WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP
Form 10-Q
July 30, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015

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	25-1615902
(State or other jurisdiction	(I.R.S. Employer
of incorporation or organization)	Identification No.)
1001 Air Brake Avenue	
Wilmerding, PA	15148
(Address of principal executive offices)	(Zip code)

412-825-1000

(Registrant's telephone number, including area code)

N/A

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

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 x No ¨

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

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

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

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

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

Class	Outstanding at July 27, 2015
Common Stock, $.01 par value per share	96,674,083 shares

WESTINGHOUSE AIR BRAKE

TECHNOLOGIES CORPORATION

June 30, 2015

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

In thousands, except shares and par value	Unaudited June 30, 2015	December 31, 2014
Assets		
Current Assets		
Cash and cash equivalents	$264,844	$425,849
Accounts receivable	505,539	443,464
Unbilled accounts receivable	174,730	187,762
Inventories	535,002	510,949
Deferred income taxes	44,208	43,953
Other	55,643	25,887
Total current assets	1,579,966	1,637,864
Property, plant and equipment	711,966	683,034
Accumulated depreciation	(354,996)	(343,923)
Property, plant and equipment, net	356,970	339,111
Other Assets		
Goodwill	864,921	862,338
Other intangibles, net	454,533	422,811
Other noncurrent assets	41,733	41,717
Total other assets	1,361,187	1,326,866
Total Assets	$3,298,123	$3,303,841
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$377,457	$399,845
Customer deposits	98,636	111,797
Accrued compensation	66,919	70,857
Accrued warranty	74,300	68,031
Current portion of long-term debt	478	792
Other accrued liabilities	81,737	87,480
Total current liabilities	699,527	738,802
Long-term debt	400,348	520,403
Accrued postretirement and pension benefits	79,434	81,908
Deferred income taxes	118,396	112,915
Accrued warranty	22,353	19,818
Other long-term liabilities	21,733	21,697
Total liabilities	1,341,791	1,495,543

Shareholders' Equity		
Preferred stock, 1,000,000 shares authorized, no shares issued	-	-
Common stock, $.01 par value; 200,000,000 shares authorized:		
132,349,534 shares issued and 96,666,083 and 96,274,395 outstanding		
at June 30, 2015 and December 31, 2014, respectively	1,323	1,323
Additional paid-in capital	456,498	448,531
Treasury stock, at cost, 35,683,451 and 36,075,139 shares, at		
at June 30, 2015 and December 31, 2014, respectively	(388,001)	(392,262)
Retained earnings	2,095,224	1,909,136
Accumulated other comprehensive loss	(209,696)	(159,486)
Total Westinghouse Air Brake Technologies Corporation shareholders' equity	1,955,348	1,807,242
Non-controlling interest (minority interest)	984	1,056
Total shareholders' equity	1,956,332	1,808,298
Total Liabilities and Shareholders' Equity	$3,298,123	$3,303,841

The accompanying notes are an integral part of these statements.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

In thousands, except per share data	Unaudited Three Months Ended June 30, 2015	2014	Unaudited Six Months Ended June 30, 2015	2014
Net sales	$847,028	$731,068	$1,665,622	$1,426,317
Cost of sales	(579,264)	(506,410)	(1,142,503)	(992,090)
Gross profit	267,764	224,658	523,119	434,227
Selling, general and administrative expenses	(88,992)	(72,982)	(173,763)	(143,063)
Engineering expenses	(17,750)	(14,221)	(34,613)	(27,167)
Amortization expense	(5,162)	(5,132)	(10,463)	(9,828)
Total operating expenses	(111,904)	(92,335)	(218,839)	(180,058)
Income from operations	155,860	132,323	304,280	254,169
Other income and expenses				
Interest expense, net	(4,041)	(4,525)	(8,347)	(8,975)
Other (expense) income, net	(1,887)	243	(4,753)	226
Income from operations before income taxes	149,932	128,041	291,180	245,420
Income tax expense	(48,428)	(39,336)	(93,512)	(76,581)
Net income attributable to Wabtec shareholders	$101,504	$88,705	$197,668	$168,839
Earnings Per Common Share				
Basic				
Net income attributable to Wabtec shareholders	$1.05	$0.92	$2.05	$1.76
Diluted				
Net income attributable to Wabtec shareholders	$1.04	$0.91	$2.03	$1.74
Weighted average shares outstanding				
Basic	96,338	96,048	96,066	95,674
Diluted	97,435	97,058	97,112	96,827

The accompanying notes are an integral part of these statements.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

In thousands, except per share data	Unaudited Three Months Ended June 30, 2015	2014	Unaudited Six Months Ended June 30, 2015	2014
Net income attributable to Wabtec shareholders	$101,504	$88,705	$197,668	$168,839
Foreign currency translation gain (loss)	36,082	8,731	(51,849)	8,088
Unrealized gain (loss) on derivative contracts	949	(876)	(756)	(593)
Pension benefit plans and post-retirement benefit plans	(822)	(26)	3,000	1,782
Other comprehensive income (loss) before tax	36,209	7,829	(49,605)	9,277
Income tax (expense) benefit related to components of other comprehensive income (loss)	(320)	274	(605)	(381)
Other comprehensive income (loss), net of tax	35,889	8,103	(50,210)	8,896
Comprehensive income attributable to Wabtec shareholders	$137,393	$96,808	$147,458	$177,735

The accompanying notes are an integral part of these statements.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands, except per share data	Unaudited Six Months Ended June 30, 2015	2014
Operating Activities		
Net income attributable to Wabtec shareholders	$197,668	$168,839
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	31,612	27,862
Stock-based compensation expense	14,989	12,103
Loss on disposal of property, plant and equipment	420	106
Excess income tax benefits from exercise of stock options	(1,388)	(1,281)
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable and unbilled accounts receivable	(35,788)	(91,926)
Inventories	(25,536)	(20,249)
Accounts payable	(25,015)	43,653
Accrued income taxes	19,185	15,459
Accrued liabilities and customer deposits	(27,089)	(3,878)
Other assets and liabilities	(38,132)	(13,029)
Net cash provided by operating activities	110,926	137,659
Investing Activities		
Purchase of property, plant and equipment	(20,860)	(18,357)
Proceeds from disposal of property, plant and equipment	178	217
Acquisitions of businesses, net of cash acquired	(100,108)	(199,417)
Net cash used for investing activities	(120,790)	(217,557)
Financing Activities		
Proceeds from debt	174,300	266,900
Payments of debt	(294,589)	(216,698)
Purchase of treasury stock	-	(16,622)
Proceeds from exercise of stock options and other benefit plans	1,409	1,844
Excess income tax benefits from exercise of stock options	1,388	1,281
Payment of income tax withholding on share-based compensation	(14,565)	-
Earn-out settlement	-	(4,429)
Cash dividends ($0.12 and $0.08 per share for the six months ended June 30, 2015 and 2014, respectively)	(11,580)	(7,691)
Net cash (used for) provided by financing activities	(143,637)	24,585
Effect of changes in currency exchange rates	(7,504)	(4,540)
Decrease in cash	(161,005)	(59,853)
Cash, beginning of period	425,849	285,760
Cash, end of period	$264,844	$225,907

The accompanying notes are an integral part of these statements.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015 (UNAUDITED)

1. BUSINESS

Westinghouse Air Brake Technologies Corporation (“Wabtec”) is one of the world’s largest providers of value-added, technology-based products and services for the global rail industry. Our products are found on virtually all U.S. locomotives, freight cars and passenger transit vehicles, as well as in more than 100 countries throughout the world. Our products enhance safety, improve productivity and reduce maintenance costs for customers, and many of our core products and services are essential in the safe and efficient operation of freight rail and passenger transit vehicles. Wabtec is a global company with operations in 20 countries. In the first six months of 2015, about 48% of the Company’s revenues came from customers outside the U.S.

2. ACCOUNTING POLICIES

Basis of Presentation The unaudited condensed consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles and the rules and regulations of the Securities and Exchange Commission and include the accounts of Wabtec and its majority owned subsidiaries. These condensed consolidated interim financial statements do not include all of the information and footnotes required for complete financial statements. In management’s opinion, these financial statements reflect all adjustments of a normal, recurring nature necessary for a fair presentation of the results for the interim periods presented. Results for these interim periods are not necessarily indicative of results to be expected for the full year.

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

The notes included herein should be read in conjunction with the audited consolidated financial statements included in Wabtec’s Annual Report on Form 10-K for the year ended December 31, 2014. The December 31, 2014 information has been derived from the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

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

In general, the Company recognizes revenues on long-term contracts based on the percentage of completion method of accounting. The units-of-delivery method or other input-based or output-based measures, as appropriate, are used to measure the progress toward completion of individual contracts. Contract revenues and cost estimates are reviewed and revised at a minimum quarterly and adjustments are reflected in the accounting period as such amounts are determined. Provisions are made currently for estimated losses on uncompleted contracts. Unbilled accounts receivables were $174.7 million and $187.8 million, customer deposits were $98.6 million and $111.8 million, and provisions for loss contracts were $8.4 million and $7.1 million at June 30, 2015 and December 31, 2014, respectively.

Certain pre-production costs relating to long-term production and supply contracts have been deferred and will be recognized over the life of the contracts. Deferred pre-production costs were $28.7 million and $24.9 million at June 30, 2015 and December 31, 2014, respectively.

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

Financial Derivatives and Hedging Activities The Company periodically enters into foreign currency forward contracts to reduce the impact of changes in currency exchange rates. Forward contracts are agreements with a counter-party to exchange two distinct currencies at a set exchange rate for delivery on a set date at some point in the future. There is no exchange of funds until the delivery date. At the delivery date the Company can either take delivery of the currency or settle on a net basis. On June 24, 2015, the Company entered into a forward contract for the sale of Brazilian Real (BRL) and the purchase of U.S. dollars (USD). As of June 30, 2015 the notional value of this contract was 84.6 million BRL, or $27.0 million USD.

To reduce the impact of interest rate changes on a portion of its variable-rate debt, the Company has entered into two forward starting interest rate swap agreements with notional values of $150.0 million. As of June 30, 2015, the Company has recorded a current liability of $4.2 million and a corresponding offset in accumulated other comprehensive loss of $2.5 million, net of tax, related to this agreement. For further information regarding the forward starting interest rate swap agreements, see Footnote 6.

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

Non-controlling Interests In accordance with ASC 810, the Company has classified non-controlling interests as equity on our condensed consolidated balance sheets as of June 30, 2015 and December 31, 2014. Net income attributable to non-controlling interests for the three and six months ended June 30, 2015 and 2014 was not material.

Recent Accounting Pronouncements In April 2015, the FASB issued Accounting Standards Update No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03") which changes the presentation of debt issuance costs in financial statements to present such costs as a direct deduction from the related debt liability rather than as an asset. ASU 2015-03 will become effective for public companies during interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The Company is currently evaluating the impact the pronouncement will have on the consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU no. 2014-09, "Revenue from Contract with Customers." The ASU will supersede most of the existing revenue recognition requirements in U.S. GAAP and will require entities to recognize revenue at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The new standard also requires significantly expanded disclosures regarding the qualitative and quantitative information of an entity's nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Pronouncement is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and is to be applied retrospectively, with early application not permitted. The Board voted to propose that the standard would take effect for reporting periods beginning after December 15, 2017 and that early adoption would be allowed as of the original effective date. The Company is currently evaluating the impact the pronouncement will have on the consolidated financial statements and related disclosures.

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

The changes in accumulated other comprehensive loss by component, net of tax, for the six months ended June 30, 2015 are as follows:

Pension
and

In thousands	Foreign currency translation	Derivative contracts	post retirement benefits plans	&n