crossing system and certification of the crossings. DTC has alleged that the delay is due to Xorail's failure to achieve constant warning times for the crossings in accordance with the approval requirements imposed by the FRA and PUC. Xorail has denied DTC's assertions, stating that its system satisfied the contractual requirements. Xorail has worked with DTC to modify its system and implement the FRA's and PUC's previously undefined approval requirements; the FRA and PUC have both approved modified wireless crossing system, and as of August 2018, DTC completed the process of certifying the crossings and eliminated the use of flaggers. On September 21, 2018, DTC filed a complaint against RTD in Colorado state court for breach of contract related to non-payments and the costs for the flaggers, asserting a change-in-law arising from the FRA/PUC's new certification requirements; a jury trial is scheduled to begin in May 2020. DTC's complaint generally supports Xorail's position and does not name or implicate Xorail; DTC has not updated its notices against Xorail, nor have they filed any formal claim against Xorail.

## 17. SEGMENT INFORMATION

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

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

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

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

Segment financial information for the three months ended June 30, 2019 is as follows:

| <i>In thousands</i>                               | Freight Segment | Transit Segment | Corporate Activities and Elimination | Total        |
|---|-----------------|-----------------|--------------------------------------|--------------|
| Sales to external customers                       | \$ 1,493,949    | \$ 742,335      | \$ —                                 | \$ 2,236,284 |
| Intersegment sales/(elimination)                  | 13,709          | 7,383           | (21,092)                             | —            |
| Total sales                                       | \$ 1,507,658    | \$ 749,718      | \$ (21,092)                          | \$ 2,236,284 |
| Income (loss) from operations                     | \$ 151,978      | \$ 71,211       | \$ (22,552)                          | \$ 200,637   |
| Interest expense and other, net                   | —               | —               | (56,383)                             | (56,383)     |
| Income (loss) from operations before income taxes | \$ 151,978      | \$ 71,211       | \$ (78,935)                          | \$ 144,254   |

Segment financial information for the three months ended June 30, 2018 is as follows:

| <i>In thousands</i>                               | Freight Segment | Transit Segment | Corporate Activities and Elimination | Total        |
|---|-----------------|-----------------|--------------------------------------|--------------|
| Sales to external customers                       | \$ 412,258      | \$ 699,422      | \$ —                                 | \$ 1,111,680 |
| Intersegment sales/(elimination)                  | 18,699          | 2,984           | (21,683)                             | —            |
| Total sales                                       | \$ 430,957      | \$ 702,406      | \$ (21,683)                          | \$ 1,111,680 |
| Income (loss) from operations                     | \$ 84,347       | \$ 57,975       | \$ (18,799)                          | \$ 123,523   |
| Interest expense and other, net                   | —               | —               | (29,749)                             | (29,749)     |
| Income (loss) from operations before income taxes | \$ 84,347       | \$ 57,975       | \$ (48,548)                          | \$ 93,774    |

Segment financial information for the six months ended June 30, 2019 is as follows:

| <i>In thousands</i>                               | Freight Segment | Transit Segment | Corporate Activities and Elimination | Total        |
|---|-----------------|-----------------|--------------------------------------|--------------|
| Sales to external customers                       | \$ 2,370,383    | \$ 1,459,518    | \$ —                                 | \$ 3,829,901 |
| Intersegment sales/(elimination)                  | 30,413          | 13,505          | (43,918)                             | —            |
| Total sales                                       | \$ 2,400,796    | \$ 1,473,023    | \$ (43,918)                          | \$ 3,829,901 |
| Income (loss) from operations                     | \$ 227,188      | \$ 130,144      | \$ (89,388)                          | \$ 267,944   |
| Interest expense and other, net                   | —               | —               | (109,180)                            | (109,180)    |
| Income (loss) from operations before income taxes | \$ 227,188      | \$ 130,144      | \$ (198,568)                         | \$ 158,764   |

Segment financial information for the six months ended June 30, 2018 is as follows:

| <u><i>In thousands</i></u>                        | Freight<br>Segment | Transit<br>Segment  | Corporate<br>Activities and<br>Elimination | Total               |
|---|--------------------|---------------------|--|---------------------|
| Sales to external customers                       | \$ 791,812         | \$ 1,376,045        | \$ —                                       | \$ 2,167,857        |
| Intersegment sales/(elimination)                  | 30,701             | 6,873               | (37,574)                                   | —                   |
| Total sales                                       | <u>\$ 822,513</u>  | <u>\$ 1,382,918</u> | <u>\$ (37,574)</u>                         | <u>\$ 2,167,857</u> |
| Income (loss) from operations                     | \$ 153,969         | \$ 126,059          | \$ (25,226)                                | \$ 254,802          |
| Interest expense and other, net                   | —                  | —                   | (47,447)                                   | (47,447)            |
| Income (loss) from operations before income taxes | <u>\$ 153,969</u>  | <u>\$ 126,059</u>   | <u>\$ (72,673)</u>                         | <u>\$ 207,355</u>   |

Sales by product line are as follows:

| <u><i>In thousands</i></u>        | Three Months Ended<br>June 30, |                     |
|-----------------------------------|--------------------------------|---------------------|
|                                   | 2019                           | 2018                |
| Remanufacturing, Overhaul & Build | \$ 1,171,147                   | \$ 127,202          |
| Specialty Products & Electronics  | 443,333                        | 434,399             |
| Transit Products                  | 310,839                        | 282,130             |
| Brake Products                    | 254,260                        | 217,574             |
| Other                             | 56,705                         | 50,375              |
| Total sales                       | <u>\$ 2,236,284</u>            | <u>\$ 1,111,680</u> |

| <u><i>In thousands</i></u>        | Six Months Ended<br>June 30, |                     |
|-----------------------------------|------------------------------|---------------------|
|                                   | 2019                         | 2018                |
| Remanufacturing, Overhaul & Build | \$ 1,753,324                 | \$ 262,900          |
| Specialty Products & Electronics  | 861,447                      | 820,947             |
| Transit Products                  | 605,656                      | 556,409             |
| Brake Products                    | 496,482                      | 433,192             |
| Other                             | 112,992                      | 94,409              |
| Total sales                       | <u>\$ 3,829,901</u>          | <u>\$ 2,167,857</u> |

## 18. GUARANTOR SUBSIDIARIES FINANCIAL INFORMATION

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

Balance Sheet for June 30, 2019:

| <i>In thousands</i>                               | Parent               | Guarantors          | Non-Guarantors       | Elimination            | Consolidated         |
|---|----------------------|---------------------|----------------------|------------------------|----------------------|
| Cash and cash equivalents                         | \$ 7,011             | \$ 9,820            | \$ 444,540           | \$ —                   | \$ 461,371           |
| Receivables, net                                  | 134,298              | 252,077             | 1,321,034            | —                      | 1,707,409            |
| Inventories                                       | 141,400              | 662,717             | 1,077,674            | —                      | 1,881,791            |
| Current assets - other                            | 15,094               | 30,484              | 132,991              | —                      | 178,569              |
| <b>Total current assets</b>                       | 297,803              | 955,098             | 2,976,239            | —                      | 4,229,140            |
| Property, plant and equipment, net                | 57,966               | 36,879              | 1,551,252            | —                      | 1,646,097            |
| Goodwill  | 504,818              | 283,241             | 7,362,612            | —                      | 8,150,671            |
| Investment in subsidiaries                        | 16,878,245           | 6,134,117           | —                    | (23,012,362)           | —                    |
| Other intangibles, net                            | 28,594               | 77,301              | 4,258,461            | —                      | 4,364,356            |
| Other long-term assets                            | 27,223               | 166,012             | 359,094              | —                      | 552,329              |
| <b>Total assets</b>                               | <b>\$ 17,794,649</b> | <b>\$ 7,652,648</b> | <b>\$ 16,507,658</b> | <b>\$ (23,012,362)</b> | <b>\$ 18,942,593</b> |
| Current liabilities                               | \$ 472,747           | \$ 1,036,279        | \$ 1,702,289         | \$ —                   | \$ 3,211,315         |
| Inter-company                                     | 2,858,761            | (1,606,278)         | (1,252,483)          | —                      | —                    |
| Long-term debt                                    | 4,274,718            | —                   | 254,050              | —                      | 4,528,768            |
| Long-term liabilities - other                     | 386,662              | 135,254             | 845,437              | —                      | 1,367,353            |
| <b>Total liabilities</b>                          | 7,992,888            | (434,745)           | 1,549,293            | —                      | 9,107,436            |
| Shareholders' equity                              | 9,786,761            | 8,087,393           | 14,939,968           | (23,012,362)           | 9,801,760            |
| Non-controlling interest                          | 15,000               | —                   | 18,397               | —                      | 33,397               |
| <b>Total shareholders' equity</b>                 | <b>\$ 9,801,761</b>  | <b>\$ 8,087,393</b> | <b>\$ 14,958,365</b> | <b>\$ (23,012,362)</b> | <b>\$ 9,835,157</b>  |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>\$ 17,794,649</b> | <b>\$ 7,652,648</b> | <b>\$ 16,507,658</b> | <b>\$ (23,012,362)</b> | <b>\$ 18,942,593</b> |

Balance Sheet for December 31, 2018:

| <i><u>In thousands</u></i>                        | <u>Parent</u>       | <u>Guarantors</u>   | <u>Non-Guarantors</u> | <u>Elimination</u>     | <u>Consolidated</u> |
|---|---------------------|---------------------|-----------------------|------------------------|---------------------|
| Cash and cash equivalents                         | \$ 1,782,682        | \$ (119)            | \$ 559,791            | \$ —                   | \$ 2,342,354        |
| Receivables, net                                  | 106,815             | 61,513              | 978,450               | —                      | 1,146,778           |
| Inventories                                       | 149,622             | 69,116              | 626,148               | —                      | 844,886             |
| Current assets - other                            | 11,884              | 690                 | 103,075               | —                      | 115,649             |
| <b>Total current assets</b>                       | <b>2,051,003</b>    | <b>131,200</b>      | <b>2,267,464</b>      | <b>—</b>               | <b>4,449,667</b>    |
| Property, plant and equipment, net                | 51,551              | 24,755              | 487,431               | —                      | 563,737             |
| Goodwill  | 25,275              | 283,241             | 2,088,028             | —                      | 2,396,544           |
| Investment in subsidiaries                        | 6,707,979           | 4,022,107           | —                     | (10,730,086)           | —                   |
| Other intangibles, net                            | 29,254              | 78,547              | 1,022,079             | —                      | 1,129,880           |
| Other long-term assets                            | 8,775               | 149                 | 100,482               | —                      | 109,406             |
| <b>Total assets</b>                               | <b>\$ 8,873,837</b> | <b>\$ 4,539,999</b> | <b>\$ 5,965,484</b>   | <b>\$ (10,730,086)</b> | <b>\$ 8,649,234</b> |
| Current liabilities                               | \$ 264,630          | \$ 91,004           | \$ 1,291,056          | \$ —                   | \$ 1,646,690        |
| Inter-company                                     | 1,947,504           | (1,436,222)         | (511,282)             | —                      | —                   |
| Long-term debt                                    | 3,779,627           | —                   | 13,147                | —                      | 3,792,774           |
| Long-term liabilities - other                     | 16,945              | 48,714              | 275,036               | —                      | 340,695             |
| <b>Total liabilities</b>                          | <b>6,008,706</b>    | <b>(1,296,504)</b>  | <b>1,067,957</b>      | <b>—</b>               | <b>5,780,159</b>    |
| Shareholders' equity                              | 2,865,131           | 5,836,503           | 4,893,583             | (10,730,086)           | 2,865,131           |
| Non-controlling interest                          | —                   | —                   | 3,944                 | —                      | 3,944               |
| <b>Total shareholders' equity</b>                 | <b>\$ 2,865,131</b> | <b>\$ 5,836,503</b> | <b>\$ 4,897,527</b>   | <b>\$ (10,730,086)</b> | <b>\$ 2,869,075</b> |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>\$ 8,873,837</b> | <b>\$ 4,539,999</b> | <b>\$ 5,965,484</b>   | <b>\$ (10,730,086)</b> | <b>\$ 8,649,234</b> |

Income Statement for the Three Months Ended June 30, 2019:

| <i><u>In thousands</u></i>                                      | <u>Parent</u>     | <u>Guarantors</u> | <u>Non-Guarantors</u> | <u>Elimination</u>  | <u>Consolidated</u> |
|---|-------------------|-------------------|-----------------------|---------------------|---------------------|
| Net Sales   | \$ 185,695        | \$ 1,104,741      | \$ 1,432,790          | \$ (486,942)        | \$ 2,236,284        |
| Cost of sales   | (144,237)         | (820,294)         | (1,037,244)           | 380,167             | (1,621,608)         |
| Gross profit  | 41,458            | 284,447           | 395,546               | (106,775)           | 614,676             |
| Total operating expenses  | (67,447)          | (81,933)          | (264,659)             | —                   | (414,039)           |
| <b>Income from operations</b>                                   | <b>(25,989)</b>   | <b>202,514</b>    | <b>130,887</b>        | <b>(106,775)</b>    | <b>200,637</b>      |
| Interest (expense) income, net                                  | (59,365)          | 3,116             | (2,311)               | —                   | (58,560)            |
| Other income (expense), net                                     | 1,237             | (4,217)           | 5,157                 | —                   | 2,177               |
| Equity earnings (loss)  | 185,813           | 83,926            | —                     | (269,739)           | —                   |
| Pretax income (loss)  | 101,696           | 285,339           | 133,733               | (376,514)           | 144,254             |
| Income tax benefit (expense)                                    | 2,538             | (42,556)          | (1,382)               | —                   | (41,400)            |
| <b>Net income</b>   | <b>104,234</b>    | <b>242,783</b>    | <b>132,351</b>        | <b>(376,514)</b>    | <b>102,854</b>      |
| Less: Net loss attributable to noncontrolling interest          | —                 | —                 | 1,381                 | —                   | 1,381               |
| Net income (loss) attributable to Wabtec shareholders           | <b>\$ 104,234</b> | <b>\$ 242,783</b> | <b>\$ 133,732</b>     | <b>\$ (376,514)</b> | <b>\$ 104,235</b>   |
| Comprehensive income (loss) attributable to Wabtec shareholders | <b>\$ 104,234</b> | <b>\$ 242,783</b> | <b>\$ 153,552</b>     | <b>\$ (376,514)</b> | <b>\$ 124,055</b>   |

Income Statement for the Three Months Ended June 30, 2018:

| <u><i>In thousands</i></u>                                      | <u>Parent</u> | <u>Guarantors</u> | <u>Non-Guarantors</u> | <u>Elimination</u> | <u>Consolidated</u> |
|---|---------------|-------------------|-----------------------|--------------------|---------------------|
| Net Sales   | \$ 168,426    | \$ 137,966        | \$ 873,375            | \$ (68,087)        | \$ 1,111,680        |
| Cost of sales   | (122,919)     | (88,688)          | (614,861)             | 38,755             | (787,713)           |
| Gross profit  | 45,507        | 49,278            | 258,514               | (29,332)           | 323,967             |
| Total operating expenses  | (49,780)      | (12,267)          | (138,397)             | —                  | (200,444)           |
| <b>Income from operations</b>                                   | (4,273)       | 37,011            | 120,117               | (29,332)           | 123,523             |
| Interest (expense) income, net                                  | (31,734)      | 3,137             | (3,323)               | —                  | (31,920)            |
| Other income (expense), net                                     | 483           | —                 | 1,688                 | —                  | 2,171               |
| Equity earnings (loss)  | 128,744       | 118,771           | —                     | (247,515)          | —                   |
| Pretax income (loss)  | 93,220        | 158,919           | 118,482               | (276,847)          | 93,774              |
| Income tax expense  | (7,213)       | —                 | (3,290)               | —                  | (10,503)            |
| <b>Net income</b>   | 86,007        | 158,919           | 115,192               | (276,847)          | 83,271              |
| Less: Net loss attributable to noncontrolling interest          | —             | —                 | 1,145                 | —                  | 1,145               |
| Net income (loss) attributable to Wabtec shareholders           | \$ 86,007     | \$ 158,919        | \$ 116,337            | \$ (276,847)       | \$ 84,416           |
| Comprehensive income (loss) attributable to Wabtec shareholders | \$ 86,231     | \$ 158,919        | \$ (74,104)           | \$ (276,847)       | \$ (105,801)        |

Income Statement for the Six Months Ended June 30, 2019:

| <u><i>In thousands</i></u>                                      | <u>Parent</u> | <u>Guarantors</u> | <u>Non-Guarantors</u> | <u>Elimination</u> | <u>Consolidated</u> |
|---|---------------|-------------------|-----------------------|--------------------|---------------------|
| Net Sales   | \$ 378,761    | \$ 1,233,544      | \$ 2,760,039          | \$ (542,443)       | \$ 3,829,901        |
| Cost of sales   | (301,887)     | (902,309)         | (2,035,263)           | 413,251            | (2,826,208)         |
| Gross profit  | 76,874        | 331,235           | 724,776               | (129,192)          | 1,003,693           |
| Total operating expenses  | (164,987)     | (97,254)          | (473,508)             | —                  | (735,749)           |
| <b>Income from operations</b>                                   | (88,113)      | 233,981           | 251,268               | (129,192)          | 267,944             |
| Interest (expense) income, net                                  | (101,011)     | 6,594             | (8,712)               | —                  | (103,129)           |
| Other income (expense), net                                     | 21,570        | (6,702)           | (20,919)              | —                  | (6,051)             |
| Equity earnings (loss)  | 277,295       | 163,685           | —                     | (440,980)          | —                   |
| Pretax income (loss)  | 109,741       | 397,558           | 221,637               | (570,172)          | 158,764             |
| Income tax expense  | (9,979)       | (42,556)          | (7,388)               | —                  | (59,923)            |
| <b>Net income</b>   | 99,762        | 355,002           | 214,249               | (570,172)          | 98,841              |
| Less: Net loss attributable to noncontrolling interest          | —             | —                 | 922                   | —                  | 922                 |
| Net income (loss) attributable to Wabtec shareholders           | \$ 99,762     | \$ 355,002        | \$ 215,171            | \$ (570,172)       | \$ 99,763           |
| Comprehensive income (loss) attributable to Wabtec shareholders | \$ 99,762     | \$ 355,002        | \$ 182,574            | \$ (570,172)       | \$ 67,166           |

Income Statement for the Six Months Ended June 30, 2018:

| <u><i>In thousands</i></u>                                      | <u>Parent</u>     | <u>Guarantors</u> | <u>Non-Guarantors</u> | <u>Elimination</u>  | <u>Consolidated</u> |
|---|-------------------|-------------------|-----------------------|---------------------|---------------------|
| Net Sales   | \$ 329,727        | \$ 256,083        | \$ 1,700,594          | \$ (118,547)        | \$ 2,167,857        |
| Cost of sales   | (241,577)         | (161,678)         | (1,200,588)           | 70,834              | (1,533,009)         |
| Gross profit (loss)   | 88,150            | 94,405            | 500,006               | (47,713)            | 634,848             |
| Total operating expenses  | (85,407)          | (25,941)          | (268,698)             | —                   | (380,046)           |
| <b>Income (loss) from operations</b>                            | 2,743             | 68,464            | 231,308               | (47,713)            | 254,802             |
| Interest (expense) income, net                                  | (52,128)          | 6,079             | (6,155)               | —                   | (52,204)            |
| Other income (expense), net                                     | 9,212             | (679)             | (3,776)               | —                   | 4,757               |
| Equity earnings (loss)  | 235,442           | 210,877           | —                     | (446,319)           | —                   |
| Pretax income (loss)  | 195,269           | 284,741           | 221,377               | (494,032)           | 207,355             |
| Income tax expense  | (20,895)          | —                 | (15,732)              | —                   | (36,627)            |
| <b>Net income (loss)</b>  | 174,374           | 284,741           | 205,645               | (494,032)           | 170,728             |
| Less: Net loss attributable to noncontrolling interest          | —                 | —                 | 2,054                 | —                   | 2,054               |
| Net income (loss) attributable to Wabtec shareholders           | <u>\$ 174,374</u> | <u>\$ 284,741</u> | <u>\$ 207,699</u>     | <u>\$ (494,032)</u> | <u>\$ 172,782</u>   |
| Comprehensive income (loss) attributable to Wabtec shareholders | <u>\$ 174,881</u> | <u>\$ 284,741</u> | <u>\$ 95,983</u>      | <u>\$ (494,032)</u> | <u>\$ 61,573</u>    |

Condensed Statement of Cash Flows for the Six Months Ended June 30, 2019:

| <u><i>In thousands</i></u>                                      | <u>Parent</u>   | <u>Guarantors</u> | <u>Non-Guarantors</u> | <u>Elimination</u> | <u>Consolidated</u> |
|---|-----------------|-------------------|-----------------------|--------------------|---------------------|
| Net cash (used for) provided by operating activities            | \$ (99,188)     | \$ 215,772        | \$ 456,532            | \$ (129,192)       | \$ 443,924          |
| Net cash provided by (used for) investing activities            | 6,854,818       | (476,597)         | (9,418,585)           | —                  | (3,040,364)         |
| Net cash (used for) provided by financing activities            | (8,531,301)     | 270,764           | 8,857,453             | 129,192            | 726,108             |
| Effect of changes in currency exchange rates                    | —               | —                 | (10,651)              | —                  | (10,651)            |
| (Decrease) increase in cash                                     | (1,775,671)     | 9,939             | (115,251)             | —                  | (1,880,983)         |
| Cash, cash equivalents, and restricted cash beginning of period | 1,782,682       | (119)             | 559,791               | —                  | 2,342,354           |
| Cash and cash equivalents, end of period                        | <u>\$ 7,011</u> | <u>\$ 9,820</u>   | <u>\$ 444,540</u>     | <u>\$ —</u>        | <u>\$ 461,371</u>   |

Condensed Statement of Cash Flows for the Six Months Ended June 30, 2018:

| <u><i>In thousands</i></u>                           | <u>Parent</u> | <u>Guarantors</u> | <u>Non-Guarantors</u> | <u>Elimination</u> | <u>Consolidated</u> |
|--|---------------|-------------------|-----------------------|--------------------|---------------------|
| Net cash (used for) provided by operating activities | \$ (116,378)  | \$ 72,206         | \$ 159,789            | \$ (47,713)        | \$ 67,904           |
| Net cash (used for) provided by investing activities | (9,669)       | (249)             | (59,182)              | —                  | (69,100)            |
| Net cash provided by (used for) financing activities | 125,855       | (72,009)          | (78,795)              | 47,713             | 22,764              |
| Effect of changes in currency exchange rates         | —             | —                 | (9,395)               | —                  | (9,395)             |
| (Decrease) increase in cash                          | (192)         | (52)              | 12,417                | —                  | 12,173              |
| Cash and cash equivalents, beginning of period       | 933           | 625               | 231,843               | —                  | 233,401             |
| Cash and cash equivalents, end of period             | <u>\$ 741</u> | <u>\$ 573</u>     | <u>\$ 244,260</u>     | <u>\$ —</u>        | <u>\$ 245,574</u>   |

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

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

| <i>In thousands</i>                            | Three Months Ended<br>June 30, |                 | Six Months Ended<br>June 30, |                 |
|--|--------------------------------|-----------------|------------------------------|-----------------|
|  | 2019                           | 2018            | 2019                         | 2018            |
| Foreign currency (loss) gain                   | \$ (1,120)                     | \$ (2,277)      | \$ (13,802)                  | \$ (3,309)      |
| Equity income                                  | 1,021                          | 1,594           | 1,950                        | 2,223           |
| Expected return on pension assets/amortization | 1,789                          | 3,027           | 5,165                        | 6,050           |
| Other miscellaneous expense (income)           | 487                            | (173)           | 636                          | (207)           |
| Total other (expense) income, net              | <u>\$ 2,177</u>                | <u>\$ 2,171</u> | <u>\$ (6,051)</u>            | <u>\$ 4,757</u> |

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

The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and Westinghouse Air Brake Technologies Corporation's Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in its Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission on February 27, 2019.

### OVERVIEW

Wabtec is one of the world's largest providers of value-added, technology-based equipment, systems and services for the global freight rail and passenger transit industries. Our highly engineered products enhance safety, improve productivity and reduce maintenance costs for customers and can be found on most locomotives, freight cars, passenger transit cars and buses around the world. 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 50 countries and our products can be found in more than 100 countries throughout the world. In the six months ended June 30, 2019, approximately 59% of the Company's revenues came from customers outside the United States.

#### *Management Review and Future Outlook*

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

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

According to the 2018 bi-annual edition of a market study by UNIFE, the Association of the European Rail Industry, the accessible global market for railway products and services was more than \$100 billion and was expected to grow at a compounded annual growth rate of 2.6% through 2023. The three largest geographic markets, which represented about 80% of the total accessible market, were Europe, North America and Asia Pacific. UNIFE projected above-average growth rates in North America, Latin America and Africa/Middle East, with Asia Pacific and Europe growing at about the industry average. UNIFE said trends such as urbanization and increasing mobility, deregulation, investments in new technologies, energy and environmental issues, and increasing government support continue to drive investment. The largest product segments of the market were rolling stock, services and infrastructure, which represent almost 90% of the accessible market. UNIFE projected spending on turnkey management projects and infrastructure to grow at above-average rates. UNIFE estimated that the global installed base of locomotives was about 114,000 units, with about 33% in Asia Pacific, about 26% in North America and about 18% in Russia-CIS (Commonwealth of Independent States). Wabtec estimates that about 2,500 new locomotives were delivered worldwide in 2018, and we expect deliveries of about 2,900 in 2019. UNIFE estimated the global installed base of freight cars was about 5.1 million, with about 33% in North America, about 26% in Asia Pacific and about 24% in Russia-CIS. Wabtec estimates that about 175,000 new freight cars were delivered worldwide in 2018, and we expect deliveries of about 174,000 in 2019. UNIFE estimated the global installed base of passenger transit vehicles to be about 600,000 units, with about 45% in Asia Pacific, about 33% in Europe and about 12% in Russia-CIS. Wabtec estimates that about 30,000 new passenger transit vehicles were ordered worldwide in 2018, and we expect orders of about the same number in 2019.

In Europe, the majority of the rail system serves the passenger transit market, which is expected to continue growing as energy and environmental factors encourage continued investment in public mass transit. According to UNIFE, France, Germany and the United Kingdom were the largest Western European transit markets, representing almost two-thirds of industry spending in the European Union. UNIFE projected the accessible Western European rail market to grow at about 2.3% annually, led by investments in new rolling stock in France and Germany. About 75% of freight traffic in Europe is hauled by truck, while rail accounts for about 20%. The largest freight markets in Europe are Germany, Poland and the United Kingdom. In recent years, the European Commission has adopted a series of measures designed to increase the efficiency of the European rail network by standardizing operating rules and certification requirements. UNIFE believes that adoption of these measures should have a positive effect on ridership and investment in public transportation over time.

In North America, railroads carry about 40% of intercity freight, as measured by ton-miles, which is more than any other mode of transportation. Through direct ownership and operating partnerships, U.S. railroads are part of an integrated network that includes railroads in Canada and Mexico, forming what is regarded as the world's most-efficient and lowest-cost freight rail service. There are more than 500 railroads operating in North America, with the largest railroads, referred to as "Class I," accounting for more than 90% of the industry's revenues. The railroads carry a wide variety of commodities and goods, including coal, metals, minerals, chemicals, grain, and petroleum. These commodities represent about 50% of total rail carloadings, with intermodal carloads accounting for the rest. Railroads operate in a competitive environment, especially with the trucking industry, and are always seeking ways to improve safety, cost and reliability. New technologies offered by Wabtec and others in the industry can provide some of these benefits. Demand for our freight related products and services in North America is driven by a number of factors, including rail traffic, and production of new locomotives and new freight cars. In the U.S., the passenger transit industry is dependent largely on funding from federal, state and local governments, and from fare box revenues. Demand for North American passenger transit products is driven by a number of factors, including government funding, deliveries of new subway cars and buses, and ridership. The U.S. federal government provides money to local transit authorities, primarily to fund the purchase of new equipment and infrastructure for their transit systems.

Growth in the Asia Pacific market has been driven mainly by the continued urbanization of China and India, and by investments in freight rail rolling stock and infrastructure in Australia to serve its mining and natural resources markets. India is making significant investments in rolling stock and infrastructure to modernize its rail system; for example, the country has awarded a 1,000-unit locomotive order to GE Transportation, now part of Wabtec.

Other key geographic markets include Russia-CIS and Africa-Middle East. With about 1.2 million freight cars and about 20,000 locomotives, Russia-CIS is among the largest freight rail markets in the world, and it's expected to invest in both freight and transit rolling stock. PRASA, the Passenger Rail Agency of South Africa, is expected to continue to invest in new transit cars and new locomotives. According to UNIFE, emerging markets were expected to grow at above-average rates as global trade led to increased freight volumes and urbanization led to increased demand for efficient mass-transportation systems. As this growth occurs, Wabtec expects to have additional opportunities to provide products and services in these markets.

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

In 2019 and beyond, general global economic and market conditions will have an impact on our sales and operations. To the extent that these factors cause instability of capital markets, shortages of raw materials or component parts, longer sales cycles, deferral or delay of customer orders or an inability to market our products effectively, our business and results of operations could be materially adversely affected. In addition, we face risks associated with our four-point growth strategy including the level of investment that customers are willing to make in new technologies developed by the industry and the Company and risks inherent in global expansion. When necessary, we will modify our financial and operating strategies to reflect changes in market conditions and risks.

## **MERGER OF WABTEC WITH GE TRANSPORTATION**

Wabtec, General Electric Company ("GE"), GE Transportation, a Wabtec Company formerly known as Transportation System Holdings Inc. ("SpinCo"), which was a newly formed wholly owned subsidiary of GE, and Wabtec US Rail Holdings, Inc. ("Merger Sub"), which was a newly formed wholly owned subsidiary of the Company, entered into the Original Merger Agreement on May 20, 2018, and GE, SpinCo, Wabtec and Wabtec US Rail, Inc. ("Direct Sale Purchaser") entered into the Original Separation Agreement on May 20, 2018, which together provided for the combination of Wabtec and GE Transportation. The Original Merger Agreement and Original Separation Agreement were subsequently amended on January 25, 2019 and the merger was completed on February 25, 2019.

As part of the Merger, certain assets of GE Transportation ("GET"), including the equity interests of certain pre-Transaction subsidiaries of GE that compose part of GE Transportation, were sold to Direct Sale Purchaser for a cash payment of \$2.875 billion, and Direct Sale Purchaser assumed certain liabilities of GE Transportation in connection with this purchase (the "Direct Sale"). Thereafter, GE transferred the SpinCo business to SpinCo and its subsidiaries (to the extent not already held by SpinCo and its subsidiaries), and SpinCo issued to GE shares of SpinCo Class A preferred stock, SpinCo Class B preferred stock, SpinCo Class C preferred stock and additional shares of SpinCo common stock in the SpinCo Transfer. Following this issuance of additional SpinCo common stock to GE, and immediately prior to the Distribution (as defined below), GE owned 8,700,000,000 shares of SpinCo common stock, 15,000 shares of SpinCo Class A preferred stock, 10,000 shares of SpinCo Class B preferred stock and one share of SpinCo Class C preferred stock, which constituted all of the outstanding stock of SpinCo.

Following the Direct Sale, GE distributed the distribution shares of SpinCo in a spin-off transaction to its stockholder (the "Distribution"). Immediately after the Distribution, Merger Sub merged with and into SpinCo (the "Merger"), whereby the separate corporate existence of Merger Sub ceased and SpinCo continued as the surviving company and a wholly owned subsidiary of Wabtec (except with respect to shares of SpinCo Class A preferred stock held by GE). In the Merger, subject to adjustment in accordance with the Merger Agreement, each share of SpinCo common stock converted into the right to receive a number of shares of Wabtec common stock based on the common stock exchange ratio set forth in the Merger Agreement and the share of SpinCo Class C preferred stock was converted into the right to receive (a) 10,000 shares of Wabtec convertible preferred stock and (b) a number of shares of Wabtec common stock equal to 9.9% of the fully-diluted pro forma Wabtec shares. Immediately prior to the Merger, Wabtec paid \$10.0 million in cash to GE in exchange for all of the shares of SpinCo Class B preferred stock.

Upon consummation of the Merger, Wabtec issued 46,763,975 shares of common stock to the holders of GE common stock, 19,018,207 shares of common stock to GE and 10,000 shares of preferred stock to GE and made a cash payment to GE of \$2.885 billion. As a result and calculated based on Wabtec's outstanding common stock on a fully-diluted, as-converted and as-exercised basis, as of December 31, 2018, approximately 49.2% of the outstanding shares of Wabtec common stock was held collectively by GE and holders of GE common stock (with 9.9% to be held by GE directly in shares of Wabtec common stock and 15% underlying the shares of Wabtec convertible preferred stock to be held by GE) and approximately 50.8% of the outstanding shares of Wabtec common stock would be held by pre-Merger Wabtec stockholders, in each case calculated on a fully-diluted, as-converted and as-exercised basis. Following the Merger, GE also retained 15,000 shares of SpinCo Class A non-voting preferred stock, and Wabtec held 10,000 shares of SpinCo Class B non-voting preferred stock. The shares of Wabtec common stock and Wabtec convertible preferred stock held by GE are subject to GE's obligations under the Shareholders Agreement, including, among other things, and in each case subject to certain exceptions, (i) restrictions on the ability to sell, transfer or otherwise divest such shares for a period of 30 days and (ii) an obligation to sell, transfer or otherwise divest (A) by no later than 120 days following the closing date of the Merger, GE's (and its affiliates') ownership of Wabtec common stock and/or Wabtec convertible preferred stock so that GE (together with its affiliates) beneficially owns not less than 14.9% and not more than 19.9% of the number of shares of Wabtec common stock that were outstanding immediately after the closing of the Merger, (B) by no later than one year following the closing date of the Merger, GE's (and its affiliates') ownership of Wabtec common stock and/or Wabtec convertible preferred stock so that GE (together with its affiliates) beneficially owns not more than 18.5% of the number of shares of Wabtec common stock that were outstanding immediately after the closing of the Merger, in each case of clauses (A) and (B) treating the Wabtec convertible preferred stock as the Wabtec common stock into which it is convertible both for purposes of determining the number of shares of Wabtec common stock owned and for purposes of determining the number of shares of Wabtec common stock outstanding and (C) by no later than the third anniversary of the closing date of the Merger, all of the subject shares that GE (together with its affiliates) beneficially owns, and (iii) an obligation to vote all of such shares of Wabtec common stock in the proportion required under the Shareholders Agreement.

After the Merger, SpinCo, which is Wabtec's wholly owned subsidiary (except with respect to shares of SpinCo Class A preferred stock held by GE), holds the SpinCo business and Direct Sale Purchaser, which also is Wabtec's wholly owned subsidiary, holds the assets purchased and the liabilities assumed in connection with the Direct Sale. Together, SpinCo and Direct Sale Purchaser own and operate the post-transaction GE Transportation. All shares of the Company's common stock, including those issued in the Merger, are listed on the NYSE under the Company's current trading symbol "WAB." On the date of the Distribution, GE or its subsidiaries and SpinCo or the SpinCo Transferred Subsidiaries entered into additional agreements relating to, among other things, intellectual property, employee matters, tax matters, research and development and transition services.

On May 6, 2019, GE completed the sale of approximately 8,780 shares of Wabtec's Series A Preferred stock which converted upon the sale to 25,300,000 shares of Wabtec's common stock. After the sale Wabtec had approximately 1,220 shares of Series A Preferred Stock outstanding convertible to approximately 3,515,500 shares of common stock and GE's aggregate beneficial ownership percentage of the Company was reduced from approximately 24.9% to approximately 11.7% on a fully-diluted, as-converted and as-exercised basis. In conjunction with this secondary offering the Company waived the requirement under the shareholders agreement for GE to maintain ownership of at least 14.9% of Wabtec's stock for 120 days following the closing date of the Merger. The Company did not receive any proceeds from the sale of these shares.

Total future consideration to be paid by Wabtec to GE includes a fixed payment of \$470.0 million, which is directly related to the timing of tax benefits expected to be realized by Wabtec as a result of the merger. This payment is considered contingent consideration because the timing of cash payments to GE is directly related to the future timing of tax benefits received by the Company as a result of the merger. The estimated total value of the consideration to be paid by Wabtec in the Transactions is approximately \$10.3 billion, including the cash paid for the Direct Sales Assets, equity transferred for SpinCo, contingent consideration, assumed debt and net of cash acquired. The estimated consideration is based on the Company's closing share price of \$73.36 on February 22, 2019 and the preliminary fair value of the contingent consideration. The value of the preliminary purchase price consideration could change when the Company has completed the detailed valuation of the contingent consideration and other necessary calculations.

## RESULTS OF OPERATIONS

### Consolidated Results

#### SECOND QUARTER 2019 COMPARED TO SECOND QUARTER 2018

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

| <i>In thousands</i>                                    | Three Months Ended<br>June 30, |              |                |
|--|--------------------------------|--------------|----------------|
|  | 2019                           | 2018         | Percent Change |
| Net sales:   |                                |              |                |
| Sales of goods   | \$ 1,892,508                   | \$ 1,065,893 | 77.6%          |
| Sales of services                                      | 343,776                        | 45,787       | 650.8%         |
| Total net sales  | 2,236,284                      | 1,111,680    | 101.2%         |
| Cost of sales:   |                                |              |                |
| Cost of goods  | (1,377,758)                    | (749,097)    | 83.9%          |
| Cost of services                                       | (243,850)                      | (38,616)     | 531.5%         |
| Total cost of sales                                    | (1,621,608)                    | (787,713)    | 105.9%         |
| Gross profit   | 614,676                        | 323,967      | 89.7%          |
| Operating expenses:                                    |                                |              |                |
| Selling, general and administrative expenses           | (290,959)                      | (171,157)    | 70.0%          |
| Engineering expenses                                   | (57,120)                       | (19,388)     | 194.6%         |
| Amortization expense                                   | (65,960)                       | (9,899)      | 566.3%         |
| Total operating expenses                               | (414,039)                      | (200,444)    | 106.6%         |
| Income from operations                                 | 200,637                        | 123,523      | 62.4%          |
| Other income and expenses:                             |                                |              |                |
| Interest expense, net                                  | (58,560)                       | (31,920)     | 83.5%          |
| Other income (expense), net                            | 2,177                          | 2,171        | 0.3%           |
| Income from operations before income taxes             | 144,254                        | 93,774       | 53.8%          |
| Income tax expense                                     | (41,400)                       | (10,503)     | 294.2%         |
| Net income   | 102,854                        | 83,271       | 23.5%          |
| Less: Net loss attributable to noncontrolling interest | 1,381                          | 1,145        | 20.6%          |
| Net income attributable to Wabtec shareholders         | 104,235                        | 84,416       | 23.5%          |

The following table shows the major components of the change in sales in the second quarter of 2019 from the second quarter of 2018:

| <i>In thousands</i>               | Freight<br>Segment | Transit<br>Segment | Total        |
|-----------------------------------|--------------------|--------------------|--------------|
| Second Quarter 2018 Net Sales     | \$ 412,258         | \$ 699,422         | \$ 1,111,680 |
| Acquisitions                      | 1,122,134          | 2,842              | 1,124,976    |
| Change in Sales by Product Line:  |                    |                    |              |
| Transit Products                  | —                  | 57,885             | 57,885       |
| Brake Products                    | 4,153              | 30,470             | 34,623       |
| Remanufacturing, Overhaul & Build | (3,872)            | 9,699              | 5,827        |
| Specialty Products & Electronics  | (35,891)           | (16,685)           | (52,576)     |
| Other                             | 1,581              | (92)               | 1,489        |
| Foreign exchange                  | (6,414)            | (41,206)           | (47,620)     |
| Second Quarter 2019 Net Sales     | \$ 1,493,949       | \$ 742,335         | \$ 2,236,284 |

**Net sales**

Net sales for the three months ended June 30, 2019 increased by \$1.12 billion, or 101%, to \$2.24 billion. The increase is primarily due to sales from acquisitions of \$1.12 billion, mainly, the acquisition of GE Transportation. GE Transportation contributed \$1.12 billion of net sales in the quarter primarily from equipment products and services. Additionally, Transit Segment sales increased \$43 million primarily due to increased original equipment project deliveries for HVAC and door systems, and Brake Products. These increases were partially offset by a decrease in Specialty Products and Electronics of \$53 million due to the completion of a large signaling project in 2018 and lower PTC hardware sales. Unfavorable changes in foreign exchange rates reduced sales by \$48 million.

**Cost of sales**

Cost of sales increased by \$834 million to \$1.62 billion in 2019 compared to \$788 million in 2018. The increase is primarily due to \$844 million of incremental cost of sales from acquisitions, mainly from the acquisition of GE Transportation. In the second quarter of 2019, cost of sales as a percentage of sales was 72.5% compared to 70.9% in the same period of 2018. Cost of sales in 2019 includes \$89 million of non-recurring costs related to purchase price accounting for the step-up of GE Transportation inventory on the date of acquisition. Excluding these non-recurring costs, cost of sales as a percentage of sales was 68.5% in 2019, a decrease from the prior year due to higher margin Freight Segment sales increased and a favorable product shift in the Transit Segment to brake and HVAC systems from lower margin overhaul projects.

**Operating expenses**

Total operating expenses as a percentage of sales increased to 18.5% of sales in the second quarter of 2019 compared to 18.0% during the second quarter of 2018. Selling, general, and administrative expenses increased \$120 million or 70.0%, primarily due to \$94 million in incremental expense from acquisitions, mainly GE Transportation, and \$31 million in transaction and restructuring costs related to the acquisition of GE Transportation. Engineering expense increased \$38 million and amortization expense increased \$56 million due to incremental expense from the GE Transportation acquisition.

**Interest expense, net**

Interest expense, net, increased \$27 million in the second quarter of 2019 over the same period in 2018 attributable to higher overall debt balances in 2019, related to the GE Transportation acquisition.

**Income taxes**

The effective income tax rate was 28.7% and 11.2% for the second quarter of 2019 and 2018, respectively. The increase in the effective rate for the three months ended June 30, 2019 is primarily the result of a \$13 million benefit recorded in the second quarter of 2018 to revise estimates of the impact of U.S. tax legislation on the Transition Tax on unrepatriated earnings and the deductibility of certain executive compensation. In addition, the rate increased due to non-deductible transaction related expenses incurred as a result of the acquisition of GE Transportation as well as increased estimated liabilities resulting from provisions of the Tax Cuts and Jobs Act.

## Freight Segment

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

| <i>In thousands</i>         | Three Months Ended June 30, |            |                |
|-----------------------------|-----------------------------|------------|----------------|
|                             | 2019                        | 2018       | Percent Change |
| Net sales:                  |                             |            |                |
| Sales of goods              | \$ 1,161,919                | \$ 377,794 | 207.6%         |
| Sales of services           | 332,030                     | 34,464     | 863.4%         |
| Total net sales             | 1,493,949                   | 412,258    | 262.4%         |
| Cost of sales:              |                             |            |                |
| Cost of goods               | (850,689)                   | (245,397)  | 246.7%         |
| Cost of services            | (235,017)                   | (29,887)   | 686.4%         |
| Total cost of sales         | (1,085,706)                 | (275,284)  | 294.4%         |
| Gross profit                | 408,243                     | 136,974    | 198.0%         |
| Operating expenses          | (256,264)                   | (52,626)   | 387.0%         |
| Income from operations (\$) | 151,979                     | 84,348     | 80.2%          |
| Income from operations (%)  | 10.2%                       | 20.5%      |                |

### Net sales

Freight Segment sales increased by \$1.08 billion, or 262%, to \$1.49 billion, due to the acquisition of GE Transportation which contributed \$1.12 billion of net sales in the quarter primarily from equipment products and services. This increase was partially offset by a decrease in Specialty Products and Electronics sales of \$36 million due to lower PTC hardware sales. Unfavorable foreign currency exchange rates decreased sales by \$6 million.

### Cost of sales

Freight Segment cost of sales increased by \$810 million to \$1.09 billion in 2019. The increase is primarily due to \$844 million of incremental cost of sales and services from the GE Transportation acquisition. In 2019, total cost of sales as a percentage of total net sales was 72.7% compared to 66.8% in 2018. Total cost of sales in the second quarter of 2019 includes \$89 million of non-recurring costs related to purchase price accounting for the step-up of GE Transportation inventory on the date of acquisition. Excluding this non-recurring charge, total cost of sales as a percentage of sales was 66.7% in 2019 consistent with 2018.

### Operating expenses

Freight Segment operating expenses increased \$204 million, or 387%, in 2019 and increased 440 basis points to 17.2% of sales. Selling, general, and administrative expenses increased \$113 million due to \$94 million in incremental expense from the GE Transportation acquisition and \$11 million of transaction and restructuring costs related to the acquisition of GE Transportation. Engineering expense increased \$35 million and amortization expense increased \$56 million, both due to the GE Transportation acquisition.

## Transit Segment

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

| <u>In thousands</u>         | Three Months Ended June 30, |            |                |
|-----------------------------|-----------------------------|------------|----------------|
|                             | 2019                        | 2018       | Percent Change |
| Net sales                   | \$ 742,335                  | \$ 699,422 | 6.1%           |
| Cost of sales               | (535,903)                   | (512,428)  | 4.6%           |
| Gross profit                | 206,432                     | 186,994    | 10.4%          |
| Operating expenses          | (135,221)                   | (129,019)  | 4.8%           |
| Income from operations (\$) | 71,211                      | 57,975     | 22.8%          |
| Income from operations (%)  | 9.6%                        | 8.3%       |                |

### Net sales

Transit Segment sales increased by \$43 million, or 6.1%, primarily due to increased original equipment project deliveries for HVAC and door systems of \$58 million, and higher Brake Products sales of \$30 million. The increase in Brake Product sales was due to increased deliveries on contracts for original equipment brake and coupler systems and higher sales of aftermarket spares. These increases were partially offset by unfavorable foreign currency exchange rate changes of \$41 million and a \$17 million decrease in Specialty Products and Electronics due to the completion of a large signaling project in the prior year.

### Cost of sales

Transit Segment cost of sales increased by \$23 million to \$536 million in the second quarter of 2019. In the second quarter 2019, cost of sales as a percentage of sales was 72.2% compared to 73.3% in 2018. This decrease is attributable to a favorable product mix towards more brake and HVAC systems and less overhaul contracts, which typically carry a lower margin due to their higher material and labor costs as a percentage of sales. Additionally, project performance on the brake and HVAC systems improved period over period. Unfavorable foreign currency exchange rate changes decreased cost of sales by \$31 million.

### Operating expenses

Transit Segment operating expenses increased \$6 million to \$135 million, or 4.8%, in the second quarter of 2019 and decreased 20 basis points to 18.2% compared to the same period in 2018. Selling, general, and administrative expenses increased \$3 million in the second quarter of 2019, consisting of a \$8 million organic increase to support the higher sales volumes, partially offset by a \$5 million decrease due to favorable foreign currency exchange rate changes. Engineering and amortization expense remained consistent year over year.

**FIRST SIX MONTHS OF 2019 COMPARED TO FIRST SIX MONTHS OF 2018**

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

| <i>In thousands</i>                                    | Six Months Ended<br>June 30, |              |                |
|--|------------------------------|--------------|----------------|
|  | 2019                         | 2018         | Percent Change |
| Net sales:   |                              |              |                |
| Sales of goods   | \$ 3,327,017                 | \$ 2,076,570 | 60.2 %         |
| Sales of services                                      | 502,884                      | 91,287       | 450.9 %        |
| Total net sales  | 3,829,901                    | 2,167,857    | 76.7 %         |
| Cost of sales:   |                              |              |                |
| Cost of goods  | (2,451,329)                  | (1,458,375)  | 68.1 %         |
| Cost of services                                       | (374,879)                    | (74,634)     | 402.3 %        |
| Total cost of sales                                    | (2,826,208)                  | (1,533,009)  | 84.4 %         |
| Gross profit   | 1,003,693                    | 634,848      | 58.1 %         |
| Operating expenses:                                    |                              |              |                |
| Selling, general and administrative expenses           | (550,682)                    | (318,358)    | 73.0 %         |
| Engineering expenses                                   | (91,665)                     | (41,437)     | 121.2 %        |
| Amortization expense                                   | (93,402)                     | (20,251)     | 361.2 %        |
| Total operating expenses                               | (735,749)                    | (380,046)    | 93.6 %         |
| Income from operations                                 | 267,944                      | 254,802      | 5.2 %          |
| Other income and expenses:                             |                              |              |                |
| Interest expense, net                                  | (103,129)                    | (52,204)     | 97.5 %         |
| Other income (expense), net                            | (6,051)                      | 4,757        | (227.2)%       |
| Income from operations before income taxes             | 158,764                      | 207,355      | (23.4)%        |
| Income tax expense                                     | (59,923)                     | (36,627)     | 63.6 %         |
| Net income   | 98,841                       | 170,728      | (42.1)%        |
| Less: Net loss attributable to noncontrolling interest | 922                          | 2,054        | (55.1)%        |
| Net income attributable to Wabtec shareholders         | 99,763                       | 172,782      | (42.3)%        |

The following table shows the major components of the change in sales in the first six months of 2019 from the first six months of 2018:

| <i>In thousands</i>                     | Freight<br>Segment | Transit<br>Segment | Total        |
|---|--------------------|--------------------|--------------|
| First Six Months of 2018 Net Sales      | \$ 791,812         | \$ 1,376,045       | 2,167,857    |
| Acquisitions                            | 1,617,110          | 17,590             | 1,634,700    |
| <i>Change in Sales by Product Line:</i> |                    |                    |              |
| Transit Products                        | —                  | 115,062            | 115,062      |
| Brake Products                          | 4,445              | 58,685             | 63,130       |
| Remanufacturing, Overhaul & Build       | (4,043)            | 8,064              | 4,021        |
| Specialty Products & Electronics        | (26,650)           | (25,895)           | (52,545)     |
| Other                                   | 1,526              | 1,971              | 3,497        |
| Foreign exchange                        | (13,817)           | (92,004)           | (105,821)    |
| First Six Months of 2019 Net Sales      | \$ 2,370,383       | \$ 1,459,518       | \$ 3,829,901 |

**Net sales**

Net sales for the six months ended June 30, 2019 increased by \$1.66 billion, or 76.7%, to \$3.83 billion. The increase is primarily due to sales from acquisitions of \$1.63 billion, mainly, the acquisition of GE Transportation. GE Transportation contributed \$1.62 billion of net sales in the year primarily from equipment products and services. Additionally, Transit Segment sales increased \$83 million primarily due to increased original equipment project deliveries for HVAC and door systems, and Brake Products. These increases were partially offset by a decrease in Specialty Products and Electronics of \$53 million due to the completion of a large project signaling project in 2018 and lower PTC hardware sales. Unfavorable changes in foreign currency exchange rates reduced sales by \$106 million.

**Cost of sales**

Cost of sales increased by \$1.29 billion to \$2.83 billion in 2019 compared to \$1.53 billion in 2018. The increase is primarily due to \$1.28 billion of incremental costs from acquisitions, mainly from GE Transportation. In 2019, cost of sales as a percentage of sales was 73.8% compared to 70.7% in 2018. Cost of sales in 2019 includes \$169 million of non-recurring costs related to purchase price accounting for the step-up of GE Transportation inventory on the date of acquisition. Excluding this non-recurring charge, cost of sales as a percentage of sales was 69.4% in 2019, a 1.3% improvement over 2018. This improvement is attributable to a favorable product mix towards more Freight Segment products, which typically carry higher margins than the Transit Segment.

**Operating expenses**

Total operating expenses as a percentage of sales increased to 19.2% of sales in 2019 compared to 17.5% in 2018. Selling, general, and administrative expenses increased \$232 million or 73.0%, primarily due to \$136 million of incremental expense from acquisitions, mainly GE Transportation, and \$90 million in transaction and restructuring costs related to the acquisition of GE Transportation. Engineering expense increased \$50 million and amortization expense increased \$73 million due to incremental expense from the GE Transportation acquisition.

**Interest expense, net**

Interest expense, net, increased \$51 million in 2019 attributable to higher overall debt balances in 2019, related to the GE Transportation acquisition.

**Other expense, net**

Other expense/(income), net, totaled \$6 million of expense in 2019 compared to \$5 million of income in 2018 primarily due to losses on the remeasurement of certain foreign currency denominated original locomotive equipment contracts.

**Income taxes**

The effective income tax rate was 37.7% and 17.7% for 2019 and 2018, respectively. The increase in the effective rate for the six months ended June 30, 2019 is primarily the result of a \$13 million benefit recorded in the second quarter of 2018 to revise estimates of the impact of U.S. tax legislation on the Transition Tax on unrepatriated earnings and the deductibility of certain executive compensation. In addition, the rate increased due to non-deductible transaction related expenses incurred as a result of the acquisition of GE Transportation as well as increased estimated liabilities resulting from provisions of the Tax Cuts and Jobs Act.

## Freight Segment

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

| <u>In thousands</u>         | Six Months Ended June 30, |            |                |
|-----------------------------|---------------------------|------------|----------------|
|                             | 2019                      | 2018       | Percent Change |
| Net sales:                  |                           |            |                |
| Sales of goods              | \$ 1,891,080              | \$ 723,657 | 161.3%         |
| Sales of services           | 479,303                   | 68,155     | 603.3%         |
| Total net sales             | 2,370,383                 | 791,812    | 199.4%         |
| Cost of sales:              |                           |            |                |
| Cost of goods               | (1,398,677)               | (475,635)  | 194.1%         |
| Cost of services            | (357,077)                 | (56,629)   | 530.6%         |
| Total cost of sales         | (1,755,754)               | (532,264)  | 229.9%         |
| Gross profit                | 614,629                   | 259,548    | 136.8%         |
| Operating expenses          | (387,441)                 | (105,577)  | 267.0%         |
| Income from operations (\$) | 227,188                   | 153,971    | 47.6%          |
| Income from operations (%)  | 9.6%                      | 19.4%      |                |

### Net sales

Freight Segment sales increased by \$1.58 billion, or 199%, to \$2.37 billion, due to the acquisition of GE Transportation which contributed \$1.62 billion during the period, primarily from equipment products and services. This increase was partially offset by lower sales from Specialty Products and Electronics of \$27 million due to the lower PTC hardware sales. Unfavorable foreign currency exchange rate changes decreased sales by \$14 million.

### Cost of sales

Freight Segment cost of sales increased by \$1.22 billion to \$1.76 billion in 2019. The increase is primarily due to \$1.26 billion of incremental cost of sales and services from the GE Transportation acquisition. In 2019, total cost of sales as a percentage of total net sales was 74.1% compared to 67.2% in 2018. Total cost of sales in 2019 includes \$169 million of non-recurring costs related to purchase price accounting for the step-up of GE Transportation inventory on the date of acquisition. Excluding these non-recurring costs, total cost of sales as a percentage of sales was 66.9% in 2019, 0.3% lower than 2018 as lower sales for Specialty Products and Electronics, which typically carry higher margins, were offset by cost improvements in other areas.

### Operating expenses

Freight Segment operating expenses increased \$282 million, or 267.0%, in 2019 and increased 300 basis points to 16.3% of sales. Selling, general, and administrative expenses increased \$162 million due to \$134 million in incremental expense from the GE Transportation acquisition and \$16 million for transaction and restructuring costs. Engineering expense increased \$46 million and amortization expense increased \$74 million, both due to the GE Transportation acquisition.

## Transit Segment

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

| <u>In thousands</u>         | Six Months Ended June 30, |              |                |
|-----------------------------|---------------------------|--------------|----------------|
|                             | 2019                      | 2018         | Percent Change |
| Net sales                   | \$ 1,459,518              | \$ 1,376,045 | 6.1%           |
| Cost of sales               | (1,070,454)               | (1,000,745)  | 7.0%           |
| Gross profit                | 389,064                   | 375,300      | 3.7%           |
| Operating expenses          | (258,920)                 | (249,242)    | 3.9%           |
| Income from operations (\$) | 130,144                   | 126,058      | 3.2%           |
| Income from operations (%)  | 8.9%                      | 9.2%         |                |

### Net sales

Transit Segment sales increased by \$83 million, or 6.1%, primarily due to increased demand for door and HVAC systems of \$115 million, increased Brake Product sales of \$59 million, and acquisitions of \$18 million. The increase in Brake Product sales was due to increased deliveries on contracts for original equipment brake and coupler systems and aftermarket spares. These increases were partially offset by unfavorable foreign currency rate changes of \$92 million, and a \$26 million decrease in Specialty Products and Electronics due to the completion of a large signaling projects in the prior year.

### Cost of sales

Transit Segment cost of sales increased by \$70 million to \$1.07 billion in 2019. In 2019, cost of sales as a percentage of sales was 73.3% compared to 72.7% in 2018. This increase is primarily due to an unfavorable product mix from a decrease in high margin Specialty Products and Electronics sales towards more original equipment products which typically carry lower margins and certain discrete project adjustments primarily related to warranty cost. Favorable foreign currency exchange rates decreased cost of sales by \$68 million and incremental costs from acquisitions increased cost of sales by \$15 million.

### Operating expenses

Transit Segment operating expenses increased \$10 million to \$259 million, or 3.9% in 2019 and decreased 40 basis points to 17.7% of sales. Selling, general, and administrative expenses increased \$6 million in 2019, consisting of a \$15 million organic increase to support the higher sales volumes, partially offset by a \$11 million decrease due to favorable foreign currency exchange rates. Engineering and amortization expense remained consistent year over year.

## 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>                             | Six Months Ended<br>June 30, |           |
|---|------------------------------|-----------|
|   | 2019                         | 2018      |
| Cash provided by (used for):                    |                              |           |
| Operating activities                            | \$ 443,924                   | \$ 67,904 |
| Investing activities                            | (3,040,364)                  | (69,100)  |
| Financing activities                            | 726,108                      | 22,764    |
| (Decrease)/increase in cash and restricted cash | \$ (1,880,983)               | \$ 12,173 |

**Operating activities** In the first six months of 2019, cash provided by operations was \$444 million compared to \$68 million in the first six months of 2018. The increase is due to favorable working capital performance as follows: a favorable change in inventory of \$264 million, of which \$169 million is attributable to purchase accounting costs related to the acquisition of GE Transportation and the remaining \$95 million due to better control over inventory levels, a favorable change of \$162 million in other assets and liabilities primarily due to the timing of payments related to acquisition costs and accrued expenses, a favorable change in accounts receivable of \$24 million, and a favorable change of \$40 million from the increase in net income, net of the change in non-cash items of \$111 million. The increase in the change in non-cash items is primarily attributable to increased depreciation, amortization, and stock-based compensation as a result of the GE Transportation acquisition. These favorable changes were partially offset by an unfavorable change in accounts payable of \$131 million due to the timing of payments to suppliers.

**Investing activities** In the first six months of 2019 and 2018, cash used for investing activities was \$3.04 billion and \$69 million, respectively. The major components of the cash outflow in 2019 were \$2.98 billion in net cash paid for acquisitions, primarily GE Transportation, and \$62 million in additions to property, plant and equipment for investments in our facilities and manufacturing processes. This compares to \$38 million in net cash paid for acquisitions and \$40 million in property, plant, and equipment for investments in the first six months of 2018. Refer to Note 3 of the "Notes to Condensed Consolidated Financial Statements" for additional information on acquisitions.

**Financing activities** In the first six months of 2019, cash provided by financing activities was \$726 million which included \$2.33 billion in proceeds from the revolving credit facility, \$1.55 billion in repayments of debt and \$34 million of dividend payments. In the first six months of 2018, cash provided by financing activities was \$22.8 million, which included \$592 million in proceeds from the revolving credit facility, \$546 million in repayments of debt on the revolving credit facility, \$23 million of dividend payments, and \$7 million related to payment of income tax withholding on share-based compensation.

On September 14, 2018, the Company issued \$2.5 billion of senior notes with three different maturities.

- **Floating Rate Senior Notes due 2021** - The Company issued \$500.0 million of Floating Rate Senior Notes due 2021 (the "Floating Rate Notes"). The Floating Rate Notes, which are non-callable for one year, were issued at 100% of face value. Interest on the Floating Rate Notes accrues at a floating rate per annum equal to three-month Libor plus 105 basis points. The interest rate for the Floating Rate Notes for the initial interest period was the three-month Libor plus 105 basis points determined on September 12, 2018 and is payable quarterly on December 15, March 15, June 15, and September 15 of each year. The Company incurred \$3.5 million of deferred financing costs related to the issuance of the Floating Rate Notes.
- **4.15% Senior Notes due 2024** - The Company issued \$750.0 million of 4.15% Senior Notes due 2024 (the "2024 Notes"). The 2024 Notes were issued at 99.805% of face value. Interest on the 2024 Notes accrues at a rate of 4.15% per annum and is payable semi-annually on March 15 and September 15 of each year. The Company incurred \$7.4 million of deferred financing costs related to the issuance of the 2024 Notes.
- **4.70% Senior Notes Due 2028** - The Company issued \$1,250.0 million of 4.70% Senior Notes due 2028 (the "2028 Notes" and together with the Floating Rate Notes and 2024 Notes, the "Senior Notes"). The 2028 Notes were issued at 99.889% of face value. Interest on the 2028 Notes accrues at a rate of 4.70% per annum and is payable semi-annually on March 15 and September 15 of each year. The Company incurred \$10.6 million of deferred financing costs related to the issuance of the 2028 Notes.

The net proceeds from the issuance and sale of the Senior Notes were used to finance the cash portion of the GE Transportation acquisition. The principal balances are due in full at maturity. The Senior 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 Senior Notes were issued contains covenants and restrictions which limit among other things, the following: the incurrence of indebtedness, payment of dividends and certain distributions, sales of assets, change in control, mergers and consolidations and the incurrence of liens.

On February 12, 2019, the rating assigned by Moody's was decreased to Ba1. Accordingly, pursuant to the respective terms of the Senior Notes issued on September 14, 2018, the interest rate increased by 0.25%. The interest rate increase took effect during the interest period following February 12, 2019.

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

#### *3.45% Senior Notes Due November 2026*

On November 3, 2016, the Company issued \$750.0 million of 3.45% Senior Notes due in 2026 (the "2016 Notes"). The 2016 Notes were issued at 99.965% of face value. Interest on the 2016 Notes accrues at a rate of 3.45% per annum and is payable semi-annually on May 15 and November 15 of each year. The proceeds were used to finance the cash portion of the Faiveley Transport acquisition, refinance Faiveley Transport's indebtedness, and for general corporate purposes. The principal balance is due in full at maturity. The Company incurred \$2.7 million of deferred financing costs related to the issuance of the 2016 Notes.

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

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

#### *4.375% Senior Notes Due August 2023*

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

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

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

#### *2018 Refinancing Credit Agreement*

On June 8, 2018, the Company entered into a credit agreement (the "2018 Refinancing Credit Agreement"), which replaced the Company's then-existing 2016 Refinancing Credit Agreement. As part of the 2018 Refinancing Credit Agreement, the Company entered into (i) a \$1.2 billion revolving credit facility (the "Revolving Credit Facility"), which replaced the Company's revolving credit facility under the 2016 Refinancing Credit Agreement, and includes a letter of credit sub-facility of up to \$450.0 million and a swing line sub-facility of \$75.0 million, (ii) a \$350.0 million term loan (the "Refinancing Term Loan"), which refinanced the term loan under the 2016 Refinancing Credit Agreement, and (iii) a new \$400.0 million delayed draw term loan (the "Delayed Draw Term Loan"). The 2018 Refinancing Credit Agreement also provided for a bridge loan facility (the "Bridge Loan Facility") in an amount not to exceed \$2.5 billion, which would only become effective at the Company's request. Commitments in respect of the Bridge Loan Facility were terminated upon the issuance and sale of the Senior Notes on September 14, 2018. In addition, the 2018 Refinancing Credit Agreement contains an uncommitted accordion

feature allowing the Company to request, in an aggregate amount not to exceed \$600.0 million, increases to the borrowing commitments under the Revolving Credit Facility or a new incremental term loan commitment. At June 30, 2019, the Company had approximately \$780.3 million of available bank borrowing capacity subject to certain financial covenant restrictions, net of \$27.6 million of letters of credit.

The Revolving Credit Facility matures on June 8, 2023 and is unsecured. The Refinancing Term Loan matures on June 8, 2021 and is unsecured. The Delayed Draw Term Loan matures on the third anniversary of the date on which it is borrowed and is unsecured. The applicable interest rate for borrowings under the 2018 Refinancing Credit Agreement includes interest rate spreads based on the lower of the pricing corresponding to (i) the Company's ratio of total debt (less unrestricted cash up to \$300.0 million) to EBITDA ("Leverage Ratio") or (ii) the Company's public rating, in each case that range between 1.000% and 1.875% for LIBOR/CDOR-based borrowings and 0.0% and 0.875% for Alternate Base Rate based borrowings. The obligations of the Company under the 2018 Refinancing Credit Agreement have been guaranteed by certain of the Company's subsidiaries.

The Delayed Draw Term Loan was initially drawn on February 25, 2019. The Company incurred a 17.5 basis point commitment fee from June 8, 2018 until the initial draw.

The 2018 Refinancing Credit Agreement contains customary representations and warranties by the Company and its subsidiaries, including customary use of materiality, material adverse effect, and knowledge qualifiers. The Company and its subsidiaries are also subject to (i) customary affirmative covenants that impose certain reporting obligations on the Company and its subsidiaries and (ii) customary negative covenants, including limitations on: indebtedness; liens; restricted payments; fundamental changes; business activities; transactions with affiliates; restrictive agreements; changes in fiscal year; and use of proceeds. In addition, the Company is required to maintain (i) an Interest Coverage ratio at least 3.00 to 1.00 over each period of four consecutive fiscal quarters ending on the last day of a fiscal quarter and (ii) a Leverage Ratio, calculated as of the last day of a fiscal quarter for a period of four consecutive fiscal quarters, of 3.25 to 1.00 or less; *provided* that, in the event the Company completes the Direct Sale and the Merger or any other material acquisition in which the cash consideration paid exceeds \$500.0 million, the maximum Leverage Ratio permitted will be 3.75 to 1.00 at the end of the fiscal quarter in which such acquisition is consummated and each of the three fiscal quarters immediately following such fiscal quarter and 3.50 to 1.00 at the end of each of the fourth and fifth full fiscal quarters after the consummation of such acquisition. The Company is in compliance with the restrictions and covenants of the 2018 Refinancing Credit Agreement and does not expect that these measurements will limit the Company in executing its operating activities.

At June 30, 2019, the weighted average interest rate on the Company's variable rate debt was 3.28%. On June 5, 2014, the Company entered into a forward starting interest rate swap agreement with a notional value of \$150.0 million. The effective date of the interest rate swap agreement was November 7, 2016, and the termination date was December 19, 2018.

#### *2016 Refinancing Credit Agreement*

On June 22, 2016, the Company amended its existing revolving credit facility with a consortium of commercial banks. This 2016 Refinancing Credit Agreement provided the Company with a \$1.2 billion, 5 year revolving credit facility and a \$400 million delayed draw term loan (the "Term Loan"). The Company incurred approximately \$3 million of deferred financing cost related to the 2016 Refinancing Credit Agreement. The 2016 Refinancing Credit Agreement borrowings bore variable interest rates indexed as described below.

Under the 2016 Refinancing Credit Agreement, the Company could elect a Base Rate of interest for U.S. Dollar denominated loans or, for certain currencies, an interest rate based on the London Interbank Offered Rate ("LIBOR") of interest, or other rates appropriate for such currencies (in any case, "the Alternate Rate"). The Base Rate adjusted on a daily basis and was the greater of the Federal Funds Effective Rate plus 0.50% per annum, the PNC, N.A. prime rate or the Daily LIBOR Rate plus 100 basis points, plus a margin that ranged from 0 to 75 basis points. The Alternate Rate was based on the quoted rates specific to the applicable currency, plus a margin that ranged from 75 to 175 basis points. Both the Base Rate and Alternate Rate margins were dependent on the Company's consolidated total indebtedness to EBITDA ratios. The initial Base Rate margin was 0 basis points and the Alternate Rate margin is 175 basis points.

#### *Company Stock Repurchase Plan*

On February 8, 2016, the Board of Directors amended its stock repurchase authorization to \$350 million of the Company's outstanding shares. This new stock repurchase authorization supersedes the previous authorization of \$350 million of which about \$33 million remained. During the first three months of 2019, the Company did not repurchase any shares, leaving \$138 million remaining under the authorization. The Company intends to purchase shares on the open market or in negotiated block trades from time to time depending on market conditions. No time limit was set for the completion of the programs which conforms to the requirements under the 2016 Refinancing Credit Agreement, as well as the Senior Notes currently outstanding.

## Forward Looking Statements

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

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

### Economic and industry conditions

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

### Operating factors

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

### Competitive factors

- the actions of competitors; or
- the outcome of negotiations with partners, suppliers, customers or others;

### Political/governmental factors

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

Statements in this Quarterly Report on Form 10-Q apply only as of the date on which such statements are made, and we undertake no obligation to update any statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. Reference is also made to the risk factors set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

**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, 2018. 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. The Company's lease accounting policy has been updated due to the adoption of ASU No. 2016-02. There have been no other significant changes in accounting policies since December 31, 2018.

### **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 interest expense associated with its variable-rate debt and refinancing or issuance of incremental fixed rate debt. The Company's variable rate debt represents 35% and 22% of total long-term debt at June 30, 2019 and December 31, 2018, respectively. Refer to Note 8 – Long Term Debt of “Notes to Condensed Consolidated Financial Statements” for additional information regarding interest rate risk.

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

The Company is subject to certain risks associated with changes in foreign currency exchange rates to the extent our operations are conducted in currencies other than the U.S. dollar. For the first six months of 2019, approximately 41% of Wabtec's net sales were to customers in the United States, 10% in Canada, 6% in India, 5% in the United Kingdom, 5% in Mexico, 4% in France, 4% in Germany, 4% in Australia 3% in China, 3% in Italy, and 15% in other international locations. To mitigate the impact of changes in foreign currency exchange rates on earnings and cash flows, the Company has periodically entered into foreign currency forward contracts. Refer to “Financial Derivatives and Hedging Activities” in Note 2 of “Notes to Condensed Consolidated Financial Statements” for more information regarding foreign currency exchange risk.

### **Item 4. CONTROLS AND PROCEDURES**

Wabtec's principal executive officer and its principal financial officer have evaluated the effectiveness of Wabtec's “disclosure controls and procedures,” (as defined in Exchange Act Rule 13a-15(e)) as of June 30, 2019. 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.

The business combination of Wabtec and GE Transportation, which was completed on February 25, 2019, resulted in a material change in the combined company's internal controls over financial reporting. The Company is in the process of designing and integrating policies, processes, operations, technology, and other components of internal controls over financial reporting of the combined company. Management will monitor the implementation of new controls and test the operating effectiveness when instances are available in future periods.

## PART II—OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

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, 2018, in Note 21 therein, filed on February 27, 2019. During the first six months of 2019, there were no material changes to the information described in the Form 10-K related to claims arising from asbestos exposure.

From time to time, the Company is involved in litigation related to claims arising out of the Company's operations in the ordinary course of business, including claims based on product liability, contracts, intellectual property, or other causes of action. Further information and detail on any potentially material litigation is as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, in Note 21 therein, filed on February 27, 2019. Except as described below, there have been no material changes to the information described in the Form 10-K related to claims arising from Company's ordinary operations.

On April 21, 2016, Siemens Industry, Inc. filed a lawsuit against the Company in federal district court in Delaware alleging that the Company has infringed seven patents owned by Siemens related to the Company's Positive Train Control (PTC) technology. On November 2, 2016, Siemens amended its complaint to add six additional patents they also claim are infringed by the Company's PTC Products or End of Train (EOT) Products (Siemens Patent Case). The Company has filed Answers, and asserted counterclaims, in response to Siemens' complaints. Additionally, after filings by the Company, the US Patent & Trademark Office's Patent Trial and Appeal Board (PTAB) has granted Inter-Parties Review (IPR) proceedings on eight (8) of the patents asserted by Siemens to contest their validity. Following pre-trial rulings that greatly reduced Siemens' alleged damages, a jury trial was held in federal district court in Delaware in January 2019 on eight patents, two of which were still subject to an IPR decision on validity from the PTAB. At the conclusion of the trial, the jury awarded Siemens damages of \$5.6 million related to PTC patents and \$1.1 million related to EOT patents. Since the jury's verdict was issued, one of the PTC patents found to be infringed was held to be invalid by the PTAB. All PTAB proceedings have been now been completed, pending appeals; five (5) of the (8) Siemens patents reviewed by the PTAB were found to be invalid. On February 26, 2019, the Court entered a Judgment on the verdict, subject to post-trial motions. On May 28, 2019, the Court held a hearing on both parties' post-trial motions, any of which, if granted, could potentially affect the final Judgment. After the Court's ruling on the post-trial motions, a final Judgment will be entered and either party may file appeals to the Federal Circuit.

On March 20, 2019, Siemens filed a new action in federal district court in Delaware alleging violations of federal antitrust and state trade practices laws since before 2008, related to Wabtec's PTC sales, including on-board, back-office, wayside and aftermarket support systems (Siemens originally raised these antitrust claims as counterclaims in a separate Delaware patent case filed by Wabtec alleging that Siemens has violated three (3) of Wabtec's patents; the antitrust claims were ultimately severed from that case in January, 2019, resulting in Siemens re-filing them as another separate proceeding in Delaware.) Wabtec believes Siemens' antitrust claims are without merit and will vigorously defend itself against these claims.

Xorail, Inc., a wholly owned subsidiary of the Company ("Xorail"), has received notices from Denver Transit Constructors ("DTC") alleging breach of contract related to the operating of constant warning wireless crossings, and late delivery of the Train Management & Dispatch System ("TMDS") for the Denver Eagle P3 Project, which is owned by the Denver Regional Transit District ("RTD"). No damages have been asserted for the alleged late delivery of the TMDS, and no formal claim has been filed. Xorail is in the final stages of successfully implementing a recovery plan concerning the TMDS issues. With regard to the wireless crossing issue, as of September 8, 2017, DTC alleged that total damages were \$36.8 million through July 31, 2017 and are continuing to accumulate. The majority of the damages stems from a delay in approval of the wireless crossing system by the Federal Railway Administration ("FRA") and the Public Utility Commission ("PUC"), resulting in the use of flaggers at all of the crossings pending approval of the wireless crossing system and certification of the crossings. DTC has alleged that the delay is due to Xorail's failure to achieve constant warning times for the crossings in accordance with the approval requirements imposed by the FRA and PUC. Xorail has denied DTC's assertions, stating that its system satisfied the contractual requirements. Xorail has worked with DTC to modify its system and implement the FRA's and PUC's previously undefined approval requirements; the FRA and PUC have both approved modified wireless crossing system, and as of August 2018, DTC completed the process of certifying the crossings and eliminated the use of flaggers. On September 21, 2018, DTC filed a complaint against RTD in Colorado state court for breach of contract related to non-payments and the costs for the flaggers, asserting a change-in-law arising from the FRA/PUC's new certification requirements; a jury trial is scheduled to begin in May 2020. DTC's complaint generally supports Xorail's position and does not name or implicate Xorail; DTC has not updated its notices against Xorail, nor have they filed any formal claim against Xorail.

**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, 2018.

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

The following table summarizes the Company's stock repurchase activity for the three months ended June 30, 2019:

| <b>Month</b>                      | <b>Total Number of Shares Purchased</b> | <b>Average Price Paid per Share</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Programs (1)</b> | <b>Maximum Dollar Value of Shares That May Yet Be Purchased Under the Programs (1)</b> |
|-----------------------------------|---|-------------------------------------|--|--|
| April 2019                        | —                                       | —                                   | —  | \$ 137,824   |
| May 2019                          | —                                       | \$ —                                | —  | \$ 137,824   |
| June 2019                         | —                                       | \$ —                                | —  | \$ 137,824   |
| Total quarter ended June 30, 2019 | —                                       | \$ —                                | —  | \$ 137,824   |

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

**Item 4. MINE SAFETY DISCLOSURES**

Not Applicable

**Item 6. EXHIBITS**

The following exhibits are being filed with this report:

|         |   |
|---------|---|
| 4.1     | <a href="#"><u>Tenth Supplemental Indenture, date June 6, 2019, by and among the Company, the guarantors party thereto and Wells Fargo Bank, National Association, as Trustee</u></a> |
| 31.1    | <a href="#"><u>Rule 13a-14(a) Certification of Chief Executive Officer.</u></a>   |
| 31.2    | <a href="#"><u>Rule 13a-14(a) Certification of Chief Financial Officer.</u></a>   |
| 32.1    | <a href="#"><u>Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.</u></a>   |
| 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.   |



TENTH SUPPLEMENTAL INDENTURE

Dated as of June 6, 2019

to

INDENTURE

Dated as of August 8, 2013

by and among

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION,  
as Issuer

THE GUARANTORS PARTY HERETO,  
as Guarantors

and

WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Trustee

THIS TENTH SUPPLEMENTAL INDENTURE (this “**Supplemental Indenture**”) is made as of June 6, 2019, by and among WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION, a Delaware corporation (the “**Company**”), each of the GUARANTORS party hereto and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association, as trustee (the “**Trustee**”).

WHEREAS, the Company and the Trustee entered into that certain Indenture dated as of August 8, 2013 (the “**Original Indenture**” and as supplemented to date, the “**Indenture**”), which provides for the issuance by the Company from time to time of Securities, in one or more series as provided therein;

WHEREAS, the Company and the Trustee entered into that certain First Supplemental Indenture dated as of August 8, 2013 (the “**First Supplemental Indenture**”), which provides for the issuance of \$250,000,000 aggregate principal amount of the Company’s 4.375% Senior Notes due 2023 (the “**2023 Notes**”);

WHEREAS, the Company, certain Guarantors and the Trustee entered into that certain Second Supplemental Indenture dated as of November 3, 2016, which provides for certain amendments to the Original Indenture and the First Supplemental Indenture, including amendments to, among other things, provide for the issuance of Guarantees from time to time by the Guarantors party to the Indenture;

WHEREAS, the Company, certain Guarantors and the Trustee entered into that certain Third Supplemental Indenture dated as of November 3, 2016 (the “**Third Supplemental Indenture**”), which provides for the issuance of \$750,000,000 aggregate principal amount of the Company’s 3.450% Senior Notes due 2026 (the “**2026 Notes**”);

WHEREAS, from time to time (i) the Company, certain Guarantors and the Trustee have entered into additional indentures supplemental to the Original Indenture, including that certain Fourth Supplemental Indenture dated as of February 9, 2017, that certain Fifth Supplemental Indenture dated as of April 28, 2017, that certain Sixth Supplemental Indenture dated as of June 21, 2017, that certain Seventh Supplemental Indenture dated as of June 8, 2018, and that certain Eighth Supplemental Indenture dated as of June 29, 2018, each of which provides for the inclusion of one or more subsidiaries of the Company as a Guarantor with respect to the Notes (as defined below) outstanding at the date thereof and (ii) certain subsidiaries of the Company have been released, in accordance with the terms of the Indenture, as Guarantors with respect to the Notes;

WHEREAS, the Company, certain Guarantors and the Trustee entered into that certain Ninth Supplemental Indenture dated as of September 14, 2018 (the “**Ninth Supplemental Indenture**”), which provides for the issuance of \$500,000,000 aggregate principal amount of the Company’s Floating Rate Senior Notes due 2021 (the “**2021 Notes**”), \$750,000,000 aggregate principal amount of the Company’s 4.150% Senior Notes due 2024 (the “**2024 Notes**”) and \$1,250,000,000 aggregate principal amount of the Company’s 4.700% Senior Notes due 2028 (the “**2028 Notes**,” and, together with the 2021 Notes, the 2023 Notes, the 2024 Notes and the 2026 Notes, the “**Notes**”);

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

WHEREAS, the Company and the Guarantors desire and have requested the Trustee to join them in the execution and delivery of this Supplemental Indenture in order to cause each of GE Transportation, a Wabtec Company, a Delaware corporation and a subsidiary of the Company, GE Transportation Parts, LLC, a Delaware limited liability company and an indirect subsidiary of the Company, GE Global Sourcing LLC, a Delaware limited liability company and an indirect subsidiary of the Company, and Transportation Systems Services Operations Inc., a Nevada corporation and an indirect subsidiary of the Company (each, a "**Guaranteeing Subsidiary**"), to provide a Guarantee with respect to the Notes and to become a Guarantor with the same effect and to the same extent as if each such Guaranteeing Subsidiary had been named in the Indenture as a Guarantor;

WHEREAS, this Supplemental Indenture shall not result in a material modification of the 2023 Notes for purposes of compliance with the Foreign Accounts Tax Compliance Act (it being understood that the 2021 Notes, the 2024 Notes, the 2026 Notes and the 2028 Notes do not qualify as "grandfathered obligations" within the meaning of Treasury Regulation Section 1.1471-2(b)(2)(i)); and

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

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

## Article 1 DEFINITIONS

### Section 1.01. *Definitions.*

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

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

## ARTICLE 2 GUARANTEE ISSUED BY EACH GUARANTEEING SUBSIDIARY

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

Each Guaranteeing Subsidiary hereby provides a Guarantee on the terms and subject to the conditions set forth in the Indenture including, but not limited to, Article IX-A thereof, Section 2.12 of the Third Supplemental Indenture and Section 2.09 of the Ninth Supplemental Indenture. From and after the date hereof, each Guaranteeing Subsidiary shall be a Guarantor for all purposes under the Indenture and the Notes.

## ARTICLE 3 MISCELLANEOUS PROVISIONS

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

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

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

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

### Section 3.03. *Benefits.*

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

Section 3.04. *Effective Date.*

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

Section 3.05. *Ratification.*

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

Section 3.06. *Separability*

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

Section 3.07. *Counterparts*

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

Section 3.08. *GOVERNING LAW.*

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

*[Signatures on Next Page]*

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

Westinghouse Air Brake Technologies Corporation

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

Chief Financial Officer

GE Global Sourcing LLC  
GE Transportation, a Wabtec Company  
GE Transportation Parts, LLC  
RFPC Holding Corp.

Schaefer Equipment, Inc.  
Standard Car Truck Company  
Transportation Systems Services Operations Inc.  
Wabtec Holding Corp.  
Wabtec Railway Electronics Holdings, LLC  
Workhorse Rail, LLC

By: /s/ Patrick D. Dugan  
Name: Patrick D. Dugan  
Title: Vice President, Finance of each of the above

Wells Fargo Bank, National Association, as Trustee

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

## CERTIFICATION

I, Rafael Santana, 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 officer 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:** August 1, 2019

**By:** /s/ RAFAEL SANTANA

**Name:** Rafael Santana

**Title:** President and Chief Executive Officer

## CERTIFICATION

I, Patrick D. Dugan, certify that:

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

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

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

4. The registrant's other certifying officer 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:** August 1, 2019

**By:** /s/ PATRICK D. DUGAN

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**Name:** Patrick D. Dugan

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

## CERTIFICATION

Pursuant to 18 U.S.C. § 1350, the undersigned officers of Westinghouse Air Brake Technologies Corporation (the “*Company*”), hereby certify, to the best of their knowledge, that the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 (the “*Report*”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ RAFAEL SANTANA

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**Rafael Santana**  
**President and Chief Executive Officer**

**Date:** August 1, 2019

By: /s/ PATRICK D. DUGAN

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

**Date:** August 1, 2019