

WABCO Holdings Inc.  
 Form 10-Q  
 October 24, 2014  
Table of Contents

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, 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 1-33332  
 WABCO Holdings Inc.  
 (Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization) Chaussee de Wavre, 1789 1160 Brussels, Belgium	20-8481962 (I.R.S. Employer Identification No.)
--	---

2770 Research Drive Rochester Hills, MI (Address of principal executive offices)	48309-3511 (Zip Code)
--	--------------------------

Registrant's telephone number, including area code +32 2 663 98 00

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 (§232.405 of this chapter) 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 (Check one).

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.

Common stock, \$.01 par value, outstanding at

October 22, 2014

58,883,335

---

Table of Contents

WABCO HOLDINGS INC. AND SUBSIDIARIES  
FORM 10-Q  
For the Quarter ended September 30, 2014  
Contents

<u>FORM 10-Q</u>	<u>2</u>
<u>PART I. FINANCIAL INFORMATION</u>	<u>3</u>
Item 1. <u>Financial Statements</u>	<u>3</u>
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS	<u>3</u>
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	<u>4</u>
<u>CONDENSED CONSOLIDATED BALANCE SHEETS</u>	<u>5</u>
<u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	<u>6</u>
<u>NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>7</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>18</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>26</u>
Item 4. <u>Controls and Procedures</u>	<u>26</u>
<u>PART II. OTHER INFORMATION</u>	<u>28</u>
Item 1A. <u>Risk Factors</u>	<u>28</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>28</u>
Item 6. <u>Exhibits</u>	<u>28</u>
<u>SIGNATURE</u>	<u>29</u>

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

WABCO HOLDINGS INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (Unaudited)

(Amounts in millions, except share and per share data)	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2014	2013	2014	2013
Sales	\$707.3	\$677.1	\$2,171.8	\$2,000.1
Cost of sales	487.3	477.6	1,504.3	1,396.3
Gross Profit	220.0	199.5	667.5	603.8
Costs and expenses:				
Selling and administrative expenses	95.7	80.6	284.7	252.3
Product engineering expenses	35.7	30.9	113.1	90.7
Other operating expense, net	0.9	1.1	7.4	5.7
Operating income	87.7	86.9	262.3	255.1
Equity income of unconsolidated joint ventures, net	6.3	4.7	17.8	12.9
Other non-operating income/(expense), net	0.1	(0.9)	(2.7)	2.8
Interest (expense)/income, net	(0.1)	(0.2)	0.1	(0.7)
Income before income taxes	94.0	90.5	277.5	270.1
Income tax expense	9.5	8.0	43.3	25.8
Net income including noncontrolling interests	84.5	82.5	234.2	244.3
Less: net income attributable to noncontrolling interests	2.5	2.5	7.8	7.4
Net income attributable to Company	\$82.0	\$80.0	\$226.4	\$236.9
Net income attributable to Company per common share				
Basic	\$1.38	\$1.28	\$3.75	\$3.78
Diluted	\$1.37	\$1.26	\$3.71	\$3.72
Cash dividends per share of common stock	\$—	\$—	\$—	\$—
Weighted average common shares outstanding				
Basic	59,369,423	62,465,812	60,342,549	62,684,399
Diluted	59,972,228	63,248,651	60,996,987	63,615,995

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

WABCO HOLDINGS INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2014	2013	September 30, 2014	2013
(Amounts in millions)				
Net income including noncontrolling interests	\$84.5	\$82.5	\$234.2	\$244.3
Foreign currency translation (losses)/gains	(82.5 )	10.8	(85.6 )	(22.5 )
Unrealized gains/(losses) on benefit plans, net	7.4	(3.0 )	9.1	0.3
Comprehensive income	9.4	90.3	157.7	222.1
Less: comprehensive income attributable to noncontrolling interests	1.3	1.0	7.9	2.0
Comprehensive income attributable to Company	\$8.1	\$89.3	\$149.8	\$220.1

See Notes to Condensed Consolidated Financial Statements.

Table of ContentsWABCO HOLDINGS INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2014	December 31, 2013
(Amounts in millions, except share data)		
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 388.0	\$ 472.8
Short-term investments	—	55.2
Accounts receivable, less allowance for doubtful accounts of \$4.2 in 2014 and \$5.0 in 2013	486.9	346.2
Inventories:		
Finished products	101.1	93.9
Products in process	7.8	7.2
Raw materials	106.2	106.1
Future income tax benefits	12.5	10.4
Restricted cash	—	34.6
Guaranteed notes receivable	67.6	51.4
Other current assets	56.7	56.8
Total current assets	1,226.8	1,234.6
Property, plant and equipment, less accumulated depreciation	421.7	422.5
Goodwill	437.6	381.2
Long-term future income tax benefits	223.7	248.9
Investments in unconsolidated joint ventures	19.1	19.9
Intangible assets, net	84.4	44.3
Other assets	44.8	41.4
<b>TOTAL ASSETS</b>	<b>\$ 2,458.1</b>	<b>\$ 2,392.8</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Loans payable to banks	\$ 4.0	\$ 40.1
Accounts payable	171.3	149.3
Accrued payroll	112.1	118.8
Current portion of warranties	27.6	29.8
Taxes payable	11.3	3.8
Accrued expenses	55.3	58.7
Other accrued liabilities	92.8	84.9
Total current liabilities	474.4	485.4
Long-term debt	277.6	47.0
Post-retirement benefits	402.4	438.6
Deferred tax liabilities	129.4	120.1
Long-term income tax liabilities	47.0	45.3
Other liabilities	56.4	59.0
Total liabilities	1,387.2	1,195.4
Shareholders' equity:		
Preferred stock, 4,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$.01 par value, 400,000,000 shares authorized; shares issued: 77,883,857 in 2014; 77,471,174 in 2013; and shares outstanding: 58,860,790 in 2014; 61,359,025 in 2013	0.8	0.8
Capital surplus	821.6	800.2

Edgar Filing: WABCO Holdings Inc. - Form 10-Q

Treasury stock, at cost: 19,023,067 shares in 2014; 16,112,149 shares in 2013	(1,198.0 )	(896.6 )
Retained earnings	1,598.2	1,371.8
Accumulated other comprehensive income:		
Foreign currency translation adjustments	(100.1 )	(14.4 )
Unrealized losses on benefit plans, net of tax	(99.9 )	(109.0 )
Total shareholders' equity	1,022.6	1,152.8
Noncontrolling interests	48.3	44.6
Total equity	1,070.9	1,197.4
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 2,458.1</b>	<b>\$ 2,392.8</b>

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

WABCO HOLDINGS INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

	Nine Months Ended September 30,	
	2014	2013
(Amounts in millions)		
Operating activities:		
Net income including noncontrolling interests	\$234.2	\$244.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	61.4	55.8
Amortization of intangibles	14.4	9.0
Equity in earnings of unconsolidated joint ventures, net of dividends received	0.3	0.1
Non-cash stock compensation	11.5	9.7
Deferred income tax (income)/expense	(2.2 )	1.6
Loss on sale or disposal of property, plant and equipment	0.2	0.2
Changes in assets and liabilities:		
Accounts receivable, net	(142.2 )	(64.3 )
Inventories	(18.7 )	(24.0 )
Accounts payable	25.6	31.9
Other accrued liabilities and taxes	11.0	16.3
Other current and long-term assets	9.3	(30.9 )
Other long-term liabilities	6.0	(1.6 )
Net cash provided by operating activities	210.8	248.1
Investing activities:		
Purchases of property, plant and equipment	(80.0 )	(58.3 )
Investments in capitalized software	(9.3 )	(9.4 )
Proceeds from sale of short-term investments	50.7	—
Acquisitions, net	(125.9 )	—
Net cash used in investing activities	(164.5 )	(67.7 )
Financing activities:		
Net borrowings/(repayments) of revolving credit facilities	229.0	(45.9 )
Net repayments of debt	(36.3 )	(7.0 )
Purchases of treasury stock	(299.5 )	(148.6 )
Dividends to noncontrolling interest holders	(4.3 )	(4.5 )
Purchase of subsidiary shares from noncontrolling interest	(5.7 )	(4.6 )
Proceeds from exercise of stock options	12.1	44.4
Net cash used in financing activities	(104.7 )	(166.2 )
Effect of exchange rate changes on cash and cash equivalents	(26.4 )	(1.7 )
Net (decrease)/increase in cash and cash equivalents	(84.8 )	12.5
Cash and cash equivalents at beginning of period	472.8	175.0
Cash and cash equivalents at end of period	\$388.0	\$187.5
Cash paid during the period for:		
Interest	\$1.3	\$0.2
Income taxes	\$30.7	\$30.0
Non cash items for the period:		
Treasury stock purchase accrual	\$1.9	\$6.1
See Notes to Condensed Consolidated Financial Statements.		





Table of Contents

WABCO HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

(Unaudited)

NOTE 1. Basis of Financial Statement Presentation

WABCO Holdings Inc. and its subsidiaries (collectively WABCO or the Company) develops, manufactures and sells advanced braking, stability, suspension and transmission control systems primarily for commercial vehicles.

WABCO's largest selling products are pneumatic anti-lock braking systems (ABS), electronic braking systems (EBS), automated manual transmission systems, air disc brakes and a large variety of conventional mechanical products such as actuators, air compressors and air control valves for heavy and medium-sized trucks, trailers and buses. WABCO sells its products to four groups of customers around the world: truck and bus original equipment manufacturers (OEMs), trailer OEMs, aftermarket distributors of replacement parts and services and automotive OEMs.

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments, including normal recurring items, considered necessary for a fair presentation of financial data have been included. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the entire year. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes for the year ended December 31, 2013, included in the Company's Annual Report on Form 10-K.

Based on the organizational structure, as well as the nature of financial information available and reviewed by the Company's chief operating decision maker to assess performance and make decisions about resource allocations, the Company has concluded that its total WABCO operations represent one reportable segment and that WABCO's performance and future net cash flow perspectives are best understood and assessed as such. All majority-owned subsidiaries of WABCO are included in the consolidated financial statements and intercompany transactions are eliminated upon consolidation. WABCO's investments in unconsolidated joint ventures are included at cost plus its equity in undistributed earnings less dividends and changes in foreign currency in accordance with the equity method of accounting and reflected as investments in unconsolidated joint ventures in the consolidated balance sheet. Preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Management believes the most complex and sensitive judgments, because of their significance to the condensed consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes 2 and 14 to the Consolidated Financial Statements for the year ended December 31, 2013, in the Company's Annual Report on Form 10-K, describe the most significant accounting estimates and policies used in the preparation of the Consolidated Financial Statements. Actual results in these areas could differ materially from management's estimates. There have been no significant changes in the Company's assumptions regarding critical accounting estimates during the first nine months of 2014.

NOTE 2. Recently Issued Accounting Standards

The adoption of recently issued accounting standards did not have a material impact on the condensed consolidated financial statements, nor do we expect the pending adoption of recently issued accounting standards to have a material impact on the condensed consolidated financial statements.

In August 2014, the FASB issued Accounting Standards Update 2014-15 (ASU 2014-15) Presentation of Financial Statements - Going Concern, which provide guidance about management's responsibility in evaluating whether there

is substantial doubt relating to an entity's ability to continue as a going concern and to provide related footnote disclosures as applicable. ASU 2014-15 is effective for the interim and annual periods ending after December 15, 2016. The Company does not expect any material impact from adoption of this guidance on the Company's condensed consolidated financial statements.

7

---

Table of Contents

In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers, which is a new comprehensive revenue recognition standard on the financial reporting requirements for revenue from contracts entered into with customers. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2016. The Company is currently assessing the potential impact of the adoption of this guidance on its condensed consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11 Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which provides guidance on the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. ASU 2013-11 is effective for interim and annual periods beginning after December 15, 2013. The Company adopted the provisions of ASU 2013-11 as of March 31, 2014, which did not affect the Company's condensed consolidated financial statements.

## NOTE 3. Comprehensive Income

The table below presents the changes in accumulated other comprehensive loss for the three and nine month periods ended September 30, 2014 and 2013.

(Amount in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Foreign currency translation adjustments:				
Balance at beginning of period	(10.5 )	(37.4 )	(5.5 )	(9.5 )
Adjustment for the period	(80.1 )	13.7	(85.1 )	(14.2 )
Balance at end of period	(90.6 )	(23.7 )	(90.6 )	(23.7 )
Losses on intra-entity transactions (1):				
Balance at beginning of period	(8.2 )	(7.3 )	(8.9 )	(5.9 )
Adjustment for the period	(1.3 )	(1.5 )	(0.6 )	(2.9 )
Balance at end of period	(9.5 )	(8.8 )	(9.5 )	(8.8 )
Unrealized gains on investments:				
Balance at beginning of period	0.2	—	—	—
Adjustment for the period	—	—	0.2	—
Amounts reclassified to earnings, net	(0.2 )	—	(0.2 )	—
Balance at end of period	—	—	—	—
Pension and Post-retirement Plans:				
Balance at beginning of period	(107.3 )	(103.9 )	(109.0 )	(107.2 )
Other comprehensive income before reclassifications	6.6	(4.2 )	6.2	(3.1 )
Amounts reclassified to earnings, net (2)	0.8	1.2	2.9	3.4
Balance at end of period	\$(99.9 )	\$(106.9 )	\$(99.9 )	\$(106.9 )
Accumulated other comprehensive loss at end of period	\$(200.0 )	\$(139.4 )	\$(200.0 )	\$(139.4 )

(1) Relates to intra-entity foreign currency transactions that are of a long term investment nature, when the entities to the transaction are consolidated, combined or accounted for by the equity method in the Company's financial statements.

(2) This accumulated other comprehensive income component, net of taxes of \$0.3 million and \$0.5 million for the three months ended September 30, 2014 and 2013, and \$1.1 million and \$1.4 million for the nine months ended September 30, 2014 and 2013, is included in the computation of net periodic pension cost. See Note 13 for additional details.

Table of Contents

NOTE 4. Accounts Receivable Securitization Program & Financing Receivables

On September 23, 2009, the Company established an accounts receivable securitization program (the Accounts Receivable Securitization Program) with Société Générale Bank Nederland N.V. (Société Générale) where the maximum funding from receivables that may be sold into the Accounts Receivable Securitization Program and outstanding at any point in time is €80 million. The Accounts Receivable Securitization Program expired on September 26, 2014, and was not renewed.

During the nine months ended September 30, 2014 and prior to expiration of the Accounts Receivable Securitization Program, the Company sold all of its eligible receivables into the Accounts Receivable Securitization Program. The receivables were removed from the balance sheet in accordance with the guidance under ASC 860, Transfers and Servicing. The total amount of receivables sold under the Accounts Receivable Securitization Program for the first nine months of 2014 and 2013 were €545.7 million (\$739.9 million at average exchange rates for the nine months ended September 30, 2014) and €570.9 million (\$752.1 million at average exchange rates for the nine months ended September 30, 2013), respectively.

The fair value of the receivables sold equaled the carrying cost at time of sale, and no gain or loss was recorded as a result of the sale. The Company estimated the fair value of sold receivables using Level 3 inputs and based the estimate on historical and anticipated performance of similar receivables, including historical and anticipated credit losses (if any). As part and through the expiration of the Accounts Receivable Securitization Program, the Company continued to service the receivables. The Company sold the receivables at face value, but received actual funding net of a subordinated deposit account with Société Générale until collections were received from customers for the receivables sold. The Company was exposed to the credit losses of sold receivables up to the amount of its subordinated deposit account at each settlement date. Credit losses for receivables sold and past due amounts outstanding at September 30, 2014 were both immaterial. Servicing fees paid for the program were \$0.6 million for each of the nine months ended September 30, 2014 and September 30, 2013.

In connection with the expiration of the Accounts Receivable Securitization Program, the Company entered into a separate agreement with Société Générale to repurchase accounts receivable amounting to €88.1 million (\$111.7 million at September 30, 2014 exchange rates). A subordinated deposit of \$38.2 million was also released to the Company, resulting in a net decrease in cash and cash equivalents of \$73.5 million.

Other receivables available for financing include receivables from reputable state owned and public enterprises in China that are settled through bankers acceptance drafts, which are registered and endorsed to the Company. These notes receivable are fully guaranteed by banks and generally have contractual maturities of six months or less, but the ultimate recourse remains against the trade debtor. These guaranteed drafts are available for discounting with banking institutions in China or transferring to suppliers to settle liabilities. The total amount of notes receivable discounted or transferred for the first nine months of 2014 and 2013 were \$42.4 million and \$29.6 million, respectively. There were no expenses for the nine months ended September 30, 2014 and September 30, 2013. The fair value of these guaranteed notes receivable is determined based on Level 2 inputs including credit ratings and other criteria observable in the market. The fair value of these notes equal their carrying amounts of \$67.6 million and \$51.4 million as of September 30, 2014 and December 31, 2013, respectively.

The Company monitors the credit quality of both the drawers of the draft and guarantors on a monthly basis by reviewing various factors such as payment history, level of state involvement in the institution, size, national importance as well as current economic conditions in China. Since the Company has not experienced any historical losses nor is expecting future credit losses based on a review of the various credit quality indicators described above, we have not established a loss provision against these receivables as of September 30, 2014 or December 31, 2013.

NOTE 5. Net Income Attributable to Company per Share

Basic net income attributable to Company per share has been computed using the weighted average number of WABCO common shares outstanding. The average number of outstanding shares of common stock used in computing diluted net income attributable to Company per share includes weighted average incremental shares when the impact is not anti-dilutive. The weighted average incremental shares represent the net amount of shares the Company would issue upon the assumed exercise of in-the-money stock options and vesting of restricted stock units (RSUs) and

deferred stock units (DSUs) after assuming that the Company would use the proceeds from the exercise of options to repurchase stock.

Anti-dilutive shares, if applicable, are excluded and represent those options, RSUs and DSUs whose assumed proceeds were greater than the average price of the Company's common stock.

9

---

Table of Contents

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2014	2013	2014	2013
Weighted average incremental shares included	602,805	782,839	654,438	931,596
Shares excluded due to anti-dilutive effect	—	672	—	89,304

## NOTE 6. Capital Stock

The following is a summary of net shares outstanding and shares issued or reacquired during the nine month period ended September 30, 2014.

	Number of Shares of Common Stock		
	Total Shares	Treasury Shares	Net Shares Outstanding
Balance, December 31, 2013	77,471,174	(16,112,149 )	61,359,025
Shares issued upon exercise of stock options	319,168	—	319,168
Shares issued upon vesting of RSUs	89,783	—	89,783
Shares issued for DSUs	2,932	—	2,932
Shares issued for stock awards	800	—	800
Shares purchased for treasury	—	(2,910,918 )	(2,910,918 )
Balance, September 30, 2014	77,883,857	(19,023,067 )	58,860,790

The Company accounts for purchases of treasury stock under the cost method with the costs of such share purchases reflected in treasury stock in the accompanying condensed consolidated balance sheets. When treasury shares are reissued, they are recorded at the average cost of the treasury shares acquired since the inception of the share repurchase programs, net of shares previously reissued and the Company reflects the difference between the average cost paid and the amount received for the reissued shares in capital surplus. As of September 30, 2014, no shares have been reissued.

On May 26, 2011, the Board of Directors approved the repurchase of shares in an amount not to exceed \$400 million, which expired on May 31, 2013. On October 26, 2012, the Board of Directors authorized the Company to enter into an additional share repurchase program for \$400 million of common shares. An additional repurchase program for \$200 million of common shares was further authorized on October 29, 2013. Both of these authorizations expire on December 31, 2014.

As of September 30, 2014, the Company has repurchased a total of \$921.7 million of shares under these three repurchase programs, leaving an unexpended balance of \$78.3 million available to repurchase shares in the future. Subsequent to September 30, 2014, the Company repurchased an additional 159,200 shares for a total of \$14.3 million. The Company plans to continue to purchase shares at prevailing market prices. The timing and amount of share repurchases, if any, will depend on a variety of factors, including, among other things, share price, market conditions and applicable regulatory requirements.

## NOTE 7. Stock-Based Compensation

The Company records stock-based compensation based on the estimated fair value of the award at the grant date and recognizes that as an expense in the condensed consolidated statements of operations over the requisite service period. Commencing in 2013, the Company has replaced the stock options component of the equity incentive awards with performance stock units (PSUs), the vesting of which would occur, if at all, and at levels depending upon, the achievement of three-year cumulative earnings per share goals. The Company assesses the expected achievement levels at the end of each reporting period. As of September 30, 2014, the Company believes it is probable that the performance conditions will be met and has accrued for the compensation expense accordingly.



Total stock-based compensation cost recognized during the three and nine month periods ended September 30, 2014 and 2013 was as follows:

10

---

Table of Contents

(Amount in millions)	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2014	2013	2014	2013
Stock-based compensation	\$3.9	\$3.1	\$11.5	\$9.7

The total number and type of awards granted during the periods presented and the related weighted-average grant-date fair values were as follows:

	Nine Months		Nine Months	
	Ended September 30, 2014		Ended September 30, 2013	
	Underlying	Weighted	Underlying	Weighted
	Shares	Average	Shares	Average
		Grant Date		Grant Date
		Fair Value		Fair Value
RSUs Granted	90,201	\$100.71	110,693	\$68.13
PSUs Granted	65,508	\$103.41	94,364	\$68.10
DSUs Granted	6,680	\$107.88	5,864	\$75.12
Stock Awards Granted	800	\$96.37	900	\$74.51
Total Awards	163,189		211,821	

In the first nine months of 2014, a total of 90,201 RSUs were granted of which 78,046 vest in equal annual installments over a period of three years. Of the remaining 12,155 RSUs granted, 628 vest after two years and 11,527 vest after three years. In the first nine months of 2013, a total of 110,693 RSUs were granted of which 102,327 vest in equal annual installments over a period of three years. Of the remaining 8,366 RSUs granted, 3,120 vest after two years and 5,246 vest after three years.

A total of 65,508 and 94,364 PSUs were granted during the first nine months of 2014 and 2013, respectively. The vesting of these PSUs would occur, if at all, and at levels depending upon, the achievement of certain three-year cumulative earnings per share goals.

A total of 6,680 DSUs were also granted during the first nine months of 2014 compared to 5,864 DSUs granted during the first nine months of 2013. The DSUs were granted to our non-management directors as part of the equity portion of their annual retainer and were fully vested at grant. Each DSU provides the right to the issuance of a share of our common stock, within ten days after the earlier of the director's death or disability, the 13-month anniversary of the grant date or the director's separation from service. Each director may also elect within a month after the grant date to defer the receipt of shares for five or more years. No election can be made to accelerate the issuance of stock from a DSU.

The Company also granted 800 stock awards in the first nine months of 2014 and 900 stock awards in the first nine months of 2013.

**NOTE 8. Debt**

On July 8, 2011, the Company entered into a \$400 million multi-currency five-year senior unsecured revolving credit facility (the "Facility") with the lenders and agent banks party thereto, including Banc of America Securities Limited as agent, issuing bank and swingline lender, and Banc of America Securities Limited, Citigroup Global Markets Limited, Fortis Bank S.A./N.V., ING Belgium SA/NV, Société Générale Corporate & Investment Banking, The Bank of Tokyo-Mitsubishi UFJ, Ltd and The Royal Bank of Scotland NV, (Belgium) Branch, as mandated lead arrangers and bookrunners and Credit Lyonnais and Unicredit Bank AG as lead arrangers. On August 23, 2013 the Company entered into an amendment agreement which extended the expiry of the Facility from September 1, 2016 to September 1, 2018. No other material terms were amended.

As of September 30, 2014, the Facility is our principal bank credit facility, and it will expire on September 1, 2018. Under the Facility, the Company may borrow, on a revolving basis, loans in an aggregate principal amount at any one time outstanding not in excess of \$400 million. Up to \$50 million under the Facility may be used for issuing letters of credit, of which \$49.0 million was unused as of September 30, 2014, and up to \$50 million is available in the form of

swingline loans, of which \$50.0 million was unused as of September 30, 2014. As of September 30, 2014, the carrying amount of this facility approximated fair value based upon Level 2 inputs.

The balance outstanding on this Facility as of September 30, 2014 was \$276.0 million in addition to \$1.0 million of letters of credit. The balance outstanding is classified as long-term debt as the Company does not intend to repay the balance

Table of Contents

within the next 12 months. Interest on loans under the Facility will be calculated at a rate per annum equal to an applicable margin, which can vary from 0.80% to 1.55% based on the Company's leverage ratio, plus LIBOR for loans denominated in U.S. Dollars, EURIBOR for loans denominated in Euros, HIBOR for loans denominated in Hong Kong Dollars and SIBOR for loans denominated in Singapore Dollars, plus mandatory costs, if any. A large portion of the proceeds of the borrowings under the Facility funds our share repurchase program. However, the proceeds will also be available to finance acquisitions, refinance existing indebtedness and meet general financing requirements.

The Facility contains terms and provisions (including representations, covenants and conditions) customary for transactions of this type. Our primary financial covenant is a leverage test which requires net indebtedness not to exceed three times adjusted four quarter trailing EBITDA (earnings before interest, taxes, depreciation and amortization adjusted for certain items). Additional financial covenants include an interest coverage test and a maximum subsidiary indebtedness test. The interest coverage test requires three times interest expense not to exceed adjusted four quarter trailing EBITDA. The maximum subsidiary indebtedness test limits the total aggregate amount of indebtedness of WABCO's subsidiaries, excluding indebtedness under the Facility, to \$400 million, of which not more than \$150 million may be secured. Financial covenants, as determined on the date the Facility was signed, are not subject to any future changes in U.S. GAAP accounting standards and all cash on the balance sheet can be deducted for net indebtedness purposes. In addition, expenses and payments related to any streamlining of WABCO's operations are excluded when calculating the four quarter trailing adjusted EBITDA. Other covenants include delivery of financial reports and other information, compliance with laws including environmental laws and permits, ERISA and U.S. regulations, limitations on liens, mergers and sales of assets and change of business.

As of September 30, 2014 the Company had the ability to borrow an incremental \$123.0 million under the Facility and was in compliance with all covenants. Various subsidiaries also had borrowings from banks totaling \$5.6 million, of which \$1.6 million was classified as long-term debt. The remaining \$4.0 million supports local working capital requirements.

## NOTE 9. Warranties, Guarantees, Commitments and Contingencies

## Warranties

Products sold by WABCO are covered by a basic limited warranty with terms and conditions that vary depending upon the product and country in which they were sold. The limited warranty covers the equipment, parts and labor (in certain cases) necessary to satisfy the warranty obligation generally for a period of two years. Estimated product warranty expenses are accrued in cost of goods sold at the time the related sale is recognized. Estimates of warranty expenses are based primarily on warranty claims experience and specific customer contracts. Warranty expenses include accruals for basic warranties for product sold, as well as accruals for product recalls, service campaigns and other related events when they are known and estimable. To the extent WABCO experiences changes in warranty claim activity or costs associated with servicing those claims, its warranty accrual is adjusted accordingly. Warranty accrual estimates are updated based upon the most current warranty claims information available.

The following is a summary of changes in the Company's product warranty liability for the three and nine month periods ended September 30, 2014 and 2013.

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
(Amount in millions)	2014	2013	2014	2013
Balance of warranty costs accrued, beginning of period	\$52.2	\$50.3	\$51.6	\$55.2
Warranty costs accrued	6.9	6.7	21.4	18.0
Warranty claims settled	(8.0 )	(8.6 )	(21.4 )	(24.0 )
Foreign exchange translation effects	(3.1 )	1.4	(3.6 )	0.6
Balance of warranty costs accrued, end of period	\$48.0	\$49.8	\$48.0	\$49.8
Current liability, included in current portion of warranties	\$27.6	\$28.0	\$27.6	\$28.0
Long-term liability, included in other liabilities	\$20.4	\$21.8	\$20.4	\$21.8

Warranty costs net of recoveries	\$6.9	\$5.1	\$19.2	\$14.9
----------------------------------	-------	-------	--------	--------

12

---

Table of Contents

Guarantees and Commitments

The Company has uncollateralized bank guarantees for \$52.8 million, of which \$47.0 million is related to tax and other litigation, \$1.0 million is related to letters of credit, \$0.8 million is related to performance bonds and \$4.0 million is related to other items.

Litigation

On June 23, 2010, the European Commission (the Commission) issued a decision imposing a total of €326.1 million in fines, or approximately \$400.0 million on the date of assessment (the EC Fine), on the former American Standard Companies Inc. (now Trane Inc., hereinafter referred to as American Standard or Trane), and certain of its European subsidiaries engaged in the Bath and Kitchen business and successor entities for infringements of European Union competition rules relating to the distribution of bathroom fixtures and fittings in a number of European countries.

Pursuant to our Indemnification and Cooperation Agreement with Trane, WABCO Europe BVBA (an indirect wholly-owned subsidiary of WABCO) is responsible for, and is liable to indemnify Trane Inc. and Ideal Standard International (representing the successor to the Bath and Kitchen business, and owner of certain of the former American Standard subsidiaries) and their owners against the EC Fine.

As required by the Indemnification and Cooperation Agreement, WABCO paid the fine amount into escrow on August 30, 2010, using €230.0 million of cash on hand and €96.1 million of additional borrowings. The funds were subsequently released from escrow and paid to the Commission. After reviewing all of the elements of the case, WABCO decided to appeal the decision in order to try to have the fine reduced.

On September 16, 2013, the General Court delivered its judgment and reversed in part the decision of the Commission, reducing the original fine of €326.1 million by €205.8 million to €120.3 million. Since WABCO had paid the full amount of the EC Fine (as described above), WABCO received the full amount of the reimbursement from the Commission in the fourth quarter of 2013. The Commission did not appeal the judgment of the General Court within the mandatory time limit. The judgment of the General Court was thus deemed final.

Contingencies

We are subject to proceedings, lawsuits and other claims related to products and other matters. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable and reasonably possible losses. A determination of the amount of liability to be recorded, if any, for these contingencies is made after careful analysis of each individual issue.

In conjunction with the Tax Sharing Agreement, as further discussed in Note 11, WABCO is responsible for certain tax and indemnification liabilities. These liabilities include indemnification liabilities to Trane of \$9.4 million as of September 30, 2014. It is reasonably possible that the Company could incur losses in excess of the amount accrued. Although this amount cannot be estimated, we believe that any additional losses would not have a material adverse impact on the condensed consolidated financial statements.

NOTE 10. Income Taxes

The income tax expense was \$43.3 million on pretax income of \$277.5 million before adjusting for noncontrolling interest for the nine months ended September 30, 2014, and \$25.8 million on pretax income of \$270.1 million for the nine months ended September 30, 2013. Income tax expense is the net result of taxes on the mix of earnings in multiple tax jurisdictions, the accrual of interest on uncertain tax positions, and certain foreign tax planning. In addition, during the third quarter of 2014, the Company recognized an additional tax benefit of \$2.9 million primarily related to the filing of its 2013 U.S. Federal income tax return in September 2014 and changes in the Company's recorded tax liabilities with respect to undistributed foreign earnings. As disclosed in the 2013 Form 10-K, the Company released a valuation allowance related to management's determination that it is more likely than not that the Company will realize its deferred tax asset in a foreign jurisdiction. The release of this valuation allowance was recorded as an income tax benefit as of December 31, 2013 which significantly reduced our effective tax rate in the year of release. As expected our effective tax rate increased following this release of the valuation allowance. Our net income and effective tax rate will continue to be negatively affected in periods following this release. However, the

valuation allowance release will not affect the amount of cash paid for income taxes.

13

---

Table of Contents

Unrecognized tax benefits at September 30, 2014 amounted to \$47.0 million predominantly related to the WABCO business, which is classified as a long-term liability. There are no material unrecognized tax benefits related to WABCO obligations directly to tax authorities for Trane's Bath and Kitchen business as further discussed in Note 11. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. The Company is subject to taxation in the United States and various state and foreign jurisdictions. With no material exceptions, the Company is no longer subject to U.S. federal, state, local or foreign examinations by tax authorities for years before 2007.

**NOTE 11. Tax and Indemnification Liabilities Transferred from Trane to WABCO**

Pursuant to the Tax Sharing Agreement between Trane and WABCO, entered into on July 16, 2007, and other agreements with Trane as filed in WABCO's Form 10 prior to its spin-off from Trane, WABCO is responsible for certain tax contingencies and indemnification liabilities. As noted in Note 10, the liabilities as of September 30, 2014 included no material amounts related to non-U.S. entities of Trane's former Bath and Kitchen business but for which WABCO entities have obligations directly to non-U.S. tax authorities. In addition, as of September 30, 2014, the Company had indemnification liabilities of \$9.4 million which are classified within long-term liabilities on the balance sheet.

Under an indemnification agreement, WABCO Brazil is responsible for certain claims related to its business for periods prior to the spin-off of WABCO from Trane. In particular, there are tax claims pending in various stages of the Brazilian legal process related to income, social contribution and/or value added taxes for which a contingency exists and which may or may not ultimately be incurred by the Company. The estimated total amount of the contingency as of September 30, 2014 is \$43.9 million including interest. However, based on management's assessment and advice of our external legal counsel, the Company believes that it has valid arguments in all of these cases and thus no accrual is required at this time.

**NOTE 12. Streamlining Expenses**

The Company accounts for employee-related streamlining charges as either a one-time benefit arrangement or an ongoing benefit arrangement as appropriate. From time to time the Company also has streamlining charges that are not related to employees, such as facility exit costs.

Based on market declines occurring in the fourth quarter of 2008, we commenced a streamlining program on October 28, 2008 (the 2008/2009 Program), which began with a consultative process with works councils and employee representatives globally. The 2008/2009 Program reduced our global workforce by approximately 1,800 employees. This level of reduction in workforce brought our capacity in line with market demand, while still allowing us to continue our focus on core strategies, including technology, new products, globalization, and quality and productivity initiatives. We believe the completion of these actions created sufficient flexibility in production and helped us to cope with anticipated demand volatility. The Company does not expect to incur any further charges on the 2008/2009 Program.

Based on the Company's efforts to maintain our global footprint, the Company will periodically enter into other streamlining programs as deemed necessary (Other Programs).

The following is a summary of changes in the Company's streamlining program liabilities for the nine month period ended September 30, 2014. Activity for the period consisted primarily of termination payments and employee-related charges.



Table of Contents

(Amounts in millions)

## 2008 / 2009 Program

Balance as of December 31, 2013	\$5.9
Charges during the first nine months of 2014	—
Payments during the first nine months of 2014	(2.0 )
Balance as of September 30, 2014	\$3.9
Other Programs	
Balance as of December 31, 2013	\$19.0
Charges during the first nine months of 2014	10.8
Payments during the first nine months of 2014	(9.8 )
Balance as of September 30, 2014	\$20.0
Foreign exchange translation effects	\$(0.8 )
Total streamlining liability as of September 30, 2014	\$23.1

A balance of \$13.7 million is classified as long term and is included in other liabilities. The remaining \$9.4 million is classified as short term and is included in other accrued liabilities as of September 30, 2014.

The following is a summary of current and cumulative streamlining costs:

(Amounts in millions)	Charges for three months Ended September 30, 2014		Charges for nine months Ended September 30, 2014		Cumulative Charges as of September 30, 2014	
	2008/2009 Program	Other Programs	2008/2009 Program	Other Programs	2008/2009 Program	Other Programs
Employee-related charges – cost of sales	\$—	\$0.3	\$—	\$5.6	\$45.7	\$22.2
Employee-related charges – selling and administrative	—	2.9	—	5.2	45.8	25.2
Asset write-offs	—	—	—	—	—	1.8
Total program costs	\$—	\$3.2	\$—	\$10.8	\$91.5	\$49.2

## NOTE 13. Post-retirement Benefits

Post-retirement pension, health and life insurance costs had the following components for the three and nine month periods ended September 30, 2014 and 2013:

(Amounts in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014	2014	2013	2013	2014	2014	2013	2013
	Pension Benefits	& Life Ins. Benefits	Pension Benefits	& Life Ins. Benefits	Pension Benefits	& Life Ins. Benefits	Pension Benefits	& Life Ins. Benefits
Service cost-benefits earned during period	\$3.2	\$—	\$3.2	\$—	\$10.6	\$0.1	\$9.6	\$—
Interest cost on the projected benefit obligation	5.0	0.1	5.2	0.1	14.9	0.4	15.5	0.4
Less: assumed return on plan assets	(2.0 )	—	(2.3 )	—	(5.9 )	—	(6.8 )	—
Amortization of net loss	1.3	0.1	1.6	0.1	3.8	0.3	4.7	0.3
Defined benefit plan cost	\$7.5	\$0.2	\$7.7	\$0.2	\$23.4	\$0.8	\$23.0	\$0.7

The Company makes contributions to funded pension plans that, at a minimum, meet all statutory funding requirements. Contributions in 2014, as well as payments of benefits incurred by unfunded plans were in line with the expectations for 2014 and also in line with the contributions made during 2013.

Defined benefit plan cost is included in selling and administrative expenses and cost of sales on the condensed consolidated statements of operations.

Table of Contents

NOTE 14. Derivative Instruments and Hedging Activities

ASC 815, Derivatives and Hedging, requires a company to recognize all of its derivative instruments as either assets or liabilities on the balance sheet at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it qualifies and has been designated as a relationship hedge. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation.

The Company recognizes all derivative financial instruments on the condensed consolidated balance sheet at fair value using Level 2 inputs and these are classified as “other current assets,” “other assets,” “other accrued liabilities” or “other liabilities” on the condensed consolidated balance sheet. Level 2 inputs used by the Company in valuing its derivative instruments include model-based valuation techniques for which all significant assumptions are observable in the market.

The earnings impact resulting from changes in the fair value of derivative instruments is recorded in the same line item in the condensed consolidated statement of operations as the underlying exposure being hedged or in accumulated other comprehensive income for derivatives that qualify and have been designated as cash flow hedges or hedges of a net investment in a foreign operation. Any ineffective portion of a financial instrument's change in fair value is recognized in earnings together with changes in the fair value of any derivatives not designated as relationship hedges.

Foreign exchange contracts are used by the Company to offset the earnings impact relating to the variability in exchange rates on certain assets and liabilities denominated in non-functional currencies and have not been designated as relationship hedges. As of September 30, 2014, forward contracts for an aggregate notional amount of €113.2 million (\$143.6 million at September 30, 2014 exchange rates) were outstanding with an average duration of one month. These foreign exchange contracts have offset the revaluation of assets and liabilities. The combined net non-operating gain for the nine months ended September 30, 2014 was \$0.2 million. The majority of these exchange contracts were entered into on September 29, 2014. The fair value of the derivatives was zero at September 30, 2014.

NOTE 15. Business Combinations

On February 12, 2014, WABCO Europe BVBA (WABCO Europe), a Belgian subsidiary of the Company, entered into a stock purchase agreement (the Agreement) to purchase all of the outstanding shares of Tavares NV (Tavares), a limited liability company incorporated under the laws of Belgium, for a cash purchase price of €111.1 million (\$151.0 million based on exchange rates on the acquisition date). This included the acquisition of €15.3 million of net cash held by its subsidiary Transics International NV (Transics), resulting in net consideration of €95.8 million (\$130.2 million based on exchange rates on the acquisition date).

At the date of acquisition, Tavares held 96.84% of the outstanding shares of Transics, a limited liability company incorporated under the laws of Belgium listed on NYSE Euronext Brussels. Transics develops and markets fleet management solutions to help commercial vehicle manufacturers and fleet operators to more efficiently and safely manage their trucks and trailers. The suite of innovative solutions offered by Transics helps to improve fuel efficiency and productivity while lowering operating costs.

The allocation of the total purchase price to the assets and liabilities assumed as of the acquisition date is provisional as of September 30, 2014, pending receipt of a final valuation of certain intangible assets. The following table summarizes

the preliminary allocation of the total purchase price:

16

---

Table of Contents

(Amounts in millions)

Cash and cash equivalents	\$25.3	
Trade receivables	15.6	
Trade payables	(5.4)	)
Debt	(4.5)	)
Deferred tax liabilities	(13.9)	)
Property, plant and equipment	3.5	
Intangible assets	51.1	
Other assets purchased and liabilities assumed, net	(6.6)	)
Identifiable net assets acquired	\$65.1	
Goodwill	91.6	
Noncontrolling interest	(5.7)	)
Total purchase price allocation	\$151.0	

The intangible assets include amounts recognized for the fair value of trade name and customer-based and technology-related assets. The fair values of the intangible assets and noncontrolling interest were determined based on an income and cost approach. The intangible assets are being amortized over a weighted-average useful life of approximately 6 years, the majority of which is not deductible for tax purposes. The goodwill generated is primarily attributable to expected synergies and is not deductible for tax purposes. The transaction-related costs were expensed as incurred and are recorded within other non-operating expense.

On April 10, 2014, in connection with the acquisition of Tavares, WABCO Europe launched a mandatory public takeover bid on all remaining shares and warrants issued by Transics in accordance with applicable Belgian takeover rules. Immediately following the initial acceptance period of the public bid, WABCO Europe launched a squeeze-out procedure that closed on May 16, 2014 for an additional payment of €4.2 million (\$5.7 million based on exchange rates on the acquisition date), resulting in WABCO Europe directly and indirectly owning all shares and warrants in Transics for a total net consideration of €99.9 million (\$135.9 million based on exchange rates on the acquisition date).

The pro forma effects of this acquisition would not materially impact the Company's reported results for any period presented and as a result, no pro forma financial statements have been presented.

## NOTE 16. Noncontrolling Interests

On May 16, 2014, a squeeze-out procedure, launched by WABCO Europe to acquire the remaining shares and warrants issued by Transics, closed. Net consideration paid as a result of the squeeze-out amounted to \$5.7 million. See Note 15 for further discussion of the acquisition.

On August 30, 2013, the Company acquired the remaining shares in its Chinese joint venture, Shandong Weiming Automotive Products (SWAP), for cash consideration of \$4.6 million thus increasing its ownership from 70% to 100%. The acquisition resulted in the elimination of the noncontrolling interest and was not material to the Company's consolidated financial statements.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations  
Executive Overview

In the third quarter of 2014, the production of new trucks and buses greater than six tons declined an estimated 3.4% year over year while WABCO's sales in the same period increased by 4.5%, both on a reported basis and excluding foreign currency translation effects, compared to one year ago. Of this increase, 2.7% comes from the consolidated results in local currencies of Transics International, WABCO's newly acquired subsidiary.

WABCO's global aftermarket sales increased by 12.0% on both a reported and currency adjusted basis in the third quarter of 2014. This performance includes the benefits from the recently acquired Transics business and demonstrates the continued success of the Company's aftermarket strategies initiated several years ago.

During the third quarter of 2014, WABCO's Operating System continued to enable fast and flexible responses to major market changes, delivering \$17.5 million of materials and conversion productivity, a continued solid performance for WABCO. Gross materials productivity represented 5.0% of total materials cost, while an inflation in commodity prices resulted in net materials productivity of 4.8%. Conversion productivity represented 6.3%, another robust result.

Results of Operations

Approximately 85% of our sales are outside the United States, and therefore changes in exchange rates can have a significant impact on the reported results of our operations, which are presented in U.S. dollars. Quarter-over-quarter changes in sales, gross profit, expenses, pre-tax income and net income attributable to Company for 2014 compared with 2013 are presented both with and without the effects of foreign currency translation. Changes in sales, gross profit, expenses, pre-tax income and net income excluding foreign exchange effects are calculated using current year sales, gross profit, expenses, pre-tax income and net income translated at prior year exchange rates. Presenting changes in sales, gross profit, expenses, pre-tax income and net income excluding the effects of foreign currency translation is not in conformity with U.S. GAAP, but management analyzes the data in this manner because it is useful to us in understanding the operating performance of our business. We believe this data is also useful to shareholders for the same reason. The changes in sales, gross profit, expenses, pre-tax income and net income excluding the effects of foreign exchange translation are not meant to be a substitute for measurements prepared in conformity with U.S. GAAP, nor to be considered in isolation. Management believes that presenting these non-U.S. GAAP financial measures is useful to shareholders because it enhances their understanding of how management assesses the operating performance of the Company's business.



Table of Contents

## Third Quarter Results of Operations for 2014 Compared with 2013

(Amounts in millions)	Three Months Ended September 30,			Excluding foreign exchange translation (a)		
	2014	2013	% change reported	2014 adjusted amount	% change adjusted	
Sales	\$ 707.3	\$ 677.1	4.5 %	\$ 707.8	4.5 %	
Cost of sales	487.3	477.6	2.0 %	487.9	2.2 %	
Gross profit	220.0	199.5	10.3 %	219.9	10.2 %	
Operating expenses	132.3	112.6	17.5 %	132.0	17.2 %	
Operating income	87.7	86.9	0.9 %	87.9	1.2 %	
Equity income of unconsolidated joint ventures	6.3	4.7	34.0 %	6.3	34.0 %	
Other non-operating income/(expense), net	0.1	(0.9)	) *	—	*	
Interest expense, net	(0.1)	(0.2)	) (50.0 %)	(0.1)	) (50.0 %)	
Income before income taxes	94.0	90.5	3.9 %	94.1	4.0 %	
Income tax expense	9.5	8.0	18.8 %	9.6	20.0 %	
Net income including noncontrolling interests	84.5	82.5	2.4 %	84.5	2.4 %	
Less: net income attributable to noncontrolling interests	2.5	2.5	— %	2.4	(4.0 %)	
Net income attributable to Company	\$ 82.0	\$ 80.0	2.5 %	\$ 82.1	2.6 %	

\* Percentage change not meaningful

\* Percentage change not meaningful

(a) The 2014 amounts adjusted for foreign currency translation were calculated using average exchange rates for the three month period ending September 30, 2013.

**Sales**

Our sales for the third quarter of 2014 were \$707.3 million, an increase of 4.5% (4.5% excluding foreign currency translation effects) from \$677.1 million in 2013. The increase, excluding foreign currency translation effects, includes 2.7% coming from the recently acquired Transics business and was also driven by increased WABCO content per vehicle and growth in our aftermarket sales, partially offset by an estimated 3.4% decline in the global production of new trucks and buses greater than six tons. Total sales in Europe, our largest market, decreased approximately 2.0% (1.6% excluding foreign currency translation effects) for the third quarter of 2014, primarily due to the decline in production of new trucks and buses greater than six tons, partially offset by the recently acquired Transics business and increased WABCO content per vehicle. Total sales increased 19.8% in North America due to increased WABCO content per vehicle and increased production of new trucks and buses. Total sales in Asia increased 18.4% (18.6% excluding foreign currency translation effects) driven by increases in WABCO content per vehicle in all key markets, as well as an increase in the production of new trucks and buses greater than six tons in Korea and India: sales in Japan increased 5.3% (10.6% excluding foreign currency translation effects), China increased 12.7% (13.4% excluding foreign currency translation effects), Korea increased 16.9% (10.8% excluding foreign currency translation effects) and India increased 50.2% (46.8% excluding foreign currency translation effects). Total sales in South America decreased 3.5% (4.0% excluding foreign currency translation effects), driven by an estimated 28% decline in the production of new trucks and buses in Brazil, largely offset by an increase in WABCO content per vehicle. WABCO's aftermarket sales, included in the geographic numbers provided above, increased by 12.0% (12.0% excluding foreign currency translation effects). This increase, which includes the benefits from the recently acquired Transics business, demonstrates the continued success of the Company's aftermarket strategies initiated several years ago.

**Cost of Sales and Gross Profit**



Our cost of sales for the third quarter of 2014 was \$487.3 million, an increase of \$9.7 million (\$10.3 million excluding foreign currency translation effects) from \$477.6 million in 2013. Within cost of sales, our largest expense is material costs, which mainly represents the purchase of components and parts. Our continued focus on productivity generated 5.0% of material savings, before a 0.2% negative impact of commodity inflation, bringing net materials productivity to 4.8% for the quarter. This productivity achievement resulted in \$10.8 million of material cost savings. Our second largest expense within the

Table of Contents

cost of sales is for labor and other costs associated with converting our purchased components and parts into finished goods. Labor inflation and other cost escalations increased conversion costs by approximately \$3.6 million, while our productivity efforts generated \$6.7 million of savings, or 6.3% of the conversion costs. Warranty expenses excluding volume effects were higher compared to the third quarter of 2013 by \$1.6 million due to a cost recovery from a supplier in 2013. Absorption of overhead and other costs were favorable by \$1.2 million versus prior year. Volume and mix increased cost of sales by \$25.5 million, but contributed \$12.4 million to the improvement of gross profit. Sales price reductions had a negative impact of \$7.2 million on gross profit, or 1.0% of sales. Lower streamlining expenses decreased cost of sales by \$0.6 million. Foreign currency translation effects decreased cost of sales by \$0.6 million and combined with translation effects on sales they improved gross profit by \$0.1 million. Foreign currency transaction impacts decreased cost of sales by \$1.1 million and positively affected gross profit in the amount of \$1.1 million. The net result of all these changes was an increase in gross profit of \$20.5 million (\$20.4 million excluding foreign currency translation effects).

Operating Expenses

Operating expenses, which include selling and administrative expenses, product engineering expenses and other operating expenses, increased by \$19.7 million (\$19.4 million excluding foreign currency translation effects). The increase excluding foreign currency translation effects comprised Transics operating costs of \$9.8 million, amortization of acquired intangibles in Transics of \$2.5 million, labor inflation of \$3.4 million, streamlining and separation expenses of \$2.6 million and a net increase in research and development investment, incentive compensation and other operating expenses of \$1.1 million.

Equity Income of Unconsolidated Joint Ventures

Equity in net income of unconsolidated joint ventures increased by \$1.6 million to \$6.3 million in 2014 as compared to \$4.7 million in 2013, primarily driven by higher income from our North American joint venture.

Other Non-Operating Income, net

Non-operating income was \$0.1 million for the third quarter of 2014 compared to an expense of \$0.9 million for the third quarter of 2013, mainly due to the effects of foreign currency movements resulting in a net foreign exchange gain compared to losses in prior year.

Income Taxes

The income tax expense for the third quarter of 2014 was \$9.5 million on pre-tax income of \$94.0 million before adjusting for noncontrolling interest, compared with \$8.0 million on pre-tax income of \$90.5 million before adjusting for noncontrolling interest in the third quarter of 2013.

In the three months ended September 30, 2014 and September 30, 2013 the income tax provision was primarily the net result of taxes on the mix of earnings in multiple tax jurisdictions, the accrual of interest on uncertain tax positions, and certain foreign tax planning. In addition, during the third quarter of 2014, the Company recognized an additional tax benefit of \$2.9 million primarily due to the filing of its 2013 U.S. Federal income tax return in September 2014 and changes in the Company's recorded tax liabilities with respect to undistributed foreign earnings. As disclosed in the 2013 Form 10-K, the Company released a valuation allowance related to management's determination that it is more likely than not that the Company will realize its deferred tax asset in a foreign jurisdiction. The release of this valuation allowance was recorded as an income tax benefit as of December 31, 2013 which significantly reduced our effective tax rate in the year of release. As expected our effective tax rate increased following this release of the valuation allowance. Our net income and effective tax rate will continue to be negatively affected in periods following this release. However, the valuation allowance release will not affect the amount of cash paid for income taxes.



Table of Contents

## Year to Date Results of Operations for 2014 Compared with 2013

(Amounts in millions)	Nine Months Ended September 30,			Excluding foreign exchange translation (a)			
	2014	2013	% change reported	2014 adjusted amount	% change adjusted		
Sales	\$2,171.8	\$2,000.1	8.6	% \$2,152.4	7.6	%	
Cost of sales	1,504.3	1,396.3	7.7	% 1,493.7	7.0	%	
Gross profit	667.5	603.8	10.5	% 658.7	9.1	%	
Operating expenses	405.2	348.7	16.2	% 397.7	14.1	%	
Operating income	262.3	255.1	2.8	% 261.0	2.3	%	
Equity income of unconsolidated joint ventures	17.8	12.9	38.0	% 17.8	38.0	%	
Other non-operating (expense)/income, net	(2.7	) 2.8	*	(2.6	) *		
Interest income/(expense), net	0.1	(0.7	) *	0.2	*		
Income before income taxes	277.5	270.1	2.7	% 276.4	2.3	%	
Income tax expense	43.3	25.8	67.8	% 44.3	71.7	%	
Net income including noncontrolling interests	234.2	244.3	(4.1	)%	232.1	(5.0	)%
Less: net income attributable to noncontrolling interests	7.8	7.4	5.4	% 8.1	9.5	%	
Net income attributable to Company	\$226.4	\$236.9	(4.4	)%	\$224.0	(5.4	)%

\* Percentage change not meaningful

(a) The 2014 amounts adjusted for foreign currency translation were calculated using average exchange rates for the nine month period ending September 30, 2013.

**Sales**

Our sales for the first nine months of 2014 were \$2,171.8 million, an increase of 8.6% (7.6% excluding foreign currency translation effects) from \$2,000.1 million in 2013. The increase, excluding foreign currency translation effects, was predominately driven by increased WABCO content per vehicle and growth in our aftermarket sales, offset by a decline of approximately 1% in the global production of new trucks and buses greater than six tons. Total sales in Europe, our largest market, increased approximately 4.7% (1.9% excluding foreign currency translation effects) for the first nine months of 2014, driven mainly by the recently acquired Transics business and increased WABCO content per vehicle, offset by a decline in production of new trucks and buses greater than six tons. Total sales increased 32.9% in North America due to increased WABCO content per vehicle and increased production of new trucks and buses. Total sales in Asia increased 16.3% (18.6% excluding foreign currency translation effects) driven primarily by increases in all key markets: Japan of 7.3% (14.1% excluding foreign currency translation effects), China of 23.6% (23.5% excluding foreign currency translation effects), Korea of 16.8% (11.0% excluding foreign currency translation effects) and India of 12.6% (20.2% excluding foreign currency translation effects). Total sales in South America decreased 9.2% (2.0% excluding foreign currency translation effects), driven by an estimated 22% decline in the production of new trucks and buses in Brazil, largely offset by an increase in WABCO content per vehicle. WABCO's aftermarket sales, included in the geographic numbers provided above, increased by 12.3% (11.2% excluding foreign currency translation effects). This increase, which includes the benefits from the recently acquired Transics business, demonstrates the continued success of the Company's aftermarket strategies initiated several years ago.

**Cost of Sales and Gross Profit**

Our cost of sales for the first nine months of 2014 was \$1,504.3 million, an increase of \$108.0 million (\$97.4 million excluding foreign currency translation effects) from \$1,396.3 million in 2013. Within cost of sales, our largest expense is material costs, which mainly represents the purchase of components and parts. Our continued focus on productivity generated 5.3% of material savings, before the 0.1% negative impact of commodity inflation, bringing net materials productivity to 5.2% for the quarter. This productivity achievement resulted in \$37.6 million of material cost savings. Our second largest expense

Table of Contents

within the cost of sales is for labor and other costs associated with converting our purchased components and parts into finished goods. Labor inflation and other cost escalations increased conversion costs by approximately \$10.6 million, while our productivity efforts generated \$20.4 million of savings, or 6.3% of the conversion costs. Warranty expenses excluding volume effects were higher compared to the first nine months of 2013 by \$2.8 million in part due to a cost recovery from a supplier in 2013. Absorption of overhead and other costs were favorable by \$0.4 million versus prior year. Volume and mix increased cost of sales by \$133.6 million, but contributed \$42.7 million to the improvement of gross profit. Sales price reductions had a negative impact of \$25.0 million on gross profit, or 1.1% of sales. Higher streamlining expenses increased cost of sales by \$1.2 million. Foreign currency translation effects increased cost of sales by \$10.6 million but combined with translation effects on sales they improved gross profit by \$8.8 million. Foreign currency transaction impacts increased cost of sales by \$7.6 million and negatively affected gross profit in the amount of \$6.6 million. The net result of all these changes was an increase in gross profit of \$63.7 million (\$54.9 million excluding foreign currency translation effects).

Operating Expenses

Operating expenses, which include selling and administrative expenses, product engineering expenses and other operating expenses, increased by \$56.5 million (\$49.0 million excluding foreign currency translation effects). The increase excluding foreign currency translation effects comprised increases in research and development investment of \$8.7 million, Transics operating costs of \$24.5 million, amortization of acquired intangibles in Transics of \$6.3 million, labor inflation and other people-related costs of \$13.3 million and an increase in other operating expenses of \$2.6 million. These increases were partially offset by reductions in incentive compensation of \$4.6 million and streamlining and separation expenses of \$1.8 million.

Equity Income of Unconsolidated Joint Ventures

Equity in net income of unconsolidated joint ventures increased by \$4.9 million to \$17.8 million in 2014 as compared to \$12.9 million in 2013, primarily driven by higher income from our North American joint venture partially offset by a decrease in income from our South African joint venture.

Other Non-Operating Expense, net

Non-operating expense was \$2.7 million for the first nine months of 2014 compared to income of \$2.8 million for 2013 primarily driven by the prior year release of tax indemnification liabilities due to the settlement of a foreign tax audit.

Income Taxes

The income tax expense for the first nine months of 2014 was \$43.3 million on pre-tax income of \$277.5 million before adjusting for noncontrolling interest, compared with \$25.8 million on pre-tax income of \$270.1 million before adjusting for noncontrolling interest in the first nine months of 2013.

In the nine months ended September 30, 2014 and September 30, 2013 the income tax provision was primarily the net result of taxes on the mix of earnings in multiple tax jurisdictions, the accrual of interest on uncertain tax positions, and certain foreign tax planning. In addition, during the third quarter of 2014, the Company recognized an additional tax benefit of \$2.9 million primarily due to the filing of its 2013 U.S. Federal income tax return in September 2014 and changes in the Company's recorded tax liabilities with respect to undistributed foreign earnings. As disclosed in the 2013 Form 10-K, the Company released a valuation allowance related to management's determination that it is more likely than not that the Company will realize its deferred tax asset in a foreign jurisdiction. The release of this valuation allowance was recorded as an income tax benefit as of December 31, 2013 which significantly reduced our effective tax rate in the year of release. As expected our effective tax rate increased following this release of the valuation allowance. Our net income and effective tax rate will continue to be negatively affected in periods following this release. However, the valuation allowance release will not affect the amount of cash paid for income taxes.

Table of Contents

Liquidity and Capital Resources

We employ several means to manage our liquidity, and we are not dependent upon any one source of funding. Our sources of financing include cash flows from operations, cash and cash equivalents, the Revolving Credit Facility, the use of operating leases and the Accounts Receivable Securitization Program, which expired on September 26, 2014 as discussed in Note 4 of Notes to Condensed Consolidated Financial Statements.

Cash Flows for the Nine Months Ended September 30, 2014

Net cash provided by operating activities was \$210.8 million for the first nine months of 2014. This compared with net cash provided by operating activities of \$248.1 million for the first nine months of 2013.

The Company recorded net income including noncontrolling interests of \$234.2 million for the first nine months of 2014 compared with \$244.3 million for the first nine months of 2013. Net income attributable to the Company for the first nine months of 2014 included noncash elements such as depreciation and amortization of \$75.8 million. Our working capital increased \$135.3 million for the nine months ended September 30, 2014 compared to an increase of \$56.4 million for the nine months ended September 30, 2013. This increase was mainly due to the expiration of our Accounts Receivable Securitization Program whereupon we repurchased \$111.7 million of accounts receivable. Other accrued liabilities and taxes increased \$11.0 million for the first nine months of 2014 compared to \$16.3 million for the first nine months of 2013. The major drivers of this increase were accruals for payroll and tax related items, partially offset by payments made on our annual incentive compensation. Other current and long-term assets for the first nine months of 2014 decreased \$9.3 million compared to an increase of \$30.9 million for the first nine months of 2013. The decrease was primarily due to the release of \$38.2 million of restricted cash upon expiration of our Accounts Receivable Securitization Program, partially offset by increases in notes receivable from our Chinese operations as well as tax-related items. Other long-term liabilities for the first nine months of 2014 increased \$6.0 million compared to a decrease of \$1.6 million for the first nine months of 2013, and the main driver of this change was the accrual for tax indemnification liabilities in the first quarter of 2014 related to a foreign tax audit.

The net cash used in investing activities amounted to \$164.5 million in the first nine months of 2014 compared to net cash used in investing activities of \$67.7 million in the first nine months of 2013. This included \$125.9 million of net cash paid during 2014 related to the acquisition of Tavares as discussed in Note 15 of Notes to Condensed Consolidated Financial Statements. The net cash usage for 2014 also includes capital expenditures of \$33.2 million of investments in tooling, \$46.8 million in plant and equipment and \$9.3 million in software to support the Company's long-term growth strategies, including the construction of a new plant in Poland. This compared with \$29.8 million of investments in tooling, \$28.5 million in plant and equipment and \$9.4 million in software during the first nine months of 2013. We also received proceeds from the sale of \$50.7 million of short-term investments during 2014.

The net cash used by financing activities during the first nine months of 2014 amounted to \$104.7 million compared to net cash used by financing activities of \$166.2 million during the first nine months of 2013.

Our total third-party debt increased \$192.7 million for the first nine months of 2014 compared to a decrease of \$52.9 million for the first nine months of 2013. This increase was primarily driven by additional borrowings on our revolving credit facility, a large portion of which funds our share repurchase program.

We received \$12.1 million of stock option proceeds during 2014 compared with \$44.4 million in 2013. The number of stock options exercised in the first nine months of 2014 and 2013 was 319,168 and 1,457,037, respectively.

We paid \$5.7 million during the second quarter of 2014 for the acquisition of the remaining ownership interest in Transics as discussed in Note 15 of Notes to Condensed Consolidated Financial Statements. We also paid \$4.6 million during the third quarter of 2013 to acquire the remaining ownership interest in our Chinese joint venture, SWAP.

During the first nine months of 2014, the Company repurchased shares for a total amount of \$301.4 million of which \$1.9 million was not settled until after September 30, 2014. As of September 30, 2014, the Company had repurchased shares for a total amount of \$921.7 million under the authorized repurchase programs as discussed in Note 6 of Notes to Condensed Consolidated Financial Statements, and had the authority to make an additional \$78.3 million of share repurchases.

Credit Facility

On July 8, 2011, the Company entered into a \$400 million multi-currency five-year senior unsecured revolving credit facility (the Facility) with the lenders and agent banks party thereto, including Banc of America Securities Limited as agent,

23

---



Table of Contents

issuing bank and swingline lender, and Banc of America Securities Limited, Citigroup Global Markets Limited, Fortis Bank S.A./N.V., ING Belgium SA/NV, Société Générale Corporate & Investment Banking, The Bank of Tokyo-Mitsubishi UFJ, Ltd and The Royal Bank of Scotland NV, (Belgium) Branch, as mandated lead arrangers and bookrunners and Credit Lyonnais and Unicredit Bank AG as lead arrangers. On August 23, 2013 the Company entered into an amendment agreement which extended the expiry of the Facility from September 1, 2016 to September 1, 2018. No other material terms were amended.

As of September 30, 2014, the Facility is our principal bank credit facility, and it will expire on September 1, 2018. Under the Facility, the Company may borrow, on a revolving basis, loans in an aggregate principal amount at any one time outstanding not in excess of \$400 million. Up to \$50 million under the Facility may be used for issuing letters of credit, of which \$49.0 million was unused as of September 30, 2014, and up to \$50 million is available in the form of swingline loans, of which \$50.0 million was unused as of September 30, 2014. The outstanding balance on the Facility as of September 30, 2014 was \$276.0 million and the balance of letters of credit issued was \$1.0 million.

A large portion of the proceeds of the borrowings under the Facility funds our share repurchase program. However, the proceeds will also be available to finance acquisitions, refinance existing indebtedness and meet general financing requirements.

Interest on loans under the Facility will be calculated at a rate per annum equal to an applicable margin, which can vary from 0.80% to 1.55% based on the Company's leverage ratio, plus LIBOR for loans denominated in U.S. Dollars, EURIBOR for loans denominated in Euros, HIBOR for loans denominated in Hong Kong Dollars and SIBOR for loans denominated in Singapore Dollars, plus mandatory costs, if any.

The Facility contains terms and provisions (including representations, covenants and conditions) customary for transactions of this type. Our primary financial covenant is a leverage test which requires net indebtedness not to exceed three times adjusted four quarter trailing EBITDA (earnings before interest, taxes, depreciation and amortization adjusted for certain items). Additional financial covenants include an interest coverage test and a maximum subsidiary indebtedness test. The interest coverage test requires three times interest expense not to exceed adjusted four quarter trailing EBITDA. The maximum subsidiary indebtedness test limits the total aggregate amount of indebtedness of WABCO's subsidiaries, excluding indebtedness under the Facility, to \$400 million, of which not more than \$150 million may be secured. As of September 30, 2014, the Company had the ability to borrow an incremental \$123.0 million under our principal credit facility and was in compliance with all the covenants.

Financial covenants are not subject to any future changes in U.S. GAAP accounting standards and all cash on the balance sheet can be deducted for net indebtedness purposes. In addition, expenses and payments related to any streamlining of WABCO's operations are excluded when calculating the four quarter trailing adjusted EBITDA. Other covenants include delivery of financial reports and other information, compliance with laws including environmental laws and permits, ERISA and U.S. regulations, limitations on liens, mergers and sales of assets and change of business.

Also, various subsidiaries had borrowings from banks totaling \$5.6 million, of which \$1.6 million was classified as long-term debt. The remaining \$4.0 million supports local working capital requirements.

Accounts Receivable Securitization Program

As previously discussed, our Accounts Receivable Securitization Program expired on September 26, 2014 and was not renewed.

During the nine months ended September 30, 2014 and prior to the expiration of the Accounts Receivable Securitization Program, the Company sold all of its eligible receivables into the Accounts Receivable Securitization Program. The receivables were removed from the balance sheet in accordance with the guidance under ASC 860, Transfers and Servicing. The total amount of receivables sold under the Accounts Receivable Securitization Program

during the nine months ended September 30, 2014 was €545.7 million (\$739.9 million at average exchange rates for the nine months ended September 30, 2014).

In connection with the expiration of the Accounts Receivable Securitization Program, the Company entered into a separate agreement with Société Générale to repurchase accounts receivable amounting to €88.1 million (\$111.7 million at September 30, 2014 exchange rates). A subordinated deposit of \$38.2 million was also released to the Company, resulting in a net decrease in cash and cash equivalents of \$73.5 million.

## Table of Contents

The fair value of the receivables sold equaled the carrying cost at time of sale, and no gain or loss was recorded as a result of the sale. The Company estimated the fair value of sold receivables using Level 3 inputs and based the estimate on historical and anticipated performance of similar receivables, including historical and anticipated credit losses (if any). As part and through the expiration of the Accounts Receivable Securitization Program, the Company continued to service the receivables. The Company sold the receivables at face value, but received actual funding net of the subordinated deposit account until collections were received from customers for the receivables sold. The Company was exposed to the credit losses of sold receivables up to the amount of its subordinated deposit account at each settlement date. Credit losses for receivables sold and past due amounts outstanding at September 30, 2014 were both immaterial. Servicing fees for the program were \$0.6 million for the nine months ended September 30, 2014.

### Derivative Instruments and Hedging Activities

The Company recognizes all derivative financial instruments in the consolidated balance sheet at fair value using Level 2 inputs and these are classified as “other current assets,” “other assets,” “other accrued liabilities” or “other liabilities” on the consolidated balance sheet. Level 2 inputs used by the Company in valuing its derivative instruments include model-based valuation techniques for which all significant assumptions are observable in the market. The earnings impact resulting from changes in the fair value of derivative instruments is recorded in the same line item in the consolidated statement of operations as the underlying exposure being hedged or in accumulated other comprehensive income for derivatives that qualify and have been designated as cash flow hedges or hedges of a net investment in a foreign operation. Any ineffective portion of a financial instrument's change in fair value is recognized in earnings together with changes in the fair value of any derivatives not designated as relationship hedges.

Foreign exchange contracts are used by the Company to offset the earnings impact relating to the variability in exchange rates on certain assets and liabilities denominated in non-functional currencies and have not been designated as relationship hedges. As of September 30, 2014, forward contracts for an aggregate notional amount of €113.2 million (\$143.6 million at September 30, 2014 exchange rates) were outstanding with an average duration of one month. These foreign exchange contracts have offset the revaluation of assets and liabilities and resulted in a net non-operating gain of \$0.2 million for the nine months ended September 30, 2014. The majority of these exchange contracts were entered into on September 29, 2014. The fair value of the derivatives was zero as of September 30, 2014.

### Off-Balance Sheet Arrangements

Please see the disclosure above in “Accounts Receivable Securitization Program.”

### Aggregate Contractual Obligations

The Company has contractual obligations for debt, operating leases, tax indemnifications, purchase obligations, unfunded pension and post-retirement benefit plans and tax liabilities that were summarized in a table of aggregate contractual obligations for the year ended December 31, 2013 disclosed in the Annual Report on Form 10-K. There have been no other material changes to those obligations since December 31, 2013.

### Information Concerning Forward Looking Statements

Certain of the statements contained in this report (other than the historical financial data and other statements of historical fact), including, without limitation, statements as to management's expectations and beliefs, are forward-looking statements. These forward-looking statements were based on various facts and were derived utilizing numerous important assumptions and other important factors, and changes in such facts, assumptions or factors could cause actual results to differ materially from those in the forward-looking statements. Forward-looking statements include the information concerning our future financial performance, financial condition, liquidity, business strategy, projected plans and objectives. Statements preceded by, followed by or that otherwise include the words “believes”, “expects”, “anticipates”, “strategies”, “prospects”, “intends”, “projects”, “estimates”, “continues”, “evaluates”, “forecasts”, “seeks”, “goals”, “potential”, “may increase”, “may fluctuate” and similar expression or future or conditional verbs such as “will,” “should,” “would,” “may” and “could” are generally forward looking in nature and not historical facts. This report includes important information as to risk factors in “Item 1A. Risk Factors”, and “Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.” Many important factors could cause actual results to differ materially

from management's expectations, including:

- the actual level of commercial vehicle production in our end-markets;
- adverse developments in the business of our key customers;

25

---

Table of Contents

periodic changes to contingent liabilities, including those associated with litigation matters and government investigations;

adverse developments in general business, economic and political conditions or any outbreak or escalation of hostilities on a national, regional or international basis;

changes in international or U.S. economic conditions, such as inflation, interest rate fluctuations, foreign exchange rate fluctuations or recessions in our markets;

unpredictable difficulties or delays in the development of new product technology;

pricing changes to our products or those of our competitors, and other competitive pressures on pricing and sales;

our ability to receive components and parts from our suppliers or to obtain them at reasonable price levels due to fluctuations in the costs of the underlying raw materials;

our ability to access credit markets or capital markets on a favorable basis or at all;

changes in the environmental regulations that affect our current and future products;

competition in our existing and future lines of business and the financial resources of competitors;

our failure to comply with regulations and any changes in regulations;

our failure to complete potential future acquisitions or to realize benefits from completed acquisitions;

our inability to implement our growth plan;

the loss of any of our senior management;

difficulties in obtaining or retaining the management and other human resource competencies that we need to achieve our business objectives;

labor relations; and

risks inherent in operating in foreign countries, including exposure to local economic conditions, government regulation, currency restrictions and other restraints, changes in tax laws, expropriation, political instability and diminished ability to legally enforce our contractual rights.

We undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless we are required to do so by law.

Critical Accounting Policies and Estimates

Preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Management believes the most complex and sensitive judgments, because of their significance to the consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management's Discussion and Analysis and Notes 2 and 14 to the Consolidated Financial Statements for the year ended December 31, 2013 in the Company's Annual Report on Form 10-K, describe the most significant accounting estimates and policies used in preparation of the Consolidated Financial Statements. Actual results in these areas could differ materially from management's estimates. There have been no significant changes in the Company's assumptions regarding critical accounting estimates during the first nine months of 2014.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There were no material changes to the disclosure on this matter for the year ended December 31, 2013 made in the Company's Annual Report on Form 10-K.

Item 4. Controls and Procedures

The Company has established a Disclosure Controls Committee that assists the Chief Executive Officer and Chief Financial Officer in their evaluation of the Company's disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this report, that our disclosure controls and procedures, as defined in the Securities Exchange Act of 1934, as amended (the Exchange Act), Rule 13a-15(e), are effective to ensure that the information required to be disclosed in the reports

that the Company files or submits under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) is accumulated and communicated to the Company's management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Table of Contents

There have been no changes in the Company's internal control over financial reporting during the nine months ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

27

---

Table of Contents

## PART II. OTHER INFORMATION

## Item 1A. Risk Factors

There have been no new material risks identified that were not disclosed in the Company's risk factor disclosure in its Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company's Board of Directors has approved three programs as noted below to purchase shares of the Company's common stock. A summary of the repurchase activity for the first nine months of 2014 is as follows:

## ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased (a)	Average price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (a)
Total through December 31, 2013	10,155,343	\$61.08	10,155,343	\$379,722,420
January 1 - January 31	93,164	\$91.12	93,164	\$371,233,509
February 1 - February 28	33,272	\$99.14	33,272	\$367,934,862
March 1 - March 31	851,771	\$103.86	851,771	\$279,469,217
Total first quarter	978,207	\$102.49	978,207	\$279,469,217
Total through March 31, 2014	11,133,550	\$64.72	11,133,550	\$279,469,217
April 1 - April 30	62,715	\$103.87	62,715	\$272,955,018
May 1 - May 31	431,656	\$106.34	431,656	\$227,052,032
June 1 - June 30	439,968	\$108.79	439,968	\$179,135,862
Total second quarter	934,339	\$107.33	934,339	\$179,135,862
Total through June 30, 2014	12,067,889	\$68.02	12,067,889	\$179,135,862
July 1 - July 31	334,672	\$104.42	334,672	\$144,190,892
August 1 - August 31	266,100	\$101.19	266,100	\$117,264,995
September 1 - September 30	397,600	\$98.02	397,600	\$78,292,671
Total third quarter	998,372		998,372	\$78,292,671
Total through September 30, 2014	13,066,261		13,066,261	\$78,292,671

(a) Relates to the share repurchase programs approved in May 2011, October 2012 and October 2013 as discussed in Note 6 of Notes to Condensed Consolidated Financial Statements.



All share repurchases were effected in accordance with the safe harbor provisions of Rule 10b-18 of the Exchange Act.

Item 6. Exhibits

The exhibits listed on the accompanying Index to Exhibits are filed as part of this quarterly report on Form 10-Q.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WABCO HOLDINGS INC.

/S/ JASON CAMPBELL  
Jason Campbell  
Vice President and Controller  
(Principal Accounting Officer)  
October 24, 2014

29

---

Table of Contents

WABCO HOLDINGS INC. AND SUBSIDIARIES

INDEX TO EXHIBITS

(The File Number of the Registrant, WABCO Holdings Inc., is 1-33332)

Exhibit No.	Description
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from WABCO Holdings, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2014, filed with the SEC on October 24, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Operations for the three and nine month periods ended September 30, 2014 and 2013, (ii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine month periods ended September 30, 2014 and 2013, (iii) the Condensed Consolidated Balance Sheet at September 30, 2014 and December 31, 2013, (iv) the Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2014 and 2013 and (v) Notes to Condensed Consolidated Financial Statements.