WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP
Form 10-Q
October 30, 2014

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 September 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 of incorporation or organization)	(I.R.S. Employer Identification No.)
1001 Air Brake Avenue	
Wilmerding, PA	15148
(Address of principal executive offices)	(Zip code)

412-825-1000

(Registrant's telephone number, including area code)

N/A

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

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 October 27, 2014
Common Stock, $.01 par value per share	96,254,818 shares

WESTINGHOUSE AIR BRAKE

TECHNOLOGIES CORPORATION

September 30, 2014

FORM 10-Q

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Item 1. FINANCIAL STATEMENTS
WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

In thousands, except shares and par value	Unaudited September 30, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	$212,541	$285,760
Accounts receivable	474,930	349,458
Unbilled accounts receivable	240,178	205,045
Inventories	489,053	403,229
Deferred income taxes	52,240	50,622
Other	64,866	38,933
Total current assets	1,533,808	1,333,047
Property, plant and equipment	682,297	597,740
Accumulated depreciation	(339,932)	(321,662)
Property, plant and equipment, net	342,365	276,078
Other Assets		
Goodwill	864,460	786,433
Other intangibles, net	449,533	385,679
Other noncurrent assets	38,221	40,760
Total other assets	1,352,214	1,212,872
Total Assets	$3,228,387	$2,821,997
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$389,284	$326,666
Customer deposits	74,901	66,573
Accrued compensation	64,168	57,058
Accrued warranty	53,509	43,197
Current portion of long-term debt	955	421
Other accrued liabilities	91,931	85,485
Total current liabilities	674,748	579,400
Long-term debt	521,087	450,288
Accrued postretirement and pension benefits	62,371	50,003
Deferred income taxes	143,549	114,486
Accrued warranty	17,203	17,396
Other long-term liabilities	19,820	23,257
Total liabilities	1,438,778	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 96,254,818 and 95,909,948 outstanding		
at September 30, 2014 and December 31, 2013, respectively	1,323	1,323
Additional paid-in capital	441,869	415,059
Treasury stock, at cost, 36,094,716 and 36,439,586 shares, at September 30, 2014 and December 31, 2013, respectively	(392,475)	(372,969)
Retained earnings	1,822,225	1,576,702
Accumulated other comprehensive loss	(84,285)	(34,856)
Total Westinghouse Air Brake Technologies Corporation shareholders' equity	1,788,657	1,585,259
Non-controlling interest (minority interest)	952	1,908
Total shareholders’ equity	1,789,609	1,587,167
Total Liabilities and Shareholders’ Equity	$3,228,387	$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 September 30, 2014	2013	Unaudited Nine Months Ended September 30, 2014	2013
Net sales	$797,271	$631,398	$2,223,588	$1,884,910
Cost of sales	(549,813)	(443,265)	(1,541,903)	(1,321,008)
Gross profit	247,458	188,133	681,685	563,902
Selling, general and administrative expenses	(88,359)	(63,402)	(231,422)	(191,576)
Engineering expenses	(16,391)	(10,921)	(43,558)	(33,535)
Amortization expense	(6,731)	(3,939)	(16,559)	(12,699)
Total operating expenses	(111,481)	(78,262)	(291,539)	(237,810)
Income from operations	135,977	109,871	390,146	326,092
Other income and expenses				
Interest expense, net	(4,594)	(3,829)	(13,569)	(10,714)
Other income (expense), net	(154)	(1,658)	72	(1,833)
Income from operations before income taxes	131,229	104,384	376,649	313,545
Income tax expense	(41,074)	(30,441)	(117,655)	(95,351)
Net income attributable to Wabtec shareholders	$90,155	$73,943	$258,994	$218,194
Earnings Per Common Share				
Basic				
Net income attributable to Wabtec shareholders	$0.94	$0.77	$2.69	$2.28
Diluted				
Net income attributable to Wabtec shareholders	$0.93	$0.76	$2.67	$2.25
Weighted average shares outstanding				
Basic	95,935	95,848	95,745	95,383
Diluted	97,004	97,174	96,834	96,754

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 September 30, 2014	2013	Unaudited Nine Months Ended September 30, 2014	2013
Net income attributable to Wabtec shareholders	$90,155	$73,943	$258,994	$218,194
Foreign currency translation gain (loss)	(60,964)	34,179	(52,876)	(2,799)
Unrealized gain (loss) on derivative contracts	1,153	(411)	560	599
Pension benefit plans and post-retirement benefit plans	2,553	1,341	4,335	6,746
Other comprehensive income (loss) before tax	(57,258)	35,109	(47,981)	4,546
Income tax benefit (expense) related to components of other comprehensive income (loss)	(1,067)	(1,075)	(1,448)	(3,061)
Other comprehensive income (loss), net of tax	(58,325)	34,034	(49,429)	1,485
Comprehensive income attributable to Wabtec shareholders	$31,830	$107,977	$209,565	$219,679

The accompanying notes are an integral part of these statements.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Unaudited Nine Months Ended September 30,	
In thousands, except per share data	2014	2013
Operating Activities		
Net income attributable to Wabtec shareholders	$258,994	$218,194
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	44,977	37,135
Stock-based compensation expense	19,107	17,596
Loss (gain) on disposal of property, plant and equipment	114	(641)
Excess income tax benefits from exercise of stock options	(2,739)	(9,445)
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable and unbilled accounts receivable	(89,359)	(167,175)
Inventories	(33,958)	29,025
Accounts payable	40,971	23,542
Accrued income taxes	16,355	(2,032)
Accrued liabilities and customer deposits	8,342	(45,407)
Other assets and liabilities	(32,640)	(15,796)
Net cash provided by operating activities	230,164	84,996
Investing Activities		
Purchase of property, plant and equipment	(30,977)	(23,595)
Proceeds from disposal of property, plant and equipment	340	6,168
Acquisitions of businesses, net of cash acquired	(299,661)	(222,058)
Net cash used for investing activities	(330,298)	(239,485)
Financing Activities		
Proceeds from debt	433,400	868,538
Payments of debt	(362,965)	(649,359)
Purchase of treasury stock	(26,757)	(5,486)
Proceeds from exercise of stock options and other benefit plans	3,044	4,736
Excess income tax benefits from exercise of stock options	2,739	9,445
Earn-out settlement	(4,429)	-
Cash dividends ($0.14 and $0.09 per share for the nine months ended September 30, 2014 and 2013, respectively)	(13,471)	(8,800)
Net cash provided by financing activities	31,561	219,074
Effect of changes in currency exchange rates	(4,646)	656
(Decrease) increase in cash	(73,219)	65,241
Cash, beginning of year	285,760	215,766
Cash, end of period	$212,541	$281,007

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, 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 nine months of 2014, 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, 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 $240.2 million and $205.0 million, customer deposits were $74.9 million and $66.6 million, and provisions for loss contracts were $7.4 million and $14.0 million at September 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 $19.2 million at September 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 September 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 September 30, 2014, the Company has recorded a current liability of $2.4 million and a corresponding offset in accumulated other comprehensive loss of $1.4 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 September 30, 2014 and December 31, 2013. Net income attributable to non-controlling interests for the three and nine months ended September 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 nine months ended September 30, 2014 are as follows:

	Pension and

In thousands	Foreign currency translation	Derivative contracts	post retirement benefits plans	Total
Balance at December 31, 2013	$ 17,326	$ (2,010)	$ (50,172)	$ (34,856)
Other comprehensive income (loss) before reclassifications	(52,876)	(876)	1,156	(52,596)
Amounts reclassified from accumulated other comprehensive income	-	1,167	2,000	3,167
Net current period other comprehensive income (loss)	(52,876)	291	3,156	(49,429)
Balance at September 30, 2014	$ (35,550)	$ (1,719)	$ (47,016)	$ (84,285)

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

In thousands	Amount reclassified from accumulated other comprehensive income	Affected line item in the Condensed Consolidated Statements of Operations
Amortization of defined pension and post retirement items		
Amortization of initial net obligation and prior service cost	$ (613)	Cost of sales
Amortization of net loss	1,368	Cost of sales
	755	Income from Operations
	(236)	Income tax expense
	$ 519	Net income
Derivative contracts		
Realized loss on derivative contracts	$ 492	Interest expense, net
	(154)	Income tax expense
	$ 338	Net income

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

In thousands	Amount reclassified from accumulated other comprehensive income	Affected line item in the Condensed Consolidated Statements of Operations
Amortization of defined pension and post retirement items		
Amortization of initial net obligation and prior service cost	$ (1,843)	Cost of sales
Amortization of net loss	4,751	Cost of sales
	2,908	Income from Operations
	(908)	Income tax expense
	$ 2,000	Net income
Derivative contracts		
Realized loss on derivative contracts	$ 1,697	Interest expense, net

	(530)	Income tax expense
	$ 1,167	Net income

3. ACQUISITIONS

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

On September 3, 2014, the Company acquired C2CE Pty Ltd. ("C2CE"), a provider of railway signal design services, for a net purchase price of approximately $25.1 million, net of cash acquired, resulting in preliminary goodwill of $15.0 million, none of which will be deductible for tax purposes.
On September 24, 2013, the Company acquired Longwood Industries, Inc ("Longwood"), a manufacturer of specialty rubber products for transportation, oil and gas, and industrial markets, for a net purchase price of approximately $83.9 million, net of cash acquired, resulting in goodwill of $28.3 million, none of which will be deductible for tax purposes.
On July 30, 2013, the Company acquired Turbonetics Holdings, Inc ("Turbonetics"), a manufacturer of turbochargers and related components for various industrial markets, for a net purchase price of approximately $23.2 million, net of cash acquired, resulting in preliminary goodwill of $11.3 million, none of which will be deductible for tax purposes.
On January 31, 2013, the Company acquired Napier Turbochargers Ltd. ("Napier"), a UK-based provider of turbochargers and related parts for the worldwide power generation and marine markets, for a net purchase price of approximately $112.3 million, net of cash acquired, resulting in additional goodwill of $67.0 million, none of which will be deductible for tax purposes.

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

- On August 21, 2014, the Company acquired Dia-Frag ("Dia-Frag"), a manufacturer of friction products for various markets with a focus on motorcycle braking, for a net purchase price of approximately $70.6 million, net of cash acquired, resulting in additional goodwill of $32.6 million, none of which will be deductible for tax purposes.
- On June 6, 2014, the Company acquired Fandstan Electric Group Ltd. ("Fandstan"), a leading rail and industrial equipment manufacturer for a variety of markets, including rail and tram transportation, industrial and energy, for a net purchase price of approximately $199.4 million, net of cash acquired, resulting in additional goodwill of $49.7 million, none of which will be deductible for tax purposes.

The acquisitions listed above include escrow deposits of $41.6 million, which act as security for indemnity and other claims in accordance with the purchase and related escrow agreements. For the C2CE, Dia-Frag, and Fandstan acquisitions, the following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition. For the Longwood, Turbonetics, and Napier acquisitions, the following table summarizes the final fair values of the assets acquired and liabilities assumed at the date of acquisition.

In thousands	C2CE September 3, 2014	Dia-Frag August 21, 2014	Fandstan June 6, 2014	Longwood September 24, 2013	Turbonetics July 30, 2013	Napier January 31, 2013
Current assets	$ 9,794	$ 12,502	$ 125,025	$ 17,444	$ 5,532	$ 13,441
Property, plant & equipment	1,860	4,497	61,465	19,363	992	8,837
Goodwill	14,981	32,556	49,748	28,272	11,309	67,045
Other intangible assets	3,804	36,211	51,571	39,440	11,140	40,583
Other assets	-	65	309	7	-	-
Total assets acquired	30,439	85,831	288,118	104,526	28,973	129,906
Total liabilities assumed	(5,323)	(15,190)	(88,714)	(20,663)	(5,790)	(17,565)
Net assets acquired	$ 25,116	$ 70,641	$ 199,404	$ 83,863	$ 23,183	$ 112,341

Of the $182.6 million of total acquired intangible assets, $119.5 million was assigned to customer relationships, $45.9 million was assigned to trade names, $5.2 million was assigned to patents, $3.9 million was assigned to non-compete agreements, $0.8 million was assigned to favorable leasehold interest and $7.3 million was assigned to customer backlog. The trade names were determined to have an indefinite useful life, while the customer relationships' average useful life is 20 years, the patents' useful life is 11 years, the non-compete useful life is five years and the favorable leasehold interest useful life is five years.

The following unaudited pro forma consolidated financial information presents income statement results as if the acquisitions listed above had occurred on January 1, 2013:

In thousands	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013

Net sales	$ 808,327	$ 727,010	$ 2,357,388	$ 2,179,068
Gross profit	250,542	212,649	724,706	645,888
Net income attributable to Wabtec shareholders	91,519	79,897	269,469	239,151
Diluted earnings per share				
As Reported	$ 0.93	$ 0.76	$ 2.67	$ 2.25
Pro forma	$ 0.94	$ 0.82	$ 2.78	$ 2.46

4. INVENTORIES

The components of inventory, net of reserves, were:

In thousands	September 30, 2014	December 31, 2013
Raw materials	$ 192,042	$ 165,906
Work-in-progress	155,574	137,449
Finished goods	141,437	99,874
Total inventories	$ 489,053	$ 403,229

5. INTANGIBLES

The change in the carrying amount of goodwill by segment for the nine months ended September 30, 2014 is as follows:

In thousands	Freight Segment	Transit Segment	Total
Balance at December 31, 2013	$ 509,664	$ 276,769	$ 786,433
Adjustment to preliminary purchase allocation	(2,488)	(1,554)	(4,042)
Acquisitions	18,168	82,376	100,544
Foreign currency impact	(3,236)	(15,239)	(18,475)
Balance at September 30, 2014	$ 522,108	$ 342,352	$ 864,460

As of September 30, 2014 and December 31, 2013, the Company’s trademarks had a net carrying amount of $173.9 million and $156.8 million, respectively, and the Company believes these intangibles have an indefinite life.

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

In thousands	September 30, 2014	December 31, 2013
Patents, non-compete and other intangibles, net of accumulated amortization of $39,867 and $37,824	$ 19,573	$ 15,561
Customer relationships, net of accumulated amortization of $53,848 and $44,910	256,068	213,324
Total	$ 275,641	$ 228,885

The weighted average remaining useful life of patents, customer relationships and intellectual property were eight years, 17 years and 15 years, respectively. Amortization expense for intangible assets was $6.7 million and $16.6 million for the three and nine months ended September 30, 2014, respectively, and $3.9 million and $12.7 million for the three and nine months ended September 30, 2013, respectively.

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

Remainder of 2014	$6,353
2015	22,324
2016	19,799
2017	18,903
2018	18,267

6. LONG-TERM DEBT

Long-term debt consisted of the following:

In thousands	September 30, 2014	December 31, 2013
4.375% Senior Notes, due 2023	$250,000	$250,000
Revolving Credit Facility	270,000	200,000
Capital Leases	2,042	709
Total	522,042	450,709
Less - current portion	955	421
Long-term portion	$521,087	$450,288

2013 Refinancing Credit Agreement

On December 19, 2013, the Company amended its existing revolving credit facility with a consortium of commercial banks. This “2013 Refinancing Credit Agreement” provides the Company with an $800 million, five-year revolving credit facility. The Company incurred approximately $1.0 million of deferred financing cost related to the 2013 Refinancing Credit Agreement. The facility expires on December 19, 2018. The 2013 Refinancing Credit Agreement borrowings bear variable interest rates indexed as described below. At September 30, 2014, the Company had available bank borrowing capacity, net of $17.0 million of letters of credit, of approximately $513.0 million, subject to certain financial covenant restrictions.

Under the 2013 Refinancing Credit Agreement, the Company may elect a Base Rate of interest for U.S. Dollar denominated loans or, for certain currencies, an interest rate based on the London Interbank Offered Rate (“LIBOR”) of interest, or other rates appropriate for such currencies (in any case, “the Alternate Rate”). The Base Rate adjusts on a daily basis and is the greater of the Federal Funds Effective Rate plus 0.5% per annum, the PNC, N.A. prime rate or the Daily LIBOR Rate plus 100 basis points, plus a margin that ranges from 0 to 75 basis points. The Alternate Rate is based on the quoted rates specific to the applicable currency, plus a margin that ranges from 75 to 175 basis points. Both the Base Rate and Alternate Rate margins are dependent on the Company’s consolidated total indebtedness to cash flow ratios. The initial Base Rate margin is 0 basis points and the Alternate Rate margin is 75 basis points.

At September 30, 2014 the weighted average interest rate on the Company’s variable rate debt was 1.16%. On January 12, 2012, the Company entered into a forward starting interest rate swap agreement with a notional value of $150.0 million. The effective date of the interest rate swap agreement is July 31, 2013, and the termination date is November 7, 2016. The impact of the interest rate swap agreement converts a portion of the Company’s outstanding debt from a variable rate to a fixed-rate borrowing. During the term of the interest rate swap agreement the interest rate on the notional value will be fixed at 1.415% plus the Alternate Rate margin. The Company is exposed to credit risk in the event of nonperformance by the counterparty. However, since only the cash interest payments are exchanged, exposure is significantly less than the notional amount. The counterparty is a large financial institution with an excellent credit rating and history of performance. The Company currently believes the risk of nonperformance is negligible.

On June 5, 2014, the Company entered into a forward starting interest rate swap agreement with a notional value of $150.0 million. The effective date of the interest rate swap agreement is November 7, 2016, and the termination date is December 19, 2018. The impact of the interest rate swap agreement converts a portion of the Company's outstanding debt from a variable rate to a fixed-rate borrowing. During the term of the interest rate swap agreement the interest rate on the notional value will be fixed at 2.56% plus the Alternate Rate margin. The Company is exposed to credit risk in the event of nonperformance by the counterparty. However, since only the cash interest payments are exchanged, exposure is significantly less than the notional amount. The counterparty is a large financial institution with an excellent credit rating and history of performance. The Company currently believes the risk of nonperformance is negligible.

The 2013 Refinancing Credit Agreement limits the Company's ability to declare or pay cash dividends and prohibits the Company from declaring or making other distributions, subject to certain exceptions. The 2013 Refinancing Credit Agreement contains various other covenants and restrictions including the following limitations: incurrence of additional indebtedness; mergers, consolidations, sales of assets and acquisitions; additional liens; sale and leasebacks; permissible investments, loans and advances; certain debt payments; and imposes a minimum interest expense coverage ratio of 3.0 and a maximum debt to cash flow ratio of 3.25. The Company does not expect that these measurements will limit the Company in executing our operating activities.

2011 Refinancing Credit Agreement

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

Under the 2011 Refinancing Credit Agreement, the Company may have elected a Base Rate of interest or an interest rate based on the London Interbank Offered Rate (“LIBOR”) of interest (“the Alternate Rate”). The Base Rate adjusted on a daily basis and was the greater of the Federal Funds Effective Rate plus 0.5% per annum, the PNC, N.A. prime rate or the Daily LIBOR Rate plus 100 basis points plus a margin that ranged from 0 to 75 basis points. The Alternate Rate was based on quoted LIBOR rates plus a margin that ranged from 75 to 175 basis points. Both the Base Rate and Alternate Rate margins were dependent on the Company’s consolidated total indebtedness to cash flow ratios. The current Base Rate margin was 0 basis points and the Alternate Rate margin was 100 basis points.

4.375% Senior Notes Due August 2023

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

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

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

6.875% Senior Notes Due July 31, 2013

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

7. EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plans

The Company sponsors defined benefit pension plans that cover certain U.S., Canadian, German, and United Kingdom employees and which provide benefits of stated amounts for each year of service of the employee.

The Company uses a December 31 measurement date for the plans.

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

In thousands, except percentages	U.S. Three Months Ended September 30, 2014	2013	International Three Months Ended September 30, 2014	2013
Net periodic benefit cost				
Service cost	$54	$111	$659	$505
Interest cost	488	490	2,271	1,651
Expected return on plan assets	(617)	(752)	(2,655)	(2,087)
Net amortization/deferrals	355	753	766	849
Settlement loss recognized	-	-	-	166
Net periodic benefit cost	$280	$602	$1,041	$1,084

In thousands, except percentages	U.S. Nine Months Ended September 30, 2014	2013	International Nine Months Ended September 30, 2014	2013
Net periodic benefit cost				
Service cost	$250	$323	$1,511	$1,524
Interest cost	1,552	1,472	5,936	4,984
Expected return on plan assets	(1,857)	(2,232)	(7,116)	(6,304)
Net amortization/deferrals	1,665	2,431	2,292	2,570
Settlement loss recognized	-	-	-	166
Net periodic benefit cost	$1,610	$1,994	$2,623	$2,940

The Company's funding methods are based on governmental requirements and differ from those methods used to recognize pension expense. The Company expects to contribute $5.2 million to the international plans and does not expect to make a contribution to the U.S. plans during 2014.

Post Retirement Benefit Plans

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

The Company uses a December 31 measurement date for all post retirement plans.

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

	U.S.		International	
	Three Months Ended September 30,		Three Months Ended September 30,	
In thousands, except percentages	2014	2013	2014	2013
Net periodic benefit cost				
Service cost	$ 7	$ 22	$ 10	$ 12
Interest cost	289	192	42	42
Net amortization/deferrals	(350)	(367)	(16)	(75)
Net periodic benefit (credit) cost	$ (54)	$ (153)	$ 36	$ (21)

	U.S.	International
	Nine Months Ended	