

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

FORM 10-Q

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

For the quarterly period ended September 30, 2020

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)
30 Isabella Street Pittsburgh, Pennsylvania
(Address of principal executive offices)

25-1615902
(I.R.S. Employer
Identification No.)
15212
(Zip code)

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

Not applicable
(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 (§232.405 of this chapter) 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>		

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

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

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

As of October 23, 2020, there were 190,326,442 shares of common stock, par value \$.01 per share, of the registrant outstanding.

**WESTINGHOUSE AIR BRAKE
TECHNOLOGIES CORPORATION**

September 30, 2020

FORM 10-Q

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PART I—FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS**

<i>In millions, except par value</i>	Unaudited	December 31,
	September 30,	2019
	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	\$ 559.3	\$ 604.2
Accounts receivable	1,020.0	1,149.9
Unbilled accounts receivables	413.5	514.0
Inventories	1,779.7	1,773.1
Other current assets	163.7	150.9
Total current assets	3,936.2	4,192.1
Property, plant and equipment	2,283.6	2,216.0
Accumulated depreciation	(679.9)	(560.2)
Property, plant and equipment, net	1,603.7	1,655.8
Other Assets		
Goodwill	8,366.1	8,360.6
Other intangibles, net	3,889.6	4,104.0
Other noncurrent assets	648.8	631.7
Total other assets	12,904.5	13,096.3
Total Assets	\$ 18,444.4	\$ 18,944.2
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 962.0	\$ 1,157.5
Customer deposits	640.9	604.2
Accrued compensation	243.9	343.8
Accrued warranty	223.0	226.5
Current portion of long-term debt	454.8	95.7
Other accrued liabilities	704.0	830.3
Total current liabilities	3,228.6	3,258.0
Long-term debt	3,799.9	4,333.6
Accrued postretirement and pension benefits	106.1	113.0
Deferred income taxes	163.1	145.3
Contingent consideration	300.5	291.8
Other long-term liabilities	793.8	808.9
Total Liabilities	8,392.0	8,950.6
Commitments and contingencies (Note 15)		
Equity		
Convertible preferred stock, \$.01 par value; 1.0 shares authorized, no shares issued and outstanding, at September 30, 2020 and December 31, 2019	—	—
Common stock, \$.01 par value; 500.0 shares authorized; 226.9 and 226.9 shares issued and 190.3 and 191.7 outstanding at September 30, 2020 and December 31, 2019, respectively	2.0	2.0
Additional paid-in capital	7,882.3	7,877.2
Treasury stock, at cost, 36.6 and 35.2 shares, at September 30, 2020 and December 31, 2019, respectively	(909.4)	(807.1)
Retained earnings	3,524.2	3,267.0
Accumulated other comprehensive loss	(482.2)	(382.6)
Total Westinghouse Air Brake Technologies Corporation shareholders' equity	10,016.9	9,956.5
Noncontrolling interest	35.5	37.1
Total Equity	10,052.4	9,993.6
Total Liabilities and Equity	\$ 18,444.4	\$ 18,944.2

The accompanying notes are an integral part of these statements.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

<i>In millions, except per share data</i>	Unaudited Three Months Ended September 30,		Unaudited Nine Months Ended September 30,	
	2020	2019	2020	2019
Net sales:				
Sales of goods	\$ 1,543.6	\$ 1,605.4	\$ 4,540.5	\$ 4,932.4
Sales of services	321.5	396.3	991.9	899.2
Total net sales	1,865.1	2,001.7	5,532.4	5,831.6
Cost of sales:				
Cost of goods	(1,109.9)	(1,184.1)	(3,327.1)	(3,635.4)
Cost of services	(189.0)	(218.2)	(573.7)	(593.1)
Total cost of sales	(1,298.9)	(1,402.3)	(3,900.8)	(4,228.5)
Gross profit	566.2	599.4	1,631.6	1,603.1
Operating expenses:				
Selling, general and administrative expenses	(252.7)	(292.2)	(712.9)	(842.9)
Engineering expenses	(36.5)	(58.6)	(123.7)	(150.3)
Amortization expense	(70.3)	(79.5)	(211.6)	(172.9)
Total operating expenses	(359.5)	(430.3)	(1,048.2)	(1,166.1)
Income from operations	206.7	169.1	583.4	437.0
Other income and expenses:				
Interest expense, net	(45.6)	(57.7)	(150.3)	(160.8)
Other income (expense), net	14.3	1.9	5.8	(4.1)
Income from operations before income taxes	175.4	113.3	438.9	272.1
Income tax expense	(46.9)	(22.7)	(113.4)	(82.6)
Net income	128.5	90.6	325.5	189.5
Less: Net (income) loss attributable to noncontrolling interest	(0.4)	0.5	1.0	1.5
Net income attributable to Wabtec shareholders	128.1	91.1	326.5	191.0
Earnings Per Common Share				
Basic				
Net income attributable to Wabtec shareholders	\$ 0.67	\$ 0.48	\$ 1.71	\$ 1.17
Diluted				
Net income attributable to Wabtec shareholders	\$ 0.67	\$ 0.48	\$ 1.71	\$ 1.11
Weighted average shares outstanding				
Basic	189.8	189.6	190.1	163.2
Diluted	190.2	191.5	190.6	172.2

The accompanying notes are an integral part of these statements.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>In millions</i>	Unaudited Three Months Ended September 30,		Unaudited Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income attributable to Wabtec shareholders	\$ 128.1	\$ 91.1	\$ 326.5	\$ 191.0
Foreign currency translation gain (loss)	53.8	(181.1)	(98.4)	\$ (208.9)
Unrealized gain (loss) on derivative contracts	2.8	0.2	1.8	\$ (4.0)
Unrealized (loss) gain on pension benefit plans and post-retirement benefit plans	(0.6)	2.2	(3.5)	(0.1)
Other comprehensive income (loss) before tax	56.0	(178.7)	(100.1)	(213)
Income tax (expense) benefit related to components of other comprehensive income	(0.5)	(0.7)	0.4	1.0
Other comprehensive income (loss), net of tax	55.5	(179.4)	(99.7)	(212.0)
Comprehensive income (loss) attributable to Wabtec shareholders	\$ 183.6	\$ (88.3)	\$ 226.8	\$ (21.0)

The accompanying notes are an integral part of these statements.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>In millions</i>	Unaudited Nine Months Ended September 30,	
	2020	2019
Operating Activities		
Net income	\$ 325.5	\$ 189.5
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	353.3	289.3
Stock-based compensation expense	17.6	36.1
Below market intangible amortization	(67.9)	(29.9)
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable and unbilled accounts receivable	245.2	(32.3)
Inventories	7.8	58.7
Accounts payable	(203.4)	(146.5)
Accrued income taxes	17.9	14.5
Accrued liabilities and customer deposits	(76.3)	18.8
Other assets and liabilities	(161.6)	169.5
Net cash provided by operating activities	458.1	567.7
Investing Activities		
Purchase of property, plant and equipment	(98.7)	(112.6)
Proceeds from disposal of assets and businesses	19.1	3.4
Acquisitions of businesses, net of cash acquired	(40.3)	(3,000.6)
Net cash used for investing activities	(119.9)	(3,109.8)
Financing Activities		
Proceeds from debt	2,936.0	2,955.5
Payments of debt	(3,117.1)	(2,064.6)
Repurchase of stock	(105.3)	—
Cash dividends	(69.2)	(58.2)
Other financing activities	(5.2)	(15.6)
Net cash (used for) provided by financing activities	(360.8)	817.1
Effect of changes in currency exchange rates	(22.3)	(29.9)
Decrease in cash	(44.9)	(1,754.9)
Cash, cash equivalents, and restricted cash, beginning of period	604.2	2,342.3
Cash and cash equivalents, end of period	\$ 559.3	\$ 587.4

The accompanying notes are an integral part of these statements.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)

<u>In millions, except per share data</u>	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Non- controlling Interest	Total
Balance, December 31, 2019	226.9	\$ 2.0	\$ 7,877.2	(35.3)	\$ (807.1)	\$ 3,267.0	\$ (382.6)	\$ 37.1	\$ 9,993.6
Cash dividends (\$0.12 dividend per share)	—	—	—	—	—	(23.0)	—	—	(23.0)
Proceeds from treasury stock issued from the exercise of stock options and other benefit plans, net of tax	—	—	(7.9)	0.2	2.2	—	—	—	(5.7)
Stock based compensation	—	—	10.0	—	—	—	—	—	10.0
Net income (loss)	—	—	—	—	—	111.6	—	(0.4)	111.2
Other comprehensive loss, net of tax	—	—	—	—	—	—	(178.0)	—	(178.0)
Stock repurchase	—	—	—	(1.6)	(105.3)	—	—	—	(105.3)
Other owner changes	—	—	(4.3)	—	—	—	—	(0.8)	(5.1)
Balance, March 31, 2020	226.9	\$ 2.0	\$ 7,875.0	(36.7)	\$ (910.2)	\$ 3,355.6	\$ (560.6)	\$ 35.9	\$ 9,797.7
Cash dividends (\$0.12 dividend per share)	—	—	—	—	—	(23.4)	—	—	(23.4)
Proceeds from treasury stock issued from the exercise of stock options and other benefit plans, net of tax	—	—	(0.6)	0.1	0.9	—	—	—	0.3
Stock based compensation	—	—	(2.7)	—	—	—	—	—	(2.7)
Net income (loss)	—	—	—	—	—	86.8	—	(1.0)	85.8
Other comprehensive income, net of tax	—	—	—	—	—	—	22.8	—	22.8
Other owner changes	—	—	—	—	—	—	—	0.1	0.1
Balance, June 30, 2020	226.9	\$ 2.0	\$ 7,871.7	(36.6)	\$ (909.3)	\$ 3,419.0	\$ (537.8)	\$ 35.0	\$ 9,880.6
Cash dividends (\$0.12 dividend per share)	—	—	—	—	—	(22.8)	—	—	(22.8)
Proceeds from treasury stock issued from the exercise of stock options and other benefit plans, net of tax	—	—	0.4	—	(0.1)	—	—	—	0.3
Stock based compensation	—	—	10.2	—	—	—	—	—	10.2
Net income	—	—	—	—	—	128.0	—	0.5	128.5
Other comprehensive income, net of tax	—	—	—	—	—	—	55.6	—	55.6
Balance, September 30, 2020	226.9	\$ 2.0	\$ 7,882.3	(36.6)	\$ (909.4)	\$ 3,524.2	\$ (482.2)	\$ 35.5	\$ 10,052.4

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

<u>In millions, except per share data</u>	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Non- controlling Interest	Total
Balance, December 31, 2018	132.3	\$ 1.3	\$ 914.6	(35.7)	\$ (816.1)	\$ 3,022.0	\$ (256.6)	\$ 3.9	\$ 2,869.1
Cash dividends (\$0.12 dividend per share)	—	—	—	—	—	(11.7)	—	—	(11.7)
Proceeds from treasury stock issued from the exercise of stock options and other benefit plans, net of tax	—	—	(14.4)	0.4	8.9	—	—	—	(5.5)
Stock based compensation	—	—	8.5	—	—	—	—	—	8.5
Net (loss) income	—	—	—	—	—	(4.5)	—	0.5	(4.0)
Other comprehensive loss, net of tax	—	—	—	—	—	—	(52.4)	—	(52.4)
Acquisitions, net	65.8	0.7	6,887.6	—	—	—	—	86.7	6,975.0
Other owner changes	—	—	—	—	—	—	—	1.4	1.4
Balance, March 31, 2019	<u>198.1</u>	<u>\$ 2.0</u>	<u>\$ 7,796.3</u>	<u>\$ (35.3)</u>	<u>\$ (807.2)</u>	<u>\$ 3,005.8</u>	<u>\$ (309.0)</u>	<u>\$ 92.5</u>	<u>\$ 9,780.4</u>
Cash dividends (\$0.12 dividend per share)	—	—	—	—	—	(22.6)	—	—	(22.6)
Proceeds from treasury stock issued from the exercise of stock options and other benefit plans, net of tax	—	—	(4.6)	0.1	1.6	—	—	—	(3.0)
Stock based compensation	—	—	15.4	—	—	—	—	—	15.4
Net income (loss)	—	—	—	—	—	104.1	—	(1.4)	102.7
Other comprehensive income, net of tax	—	—	—	—	—	—	19.8	—	19.8
Acquisitions, net	—	—	—	—	—	—	—	(56.2)	(56.2)
Other owner changes	25.3	—	—	—	—	—	—	(1.6)	(1.6)
Balance, June 30, 2019	<u>223.4</u>	<u>\$ 2.0</u>	<u>\$ 7,807.1</u>	<u>\$ (35.2)</u>	<u>\$ (805.6)</u>	<u>\$ 3,087.3</u>	<u>\$ (289.2)</u>	<u>\$ 33.3</u>	<u>\$ 9,834.9</u>
Cash dividends (\$0.12 dividend per share)	—	—	—	—	—	(23.9)	—	—	(23.9)
Proceeds from treasury stock issued from the exercise of stock options and other benefit plans, net of tax	—	—	(3.5)	(0.1)	(2.0)	—	—	—	(5.5)
Stock based compensation	—	—	12.2	—	—	—	—	—	12.2
Net income (loss)	—	—	—	—	—	91.4	—	(0.6)	90.8
Other comprehensive loss, net of tax	—	—	—	—	—	—	(179.4)	—	(179.4)
Acquisitions, net	—	—	—	—	—	—	—	0.1	0.1
Other owner changes	3.5	—	—	—	—	—	—	0.2	0.2
Balance, September 30, 2019	<u>226.9</u>	<u>\$ 2.0</u>	<u>\$ 7,815.8</u>	<u>\$ (35.3)</u>	<u>\$ (807.6)</u>	<u>\$ 3,154.8</u>	<u>\$ (468.6)</u>	<u>\$ 33.0</u>	<u>\$ 9,729.4</u>

The accompanying notes are an integral part of these statements.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2020 (UNAUDITED)

1. BUSINESS

Westinghouse Air Brake Technologies Corporation ("Wabtec" or the "Company") is one of the world's largest providers of locomotives, value-added, technology-based equipment, systems and services for the global freight rail and passenger transit industries. Our highly engineered products, which are intended to enhance safety, improve productivity and reduce maintenance costs for customers, can be found on most locomotives, freight cars, passenger transit cars and buses around the world, and many of our core products and services are essential in the safe and efficient operation of freight rail and passenger transit vehicles. Wabtec is a global company with operations in over 50 countries and our products can be found in more than 100 countries throughout the world. In the first nine months of 2020, approximately 58% of the Company's revenues came from customers outside the United States.

On March 11, 2020, the World Health Organization designated the outbreak of the novel strain of coronavirus, known as COVID-19, as a global pandemic. Governments and businesses around the world have taken unprecedented actions to mitigate the spread of COVID-19, including but not limited to, shelter-in-place orders, quarantines, significant restrictions on travel, as well as restrictions that prohibit many employees from going to work. Our top concern is, and remains, the health and well-being of our employees around the world. To date, COVID-19 has surfaced in nearly all regions around the world and has impacted our sales channels, supply chain, manufacturing operations, workforce, and other key aspects of our operations. The outbreak and preventive measures taken to help curb the spread, including temporary plant closures in China, India, Italy and other countries where outbreaks and stay-at-home orders were most prevalent, had an adverse impact on our operations and business results for the first nine months of 2020.

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 particularly in light of the rapidly evolving COVID-19 pandemic that is impacting our sales channels, supply chain, manufacturing operations, workforce, or other key aspects of our operations and the high degree of uncertainty regarding the pandemic's duration and severity, actions to control it, and the potential impact on global economic activity, global supply chain operations and our customers, suppliers, and end-markets.

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, 2019. The December 31, 2019 information has been derived from the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

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

Use of Estimates The preparation of financial statements in conformity with GAAP 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.

Revenue Recognition A majority 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 \$103.8 million at September 30, 2020 and \$109.4 million at December 31, 2019, 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 \$67.5 million at September 30, 2020 and \$77.0 million at December 31, 2019. 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 \$101.3 million and \$118.5 million at September 30, 2020 and December 31, 2019, 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. 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 September 30, 2020, the Company's remaining performance obligations were \$20.5 billion. The Company expects to recognize revenue of approximately 25% of the remaining performance obligations over the next 12 months, with the remainder recognized thereafter.

Revolving Receivables Program In May 2020, the Company entered into a revolving agreement to transfer up to \$150.0 million of certain receivables of certain subsidiaries of the Company (the "Originators") through our bankruptcy-remote subsidiary to a financial institution on a recurring basis in exchange for cash equal to the gross receivables transferred. As customers pay their balances, we sell additional receivables into the program, resulting in our gross receivables sold exceeding net cash flow impacts (e.g., collect and reinvest). The sold receivables are fully guaranteed by our bankruptcy-remote subsidiary which holds additional receivables of \$191.7 million at September 30, 2020 that are pledged as collateral under this agreement. The transfers are recorded at fair value of the proceeds received and obligations assumed less derecognized receivables. No

obligation was recorded at September 30, 2020 as the estimated expected credit losses on receivables sold is insignificant. Our maximum exposure to loss related to these receivables transferred is limited to the amount outstanding. The Company has agreed to guarantee the performance of the Originators' respective obligations' under the revolving agreement. None of the Company nor the Originators guarantees the collectability of the receivables under the revolving agreements.

The following table sets forth a summary of receivables sold:

<u>In millions</u>	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
Gross receivables sold/cash proceeds received	\$ 289.1	\$ 583.0
Collections reinvested under revolving agreement	291.6	485.5
Net cash proceeds (remitted) received	<u>\$ (2.5)</u>	<u>\$ 97.5</u>

Depreciation Expense Depreciation of property, plant and equipment related to the manufacturing of products or services provided is included in Cost of Goods Sold or Cost of Services. Depreciation of other property, plant and equipment that is not attributable to the manufacturing of products or services provided is included in Selling, General and Administrative Expenses or Engineering Expense to the extent the property, plant, and equipment is used for research and development purposes.

Goodwill and Intangibles Assets Goodwill and other intangible assets with indefinite lives are not amortized. Other intangibles (with definite lives) are amortized on a straight-line basis over their estimated economic lives. Amortizable intangible assets are reviewed for impairment when indicators of impairment are present. The Company tests goodwill and indefinite-lived intangible assets for impairment at least annually which will occur in the fourth quarter of 2020. The Company has identified three reporting units for purposes of testing goodwill for impairment. Two reporting units exist within the freight segment and the transit segment is also a reporting unit. The Company performs its annual impairment test during the fourth quarter after the annual forecasting process is completed, and also tests for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Periodically, management of the Company assesses whether or not an indicator of impairment is present that would necessitate an impairment analysis be performed.

As a result of the COVID-19 pandemic and the uncertainty surrounding the global economy, the Company's stock price was highly volatile especially during the first half of 2020. The Company considered the Company's stock price volatility combined with overall macroeconomic conditions and concluded that it was not more likely than not that the fair value of its three reporting units declined below their carrying value and therefore an interim quantitative impairment test was not required during the first nine months of 2020. The present uncertainty surrounding the global economy due to the COVID-19 pandemic increases the likelihood that adverse changes could occur in key assumptions used to determine the fair value of reporting units like sales estimates, cost factors, discount rates and stock price resulting in interim quantitative goodwill impairment tests and non-cash goodwill impairments in future periods.

Also, as a result of the COVID-19 pandemic the Company reviewed indefinite-lived tradename intangible assets and concluded that it was not more likely than not that the fair value of such tradename assets were below their carrying value. However, uncertainty surrounding the impact of the COVID-19 pandemic increases the likelihood that adverse changes in key assumptions used to determine the fair value of indefinite-lived intangibles like sales estimates or discount rates could result in interim quantitative tradename impairments tests and non-cash tradename impairments in future periods. Additionally, uncertainty around the current macroeconomic environment could result in changes to the Company's marketing and branding strategy which also could impact the carrying value or estimated useful lives of the Company's tradenames.

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 Notes 13 and 14.

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 Accounting Standards Codification ("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 transactions that are denominated in a currency other than an entity's functional currency are charged or credited to earnings.

Recently Issued Accounting Pronouncements In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, "Income Taxes: Simplifying the Accounting for Income Taxes." The amendments in this update simplify the accounting for certain income tax transactions by removing specific exceptions to the general principles in Topic 740, Income Taxes. This guidance is effective for fiscal years beginning after December 15, 2020 with early adoption permitted. The Company is currently evaluating the potential impact of adopting this guidance on its consolidated financial statements.

Recently Adopted Accounting Pronouncements In June 2016, FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This updated guidance sets forth a current expected credit loss model based on expected losses. Under this model, an entity recognizes an allowance for expected credit losses based on historical experience, current conditions and forecasted information rather than the current methodology of delaying recognition of credit losses until it is probable a loss has been incurred. This guidance became effective for the Company on January 1, 2020. The Company adopted this accounting standard at the beginning of the period. The impact of adopting the new standard was not material to the consolidated statement of income or the consolidated balance sheet.

In January 2017, FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The amendments in this update eliminate the requirement to perform Step 2 of the goodwill impairment test. Instead, an entity should perform a goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value up to the carrying amount of the goodwill. This guidance became effective for the Company on January 1, 2020. The adoption of this guidance had no impact on the Company, however, the amendments in this update could result in a change to 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.

In March 2020, the SEC amended Rules 3-10 and 3-16 of Regulation S-X regarding financial disclosure requirements for registered debt offerings involving subsidiaries as either issuers or guarantors and affiliates whose securities are pledged as collateral. This new guidance narrows the circumstances that require separate financial statements of subsidiary issuers and guarantors and streamlines the alternative disclosures required in lieu of those statements. The final rule also allows for simplified disclosures to be included within Management's Discussion and Analysis. This rule is effective January 4, 2021 with early adoption permitted. The Company elected to early adopt this rule during the three months ended June 30, 2020.

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 nine months ended September 30, 2020 are as follows:

<i>In millions</i>	Foreign currency translation	Derivative contracts	Pension and post retirement benefit plans	Total
Balance at December 31, 2019	\$ (308.6)	\$ (3.3)	\$ (70.7)	\$ (382.6)
Other comprehensive loss before reclassifications	(98.4)	1.4	(4.8)	(101.8)
Amounts reclassified from accumulated other comprehensive income	—	—	2.2	2.2
Net current period other comprehensive income (loss)	(98.4)	1.4	(2.6)	(99.6)
Balance at September 30, 2020	<u>\$ (407.0)</u>	<u>\$ (1.9)</u>	<u>\$ (73.3)</u>	<u>\$ (482.2)</u>

Reclassifications out of accumulated other comprehensive income (loss) for the three months ended September 30, 2020 are as follows:

<i>In millions</i>	Amount reclassified from accumulated other comprehensive income	Affected line item in the Condensed Consolidated Statements of Income
Amortization of defined benefit plan items		
Amortization of initial net obligation and prior service cost	\$ (0.4)	Other income (expense), net
Amortization of net loss	1.4	Other income (expense), net
	1.0	Other income (expense), net
	(0.3)	Income tax expense
	<u>\$ 0.7</u>	Net income

Reclassifications out of accumulated other comprehensive income (loss) for the nine months ended September 30, 2020 are as follows:

<i>In millions</i>	Amount reclassified from accumulated other comprehensive income	Affected line item in the Condensed Consolidated Statements of Income
Amortization of defined benefit plan items		
Amortization of initial net obligation and prior service cost	\$ (1.1)	Other income (expense), net
Amortization of net loss	4.1	Other income (expense), net
	3.0	Other income (expense), net
	(0.8)	Income tax expense
	<u>\$ 2.2</u>	Net income

The changes in accumulated other comprehensive loss by component, net of tax, for the nine months ended September 30, 2019 are as follows:

<i>In millions</i>	Foreign currency translation	Derivative contracts	Pension and post retirement benefit plans	Total
Balance at December 31, 2018	\$ (202.2)	\$ (0.1)	\$ (54.3)	\$ (256.6)
Other comprehensive loss before reclassifications	(208.9)	(3.0)	(1.7)	(213.6)
Amounts reclassified from accumulated other comprehensive income	—	—	1.6	1.6
Net current period other comprehensive income (loss)	(208.9)	(3.0)	(0.1)	(212.0)
Balance at September 30, 2019	\$ (411.1)	\$ (3.1)	\$ (54.4)	\$ (468.6)

Reclassifications out of accumulated other comprehensive loss for the three months ended September 30, 2019 are as follows:

<i>In millions</i>	Amount reclassified from accumulated other comprehensive income	Affected line item in the Condensed Consolidated Statements of Income
Amortization of defined benefit plan items		
Amortization of initial net obligation and prior service cost	\$ (0.4)	Other income (expense), net
Amortization of net loss	1.1	Other income (expense), net
	0.7	Other income (expense), net
	(0.2)	Income tax expense
	\$ 0.5	Net income

Reclassifications out of accumulated other comprehensive loss for the nine months ended September 30, 2019 are as follows:

<i>In millions</i>	Amount reclassified from accumulated other comprehensive income	Affected line item in the Condensed Consolidated Statements of Income
Amortization of defined benefit plan items		
Amortization of initial net obligation and prior service cost	\$ (1.1)	Other income (expense), net
Amortization of net loss	3.3	Other income (expense), net
	2.2	Other income (expense), net
	(0.6)	Income tax expense
	\$ 1.6	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, including the equity interests of certain pre-Transaction subsidiaries of GE that composed 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. 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 stockholders (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 February 25, 2019, 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% held by GE directly in shares of Wabtec common stock and 15% underlying the shares of Wabtec convertible preferred stock 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.

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), and Direct Sale Purchaser, which also is Wabtec's wholly owned subsidiary, 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 and SpinCo, directly or through 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. On August 9, 2019, GE completed a sale of the remaining shares of Series A Preferred Stock outstanding which converted to approximately 3,515,500 shares of common stock, as well as 16,969,656 shares of common stock owned directly by GE. Finally, on September 12, 2019, GE completed a sale of all of its remaining shares of common stock of Wabtec, approximately 2,048,515 shares. In conjunction with these secondary offerings, the Company waived the requirements under the shareholders agreement for GE to maintain certain ownership levels of Wabtec's stock following the closing date of the Merger. The Company did not receive any proceeds from the sale of any 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 acquisition of GE Transportation. 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 acquisition of GE Transportation. The total value of the consideration paid, and to be paid, by Wabtec in the acquisition transactions is approximately \$10.3 billion, including the cash paid for the Direct Sale assets, equity transferred for SpinCo, contingent consideration, assumed debt and net of cash acquired. The consideration is based on the Company's closing share price of \$73.36 on February 22, 2019 and the fair value of the contingent consideration.

The fair values of the assets acquired and liabilities assumed were determined using the income, cost and market approaches. Discounted cash flow models were used to estimate the fair values of acquired contract backlog, customer relationships, intellectual property intangibles, and below-market customer contracts liabilities. The fair value measurements were primarily based on significant inputs that are not observable in the market and are considered Level 3. The noncontrolling interest includes equity interests in GE Transportation'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 GE Transportation Brazil operations were measured using a Level 1 input. In April 2019, the Company acquired the noncontrolling interest in GE Transportation'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 final fair value of the GE Transportation assets acquired and liabilities assumed:

<i>In millions</i>	
Assets acquired	
Cash and cash equivalents	\$ 177.2
Accounts receivable	541.3
Inventories	1,189.7
Other current assets	71.5
Property, plant, and equipment	1,088.6
Goodwill	5,978.0
Trade names	55.0
Customer relationships	550.0
Intellectual property	1,180.0
Backlog	1,450.0
Other noncurrent assets	321.2
Total assets acquired	12,602.5
Liabilities assumed	
Current liabilities	1,594.2
Contingent consideration	440.0
Other noncurrent liabilities	661.0
Total liabilities assumed	2,695.2
Net assets acquired	9,907.3
Noncontrolling interest	\$ 88.3

The revisions to the 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 approximately \$524.6 million of customer contracts whose terms are unfavorable compared to market terms at the date of consummation of the GE Transportation 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 consummation of the acquisition of GE Transportation. A majority of the purchased goodwill is deductible for tax purposes. The goodwill has been allocated to the Freight segment.

Costs related to the acquisition and integration of GE Transportation were approximately \$30.9 million for the nine months ended September 30, 2020 and are included in selling, general and administrative expenses on the consolidated statements of income.

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 GET acquisition listed above had occurred on January 1, 2019:

<i>In millions, except per share data</i>	Nine Months Ended September 30, 2019	
Net sales	\$	6,307.2
Gross profit		1,668.4
Net income attributable to Wabtec shareholders		141.5
Diluted earnings per share		
As Reported	\$	1.11
Pro forma	\$	0.74

4. INVENTORIES

The components of inventory, net of reserves, were:

<i>In millions</i>	September 30, 2020	December 31, 2019
Raw materials	\$ 737.7	\$ 786.4
Work-in-progress	357.9	374.0
Finished goods	684.1	612.7
Total inventories	<u>\$ 1,779.7</u>	<u>\$ 1,773.1</u>

5. INTANGIBLES

The change in the carrying amount of goodwill by segment for the nine months ended September 30, 2020 is as follows:

<i>In millions</i>	Freight Segment	Transit Segment	Total
Balance at December 31, 2019	\$ 6,876.6	\$ 1,484.0	\$ 8,360.6
Additions / opening balance sheet adjustments	(3.5)	—	(3.5)
Disposals	(5.6)	—	(5.6)
Foreign currency impact	(29.9)	44.5	14.6
Balance at September 30, 2020	<u>\$ 6,837.6</u>	<u>\$ 1,528.5</u>	<u>\$ 8,366.1</u>

As of September 30, 2020 and December 31, 2019, the Company's trade names had a net carrying amount of \$627.6 million and \$623.1 million, respectively. The Company believes these intangibles have indefinite lives, with the exception of the right to use 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:

<i>In millions</i>	September 30, 2020	December 31, 2019
Intellectual property, patents, and other intangibles, net of accumulated amortization of \$198.2 and \$123.8	\$ 1,032.3	\$ 1,108.9
Backlog, net of accumulated amortization of \$177.7 and \$92.0	1,248.5	1,342.1
Customer relationships, net of accumulated amortization of \$254.2 and \$212.9	981.2	1,029.9
Total	<u>\$ 3,262.0</u>	<u>\$ 3,480.9</u>

The weighted average remaining useful life of backlog, intellectual property, customer relationships and other intangibles were 13 years, 12 years, 17 years and 9 years, respectively. The backlog intangible primarily consists of in-place long-term service agreements acquired by the Company in conjunction with the acquisition of GE Transportation. Amortization expense for intangible assets was \$70.3 million and \$211.6 million for the three and nine months ended September 30, 2020 and \$79.5 million and \$172.9 million for the three and nine months ended September 30, 2019, respectively.

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

<i>In millions</i>	
Remainder of 2020	\$ 69.5
2021	277.7
2022	277.1
2023	276.7
2024	267.2

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 nine months ended September 30, 2020 and 2019 is as follows:

<i>In millions</i>	Contract Assets	
	2020	2019
Balance at beginning of year	\$ 623.4	\$ 345.6
Acquisitions	4.1	217.4
Recognized in current year	759.2	445.1
Reclassified to accounts receivable	(868.7)	(415.7)
Foreign currency impact	(0.7)	(12.7)
Balance at September 30,	<u>\$ 517.3</u>	<u>\$ 579.7</u>

<i>In millions</i>	Contract Liabilities	
	2020	2019
Balance at beginning of year	\$ 799.7	\$ 444.8
Acquisitions	6.9	314.7
Recognized in current year	589.1	781.3
Amounts in beginning balance reclassified to revenue	(430.0)	(412.9)
Current year amounts reclassified to revenue	(152.6)	(270.3)
Foreign currency impact	(3.3)	(12.3)
Balance at September 30,	<u>\$ 809.8</u>	<u>\$ 845.3</u>

7. LEASES

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 1.0% to 12.3%.

The components of lease expense are as follows:

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Operating lease expense	\$ 14.1	\$ 13.6	\$ 42.9	\$ 40.4
Finance lease expense amortization of leased assets	0.3	0.3	0.9	0.9
Short-term and variable lease expense	—	0.2	0.1	0.5
Sublease income	(0.1)	(0.1)	(0.3)	(0.4)
Total	\$ 14.3	\$ 14.0	\$ 43.6	\$ 41.4

Scheduled payments of lease liabilities are as follows:

<i>In millions</i>	Operating Leases	Finance Leases	Total
Remaining 2020	\$ 14.2	\$ 0.1	\$ 14.3
2021	51.1	0.4	51.5
2022	43.9	0.2	44.1
2023	37.7	0.2	37.9
2024	32.9	0.1	33.0
Thereafter	100.1	0.2	100.3
Total lease payments	279.9	1.2	281.1
Less: Present value discount	(25.4)	—	(25.4)
Present value lease liabilities	\$ 254.5	\$ 1.2	\$ 255.7

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

	September 30, 2020
Weighted-average remaining lease term (years)	
Operating leases	7.4
Finance leases	4.5
Weighted-average discount rate	
Operating leases	2.9 %
Finance leases	1.5 %

8. LONG-TERM DEBT

Long-term debt consisted of the following:

<i>In millions</i>	Effective Interest Rate	September 30, 2020		December 31, 2019	
		Book Value	Fair Value ¹	Book Value	Fair Value ¹
Senior Credit and 364 Day Facility:					
U.S. dollar-denominated Term Loans, net of unamortized debt issuance costs of \$1.3 and \$1.1	2.3 %	754.7	754.7	684.7	684.7
Multi-Currency Revolving loan facility net of unamortized debt issuance costs of \$1.1 and \$0.9	1.5 %	—	—	231.5	231.5
Floating Senior Notes, due 2021, net of unamortized debt issuance costs of \$0 and \$2.0	— %	—	—	498.0	500.0
4.375% Senior Notes, due 2023, net of unamortized discount and debt issuance costs of \$0.7 and \$0.9	4.5 %	249.3	263.9	249.1	263.9
4.15% Senior Notes, due 2024, net of unamortized debt issuance costs of \$4.7 and \$5.7	4.6 %	745.3	810.4	744.3	805.5
3.20% Senior Notes, due 2025, net of unamortized debt discount and debt issuance costs of \$4.6 and \$0	3.4 %	495.4	523.8	—	—
3.45% Senior Notes, due 2026, net of unamortized debt issuance costs of \$1.3 and \$1.5	3.5 %	748.7	793.7	748.5	759.1
4.70% Senior Notes, due 2028, net of unamortized debt issuance costs of \$8.5 and \$9.2	5.0 %	1,241.5	1,448.2	1,240.8	1,378.3
Other Borrowings		19.8	19.8	32.4	32.4
Total		4,254.7	4,614.5	4,429.3	4,655.4
Less - current portion		454.8		95.7	
Long-term portion		\$ 3,799.9		\$ 4,333.6	

1. See Note 14 for information on the fair value measurement of the Company's long-term debt.

For those debt securities that have a premium or discount at the time of issuance, the Company amortizes the amount through interest expense based on the maturity date or the first date the holders may require the Company to repurchase the debt securities, if applicable. A premium would result in a decrease in interest expense, and a discount would result in an increase in interest expense in future periods. Additionally, the Company has debt issuance costs related to certain financing transactions which are also amortized through interest expense. As of September 30, 2020 and December 31, 2019, the Company had total unamortized debt issuance costs of \$22.2 million and \$21.3 million, respectively.

At September 30, 2020, the weighted average interest rate on the Company's variable rate debt was 2.3%.

Credit Facilities

Senior Credit Facility

On June 8, 2018, the Company entered into a credit agreement ("Senior Credit Facility"), which replaced the Company's then-existing credit agreement. The Senior Credit Facility is with a syndicate of lenders and provides for borrowings consisting of (i) term loans denominated in euros and U.S. dollars ("Term Loans"); and (ii) a multi-currency revolving loan facility, providing for an equivalent in U.S. dollars of up to \$1,200.0 million in multi-currency revolving loans (inclusive of swingline loans of up to \$75.0 million and letters of credit of up to \$450.0 million (the "Revolving Credit Facility")). The Revolving Credit Facility will mature on June 8, 2023.

Under the Senior Credit Facility, we can elect to receive advances bearing interest based on either the ABR rate or the LIBOR rate (each as defined in the Senior Credit Facility) plus an applicable margin that is determined based on our credit ratings or the Company's Leverage. The agreement contains affirmative, negative and financial covenants, and events of default customary for facilities of this type. The obligations under the Senior Credit Facility are guaranteed by Wabtec and certain of Wabtec's U.S. subsidiaries, as guarantors.

The Company has agreed that, so long as any lender has any commitment under the Senior Credit Facility, any letter of credit is outstanding under the Senior Credit Facility, or any loan or other obligation is outstanding under the Senior Credit Facility, it will maintain the following as of the end of each fiscal quarter or the period of four quarters then ended:

Interest Coverage Ratio ¹	3.0x
Leverage Ratio ²	3.25x

1. The interest coverage ratio is defined as EBITDA, as defined in the Senior Credit Facility, to net interest expense for the four quarters then ended.

2. The leverage ratio is defined as net debt as of the last day of such fiscal quarter to EBITDA, as defined in the Senior Credit Facility, for the four quarters then ended. The Leverage Ratio temporarily increases for four quarters following major acquisitions. Subsequent to the GE Transportation acquisition, the leverage ratio was temporarily increased to 3.5x for the first and second quarters of 2020.

The Company was in compliance with all of our covenants in the Senior Credit Facility as of September 30, 2020.

364 Day Facility

On April 10, 2020 the Company entered into a new \$600.0 million 364 day credit facility (“364 Day Facility”) maturing April 2021 with a group of banks which includes a \$144.0 million revolving credit facility and a \$456.0 million term loan. The agreement calls for interest at either a LIBOR-based rate, or a rate based on the prime lending rate of the agent bank, at the Company’s option. The agreement contains affirmative, negative and financial covenants, and events of default customary for facilities of this type and substantially similar to our existing Senior Credit Facility. The obligations under the 364 Day Facility are guaranteed by certain of the Company’s U.S. subsidiaries, as guarantors.

On June 12, 2020 the Company amended this 364 Day Facility maturity to July 9, 2021. The Company was in compliance with all of its covenants in the 364 Day Facility as of September 30, 2020.

The following table presents availability under the Revolving Facilities:

<i>(in millions)</i>	Revolving Credit Facility	364 Day Revolver
Maximum Availability	\$ 1,200.0	\$ 144.0
Outstanding Borrowings	—	—
Letters of Credit Under Revolving Facility	19.5	—
Current Availability	<u>\$ 1,180.5</u>	<u>\$ 144.0</u>

Senior Notes

The "Senior Notes" comprise the 4.375% Senior Notes due 2023, 4.15% Senior Notes due 2024, 3.20% Senior Notes due 2025, 3.45% Senior Notes due 2026 and 4.70% Senior Notes due 2028. Interest on the fixed-rate Senior Notes is payable semi-annually. The Company may redeem each series of the notes at any time in whole or from time to time in part in accordance with the provisions of the indenture, under which such series of notes was issued. Each of the Senior Notes may be redeemed at a redemption price of 100% of the principal amount plus a specified make-whole premium and accrued interest. 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.

On June 29, 2020 the Company issued \$500.0 million of 3.20% Senior Notes due in 2025 (the "2025 Notes"). The 2025 Notes were issued at 99.892% of face value. Interest on the 2025 Notes accrues at a rate of 3.20% per annum and is payable semi-annually on June 15 and December 15 of each year beginning December 15, 2020. The proceeds were used to redeem the Floating Rate Senior Notes due 2021. The Company incurred \$1.5 million of deferred financing costs related to the issuance of the 2025 Notes.

The indentures under which the Senior Notes were issued contain covenants and restrictions which limit, subject to certain exceptions, certain sale and leaseback transactions with respect to principal properties, the incurrence of secured debt without equally and ratably securing the Senior Notes, and certain merger and consolidation transactions. The covenants do not require the Company to maintain any financial ratios or specified levels of net worth or liquidity.

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

9. STOCK-BASED COMPENSATION

As of September 30, 2020, 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 15, 2030 and provides a maximum of 9,100,000 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 15, 2020. 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 \$12.0 million and \$11.8 million for the three months ended September 30, 2020 and 2019, respectively. Stock-based compensation expense was \$17.6 million and \$36.1 million for the nine months ended September 30, 2020 and 2019, respectively. At September 30, 2020, unamortized compensation expense related to stock options, non-vested restricted shares and incentive stock units expected to vest totaled \$40.6 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 and after 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 nine months ended September 30, 2020:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic value (in millions)
Outstanding at December 31, 2019	588,024	\$ 63.36	5.7	\$ 8.5
Granted	135,006	77.91		
Exercised	(21,662)	38.97		
Canceled	(82,230)	73.41		
Outstanding at September 30, 2020	619,138	66.35	5.8	3.7
Exercisable at September 30, 2020	392,928	54.51	4.5	3.7

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

	Nine Months Ended September 30,	
	2020	2019
Dividend yield	0.60 %	0.66 %
Risk-free interest rate	1.53 %	2.60 %
Stock price volatility	28.1 %	25.8 %
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 three or four years from the date of grant. Under the Directors Plan, restricted stock awards vest one year from the date of grant.

In addition, the Company has issued incentive stock 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 September 30, 2020, the Company estimates that it will achieve 50%, 75% and 100% for the incentive stock awards expected to vest based on performance for the three-year periods ending December 31, 2020, 2021, and 2022, 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 nine months ended September 30, 2020:

	Restricted Stock and Units	Incentive Stock Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2019	791,031	572,002	\$ 73.64
Granted	226,402	247,443	76.67
Vested	(291,332)	(147,069)	77.47
Adjustment for incentive stock awards expected to vest	—	(176,298)	71.84
Canceled	(63,608)	(52,240)	72.47
Outstanding at September 30, 2020	<u>662,493</u>	<u>443,838</u>	73.83

10. INCOME TAXES

The overall effective tax rate was 26.7% and 25.8% for the three and nine months ended September 30, 2020 respectively and 20.0% and 30.4% for the three and nine months ended September 30, 2019, respectively.

The increase in the effective rate for the three months ended September 30, 2020 is primarily the result of a beneficial adjustment of non-deductible transaction related expenses incurred during the three months ended September 30, 2019 as a result of the GE Transportation acquisition that did not recur in 2020 and tax expense resulting from an internal restructuring which was recognized during the three months ended September 30, 2020.

The decrease in the effective rate for the nine months ended September 30, 2020 is primarily the result of non-deductible transaction related expenses incurred during the nine months ended September 30, 2019 as a result of the GE Transportation acquisition that did not recur in 2020 and a decrease in the estimated liabilities resulting from provisions of the Tax Cuts and Jobs Act that were recognized in 2019.

As of September 30, 2020, the liability for income taxes associated with uncertain tax positions was \$12.9 million, of which \$11.3 million, if recognized, would favorably affect the Company's effective income tax rate. As of December 31, 2019, the liability for income taxes associated with unrecognized tax benefits was \$17.2 million, of which \$17.2 million, if recognized, would favorably affect the Company's effective tax rate.

At this time, the Company believes it is reasonably possible that unrecognized tax benefits of approximately \$3.0 million may change within the next 12 months due to the expiration of statutory review periods and current examinations.

In response to the COVID-19 pandemic, legislation concerning taxes was passed during the nine months ended September 30, 2020. While we are continuing to assess the impact of the legislation on our tax planning strategies, we do not expect there to be a material impact to our consolidated financial statements at this time.

11. EARNINGS PER SHARE

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

<i>In millions, except per share data</i>	Three Months Ended September 30,	
	2020	2019
Numerator		
Numerator for basic and diluted earnings per common share - net income attributable to Wabtec shareholders	\$ 128.1	\$ 91.1
Less: dividends declared - common shares and non-vested restricted stock	(22.8)	(23.0)
Undistributed earnings	105.3	68.1
Percentage allocated to common shareholders (1)	99.8 %	99.7 %
	105.1	67.9
Add: dividends declared - common shares	22.8	23.0
Numerator for basic earnings per common share	127.9	90.9
Numerator for diluted earnings per common share	127.9	90.9
Denominator		
Denominator for basic earnings per common share - weighted average shares	189.8	189.6
Effect of dilutive securities:		
Assumed conversion of preferred shares	—	1.5
Assumed conversion of dilutive stock-based compensation plans	0.4	0.4
Denominator for diluted earnings per common share adjusted weighted average shares and assumed conversion	190.2	191.5
Net income attributable to Wabtec shareholders per common share		
Basic	\$ 0.67	\$ 0.48
Diluted	\$ 0.67	\$ 0.48
(1) Basic weighted-average common shares outstanding	189.8	189.6
Basic weighted-average common shares outstanding and non-vested restricted stock expected to vest	190.3	190.1
Percentage allocated to common shareholders	99.8 %	99.7 %

<i>In millions, except per share data</i>	Nine Months Ended September 30,	
	2020	2019
Numerator		
Numerator for basic and diluted earnings per common share - net income attributable to Wabtec shareholders	\$ 326.5	\$ 191.0
Less: dividends declared - common shares and non-vested restricted stock	(68.7)	(57.3)
Undistributed earnings	257.8	133.7
Percentage allocated to common shareholders (1)	99.7 %	99.7 %
	257.0	133.3
Add: dividends declared - common shares	68.5	57.2
Less: dividends declared - preferred shares	—	(0.4)
Numerator for basic earnings per common share	325.5	190.1
Add: dividends declared - preferred shares	—	0.4
Numerator for diluted earnings per common share	325.5	190.5
Denominator		
Denominator for basic earnings per common share - weighted average shares	190.1	163.2
Effect of dilutive securities:		
Assumed conversion of preferred shares	—	8.6
Assumed conversion of dilutive stock-based compensation plans	0.5	0.4
Denominator for diluted earnings per common share adjusted weighted average shares and assumed conversion	190.6	172.2
Net income attributable to Wabtec shareholders per common share		
Basic	\$ 1.71	\$ 1.17
Diluted	\$ 1.71	\$ 1.11
(1) Basic weighted-average common shares outstanding	190.1	163.2
Basic weighted-average common shares outstanding and non-vested restricted stock expected to vest	190.6	163.7
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.

12. WARRANTIES

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

<i>In millions</i>	2020	2019
Balance at beginning of year	\$ 267.7	\$ 153.7
Acquisitions	4.3	108.2
Warranty expense	86.8	81.9
Warranty claim payments	(95.7)	(93.1)
Foreign currency impact/other	1.7	(4.1)
Balance at September 30	\$ 264.8	\$ 246.6

13. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

Hedging Activities In the normal course of business, we are exposed to interest rate, commodity price and foreign currency exchange rate fluctuations. At times, we mitigate these risk exposures through the use of derivatives such as cross-

currency swaps, foreign currency forward contracts, interest rate swaps, commodity forwards and futures. In accordance with our policy, derivatives are only used for hedging purposes. We do not use derivatives for trading or speculative purposes.

Foreign Currency Exchange Risk

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 gains 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 nine months ended September 30, 2020 and 2019, the amounts reclassified into income were not material.

The Company has established revenue hedging, balance sheet risk management and net investment hedging programs to protect against volatility of future foreign currency cash flows and changes in fair value caused by volatility in foreign exchange rates. We conduct our business worldwide in U.S. dollars and the functional currencies of our foreign subsidiaries, including Euro, Indian rupee, British pound sterling, Australian dollars and several other foreign currencies. Changes in foreign currency exchange rates could have a material adverse impact on our financial results that are reported in U.S. dollars. We are also exposed to foreign currency exchange rate risk related to our foreign subsidiaries, including intercompany loans denominated in non-functional currencies and net purchases and sales in non-functional currencies. We have certain foreign currency exchange rate risk management programs that use foreign currency forward contracts and cross-currency swaps. These forward contracts and cross-currency swaps are generally used to offset the potential income statement effects from intercompany loans denominated in non-functional currencies. These programs mitigate but do not entirely eliminate foreign currency exchange rate risk.

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 gain related to these contracts was \$2.7 million for the nine months ended September 30, 2020. 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 September 30, 2020:

<i>In millions</i>	Fair Value		Gross Notional Amount	
	Designated	Non-Designated	Designated	Non-Designated
Foreign Exchange Contracts				
Other current assets	\$ 20.0	\$ 0.7	\$ 1,907.8	\$ 5.9
Other current liabilities	—	(3.1)	—	296.0
Cross-currency Swaps				
Other current liabilities	(29.7)	—	581.6	—
Total	\$ (9.7)	\$ (2.4)	\$ 2,489.4	\$ 301.9

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, 2019:

<i>In millions</i>	Fair Value		Gross Notional Amount	
	Designated	Non-Designated	Designated	Non-Designated
Foreign Exchange Contracts				
Other current assets	\$ 11.2	\$ 1.4	\$ 920.0	\$ 403.0
Other current liabilities	(9.8)	—	1,184.6	—
Cross-currency Swaps				
Other current liabilities	(9.4)	—	560.8	—
Total	\$ (8.0)	\$ 1.4	\$ 2,665.4	\$ 403.0

Interest Rate Risk

The Company may use interest rate swap contracts on certain investing and borrowing transactions to manage its net exposure to interest rate changes and to reduce its overall cost of borrowing. The Company does not use leveraged swaps and,

in general, does not leverage any of its investment activities that would put principal capital at risk. For the nine months ended September 30, 2020 the amounts reclassified into income were not material.

Commodity Price Risk

The Company may use commodity forward contracts and futures to mitigate its exposure to commodity price changes and to reduce its overall cost of manufacturing. For the nine months ended September 30, 2020 the amounts recognized as income or expense were not material.

14. FAIR VALUE MEASUREMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of September 30, 2020 which are included in other current assets and liabilities on the Consolidated Balance sheet:

<i>In millions</i>	Total Carrying Value at September 30, 2020	Fair Value Measurements at September 30, 2020 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Foreign Exchange Contracts				
Other current assets	\$ 20.7	\$ —	\$ 20.7	\$ —
Other current liabilities	(3.1)	—	(3.1)	—
Cross-Currency Swap Agreement				
Other Current Liabilities	(29.7)	—	(29.7)	—

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 September 30, 2020 and December 31, 2019. The Company's defined benefit pension plan assets consist primarily of equity security funds, debt security funds and temporary cash and cash equivalent investments. 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 represents 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 Senior Notes are considered Level 2 based on the fair value valuation hierarchy. Contingent consideration related to the GE Transportation acquisition is considered Level 3 based on the fair value valuation hierarchy and includes \$160.0 million classified as "Other accrued liabilities" on the Company's consolidated balance sheet and \$300.5 million in long-term liabilities classified as "Contingent consideration" on the Company's consolidated balance sheet. The fair value approximates the carrying value at September 30, 2020.

15. COMMITMENTS AND CONTINGENCIES

Claims have been filed against the Company and certain of its affiliates in various jurisdictions across the United States by persons alleging bodily injury as a result of exposure to asbestos-containing products. Further information and detail on these claims are described in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, in Note 20 therein, filed on February 24, 2020. During the first nine months of 2020, 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, 2019, in Note 20 therein, filed on February 24, 2020. 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.

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 the 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 began September 21, 2020, and is ongoing. 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.

On April 3, 2018, the Company and Knorr-Bremse AG entered into a consent decree with the United States Department of Justice resolving allegations that the Company and Knorr-Bremse AG had maintained unlawful agreements not to compete for each other's employees. The allegations also related to Faiveley Transport before it was acquired by the Company in November 2016. No monetary fines or penalties were imposed on the Company. The Company elected to settle this matter with the Department of Justice to avoid the cost and distraction of litigation. Putative class action lawsuits thereafter were filed in several different federal district courts naming the Company and Knorr as defendants in connection with the allegations contained in the consent decree. A federal Multi-District Litigation (MDL) Panel consolidated the cases in the Western District of Pennsylvania, and on October 12, 2018, a consolidated class action complaint was filed in the Western District of PA with five named plaintiffs. On August 13, 2019, the Company was notified that co-defendant Knorr-Bremse settled with plaintiffs. On January 21, 2020, following Court-sponsored early mediation, the Company entered into a Memorandum of Understanding with plaintiffs, agreeing to settle all claims in the case. In March 2020, the Court issued preliminary approval of the agreed settlement terms and amount.

16. SEGMENT INFORMATION

Wabtec has two reportable segments—the Freight Segment and the Transit Segment. The key factors used to identify these reportable segments are the organization and alignment of the Company's internal operations, the nature of the products and services, and customer type. Initiatives to integrate GE Transportation operations into Wabtec including recent restructuring programs announced in late 2019 resulted in changes to the Company's organizational structure and the financial reporting utilized by the Company's chief operating decision maker to assess performance and allocate resources; as a result, certain asset groups were reorganized from the Freight Segment to the Transit Segment and vice versa. The change in the Company's reportable segments was effective in the fourth quarter of 2019 and is reflected below in 2020 and through the retrospective revision of 2019 segment information. The Company believes these changes better present Management's new view of the business. The Company's business segments are:

Freight Segment primarily builds new locomotives, manufactures and services components for new and existing freight cars and 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 September 30, 2020 is as follows:

<i>In millions</i>	Freight Segment	Transit Segment	Corporate Activities and Elimination	Total
Sales to external customers	\$ 1,237.3	\$ 627.8	\$ —	\$ 1,865.1
Intersegment sales/(elimination)	10.9	7.8	(18.7)	—
Total sales	\$ 1,248.2	\$ 635.6	\$ (18.7)	\$ 1,865.1
Income (loss) from operations	\$ 160.2	\$ 64.1	\$ (17.6)	\$ 206.7
Interest expense and other, net	—	—	(31.3)	(31.3)
Income (loss) from operations before income taxes	\$ 160.2	\$ 64.1	\$ (48.9)	\$ 175.4

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

<i>In millions</i>	Freight Segment	Transit Segment	Corporate Activities and Elimination	Total
Sales to external customers	\$ 1,332.5	\$ 669.2	\$ —	\$ 2,001.7
Intersegment sales/(elimination)	12.7	6.3	(19.0)	—
Total sales	\$ 1,345.2	\$ 675.5	\$ (19.0)	\$ 2,001.7
Income (loss) from operations	\$ 155.3	\$ 52.9	\$ (39.1)	\$ 169.1
Interest expense and other, net	—	—	(55.8)	(55.8)
Income (loss) from operations before income taxes	\$ 155.3	\$ 52.9	\$ (94.9)	\$ 113.3

Segment financial information for the nine months ended September 30, 2020 is as follows:

<i>In millions</i>	Freight Segment	Transit Segment	Corporate Activities and Elimination	Total
Sales to external customers	\$ 3,743.0	\$ 1,789.4	\$ —	\$ 5,532.4
Intersegment sales/(elimination)	36.3	23.0	(59.3)	—
Total sales	\$ 3,779.3	\$ 1,812.4	\$ (59.3)	\$ 5,532.4
Income (loss) from operations	\$ 463.4	\$ 172.9	\$ (52.9)	\$ 583.4
Interest expense and other, net	—	—	(144.5)	(144.5)
Income (loss) from operations before income taxes	\$ 463.4	\$ 172.9	\$ (197.4)	\$ 438.9

Segment financial information for the nine months ended September 30, 2019 is as follows:

<i>In millions</i>	Freight Segment	Transit Segment	Corporate Activities and Elimination	Total
Sales to external customers	\$ 3,774.3	\$ 2,057.3	\$ —	\$ 5,831.6
Intersegment sales/(elimination)	44.0	14.4	(58.4)	—
Total sales	\$ 3,818.3	\$ 2,071.7	\$ (58.4)	\$ 5,831.6
Income (loss) from operations	\$ 403.7	\$ 175.4	\$ (142.1)	\$ 437.0
Interest expense and other, net	—	—	(164.9)	(164.9)
Income (loss) from operations before income taxes	\$ 403.7	\$ 175.4	\$ (307.0)	\$ 272.1

Sales by product line are as follows:

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Freight Segment:				
Equipment	\$ 355.3	\$ 263.2	\$ 1,098.2	\$ 1,061.7
Components	208.2	248.7	624.1	823.4
Digital Electronics	161.0	185.5	500.1	466.3
Services	512.8	635.1	1,520.6	1,422.9
Total Freight Segment sales	\$ 1,237.3	\$ 1,332.5	\$ 3,743.0	\$ 3,774.3
Transit Segment:				
Original Equipment Manufacturer	303.1	309.9	817.4	972.8
Aftermarket	324.7	359.3	972.0	1,084.5
Total Transit Segment sales	\$ 627.8	\$ 669.2	\$ 1,789.4	\$ 2,057.3

17. OTHER INCOME (EXPENSE), NET

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

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Foreign currency gain (loss)	\$ 6.4	\$ (2.4)	\$ (7.7)	\$ (16.2)
Equity income	5.6	1.0	6.7	3.0
Expected return on pension assets/amortization	2.5	2.3	7.2	7.5
Other miscellaneous (expense) income	(0.2)	1.0	(0.4)	1.6
Total other income (expense), net	\$ 14.3	\$ 1.9	\$ 5.8	\$ (4.1)

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, 2019, filed with the Securities and Exchange Commission on February 24, 2020.

OVERVIEW

Wabtec is one of the world's largest providers of locomotives, value-added, technology-based equipment, systems and services for the global freight rail and passenger transit industries. Our highly engineered products, which are intended to enhance safety, improve productivity and reduce maintenance costs for customers, can be found on most locomotives, freight cars, passenger transit cars and buses around the world, and many of our core products and services are essential in the safe and efficient operation of freight rail and passenger transit vehicles. Wabtec is a global company with operations in over 50 countries and our products can be found in more than 100 countries throughout the world. In the first nine months of 2020, approximately 58% of the Company's revenues came from customers outside the United States.

COVID-19 Update

On March 11, 2020, the World Health Organization designated the outbreak of the novel strain of coronavirus, known as COVID-19, as a global pandemic. Governments and businesses around the world have taken unprecedented actions to mitigate the spread of COVID-19, including but not limited to, shelter-in-place orders, quarantines, significant restrictions on travel, as well as restrictions that prohibit many employees from going to work. Our top concern is, and remains, the health and well-being of our employees around the world. To date, COVID-19 has surfaced in nearly all regions around the world and has impacted our sales channels, supply chain, manufacturing operations, workforce, and other key aspects of our operations. The outbreak and preventive measures taken to help curb the spread, including temporary plant closures in China, India, Italy and other countries where outbreaks and stay-at-home orders were most prevalent had an adverse impact on our operations and business results for the first nine months of 2020.

We continue to monitor the rapidly evolving situation and guidance from international and domestic authorities, including federal, state, and local public health authorities and may take additional actions based on their recommendations; however, there are numerous uncertainties, including the duration and severity of the pandemic, actions that may be taken by governmental authorities and private industry, including preventing or curtailing the operations of our plants, the potential impact on global economic activity, global supply chain operations, our employees, and our customers, supplier and end-markets, and other consequences that could negatively impact our business. We also face the possibility that government policies may become more restrictive especially if COVID-19 transmission rates increase in certain areas. As a result of these numerous uncertainties, we are unable to specifically predict the extent and length of time the COVID-19 pandemic will negatively impact our business. COVID-19 had a materially adverse impact on our operations and business results for the three and nine months ended September 30, 2020 which is discussed in the Results of Operations section below and we expect COVID-19 to continue to have a materially adverse impact on our operations and business results for the remainder of 2020. The future adverse impact may include, reduced demand for our products, reduced cash from operations and a volatile effective tax rate driven by changes in earnings mix across the Company's different jurisdictions. We continue to work with our employees, customers, and suppliers to navigate the impacts of COVID-19. We also continue to assess possible implications to our business, customers, supply chain and end-markets, and to take actions in an effort to mitigate adverse consequences.

Management Review and Future Outlook

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

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

The Company monitors a variety of factors and statistics to gauge market activity. Freight rail markets around the world are driven primarily by overall economic conditions and activity, while Transit markets are driven primarily by government

funding and passenger ridership. Changes in these market drivers can cause fluctuations in demand for Wabtec's products and services.

According to the 2020 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 is more than \$120 billion and is expected to grow at a compounded annual growth rate of 2.3% through 2025. As the long-term effects of COVID-19 are still uncertain, UNIFE included a second, less likely scenario in which the recovery is more moderate. This alternative scenario shows a compounded annual growth rate of 0.9% through 2025 for the total accessible market. The three largest geographic markets, which represented about 85% of the total accessible market, were Europe, North America, and Asia Pacific. UNIFE projected above-average growth rates in Latin America, Eastern Europe, North America, and Africa-Middle East, with the more mature markets of Western Europe, North America, and Asia Pacific accounting for the largest share of absolute growth. UNIFE said trends such as urbanization, digitalization, legislative action and government support, and an increased focus on energy and environmental issues 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 growth in all product segments, with turnkey management projects, rolling stock, and infrastructure to grow the fastest. UNIFE estimated that the global installed base of diesel and electric locomotives was about 118,200 units, with about 32% in Asia Pacific, about 25% in North America, and about 18% in Russia-CIS (Commonwealth of Independent States). Wabtec estimates that about 2,900 new locomotives were delivered worldwide in 2019. UNIFE estimated the global installed base of freight cars was about 5.2 million, with about 35% in North America, about 24% in Russia-CIS, and about 24% in Asia Pacific. Wabtec estimates that about 174,000 new freight cars were delivered worldwide in 2019. UNIFE estimated the global installed base of passenger transit vehicles to be about 620,000 units, with about 45% in Asia Pacific, about 31% in Europe, and about 10% in Russia-CIS. Wabtec estimates that about 35,000 new passenger transit vehicles were ordered worldwide 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 policies encourage continued investment in public mass transit and modal shift from car to rail, albeit this growth may be stunted in the near-term as a result of the COVID-19 outbreak. According to UNIFE, Germany, France, and the United Kingdom were the largest Western European transit markets, representing about two-thirds of industry spending in the European Union. UNIFE projected the accessible Western European rail market to grow at about 2.0% 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 19%. 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 600 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 carloads, 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. Demand for both our freight and passenger transit products and services in North America may be negatively impacted by the COVID-19 outbreak.

Growth in the Asia Pacific market has been driven mainly by the continued urbanization of China and India, and by continued 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, Wabtec is delivering on a 1,000-locomotive contract over 10-years with Indian Railways.

Other key geographic markets include Russia-CIS and Africa-Middle East. With about 1.3 million freight cars and about 21,000 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. It is currently uncertain as to how the COVID-19 outbreak will impact the expected growth in these emerging markets especially in

the near-term. 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 digitalization, automation, and predictive maintenance through artificial intelligence, all of which would improve efficiency in the global rail industry. UNIFE said these trends will increase the overall attractiveness of the rail sector as these trends will lead to significant cost savings, allowing rail to be more competitive in comparison to other modes of transportation. Wabtec offers products and services to help customers make ongoing investments in these initiatives.

In 2020 and beyond, general global economic and market conditions will have an impact on our sales and operations. The COVID-19 pandemic has increased the uncertainty around global economic and market conditions. 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 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 address 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, including the equity interests of certain pre-Transaction subsidiaries of GE that composed 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. 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 stockholders (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 February 25, 2019, 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% held by GE directly in shares of Wabtec common stock and 15% underlying the shares of Wabtec convertible preferred stock held by GE) and approximately 50.8% of the outstanding shares of Wabtec common stock 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.

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), and Direct Sale Purchaser, which also is Wabtec's wholly owned subsidiary, together 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 and SpinCo, directly or through 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. On August 9, 2019, GE completed a sale of the remaining shares of Series A Preferred Stock outstanding which converted to approximately 3,515,500 shares of common stock, as well as 16,969,656 shares of common stock owned directly by GE. Finally, on September 12, 2019, GE completed a sale of all of its remaining shares of common stock of Wabtec, approximately 2,048,515 shares. In conjunction with these secondary offerings, the Company waived the requirements under the shareholders agreement for GE to maintain certain ownership levels of Wabtec's stock following the closing date of the Merger. The Company did not receive any proceeds from the sale of any 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 acquisition of GE Transportation. 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 acquisition of GE Transportation. The total value of the consideration paid, and to be paid, by Wabtec in the acquisition transaction is approximately \$10.3 billion, including the cash paid for the Direct Sale 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 fair value of the contingent consideration.

RESULTS OF OPERATIONS

Consolidated Results

THIRD QUARTER 2020 COMPARED TO THIRD QUARTER 2019

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

<i>In millions</i>	Three Months Ended September 30,	
	2020	2019
Net sales:		
Sales of goods	\$ 1,543.6	\$ 1,605.4
Sales of services	321.5	396.3
Total net sales	1,865.1	2,001.7
Cost of sales:		
Cost of goods	(1,109.9)	(1,184.1)
Cost of services	(189.0)	(218.2)
Total cost of sales	(1,298.9)	(1,402.3)
Gross profit	566.2	599.4
Operating expenses:		
Selling, general and administrative expenses	(252.7)	(292.2)
Engineering expenses	(36.5)	(58.6)
Amortization expense	(70.3)	(79.5)
Total operating expenses	(359.5)	(430.3)
Income from operations	206.7	169.1
Other income and expenses:		
Interest expense, net	(45.6)	(57.7)
Other income (expense), net	14.3	1.9
Income from operations before income taxes	175.4	113.3
Income tax expense	(46.9)	(22.7)
Net income	128.5	90.6
Less: Net (income) loss attributable to noncontrolling interest	(0.4)	0.5
Net income attributable to Wabtec shareholders	128.1	91.1

Segment change

The Company has two reportable segments - the Freight Segment and the Transit Segment. Initiatives to integrate GE Transportation operations into Wabtec including recent restructuring programs announced in late 2019 resulted in changes to the Company's organizational structure and the financial reporting utilized by the Company's chief operating decision maker to assess performance and allocate resources; as a result, certain asset groups were reorganized from the Freight Segment to the Transit Segment and vice versa. The change in the Company's reportable segments was effective in the fourth quarter of 2019 and is reflected below in 2020 and through the retrospective revision of 2019 segment information. The Company believes these changes better present management's new view of the business.

The following table shows the major components of the change in sales in the third quarter of 2020 from the third quarter of 2019:

<i>In millions</i>	Freight Segment	Transit Segment	Total
Third Quarter 2019 Net Sales	\$ 1,332.5	\$ 669.2	\$ 2,001.7
Acquisitions	8.9	—	8.9
Foreign Exchange	(19.7)	17.6	(2.1)
Organic	(84.4)	(59.0)	(143.4)
Third Quarter 2020 Net Sales	\$ 1,237.3	\$ 627.8	\$ 1,865.1

Results of operations were negatively impacted during the third quarter as a result of the COVID-19 pandemic. Management's discussion below includes analysis as to the impact of the COVID-19 pandemic where it could be explicitly identified; however, in many instances it is difficult to quantify with a high level of certainty the negative impact the COVID-19 pandemic had on our net sales, cost of goods, operating expenses, interest expense, and income tax expense.

Net sales

Net sales for the three months ended September 30, 2020 decreased by \$137 million, or 6.8%, to \$1.9 billion. The decrease is primarily attributable to a decrease of \$95 million in the Freight Segment due to lower Services sales driven by lower freight rail volumes and an increase in parking of locomotives, particularly in North America and lower sales in Components due to a reduction of freight carbuilds in the third quarter of 2020, which were partially offset by growth in locomotive Equipment sales. The lower freight rail volumes and increased parking of locomotives are primarily due to the COVID-19 pandemic and its impact on the economy. The Transit Segment experienced a decrease in sales of \$41 million, primarily due to COVID-19 related production delays and reduced passenger traffic.

Cost of sales

Cost of sales decreased by \$103 million to \$1.3 billion in 2020 compared to \$1.4 billion in 2019. The decrease is primarily due to the sales decreases discussed above. The third quarter of 2020 includes \$5 million of restructuring costs, primarily for the exit of certain product lines, footprint rationalization, and related headcount reductions as part of the ongoing integration actions related to the GE Transportation acquisition and in response to the COVID-19 pandemic. The third quarter of 2019 included a \$16 million charge related to purchase price accounting for the step-up of GE Transportation inventory and \$28 million of restructuring costs, primarily for footprint rationalization and related headcount reductions. Excluding these costs in both years, cost of sales as a percentage of sales was 69.4% in 2020 and 67.8% in 2019, representing a 1.6% increase. The increase can be attributed to an unfavorable sales mix and lower absorption of overhead costs due to the decrease in sales volumes primarily caused by the ongoing COVID-19 pandemic partially offset by increased synergy savings related to the GE Transportation acquisition.

Operating expenses

Total operating expenses decreased \$71 million to 19.3% of sales in the third quarter of 2020 compared to 21.5% during the third quarter of 2019. Restructuring and transaction costs included in Selling, General, and Administrative expenses ("SG&A") were \$12 million and \$40 million in the third quarters of 2020 and 2019, respectively. Additionally, SG&A expenses decreased \$12 million related to acquisition synergy savings and cost reduction initiatives. Engineering expense decreased \$22 million due to cost savings measures put in place in response to the COVID-19 pandemic on research and development projects and amortization expense decreased \$9 million.

Interest expense, net

Interest expense, net, decreased \$12 million in the third quarter of 2020 over the same period in 2019 attributable to lower variable interest rates and lower overall average debt balances in 2020.

Other income, net

Other income, net, was \$14.3 million in the third quarter of 2020 compared to \$1.9 million in the same period of 2019, primarily driven by foreign currency exchange gains in the third quarter of 2020 and an increase in income from equity method investments.

Income taxes

The effective income tax rate was 26.7% and 20.0% for the third quarter of 2020 and 2019, respectively. The increase in the effective rate is primarily the result of a beneficial adjustment of non-deductible transaction related expenses incurred during the three months ended September 30, 2019 as a result of the GE Transportation acquisition that did not recur in 2020 and tax expense resulting from an internal restructuring which was recognized during the three months ended September 30, 2020.

Freight Segment

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

<u>In millions</u>	Three Months Ended September 30,	
	2020	2019
Net sales:		
Sales of goods	\$ 923.3	\$ 945.7
Sales of services	314.0	386.8
Total net sales	1,237.3	1,332.5
Cost of sales:		
Cost of goods	(659.8)	(694.6)
Cost of services	(183.0)	(210.6)
Total cost of sales	(842.8)	(905.2)
Gross profit	394.5	427.3
Operating expenses	(234.3)	(272.0)
Income from operations (\$)	160.2	155.3
Income from operations (%)	12.9 %	11.7 %

The following table shows the major components of the change in net sales for the Freight Segment in the third quarter of 2020 from the third quarter of 2019:

<u>In millions</u>	
Third Quarter 2019 Net Sales	\$ 1,332.5
Acquisitions	8.9
<i>Change in Sales by Product Line:</i>	
Equipment	103.6
Components	(42.0)
Digital Electronics	(23.6)
Services	(122.4)
Foreign Exchange	(19.7)
Third Quarter 2020 Net Sales	\$ 1,237.3

Net sales

Freight Segment sales decreased by \$95 million, or 7.1%, to \$1.2 billion, due to a decrease in Services sales driven by lower freight rail volumes and an increase in parking of locomotives, particularly in North America and lower sales in Components due to a lower number of Freight carbuilds in the third quarter of 2020, partially offset by an increase in locomotive Equipment sales. The lower freight rail volumes and increased parking of locomotives are primarily due to the COVID-19 pandemic. Acquisitions increased sales by \$9 million and unfavorable foreign currency exchange rates decreased sales by \$20 million.

Cost of sales

Freight Segment cost of sales decreased by \$62 million to \$843 million in 2020. The decrease is primarily due to the sales decreases discussed above. The third quarter of 2020 includes \$2 million of restructuring costs, primarily for headcount actions as part of the ongoing integration actions related to the GE Transportation acquisition and in response to the COVID-19 pandemic. The third quarter of 2019 included a \$16 million non-recurring charge related to purchase price accounting for the step-up of GE Transportation inventory. Excluding these charges, cost of sales as a percentage of sales was 68.0% in 2020 and 64.7% in 2019, representing a 3.3% increase. The increase as a percentage of sales can be attributed to an unfavorable sales mix and lower absorption of overhead costs due to the decrease in sales volumes partially offset by increased synergy savings related to the GE Transportation acquisition and efforts to reduce costs in response to the COVID-19 pandemic.

Operating expenses

Freight Segment operating expenses decreased \$38 million, or 13.9%, in 2020 to 18.9% of sales. Restructuring and transaction costs included in SG&A were \$7 million and \$9 million in the third quarter of 2020 and 2019, respectively. SG&A expenses decreased \$8 million driven by acquisition synergy savings and cost reduction initiatives. Engineering expense decreased \$18 million due to cost saving measures put in place as a result of the COVID-19 pandemic and amortization expense decreased \$10 million.

Transit Segment

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

<i>In millions</i>	Three Months Ended September 30,	
	2020	2019
Net sales	\$ 627.8	\$ 669.2
Cost of sales	(456.1)	(497.1)
Gross profit	171.7	172.1
Operating expenses	(107.6)	(119.2)
Income from operations (\$)	64.1	52.9
Income from operations (%)	10.2 %	7.9 %

The following table shows the major components of the change in net sales for the Transit Segment in the third quarter of 2020 from the third quarter of 2019:

<i>In millions</i>	
Third Quarter 2019 Net Sales	\$ 669.2
<i>Change in Sales by Product Line:</i>	
Original Equipment Manufacturing	(14.6)
Aftermarket	(44.4)
Foreign Exchange	17.6
Third Quarter 2020 Net Sales	\$ 627.8

Net sales

Transit Segment sales decreased by \$41 million, or 6.2% primarily due to disruptions to our operations and reduced demand for our products caused by the COVID-19 pandemic, particularly in Asia and Europe. This impact was felt in both the Original Equipment Manufacturing and Aftermarket product lines. Favorable foreign currency exchange rate changes increased net sales by \$18 million.

Cost of sales

Transit Segment cost of sales decreased to \$456 million in the third quarter of 2020 primarily due to the reduction in sales. The third quarter of 2020 includes \$3 million of restructuring costs, primarily for footprint rationalization in the UK. The third quarter of 2019 included \$2 million of restructuring costs. Excluding these charges, cost of sales as a percentage of sales was 72.2%, a 1.8% decrease over the comparable period in 2019 as a result of improved operational performance.

Operating expenses

Transit Segment operating expenses decreased \$12 million to \$108 million, or 9.7%, in the third quarter of 2020 and decreased 70 basis points to 17.1% as a percentage of sales compared to the same period in 2019. SG&A expenses decreased \$8 million in 2020, primarily due to cost savings initiatives put in place to offset the adverse impact of COVID-19 and lower sales. Engineering expense decreased \$4 million due to cost saving measures put in place as a result of the COVID-19 pandemic and amortization expense remained consistent year over year.

FIRST NINE MONTHS OF 2020 COMPARED TO FIRST NINE MONTHS OF 2019

<i>In millions</i>	Nine Months Ended September 30,	
	2020	2019
Net sales:		
Sales of goods	\$ 4,540.5	\$ 4,932.4
Sales of services	991.9	899.2
Total net sales	5,532.4	5,831.6
Cost of sales:		
Cost of goods	(3,327.1)	(3,635.4)
Cost of services	(573.7)	(593.1)
Total cost of sales	(3,900.8)	(4,228.5)
Gross profit	1,631.6	1,603.1
Operating expenses:		
Selling, general and administrative expenses	(712.9)	(842.9)
Engineering expenses	(123.7)	(150.3)
Amortization expense	(211.6)	(172.9)
Total operating expenses	(1,048.2)	(1,166.1)
Income from operations	583.4	437.0
Other income and expenses:		
Interest expense, net	(150.3)	(160.8)
Other income (expense), net	5.8	(4.1)
Income from operations before income taxes	438.9	272.1
Income tax expense	(113.4)	(82.6)
Net income	325.5	189.5
Less: Net loss attributable to noncontrolling interest	1.0	1.5
Net income attributable to Wabtec shareholders	326.5	191.0

The following table shows the major components of the change in sales in the nine months ended September 30, 2020 from the nine months ended September 30, 2019:

<i>In millions</i>	Freight Segment	Transit Segment	Total
First Nine Months of 2019 Net Sales	\$ 3,774.3	\$ 2,057.3	\$ 5,831.6
Acquisitions	533.7	3.0	536.7
Foreign Exchange	(58.7)	(17.9)	(76.6)
Organic	(506.3)	(253.0)	(759.3)
First Nine Months of 2020 Net Sales	\$ 3,743.0	\$ 1,789.4	\$ 5,532.4

Results of operations were negatively impacted during the nine months ended September 30, 2020 as a result of the COVID-19 pandemic. Management's discussion below includes analysis as to the impact of the COVID-19 pandemic where it could be explicitly identified; however, in many instances it is difficult to quantify with a high level of certainty the negative impact the COVID-19 pandemic had on our net sales, cost of goods, operating expenses, interest expense, and income tax expense.

Net sales

Net sales for the nine months ended September 30, 2020 decreased by \$299 million, or 5.1%, to \$5.5 billion. The decrease is primarily due to an organic decrease of \$506 million in the Freight Segment, due to lower sales in Components from a reduction of freight carbuilds in 2020 compared to 2019, a decrease in Services sales due to lower freight rail volumes and an increase in parking of locomotives, particularly in North America, and lower locomotive Equipment sales. The lower freight rail volumes and increased parking of locomotives is partially due to the COVID-19 pandemic and its impact on the economy.

The Transit Segment experienced an organic decrease in sales of \$253 million, primarily due to COVID-19 related production delays and reduced passenger traffic. The decrease is partially offset by sales from acquisitions of \$537 million, mainly, the acquisition of GE Transportation. Unfavorable changes in foreign currency exchange rates reduced net sales by \$77 million.

Cost of sales

Cost of sales decreased by \$328 million to \$3.9 billion in 2020 compared to \$4.2 billion in 2019. The decrease is primarily due to the sales decreases discussed above. Cost of sales for the nine months of 2020 includes \$23 million of restructuring costs, primarily for the exit of certain product lines, footprint rationalization and related headcount reductions as part of the ongoing integration actions related to the GE Transportation acquisition and in response to the COVID-19 pandemic. Cost of sales in the first nine months of 2019 included a \$185 million charge related to purchase price accounting for the step-up of GE Transportation inventory and \$28 million of restructuring costs, primarily for footprint rationalization and related headcount actions. Excluding these charges in both years, cost of sales as a percentage of sales was 70.1% in 2020 and 68.9% in 2019, representing a 1.2% increase. The increase can be attributed to an unfavorable sales mix lower absorption of overhead costs due to the decrease in sales volumes primarily caused by the ongoing COVID-19 pandemic and its impact on lower rail volumes and increased parking of locomotives partially offset by increased synergy savings related to the GE Transportation acquisition.

Operating expenses

Total operating expenses decreased \$118 million to 18.9% of sales in the first nine months of 2020 compared to 20.0% during the same period of 2019. Restructuring and transaction costs included in SG&A were \$41 million and \$130 million for the nine months ended September 30, 2020 and 2019, respectively. Additionally, SG&A expenses decreased \$97 million related to acquisition synergy savings, reduced employee benefit costs, cost reduction initiatives and lower sales volumes, partially offset by \$56 million of incremental expense from acquisitions. Engineering expense decreased \$27 million due to cost control measures on research and development projects partially offset by incremental expense from acquisitions, and amortization expense increased \$39 million, due to the acquisition of GE Transportation.

Interest expense, net

Interest expense, net, decreased \$10.5 million in the first nine months of 2020 over the same period in 2019 attributable to lower variable interest rates and lower overall average debt balances in 2020.

Other income (expense), net

Other expense, net, was \$5.8 million of income in the first nine months of 2020 compared to \$4.1 million of expense in the same period of 2019. The variance is primarily driven by foreign exchange gains in the current year and an increase in income from equity method investments.

Income taxes

The effective income tax rate was 25.8% and 30.4% for the nine months ended September 30, 2020 and 2019, respectively. The decrease in the effective rate is primarily the result of non-deductible transaction related expenses incurred during the nine months ended September 30, 2019 as a result of the GE Transportation acquisition that did not recur in 2020 and an increase in estimated liabilities resulting from provisions of the Tax Cuts and Jobs Act that were recognized in 2019.

Freight Segment

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

<i>In millions</i>	Nine Months Ended September 30,	
	2020	2019
Net sales:		
Sales of goods	\$ 2,774.6	\$ 2,903.2
Sales of services	968.4	871.1
Total net sales	3,743.0	3,774.3
Cost of sales:		
Cost of goods	(2,039.2)	(2,136.6)
Cost of services	(555.0)	(570.5)
Total cost of sales	(2,594.2)	(2,707.1)
Gross profit	1,148.8	1,067.2
Operating expenses	(685.4)	(663.5)
Income from operations (\$)	463.4	403.7
Income from operations (%)	12.4 %	10.7 %

The following table shows the major components of the change in net sales for the Freight Segment in the first nine months of 2020 from the first nine months of 2019:

<i>In millions</i>	
First Nine Months of 2019 Net Sales	\$ 3,774.3
Acquisitions	533.7
Change in Sales by Product Line:	
Equipment	(133.8)
Components	(201.3)
Digital Electronics	(5.2)
Services	(166.0)
Foreign Exchange	(58.7)
First Nine Months of 2020 Net Sales	\$ 3,743.0

Net sales

Freight Segment sales decreased by \$31 million, or 0.8%, to \$3.7 billion, primarily due to an organic decrease of \$506 million due to lower sales in Components from a reduction of freight carbuilds in 2020 compared to 2019, a decrease in Services sales due to lower freight rail volumes and an increase in parking of locomotives, particularly in North America, and lower locomotive Equipment sales. The lower freight rail volumes and increased parking of locomotives is partially due to the COVID-19 pandemic and its impact on the economy. This decrease was partially offset by sales from acquisitions of \$534 million. Unfavorable foreign currency exchange rates decreased sales by \$59 million.

Cost of sales

Freight Segment cost of sales decreased by \$113 million to \$2.6 billion in 2020. The decrease is attributable to the organic sales decrease discussed above, partially offset by \$380 million of incremental cost of sales from acquisitions, mainly the acquisition of GE Transportation. The first nine months of 2020 includes \$16 million of restructuring costs, primarily for the exit of certain product lines, costs for site closures, and related headcount actions as part of the ongoing integration actions related to the GE Transportation acquisition and in response to the COVID-19 pandemic. The first nine months of 2019 included a \$185 million charge related to purchase price accounting for the step-up of GE Transportation inventory and \$27 million of restructuring costs, primarily for costs for site closures and related headcount reductions. Excluding these charges, cost of sales as a percentage of sales was 68.9% in 2020 and 66.1% in 2019, representing a 2.8% increase. The increase can be attributed to an unfavorable sales mix and lower absorption of overhead costs due to the decrease in organic sales volumes.

partially offset by increased synergy savings related to the GE Transportation acquisition and efforts to reduce costs in response to the COVID-19 pandemic.

Operating expenses

Freight Segment operating expenses increased \$22 million, or 3.3%, in 2020 to 18.3% of sales, primarily due to increased amortization expense of \$39 million, primarily due to the acquisition of GE Transportation. Restructuring and transaction costs included in SG&A were \$28 million and \$25 million for the nine months ending September 30, 2020 and 2019, respectively. SG&A expenses, excluding restructuring and transaction costs, decreased \$6 million due to a \$69 million reduction in employee benefit costs and synergy savings partially offset by \$55 million in incremental expense from acquisitions, primarily GE Transportation. Additionally, engineering expense decreased \$13 million due to cost control measures on research and development projects partially offset by incremental expense from acquisitions.

Transit Segment

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

<i>In millions</i>	Nine Months Ended September 30,	
	2020	2019
Net sales	\$ 1,789.4	\$ 2,057.3
Cost of sales	(1,306.6)	(1,521.4)
Gross profit	482.8	535.9
Operating expenses	(309.9)	(360.5)
Income from operations (\$)	172.9	175.4
Income from operations (%)	9.7 %	8.5 %

The following table shows the major components of the change in net sales for the Transit Segment in the first nine months of 2020 from the first nine months of 2019:

<i>In millions</i>	
First Nine Months of 2019 Net Sales	\$ 2,057.3
Acquisitions	3.0
<i>Change in Sales by Product Line:</i>	
Original Equipment Manufacturing	(147.4)
Aftermarket	(105.6)
Foreign Exchange	(17.9)
First Nine Months of 2020 Net Sales	\$ 1,789.4

Net sales

Transit Segment sales decreased by \$268 million, or 13.0% primarily due to disruptions to our operations caused by the COVID-19 pandemic, particularly in Asia and Europe. This impact was felt in both the Original Equipment Manufacturing and Aftermarket product lines. Unfavorable foreign currency exchange rate changes decreased net sales by \$18 million.

Cost of sales

Transit Segment cost of sales decreased by \$215 million to \$1.3 billion in 2020 primarily due to the reduction in sales. The first nine months of 2020 includes \$8 million of restructuring costs, primarily for footprint rationalization in the UK. Excluding these costs, cost of sales as a percentage of sales was 72.6%, a 1.3% decrease over the comparable period in 2019, attributable to improved operational performance.

Operating expenses

Transit Segment operating expenses decreased \$51 million to \$310 million, or 14.0%, in the first nine months of 2020 and remained consistent, as a percentage of sales compared to the same period in 2019. SG&A expenses decreased \$37 million in 2020, primarily due to lower sales and cost savings initiatives put in place to offset the adverse impact of COVID-19 and reduced employee benefit costs. Engineering expense decreased \$13 million due to cost savings measures put in place as a result of the COVID-19 pandemic 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:

<u>In millions</u>	Nine Months Ended September 30,	
	2020	2019
Cash provided by (used for):		
Operating activities	\$ 458.1	\$ 567.7
Investing activities	(119.9)	(3,109.8)
Financing activities	(360.8)	817.1

Operating activities In the first nine months of 2020, cash provided by operations was \$458 million compared to cash provided by operations of \$568 million in the first nine months of 2019. The major components of the decrease in operational cash flow were as follows: an unfavorable change in other assets and liabilities of \$331 million primarily due to the timing of payments of accrued expenses and costs related to the GE Transportation acquisition, an unfavorable change in accrued liabilities and customer deposits of \$95 million primarily due to the timing of customer advances, an unfavorable change in accounts payable of \$57 million due to the timing of payments to suppliers, and an unfavorable change of \$42 million in net income, after adjusting for the \$185 million of inventory step-up charges incurred in the first nine months of 2019 and the \$7 million change in other non-cash items. These changes were offset by a favorable change in accounts receivable of \$278 million mostly due to the timing of collections and the new receivables securitization program described below, and a favorable change in inventory of \$134 million, after adjusting for the \$185 million of inventory step-up charges incurred in the first nine months of 2019.

Investing activities In the first nine months of 2020 and 2019, cash used for investing activities was \$120 million and \$3.1 billion, respectively. The major components of the cash outflow in 2020 were \$99 million in additions to property, plant and equipment for investments in our facilities and manufacturing processes, and \$40 million in net cash paid for acquisitions. This compares to \$3.0 billion in net cash paid for acquisitions, primarily and \$113 million in property, plant, and equipment for additions in the first nine months of 2019. Refer to Note 3 of the "Notes to Condensed Consolidated Financial Statements" for additional information on acquisitions.

Financing activities In the first nine months of 2020, cash used for financing activities was \$361 million which included \$2.9 billion in proceeds from debt, \$3.1 billion in repayments of debt, \$105 million in stock repurchases and \$69 million of dividend payments. In the first nine months of 2019, cash provided by financing activities was \$817 million, which included \$3.0 billion in proceeds from debt, \$2.1 billion in repayments of debt, and \$58 million of dividend payments.

The COVID-19 pandemic had an adverse impact on cash from operating activities for the nine months ended September 30, 2020, and management expects the COVID-19 pandemic to negatively impact cash from operations for the remainder of 2020. The extent and length of time in which the Company's cash from operations will be negatively impacted is uncertain. Because of this uncertainty, the Company has taken prudent measures to decrease cash used for investing activities in 2020. Additionally, the Company implemented new debt arrangements and a receivables securitization program (described below) as part of its liquidity planning. These measures further strengthen our liquidity position as we address the impacts of the COVID-19 pandemic. Management continues to monitor the rapidly evolving situation and will periodically reassess and adjust the Company's cash management strategy as circumstances dictate.

As of September 30, 2020, the Company held approximately \$559 million of cash and cash equivalents. Of this amount, approximately \$47 million was held within the United States and approximately \$512 million was held outside of the United States, primarily in Europe, India and China. While repatriation of some cash held outside the United States may be restricted by local laws, most of the Company's foreign cash could be repatriated to the United States.

Debt

On April 10, 2020 the Company entered into a new \$600 million 364 day credit facility ("364 Day Facility") maturing April 2021 with a group of banks which includes a \$144.0 million revolving credit facility ("364 Day Revolver") and a \$456.0 million term loan ("364 Term Loan"). The agreement calls for interest at either a LIBOR-based rate, or a rate based on the prime lending rate of the agent bank, at the Company's option. The agreement contains affirmative, negative and financial covenants, and events of default customary for facilities of this type and substantially similar to our Senior Credit Facility. On June 12, 2020 the Company amended this 364 Day Facility maturity to July 9, 2021. The Company was in compliance with all of our covenants in the 364 Senior Credit Facility as of September 30, 2020. The obligations under the 364 Day Facility are guaranteed by certain of the Company's U.S. subsidiaries, as guarantors.

On June 29, 2020 the Company issued \$500.0 million of 3.20% Senior Notes due in 2025 (the "2025 Notes"). The 2025 Notes were issued at 99.892% of face value. Interest on the 2025 Notes accrues at a rate of 3.20% per annum and is payable semi-annually on June 15 and December 15 of each year beginning December 15, 2020. The proceeds were used to redeem the Floating Rate Senior Notes due 2021. The Company incurred \$1.5 million of deferred financing costs related to the issuance of the 2025 Notes.

Additional information with respect to Senior Notes, credit facilities and long-term debt is included in Note 8 of "Notes to Consolidated Financial Statements" included in Part I, Item 1 of this report and incorporated by reference herein.

Revolving Receivables Program

In May 2020, the Company entered into a revolving agreement to transfer up to \$150.0 million of certain receivables of certain subsidiaries of the Company (the "Originators") through our bankruptcy-remote subsidiary to a financial institution on a recurring basis in exchange for cash equal to the gross receivables transferred. As customers pay their balances, we sell additional receivables into the program, resulting in our gross receivables sold exceeding net cash flow impacts (e.g., collect and reinvest). Our bankruptcy-remote subsidiary holds additional receivables of \$191.7 million at September 30, 2020 that are pledged as collateral under this agreement. The transfers are recorded at fair value of the proceeds received and obligations assumed less derecognized receivables. No obligation was recorded at September 30, 2020 as the estimated expected credit losses on receivables sold is insignificant. Our maximum exposure to loss related to these receivables transferred is limited to the amount outstanding. The Company has agreed to guarantee the performance of the Originators respective obligations' under the revolving agreement. None of the Company nor the Originators guarantees the collectability of the receivables under the revolving agreements.

Guarantor Summarized Financial Information

The obligations under the Company's Senior Notes, Senior Credit Facility, 364 Day Facility and 2025 Notes have been fully and unconditionally guaranteed by certain of the Company's U.S. subsidiaries. Each guarantor is 100% owned by the parent company, with the exception of GE Transportation, a Wabtec Company, which has 15,000 shares outstanding of Class A Non-Voting Preferred Stock held by General Electric Company.

The following tables present summarized financial information of the parent and the guarantor subsidiaries on a combined basis. The combined summarized financial information eliminates intercompany balances and transactions among the parent and guarantor subsidiaries and equity in earnings and investments in any Guarantor Subsidiaries or Non-Guarantor Subsidiaries. The summarized financial information is provided in accordance with the reporting requirements of Rule 13-01 under SEC Regulation S-X for the issuer and Guarantor Subsidiaries.

Summarized Statement of Income

<i>In millions</i>	Unaudited Westinghouse Air Brake Technologies Corp. and Guarantor Subsidiaries	
	Nine Months Ended September 30, 2020	
Net sales	\$	2,984.0
Gross profit		581.9
Net income attributable to Wabtec shareholders		87.8

Summarized Balance Sheet

<i>In millions</i>	Westinghouse Air Brake Technologies Corp. and Guarantor Subsidiaries			
	Unaudited			
	September 30, 2020		December 31, 2019	
Current assets	\$	1,119.5	\$	1,360.1
Noncurrent assets		1,904.4		1,974.3
Current liabilities		1,707.0		1,695.6
Long-term debt		3,787.9		4,321.8
Other non-current liabilities		518.2		539.2

The following is a description of the transactions between the combined Westinghouse Air Brake Technologies Corp. and Guarantor Subsidiaries with Non-Guarantor Subsidiaries.

<u>In millions</u>	Unaudited Westinghouse Air Brake Technologies Corp. and Guarantor Subsidiaries Nine Months Ended September 30, 2020	
Net sales to Non-Guarantor Subsidiaries	\$	528.5
Purchases from Non-Guarantor Subsidiaries		1,295.7

<u>In millions</u>	Unaudited Westinghouse Air Brake Technologies Corp. and Guarantor Subsidiaries September 30, 2020	
Amount due from Non-Guarantor Subsidiaries	\$	1,276.2

Company Stock Repurchase Plan

On February 7, 2020, the Board of Directors amended its stock repurchase authorization to \$500 million of the Company's outstanding shares. This new stock repurchase authorization supersedes the previous authorization of \$350 million of which about \$138 million remained. During the first three months of 2020, the Company purchased 1.6 million shares for \$105 million, leaving \$395 million remaining under the authorization. No time limit was set for the completion of the program which conforms to the requirements under the Senior Credit Facility, the 364 Day Facility and the Senior Notes currently outstanding. The existing program remains authorized by the Board of Directors and we may repurchase shares in the future at any time, depending upon market conditions, our capital needs and other factors. Purchases of shares may be made by open market purchases or privately negotiated purchases and may be made pursuant to Rule 10b5-1 plan or otherwise.

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 the GE Transportation Business; 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; or
- the outcome of negotiations with governments.

COVID-19 factors

- the severity and duration of the pandemic
- deterioration of general economic conditions;
- shutdown of one or more of our operating facilities;
- supply chain and sourcing disruptions;
- ability of our customers to pay timely for goods and services delivered;
- health of our employees;
- ability to retain and recruit talented employees; or
- difficulty in obtaining debt or equity financing.

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, 2019.

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, 2019. In particular, judgment is used in areas such as accounts receivable and the allowance for doubtful accounts, inventories, goodwill and indefinite-lived intangibles, warranty reserves, pensions and postretirement benefits, income taxes and revenue recognition. There have been no significant changes in accounting policies since December 31, 2019.

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 18% and 32% of total long-term debt at September 30, 2020 and December 31, 2019, 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 nine months of 2020, approximately 42% of Wabtec's net sales were to customers in the United States, 13% in the Eurozone, 6% in Egypt, 6% in India, 5% in Canada, 5% in Australia, 4% in the United Kingdom, 3% in Brazil, 3% in Mexico, 3% in China, and 10% 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 September 30, 2020. 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 continuing the process of designing and integrating policies, processes, operations, technology, and other components of internal controls over financial reporting of the combined company. Management believes the control design and implementation thereof are being appropriately modified to address the underlying risks and 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

Additional information with respect to legal proceedings is included in Note 15 of “Notes to Consolidated Financial Statements” included in Part I, Item 1 of this report and incorporated by reference herein.

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, 2019, as supplemented by those disclosed in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.

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 September 30, 2020:

Issuer Purchases of Common Stock				
Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs (1)	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Programs (1)
July 2020	—	\$ —	—	\$ 394,746,349
August 2020	—	\$ —	—	\$ 394,746,349
September 2020	—	\$ —	—	\$ 394,746,349
Total quarter ended September 30, 2020	—	\$ —	—	\$ 394,746,349

- (1) On February 7, 2020, the Board of Directors amended its stock repurchase authorization to \$500 million of the Company's outstanding shares. This new stock repurchase authorization supersedes the previous authorization of \$350 million, of which \$137.8 million remained. No time limit was set for the completion of the program which conforms to the requirements under the Senior Credit Facility, the 364 Day Facility and the Senior Notes currently outstanding. The existing program remains authorized by the Board of Directors and we may repurchase shares in the future at any time, depending upon market conditions, our capital needs and other factors. Purchases of shares may be made by open market purchases or privately negotiated purchases and may be made pursuant to Rule 10b5-1 plan or otherwise.

Item 4. MINE SAFETY DISCLOSURES

Not Applicable

Item 6. EXHIBITS

The following exhibits are being filed with this report:

3.2	<u>Amended and Restated Bylaws, effective October 13, 2020 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on October 19, 2020)</u>
22.1	<u>List of Subsidiary Guarantors</u>
31.1	<u>Rule 13a-14(a) Certification of Chief Executive Officer.</u>
31.2	<u>Rule 13a-14(a) Certification of Chief Financial Officer.</u>
32.1	<u>Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.</u>
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.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

Guarantor Subsidiaries of Westinghouse Air Brake Technologies Corporation

As of June 30, 2020

The following subsidiaries of Westinghouse Air Brake Technologies Corporation (the "Company") were guarantors of the Company's Senior Notes, Senior Credit Facility, 364 Day Facility and 2025 Notes as of June 30, 2020:

Name of Guarantor Subsidiary	Jurisdiction of Formation
GE Transportation, a Wabtec Company	Delaware
RFPC Holding Corp.	Delaware
Schaefer Equipment, Inc.	Ohio
Standard Car Truck Company	Delaware
Transportation IP Holdings, LLC	Delaware
Transportation Systems Services Operations Inc.	Nevada
Wabtec Holding Corp.	Delaware
Wabtec Railway Electronics Holdings, LLC	Delaware
Wabtec Transportation Systems, LLC	Delaware
Workhorse Rail, LLC	Pennsylvania

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: October 29, 2020

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: October 29, 2020

By: /s/ PATRICK D. DUGAN

Name: Patrick D. Dugan

Title: Executive Vice President and Chief Financial Officer

