

WABCO Holdings Inc.  
Form 10-K  
February 18, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON D.C. 20549

**FORM 10-K**

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2009

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)  
**Chaussée de Wavre, 1789**

**1160 Brussels, Belgium**  
**One Centennial Avenue,**

**P.O. Box 6820, Piscataway, NJ**  
(Address of principal executive offices)

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

**20-8481962**  
(I.R.S. Employer

Identification No.)

**08855-6820**  
(Zip Code)

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Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, par value \$0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of each class  
None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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, non-accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (check one).

Large Accelerated filer   
Non-Accelerated filer

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

The aggregate market value of the voting stock (Common Stock) held by non-affiliates of the Registrant as of the close of business on June 30, 2009 was approximately \$1.2 billion based on the closing sale price of the common stock on the New York Stock Exchange on that date. The Registrant does not have any non-voting common equity.

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

Common stock, \$.01 par value, outstanding at  
February 12, 2010

64,087,311 shares

## DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information from certain portions of the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the fiscal year end of December 31, 2009.

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### **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, projects, estimates, plans, may increase, may fluctuate, and similar expression or future or conditional verbs such as will, should, and could are generally forward looking in nature and not historical facts. This report includes important information as to risk factors in Item 1. Business, Item 1A. Risk Factors, and Item 7. 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;

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

the amount of the fine assessed by the European Commission and our ability to fund the payment of the fine;

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

continued turmoil and instability in the credit markets;

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

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;

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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.

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### **ITEM 1. BUSINESS**

#### **Overview**

*Except as otherwise indicated or unless context otherwise requires WABCO, WABCO Holdings Inc., we, us, our, and our company refer to WABCO Holdings Inc. and its consolidated subsidiaries.*

WABCO is a leading provider of electronic, mechanical and mechatronic products for the world's leading commercial truck, trailer, bus and passenger car manufacturers. We manufacture and sell control systems, including advanced braking, stability, suspension, transmission control and air compressing and processing systems, that improve vehicle performance and safety and reduce overall vehicle operating costs. We estimate that our products are included in approximately two out of three commercial vehicles with advanced vehicle control systems and offered in sophisticated, niche applications in cars and sport utility vehicles (SUVs). We continue to grow in more parts of the world as we provide more components and systems throughout the life of a vehicle, from design and development to the aftermarket.

#### **History of Our Company**

WABCO was founded in the United States in 1869 as Westinghouse Air Brake Company. We were purchased by American Standard Companies Inc. (or American Standard) in 1968 and operated as the Vehicle Control Systems business division within American Standard until we were spun off from American Standard on July 31, 2007. Subsequent to our spin-off, American Standard changed its name to Trane Inc., which we herein refer to as Trane. On June 5, 2008, Trane was acquired in a merger with Ingersoll-Rand Company Limited (Ingersoll Rand) and exists today as a wholly owned subsidiary of Ingersoll-Rand.

#### **The Separation of WABCO from Trane**

The spin-off by Trane of its Vehicle Control Systems business became effective on July 31, 2007, through a distribution of 100% of the common stock of WABCO to Trane's shareholders (the Distribution). The Distribution was effected through a separation and distribution agreement pursuant to which Trane distributed all of the shares of WABCO common stock as a dividend on Trane common stock, in the amount of one share of WABCO common stock for every three shares of outstanding Trane common stock to each shareholder on the record date. Trane received a private letter ruling from the Internal Revenue Service and an opinion from tax counsel indicating that the spin-off was tax free to the shareholders of Trane and WABCO. Please refer to Item 1A. Risk Factors below for information on the tax risks associated with the spin-off from Trane.

#### **Our Relationship with Trane**

On July 16, 2007, we entered into definitive agreements with Trane that, among other things, set forth the terms and conditions of our separation from Trane (Separation) and provide a framework for the relationship between WABCO and Trane following the Separation. The agreements provide for the allocation between WABCO and Trane of assets, liabilities and obligations attributable to periods prior to the Separation. In addition to the Separation and Distribution Agreement, which contains many of the key provisions related to the Separation of WABCO and the Distribution of WABCO's common stock to Trane's shareholders, the parties also entered into a Tax Sharing Agreement, a Transition Services Agreement, an Employee Matters Agreement and an Indemnification and Cooperation Agreement. A summary of the agreements with continued relevance is set forth below:

Separation and Distribution Agreement sets forth WABCO's agreements with Trane regarding principal transactions necessary to separate WABCO from Trane. This agreement also sets forth the other agreements that govern certain aspects of WABCO's relationship with Trane after the completion of the Separation from Trane and provides for the allocation of certain assets to be transferred, liabilities to be assumed and contracts to be assigned to WABCO and Trane as part of the Separation.

Tax Sharing Agreement governs the parties' respective rights, responsibilities and obligations after the Distribution with respect to taxes, including ordinary course of business taxes and taxes, if any, incurred as a result of any failure of the Distribution of all of the common shares of WABCO to qualify as a tax-free distribution for U.S. federal income tax purposes within the meaning of Section 355 of the Internal Revenue Code of 1986, as amended.

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***Indemnification and Cooperation Agreement*** Pursuant to this agreement, WABCO Europe BVBA (an indirect wholly-owned subsidiary of WABCO), has agreed to be responsible for and to indemnify certain American Standard and Bath and Kitchen companies which were named in a Statement of Objections alleging infringements of European Union competition regulations, as well as their respective affiliates, successors and assigns, against any fines related to the European Commission's investigation, as outlined in the Statement of Objections received by American Standard and certain of its European subsidiaries on March 28, 2007. For further detail, please refer to Legal Proceedings below and Note 13 Warranties, Guarantees, Commitments and Contingencies in the notes to the consolidated financial statements.

## **Products and Services**

We develop, manufacture and sell advanced braking, stability, suspension and transmission control systems primarily for commercial vehicles. Our largest-selling products are pneumatic anti-lock braking systems (ABS), electronic braking systems (EBS), automated manual transmission systems, air disk 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. We also supply advanced electronic suspension controls and vacuum pumps to the car and SUV markets in Europe, North America and Asia. In addition, we sell replacement parts, diagnostic tools, training and other services to commercial vehicle aftermarket distributors, repair shops, and fleet operators.

WABCO is a leader in improving highway safety, with products that help drivers prevent accidents by enhancing vehicle responsiveness and stability. For example, we offer a stability control system for trucks and buses that constantly monitors the vehicle's motion and dynamic stability. If the system detects vehicle instability, such as the driver swerving to avoid another vehicle, it responds by applying the brakes at specific wheels, or slowing the vehicle down to minimize the risk of instability or a rollover. Additionally, we have created the commercial vehicle industry's first autonomous emergency braking system, OnGuardMAX, which assists in collision imminent situations with moving or stopped vehicles. This highly technological system fuses data from video and laser sensors, integrates with braking, the engine, transmission and stability control systems to assist the driver in reducing risks of collision.

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Our key product groups and functions are described below.

<b>SYSTEM / PRODUCT</b>	<b>WABCO KEY PRODUCT GROUPS</b>	<b>FUNCTION</b>
Actuator		Converts Energy Stored in Compressed Air into Mechanical Force Applied to Foundation Brake to Slow or Stop Commercial Vehicles
Air Compressor and Air Processing/Air Management System		Provides Compressed, Dried Air for Braking, Suspension and other Pneumatic Systems on Trucks, Buses and Trailers
Foundation Brake		Transmits Braking Force to a Disc or Drum (Connected to the Wheel) to Slow, Stop or Hold Vehicles
Anti-lock Braking System (ABS)		Prevents Wheel Locking during Braking to Ensure Steerability and Stability
Conventional Braking System		Mechanical and Pneumatic Devices for Control of Braking Systems in Commercial Vehicles
Electronic Braking System (EBS)		Electronic Controls of Braking Systems for Commercial Vehicles
Electronic and Conventional Air Suspension Systems		Level Control of Air Springs in Trucks, Buses, Trailers and Cars
Transmission Automation		Automates Transmission Gear Shifting for Trucks and Buses
Vehicle Electronic Architecture (VEA)		Central Electronic Modules Integrating Multiple Vehicle Control Functions
Vehicle Electronic Stability Control (ESC) and Roll Stability Support (RSS)		Enhances Driving Stability

**Key Markets and Trends**

Electronically controlled products and systems are important for the growth of our business. The market for these products is driven primarily by the growing electronics content of control systems in commercial vehicles. The electronics content has been increasing steadily with each successive platform introduction, as original equipment manufacturers (OEMs) look to improve safety and performance through added functionalities, and meet evolving regulatory safety standards. Overall the trends in commercial vehicle design show a shift in demand towards electronics content. Although the pace varies, this is a trend in all major geographies, and braking systems are part of this broader shift from conventional to advanced electronic systems. In addition to increasing safety, improving stopping distances, and reducing installation complexity, advanced EBS also allow for new functionality to be introduced into vehicles at a lower price. The new functionality includes stability control, adaptive cruise control, automated transmission controls, brake performance warning, vehicle diagnostics, driver assistance systems and engine braking/speed control. Adaptive cruise control uses sensors to detect proximity to other vehicles and automatically adjusts speed. Automated transmission controls reduce the amount of gear shifting, resulting in less physical effort and training required for drivers, less component wear, fewer parts, better fuel efficiency, and enhanced driver safety and comfort.

A fundamental driver of demand for our products is commercial truck production. Commercial truck production generally follows a multi-year cyclical pattern. While the number of new commercial vehicles built fluctuates each year, we have over the last five years demonstrated the ability to grow in excess of these fluctuations by increasing the amount of content on each vehicle. Due to the unprecedented decline in the commercial vehicle industry in 2009, WABCO's European sales to truck and bus ( T&B ) OEM customers were down 58%, which still outperformed Western European T&B production that declined 62% in 2009. During the five year period through



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2009, WABCO's European sales to T&B OEM customers, excluding the impact of foreign currency exchange rates, outperformed the rate of Western European T&B production by an average of 3% per year.

<b>Year to Year Change</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Sales to European T&B OEMs (at a constant FX rate)	+6%	+10%	+12%	+4%	-58%
Western European T&B Production	+5%	+5%	+10%	+4%	-62%

**Customers**

We sell our products primarily to four groups of customers around the world: truck and bus (OEMs), trailer (OEMs), commercial vehicle aftermarket distributors for replacement parts and services, and major car manufacturers. Our largest customer is Daimler, which accounts for approximately 12% of our sales. Other key customers include Arvin Meritor, Ashok Leyland, China National Heavy Truck Corporation (CNHTC), Cummins, Fiat (Iveco), Hino, Hyundai, MAN Nutzfahrzeuge AG (MAN), Meritor WABCO (a joint venture), Nissan Diesel, Paccar (DAF Trucks N.V. (DAF), Kenworth, Leyland and Peterbilt), Otto Sauer Achsenfabrik (SAF), Scania, TATA Motors, Volvo (Mack and Renault) and ZF Friedrichshafen AG (ZF). For the fiscal year ended December 31, 2009, our top 10 customers accounted for approximately 48% of our sales.

The largest group of our customers, representing approximately 55% of sales (62% in 2008), consists of truck and bus OEMs who are large, increasingly global and few in numbers due to industry consolidation. As truck and bus OEMs grow globally, they expect suppliers to grow with them beyond their traditional markets and become reliable partners, especially in the development of new technologies. WABCO has a strong reputation for technological innovation and often collaborates closely with major OEM customers to design and develop the technologies used in their products. Our products play an important role in vehicle safety and there are few other suppliers who compete across the breadth of products that we supply.

The second largest group, representing approximately 32% of sales (21% in 2008), consists of the commercial vehicle aftermarket distributor network that provides replacement parts to commercial vehicle operators. This distributor network is a fragmented and diverse group of customers, covering a broad spectrum from large OE-affiliated or owned distributors to small independent local distributors. The increasing number of commercial trucks in operation world-wide that are equipped with our products continuously increases demand for replacement parts and services, thus generating a growing stream of recurring aftermarket sales. Additionally, we continue to develop an array of service offerings such as diagnostics, training and other services to repair shops and fleet operators that will further enhance our presence and growth in the commercial vehicle aftermarket.

The next largest group, representing approximately 9% of sales (13% in 2008), consists of trailer manufacturers. Trailer manufacturers are also a fragmented group of local or regional players with great diversity in business size, focus and operation. Trailer manufacturers are highly dependent on suppliers such as WABCO to provide technical expertise and product knowledge. Similar to truck and bus OEMs, trailer manufacturers rely heavily on our products for important safety functions and superior technology.

The smallest group, representing approximately 4% of sales (4% in 2008), consists of car and SUV manufacturers to whom WABCO sells electronic air suspension systems and vacuum pumps. Electronic air suspension is a luxury feature with increasing penetration and above market growth. Vacuum pumps are used with diesel and GDI engines and, therefore, enjoy higher than average growth rates associated with increasing diesel and GDI applications in Europe and Asia. These customers are typically large, global, sophisticated and demand high product quality and overall service levels.

We address our customers through a global sales force that is organized around key accounts and customer groups and interfaces with product marketing and management to identify opportunities and meet customer needs across its product portfolio.

Europe represented approximately 65% of our sales in 2009, down from 76% in 2008, and ended the year representing only 60% of sales in the fourth quarter of 2009. The severe decline that occurred in the industry in Europe in 2009, combined with the less severe decline in India and improving market in China drove our sales in Asia to represent approximately 21% of our total sales in the fourth quarter of 2009. The growth in Asia is being

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enhanced by our strong roots in China and India where we have achieved leading positions in the marketplace through increasingly close connectivity to customers. We are further strengthened in Asia by an outstanding network of suppliers, manufacturing sites and engineering hubs.

	BY GEOGRAPHY		WABCO SALES		MAJOR END-MARKETS	
	FY 2009 % of Sales	Q4 2009 % of Sales		FY 2009 % of Sales	Q4 2009 % of Sales	
Europe	65%	60%	Truck & Bus Products (OEMs)	55%	56%	
Asia Pacific	18%	21%	Aftermarket	32%	31%	
North America	8%	9%	Trailer Products	9%	8%	
South America	6%	7%	Car Products	4%	5%	
Other	3%	3%				

**Backlog**

Information on our backlog is set forth under Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Backlog of this annual report.

**Cyclical and Seasonal Nature of Business**

Information on the cyclical and seasonal nature of our business is set forth under Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Cyclical and Seasonal Nature of Business of this annual report.

**Growth Strategy**

Our growth strategy is focused on four key platforms: technology innovation, geographic expansion, aftermarket growth and opportunistic automotive application of our products and systems. Drivers of growth for both our aftermarket and advanced car systems are discussed in Customers above.

**Technology**

We continue to drive growth by utilizing our industry-leading expertise in developing electronically controlled systems, including braking, transmission automation, air suspension and air management systems. We have a strong track record of innovation and are responsible for some of the industry's most important innovations including:

First heavy-duty truck anti-lock braking system (ABS);

First electronically controlled air suspension (ECAS) system for commercial vehicles;

First commercial vehicle automated manual transmission (AMT) controls system;

First electronic stability control (ESC) system for commercial vehicles;

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First collision safety system with active braking developed for the North American market, based on Adaptive Cruise Control technology (ACC); and

First autonomous emergency braking (AEB) system for commercial vehicles, for collision imminent situations with moving or stopped vehicles.

We continue to expand our product and technology portfolio by introducing new products and functionalities, and by improving the penetration of recently launched technologies. Advanced products and functionalities are typically developed and adopted first in Europe and then migrate to North America and Asia. Important examples

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include the adoption of ABS and automated transmission systems that were first widely adopted in European markets before starting to penetrate North America and Asia. Over the last three years, we spent approximately \$250 million for research activities, product development and product engineering.

We are also focused on longer-term opportunities, particularly in the area of Advanced Driver Assistance Systems (ADAS). ADAS is a technology concept that involves connecting advanced sensors with truck control devices, such as braking and steering systems as well as engine controls, to improve safety and avoid collisions. During 2008, we launched our OnGuard product family, which includes the world's first autonomous emergency braking system for commercial vehicles that we will begin producing in 2012. This product will allow our customers to comply with upcoming European road safety regulations to be implemented thereafter.

## ***Geographic Expansion***

We continue to drive sales in the high growth markets of Eastern Europe, China, India and Brazil. In Eastern Europe, we have been manufacturing products since 2001. The market in Eastern Europe, although experiencing the effects of the global economic slowdown, has historically experienced rapid growth, and we have established relationships with local customers.

### **China**

China is a key long-term growth market for us. The adoption of more advanced braking, safety and other related systems is increasing in China, and the number of trucks built in the country is expected to continue to increase in the longer term. We have been in China since 1996 and are the leading provider of advanced systems like ABS, with a strong brand and established customer relationships. In the short-to medium-term, growth will be driven by the enforcement of existing regulations making ABS mandatory on trucks, buses and trailers, and we are well positioned to take advantage of this growth. Additional near term growth will be driven by introducing other new products into the local market such as our advanced air compressors and our new generation air disc brakes, clutch servos and automated manual transmission (AMT) systems. We have begun to supply our highly advanced modular AMT systems to CNHTC in China, illustrating our ability to grow in this market. To serve the growing demand for products both in China and for export, we have two facilities to manufacture conventional products, advanced systems such as ABS, and new modular air compressors. In addition, we have built a new factory in China to more closely support the long-term supply agreement with CNHTC and are building another facility in China to support the joint venture formed in December 2008 with Guangdong FUWA Heavy Industry Co., Ltd. (FUWA), which will provide for the production of air disc brakes in China. In order to ensure opportunities in Asia receive enough focus and management attention, we have increased our management presence in the region.

### **India**

India is another growth market for us due to its expected volume of truck production and increasing adoption of advanced technology for commercial vehicles. We participate in this market through WABCO-TVS (INDIA) Ltd. ( WABCO-TVS ), which we took a majority ownership position in during the second quarter of 2009, further strengthening the Company's already well-anchored position in India. With three world class factories in different areas of India, we are the market leader in traditional braking products, while customer demand for advanced braking and control systems is progressing. India also provides a strong base for sourcing and engineering activities, which we are actively developing. WABCO-TVS is a sourcing hub for our global operations by purchasing raw materials locally at best cost and it provides machining capabilities in our factory in Mahindra City to process the metals, castings and electrical motors that are used in our other factories in Europe, North America, Brazil and China to manufacture our products. WABCO-TVS is also a center of mechanical and software engineering activity, as we continue to develop our long-standing relationships in the local engineering community to benefit our global research and development efforts.

## **Competition**

Given the importance of technological leadership, vehicle life-cycle expertise, reputation for quality and reliability, and the growing joint collaboration between OEMs and suppliers to drive new product development, the space in which we mostly operate has not historically had a large number of competitors. Our principal competitors

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are Knorr-Bremse (Knorr's U.S. subsidiary is Bendix Commercial Vehicle Systems) and, in certain categories, Haldex. In the advanced electronics categories, automotive players such as Bosch (automotive) and Continental (including Siemens-VDO) have recently been present in some commercial vehicle applications. In the mechanical product categories, several Asian competitors are emerging, primarily in China, who are focused on such products.

## **Manufacturing and Operations**

Most of our manufacturing sites and distribution centers produce and/or house a broad range of products and serve all different types of customers. Currently, over 64% of our manufacturing workforce is located in best cost countries such as China, India and Poland up from approximately 10% in 1999. Facilities in best cost countries have helped reduce costs on the simpler and more labor-intensive products, while the facilities in Western Europe are focused on producing more technologically advanced products. All facilities globally are deploying Six Sigma Lean initiatives to improve productivity and reduce costs. By applying the Six Sigma philosophy and tools we seek to improve quality and predictability of our processes. Lean is geared towards eliminating waste in our supply chain, manufacturing and administrative processes. Both methodologies are customer driven and data based. In addition, our global supply chain team makes decisions on where to manufacture which products taking into account such factors as local and export demand, customer approvals, cost, key supplier locations and factory capabilities.

Our global sourcing organization purchases a wide variety of components including electrical, electro-mechanical, cast aluminum products and steel, as well as copper, rubber and plastic containing components that represent a substantial portion of manufacturing costs. We source products on a global basis from three key regions: Western Europe, Central and Eastern Europe and Asia. To support the continuing shift of manufacturing to best cost countries, we also continue to shift more of our sourcing to best cost regions. Under the leadership of the global sourcing organization, which is organized around commodity and product groups, we identify and develop key suppliers and seek to integrate them as partners into our extended enterprise. Many of our Western European suppliers are accompanying us on our move to best cost countries. Since 1999, the share of our sourcing from best cost regions has increased from 10% to approximately 41%.

We have developed a strong position in the design, development, engineering and testing of products, components and systems. We are generally regarded in the industry as a systems expert, having in-depth technical knowledge and capabilities to support the development of advanced technology applications. Key customers depend on us and will typically involve us very early in the development process as they begin designing next generation platforms. We have approximately 1,250 employees dedicated to developing new products, components and systems as well as supporting and enhancing current applications. Our sales organization hosts application engineers that are based near customers in all regions around the world and are partially resident at some customer locations. We also have significant resources in best cost countries performing functions such as drawings, testing and software component development. We operate test tracks in Germany, Finland (for extreme weather test conditions) and India.

## **Joint Ventures**

We use joint ventures globally to expand and enhance our access to customers. Our important joint ventures are:

A majority-owned joint venture (90%) in Japan with Sanwa-Seiki that distributes WABCO's products in the local market.

A majority-owned (70%) partnership in the U.S. with Cummins Engine Co. (WABCO Compressor Manufacturing Co.), a manufacturing partnership formed to produce air compressors designed by WABCO.

A majority-owned joint venture (70%) in China with Mingshui Automotive Fitting Factory (MAFF) that provides conventional mechanical products to the local market.

A majority-owned joint venture (70%) with Guangdong FUWA Heavy Industry Co., Ltd., (FUWA) to produce air disc brakes for commercial trailers in China. FUWA is the largest manufacturer of commercial trailer axles in China and in the world.

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A 50 percent owned joint venture in North America with Arvin Meritor Automotive Inc. (Meritor WABCO) that markets ABS and other vehicle control products.

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A minority equity investment in a joint venture in South Africa, where we have a 49% ownership joint venture with Sturrock & Robson Ltd (WABCO SA), a distributor of braking systems products.

### **Employees**

We have approximately 8,100 employees. The streamlining actions taken in Europe significantly reduced the numbers of employees in Europe; however this was more than offset by the 1,800 employees added through taking majority ownership of WABCO-TVS in India. Approximately 50% of our employees are salaried and 50% are hourly. Approximately 58% of our workforce is in Europe, 35% is in Asia, and the remaining 7% is in the Americas. Approximately 1,250 employees work in engineering/product development.

Employees located in our sites in Europe, Asia and South America are subject to collective bargaining, with internal company agreements or external agreements at the region or country level. Currently 50% of our workforce is covered by a collective bargaining agreement and nearly all of those agreements expire during 2010. These employees' right to strike is typically protected by law and union membership is confidential information which does not have to be provided to the employer. The collective bargaining agreements are typically renegotiated on an annual basis. Our U.S. facilities are non-union. We have maintained good relationships with our employees around the world and historically have experienced very few work stoppages.

### **Intellectual Property**

Patents and other proprietary rights are important to our business. We also rely upon trade secrets, manufacturing know-how, continuing technological innovations, and licensing opportunities to maintain and improve our competitive position. We review third-party proprietary rights, including patents and patent applications, as available, in an effort to develop an effective intellectual property strategy, avoid infringement of third-party proprietary rights, identify licensing opportunities, and monitor the intellectual property claims of others.

We own a large portfolio of patents that principally relate to our products and technologies, and we have, from time to time, licensed some of our patents. Patents for individual products and processes extend for varying periods according to the date of patent filing or grant and the legal term of patents in various countries where patent protection is obtained.

The WABCO brand is also protected by trademark registrations throughout the world in the key markets in which our products are sold.

While we consider our patents and trademarks to be valuable assets, we do not believe that our competitive position is materially dependent upon any single patent or group of related patents.

### **Environmental Regulation**

Our operations are subject to local, state, federal and foreign environmental laws and regulations that govern activities or operations that may have adverse environmental effects and which impose liability for clean-up costs resulting from past spills, disposals or other releases of hazardous wastes and environmental compliance. Generally, the international requirements that impact the majority of our operations tend to be no more restrictive than those in effect in the U.S.

Throughout the world, we have been dedicated to being an environmentally responsible manufacturer, neighbor and employer. We have a number of proactive programs under way to minimize our impact on the environment and believe that we are in substantial compliance with environmental laws and regulations. Manufacturing facilities are audited on a regular basis. Twelve of our manufacturing facilities have Environmental Management Systems (EMS), which have been certified as ISO 14001 compliant. These facilities are those located in:

Claye-Souilly, France  
Gronau, Germany  
Ambattur, India  
Meppel, Netherlands

Campinas, Brazil  
Hannover, Germany  
Pyungtaek, Korea  
Mannheim, Germany

Wroclaw, Poland  
Jinan, China  
Qingdao, China  
Charleston, United States

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A number of our facilities are undertaking responsive actions to address groundwater and soil issues. Expenditures in 2009 to evaluate and remediate these sites were not material.

Additional sites may be identified for environmental remediation in the future, including properties previously transferred and with respect to which the Company may have contractual indemnification obligations.

## **Available Information**

Our web site is located at [www.wabco-auto.com](http://www.wabco-auto.com). Our periodic reports and all amendments to those reports required to be filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through the web site. During the period covered by this report, we posted our periodic reports on Form 10-Q and our current reports on Form 8-K and any amendments to those documents to our web site as soon as such reports were filed or furnished electronically with the Securities Exchange Commission ( SEC ). We will continue to post to our web site such reports and amendments as soon as reasonably practicable after such reports are filed with or furnished to the SEC.

## **Code of Conduct and Ethics**

Our Code of Conduct and Ethics, which applies to all employees, including all executive officers and senior financial officers and directors, is posted on our web site [www.wabco-auto.com](http://www.wabco-auto.com). The Code of Conduct and Ethics is compliant with Item 406 of SEC Regulation S-K and the NYSE corporate governance listing standards. Any changes to the Code of Conduct and Ethics that affect the provisions required by Item 406 of Regulation S-K will also be disclosed on the web site.

Any waivers of the Code of Conduct and Ethics for our executive officers, directors or senior financial officers must be approved by our Audit Committee and those waivers, if any are ever granted, would be disclosed on our web site under the caption Exemptions to the Code of Conduct and Ethics. There have been no waivers to the Code of Conduct and Ethics.

## **ITEM 1A. RISK FACTORS**

*Any of the following factors could have a material adverse affect on our future operating results as well as other factors included in Management's Discussion and Analysis of Financial Condition and Results of Operations Information Concerning Forward Looking Statements.*

### **Risks Relating to Our Business**

*The credit crisis and global recession have negatively impacted our customers and could continue to result in reduced demand for our products, which could therefore continue to have a significant negative impact on our business.*

The credit markets have experienced a period of unprecedented turmoil and upheaval characterized by significantly reduced availability of credit and increased borrowing costs. The disruptions in the credit markets and impact of a more prolonged global recession could continue to negatively impact consumer confidence and spending patterns and cause our customers to reduce truck and bus production. This in turn could have a negative impact on our business and results of operations, our operating cash flows and our financial condition.

*We may be unable to pay any significant fine imposed by the European Commission, if we are unable to access our principal credit facility or arrange for alternative sources of capital.*

As discussed in greater detail in Item 3. Legal Proceedings, Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition Liquidity with Regard to European Commission Fine, and Note 13. Warranties, Guarantees, Commitments and Contingencies, we are required to indemnify our former parent company, American Standard, now Trane, and Ideal Standard International and their respective owners against any fines that may be imposed by the European Commission ( the Commission ) in connection with a multi-company



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investigation commenced in 2004 relating to alleged infringement of EU competition rules in the Bath and Kitchen fixtures market. The fine imposed by the Commission could be material to our operating results and cash flows for the year in which the liability would be recognized or the fine paid.

Our principal credit facility contains a number of covenants that require us to maintain certain defined financial metrics associated with our earnings before we can access the funds available under the facility. If the current global industry conditions continue to significantly negatively impact both our customers and the demand for our products in such a way as to continue to depress our earnings, we may continue to be unable to fully access our credit facility due to an inability to meet these financial covenants. If we are unable to fully access our principal credit facility, obtain alternative sources of financing, or obtain some payment relief from the Commission or a suspension of the payment obligation from the General Court (formerly the European Court of First Instance), and the fine exceeds our funding capability, then our financial condition and liquidity would be materially adversely affected.

*Our sales could decline due to macro-economic factors, cyclicalities of the industry, regulatory changes and other factors outside of our control.*

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