

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP
Form 10-Q
July 31, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Class	Outstanding at July 28, 2014
Common Stock, \$.01 par value per share	96,311,343 shares

WESTINGHOUSE AIR BRAKE
TECHNOLOGIES CORPORATION

June 30, 2014

FORM 10-Q

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PART I—FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

In thousands, except shares and par value	Unaudited	
	June 30, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	\$225,907	\$285,760
Accounts receivable	465,092	349,458
Unbilled accounts receivable	251,958	205,045
Inventories	481,507	403,229
Deferred income taxes	52,517	50,622
Other	49,870	38,933
Total current assets	1,526,851	1,333,047
Property, plant and equipment	679,517	597,740
Accumulated depreciation	(336,363)	(321,662)
Property, plant and equipment, net	343,154	276,078
Other Assets		
Goodwill	821,572	786,433
Other intangibles, net	435,429	385,679
Other noncurrent assets	36,862	40,760
Total other assets	1,293,863	1,212,872
Total Assets	\$3,163,868	\$2,821,997
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$397,371	\$326,666
Customer deposits	72,369	66,573
Accrued compensation	56,374	57,058
Accrued warranty	51,557	43,197
Current portion of long-term debt	681	421
Other accrued liabilities	90,064	85,485
Total current liabilities	668,416	579,400
Long-term debt	500,219	450,288
Accrued postretirement and pension benefits	47,973	50,003
Deferred income taxes	135,565	114,486
Accrued warranty	19,562	17,396
Other long-term liabilities	26,441	23,257
Total liabilities	1,398,176	1,234,830
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 96,309,478 and 95,909,948 outstanding at June 30, 2014 and December 31, 2013, respectively	1,323	1,323

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Additional paid-in capital	434,198	415,059
Treasury stock, at cost, 36,040,056 and 36,439,586 shares, at June 30, 2014 and December 31, 2013, respectively	(383,095)	(372,969)
Retained earnings	1,737,850	1,576,702
Accumulated other comprehensive loss	(25,960)	(34,856)
Total Westinghouse Air Brake Technologies Corporation shareholders' equity	1,764,316	1,585,259
Non-controlling interest (minority interest)	1,376	1,908
Total shareholders' equity	1,765,692	1,587,167
Total Liabilities and Shareholders' Equity	\$3,163,868	\$2,821,997

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,		Unaudited Six Months Ended June 30,	
	2014	2013	2014	2013
Net sales	\$731,068	\$638,002	\$1,426,317	\$1,253,512
Cost of sales	(506,410)	(445,121)	(992,090)	(877,743)
Gross profit	224,658	192,881	434,227	375,769
Selling, general and administrative expenses	(72,982)	(63,874)	(143,063)	(128,174)
Engineering expenses	(14,221)	(11,280)	(27,167)	(22,614)
Amortization expense	(5,132)	(5,173)	(9,828)	(8,760)
Total operating expenses	(92,335)	(80,327)	(180,058)	(159,548)
Income from operations	132,323	112,554	254,169	216,221
Other income and expenses				
Interest expense, net	(4,525)	(3,271)	(8,975)	(6,885)
Other income (expense), net	243	406	226	(175)
Income from operations before income taxes	128,041	109,689	245,420	209,161
Income tax expense	(39,336)	(35,051)	(76,581)	(64,910)
Net income attributable to Wabtec shareholders	\$88,705	\$74,638	\$168,839	\$144,251
Earnings Per Common Share				
Basic				
Net income attributable to Wabtec shareholders	\$0.92	\$0.78	\$1.76	\$1.51
Diluted				
Net income attributable to Wabtec shareholders	\$0.91	\$0.77	\$1.74	\$1.49
Weighted average shares outstanding				
Basic				
	96,048	95,762	95,674	95,243
Diluted				
	97,058	97,102	96,827	96,606

The accompanying notes are an integral part of these statements.

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

In thousands, except per share data	Unaudited Three Months Ended June 30,		Unaudited Six Months Ended June 30,	
	2014	2013	2014	2013
Net income attributable to Wabtec shareholders	\$88,705	\$74,638	\$168,839	\$144,251
Foreign currency translation gain (loss)	8,731	(9,037)	8,088	(36,978)
Unrealized (loss) gain on derivative contracts	(876)	1,067	(593)	1,010
Pension benefit plans and post-retirement benefit plans	(26)	2,303	1,782	5,405
Other comprehensive income (loss) before tax	7,829	(5,667)	9,277	(30,563)
Income tax benefit (expense) related to components of other comprehensive income (loss)	274	(1,142)	(381)	(1,986)
Other comprehensive income (loss), net of tax	8,103	(6,809)	8,896	(32,549)
Comprehensive income attributable to Wabtec shareholders	\$96,808	\$67,829	\$177,735	\$111,702

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,	
	2014	2013
Operating Activities		
Net income attributable to Wabtec shareholders	\$ 168,839	\$ 144,251
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	27,862	25,019
Stock-based compensation expense	12,103	11,090
Loss (gain) on disposal of property, plant and equipment	106	(743)
Excess income tax benefits from exercise of stock options	(1,281)	(4,162)
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable and unbilled accounts receivable	(91,926)	(103,155)
Inventories	(20,249)	7,003
Accounts payable	43,653	21,308
Accrued income taxes	15,459	(5,004)
Accrued liabilities and customer deposits	(3,878)	(44,316)
Other assets and liabilities	(13,029)	(6,195)
Net cash provided by operating activities	137,659	45,096
Investing Activities		
Purchase of property, plant and equipment	(18,357)	(14,608)
Proceeds from disposal of property, plant and equipment	217	5,832
Acquisitions of businesses, net of cash acquired	(199,417)	(115,071)
Net cash used for investing activities	(217,557)	(123,847)
Financing Activities		
Proceeds from debt	266,900	244,800
Payments of debt	(216,698)	(165,744)
Purchase of treasury stock	(16,622)	-
Proceeds from exercise of stock options and other benefit plan	1,844	2,649
Excess income tax benefits from exercise of stock options	1,281	4,162
Earn-out settlement	(4,429)	-
Cash dividends (\$0.04 and \$0.025 per share for the six months ended June 30, 2014 and 2013, respectively)	(7,691)	(4,796)
Net cash provided by financing activities	24,585	81,071
Effect of changes in currency exchange rates	(4,540)	(3,581)
Decrease in cash	(59,853)	(1,261)
Cash, beginning of year	285,760	215,766
Cash, end of period	\$ 225,907	\$ 214,505

The accompanying notes are an integral part of these statements.

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014 (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 19 countries. In the first six months of 2014, about 46% 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, 2013. The December 31, 2013 information has been derived from the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

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

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

Information regarding shares of common stock (except par value per share), retained earnings, and net income per common share attributable to Wabtec shareholders for all periods presented reflects the two-for-one split of the Company’s common stock. The number of shares of the Company’s common stock issuable upon exercise of

outstanding stock options and vesting of other stock-based awards was proportionally increased, and the exercise price per share thereof was proportionally decreased, in accordance with the terms of the stock incentive plans.

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

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

In general, the Company recognizes revenues on long-term contracts based on the percentage of completion method of accounting. The units-of-delivery method or other input-based or output-based measures, as appropriate, are used to measure the progress toward completion of individual contracts. Contract revenues and cost estimates are reviewed and revised at a minimum quarterly and adjustments are reflected in the accounting period as such amounts are determined. Provisions are made currently for estimated losses on uncompleted contracts. Unbilled accounts receivables were \$252.0 million and \$205.0 million, customer deposits were \$72.4 million and \$66.6 million, and provisions for loss contracts were \$7.2 million and \$14.0 million at June 30, 2014 and December 31, 2013, 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 \$19.5 million and \$19.2 million at June 30, 2014 and December 31, 2013, 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. At June 30, 2014, the Company had no material foreign currency forward contracts.

To reduce the impact of interest rate changes on a portion of its variable-rate debt, the Company has entered into two forward starting interest rate swap agreements with notional values of \$150.0 million. As of June 30, 2014, the Company has recorded a current liability of \$3.5 million and a corresponding offset in accumulated other comprehensive loss of \$2.1 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, 2014 and December 31, 2013. Net income attributable to non-controlling interests for the three and six months ended June 30, 2014 and 2013 was not material.

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

The changes in accumulated other comprehensive loss by component, net of tax, for the six months ended June 30, 2014 are as follows:

	Pension and post
Foreign	

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In thousands	currency translation	Derivative contracts	retirement benefits plans	Total
Balance at December 31, 2013	\$ 17,326	\$ (2,010)	\$ (50,172)	\$(34,856)
Other comprehensive income (loss) before reclassifications	8,088	(1,234)	(268)	6,586
Amounts reclassified from accumulated other comprehensive income	-	829	1,481	2,310
Net current period other comprehensive income (loss)	8,088	(405)	1,213	8,896
Balance at June 30, 2014	\$ 25,414	\$ (2,415)	\$ (48,959)	\$(25,960)

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Reclassifications out of accumulated other comprehensive loss for the three months ended June 30, 2014 are as follows: