

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP

Form 10-Q

November 08, 2010

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2010

**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: 1-13782**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of

**25-1615902**  
(I.R.S. Employer

incorporation or organization)

Identification No.)

**1001 Air Brake Avenue**

**Wilmerding, PA**  
(Address of principal executive offices)

**15148**  
(Zip Code)

**412-825-1000**

(Registrant's telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

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

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

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

**Class**  
Common Stock, \$.01 par value per share

**Outstanding at November 2, 2010**  
47,942,846 shares

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**WESTINGHOUSE AIR BRAKE  
TECHNOLOGIES CORPORATION**

**September 30, 2010**

**FORM 10-Q**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS**

| <i>In thousands, except shares and par value</i> | <b>Unaudited<br/>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|--------------------------------------------------|---------------------------------------------|------------------------------|
| <b>Assets</b>                                    |                                             |                              |
| <b>Current Assets</b>                            |                                             |                              |
| Cash and cash equivalents                        | \$ 176,808                                  | \$ 188,659                   |
| Accounts receivable                              | 264,793                                     | 208,260                      |
| Inventories                                      | 248,795                                     | 239,333                      |
| Deferred income taxes                            | 37,716                                      | 40,533                       |
| Other current assets                             | 15,666                                      | 12,724                       |
| Total current assets                             | 743,778                                     | 689,509                      |
| Property, plant and equipment                    | 467,951                                     | 451,996                      |
| Accumulated depreciation                         | (264,809)                                   | (250,289)                    |
| Property, plant and equipment, net               | 203,142                                     | 201,707                      |
| <b>Other Assets</b>                              |                                             |                              |
| Goodwill                                         | 518,040                                     | 482,978                      |
| Other intangibles, net                           | 205,751                                     | 187,630                      |
| Deferred income taxes                            | 8,790                                       | 4,964                        |
| Other noncurrent assets                          | 26,179                                      | 19,047                       |
| Total other assets                               | 758,760                                     | 694,619                      |
| Total Assets                                     | \$ 1,705,680                                | \$ 1,585,835                 |
| <b>Liabilities and Shareholders Equity</b>       |                                             |                              |
| <b>Current Liabilities</b>                       |                                             |                              |
| Accounts payable                                 | \$ 129,977                                  | \$ 119,895                   |
| Customer deposits and advanced billings          | 26,064                                      | 44,251                       |
| Accrued compensation                             | 40,290                                      | 30,423                       |
| Accrued warranty                                 | 23,040                                      | 20,025                       |
| Current portion of long-term debt                | 40,070                                      | 32,741                       |
| Other accrued liabilities                        | 59,692                                      | 58,013                       |
| Total current liabilities                        | 319,133                                     | 305,348                      |
| Long-term debt                                   | 369,772                                     | 359,039                      |
| Reserve for postretirement and pension benefits  | 56,460                                      | 64,078                       |
| Deferred income taxes                            | 56,035                                      | 52,156                       |
| Accrued warranty                                 | 13,536                                      | 9,182                        |
| Other long term liabilities                      | 17,603                                      | 17,119                       |

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|                                                                                                                                                                                            |              |              |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Total liabilities                                                                                                                                                                          | 832,539      | 806,922      |
| <b>Shareholders' Equity</b>                                                                                                                                                                |              |              |
| Preferred stock, 1,000,000 shares authorized, no shares issued                                                                                                                             |              |              |
| Common stock, \$.01 par value; 100,000,000 shares authorized: 66,174,767 shares issued and 47,940,596 and 47,688,695 outstanding at September 30, 2010 and December 31, 2009, respectively |              |              |
| Additional paid-in capital                                                                                                                                                                 | 662          | 662          |
| Treasury stock, at cost, 18,234,171 and 18,486,072 shares, at September 30, 2010 and December 31, 2009, respectively                                                                       | 336,122      | 329,707      |
| Retained earnings                                                                                                                                                                          | (290,295)    | (289,137)    |
| Accumulated other comprehensive loss                                                                                                                                                       | 856,911      | 766,221      |
| Total Westinghouse Air Brake Technologies Corporation shareholders' equity                                                                                                                 | (34,092)     | (30,546)     |
| Non-controlling interest                                                                                                                                                                   | 869,308      | 776,907      |
| Total shareholders' equity                                                                                                                                                                 | 3,833        | 2,006        |
| Total liabilities and Shareholders' Equity                                                                                                                                                 | 873,141      | 778,913      |
|                                                                                                                                                                                            | \$ 1,705,680 | \$ 1,585,835 |

The accompanying notes are an integral part of these statements.

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

| <i>In thousands, except per share data</i>     | Unaudited<br>Three Months Ended<br>September 30 |            | Unaudited<br>Nine Months Ended<br>September 30 |              |
|------------------------------------------------|-------------------------------------------------|------------|------------------------------------------------|--------------|
|                                                | 2010                                            | 2009       | 2010                                           | 2009         |
| Net sales                                      | \$ 375,707                                      | \$ 330,455 | \$ 1,113,771                                   | \$ 1,042,428 |
| Cost of sales                                  | (266,470)                                       | (235,629)  | (782,681)                                      | (748,764)    |
| Gross profit                                   | 109,237                                         | 94,826     | 331,090                                        | 293,664      |
| Selling, general and administrative expense    | (46,604)                                        | (37,162)   | (142,478)                                      | (117,827)    |
| Engineering expense                            | (9,362)                                         | (10,157)   | (30,482)                                       | (31,481)     |
| Amortization expense                           | (2,638)                                         | (1,748)    | (6,669)                                        | (6,122)      |
| Total operating expenses                       | (58,604)                                        | (49,067)   | (179,629)                                      | (155,430)    |
| Income from operations                         | 50,633                                          | 45,759     | 151,461                                        | 138,234      |
| Other income and expenses                      |                                                 |            |                                                |              |
| Interest expense, net                          | (3,996)                                         | (3,687)    | (12,000)                                       | (12,148)     |
| Other (expense) income, net                    | (791)                                           | 394        | (426)                                          | 649          |
| Income from operations before income taxes     | 45,846                                          | 42,466     | 139,035                                        | 126,735      |
| Income tax expense                             | (15,302)                                        | (15,118)   | (46,916)                                       | (35,885)     |
| Net income attributable to Wabtec shareholders | \$ 30,544                                       | \$ 27,348  | \$ 92,119                                      | \$ 90,850    |
| <b>Earnings Per Common Share</b>               |                                                 |            |                                                |              |
| Basic                                          |                                                 |            |                                                |              |
| Net income attributable to Wabtec shareholders | \$ 0.64                                         | \$ 0.58    | \$ 1.93                                        | \$ 1.90      |
| Diluted                                        |                                                 |            |                                                |              |
| Net income attributable to Wabtec shareholders | \$ 0.63                                         | \$ 0.57    | \$ 1.92                                        | \$ 1.89      |
| Weighted average shares outstanding            |                                                 |            |                                                |              |
| Basic                                          | 47,677                                          | 47,289     | 47,577                                         | 47,537       |
| Diluted                                        | 48,064                                          | 47,752     | 47,956                                         | 48,019       |

The accompanying notes are an integral part of these statements.

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| <i>In thousands</i>                                                                     | <b>Unaudited<br/>Nine Months Ended<br/>September 30,</b> |             |
|-----------------------------------------------------------------------------------------|----------------------------------------------------------|-------------|
|                                                                                         | <b>2010</b>                                              | <b>2009</b> |
| <b>Operating Activities</b>                                                             |                                                          |             |
| Net income attributable to Wabtec shareholders                                          | \$ 92,119                                                | \$ 90,850   |
| Adjustments to reconcile net income to net cash provided by operations:                 |                                                          |             |
| Depreciation and amortization                                                           | 26,887                                                   | 25,273      |
| Stock-based compensation expense                                                        | 8,218                                                    | 3,632       |
| Loss (gain) on disposal of property, plant and equipment                                | 1,285                                                    | (2,561)     |
| Excess income tax benefits from exercise of stock options                               | (2,373)                                                  | (481)       |
| Changes in operating assets and liabilities                                             |                                                          |             |
| Accounts receivable                                                                     | (46,031)                                                 | 52,048      |
| Inventories                                                                             | (2,334)                                                  | 24,870      |
| Accounts payable                                                                        | 5,818                                                    | (53,327)    |
| Accrued income taxes                                                                    | 6,768                                                    | 2,484       |
| Accrued liabilities and customer deposits                                               | (9,528)                                                  | (49,712)    |
| Other assets and liabilities                                                            | (5,580)                                                  | (235)       |
| Net cash provided by operating activities                                               | 75,249                                                   | 92,841      |
| <b>Investing Activities</b>                                                             |                                                          |             |
| Purchase of property, plant and equipment and other                                     | (12,371)                                                 | (10,848)    |
| Proceeds from disposal of property, plant and equipment                                 | 66                                                       | 3,671       |
| Acquisitions of business, net of cash acquired                                          | (93,228)                                                 | (3,446)     |
| Acquisition purchase price adjustment                                                   | 2,368                                                    | (4,771)     |
| Net cash used for investing activities                                                  | (103,165)                                                | (15,394)    |
| <b>Financing Activities</b>                                                             |                                                          |             |
| Proceeds from debt                                                                      | 201,400                                                  | 176,000     |
| Payments of debt                                                                        | (183,338)                                                | (131,261)   |
| Proceeds from exercise of stock options and other benefit plans                         | 3,047                                                    | 737         |
| Stock repurchase                                                                        | (8,381)                                                  | (19,654)    |
| Excess income tax benefits from exercise of stock options                               | 2,373                                                    | 481         |
| Cash dividends (\$0.03 per share for the nine months ended September 30, 2010 and 2009) | (1,429)                                                  | (1,438)     |
| Net cash provided by financing activities                                               | 13,672                                                   | 24,865      |
| Effect of changes in currency exchange rates                                            | 2,393                                                    | 11,068      |
| (Decrease) increase in cash                                                             | (11,851)                                                 | 113,380     |
| Cash, beginning of year                                                                 | 188,659                                                  | 141,805     |
| Cash, end of period                                                                     | \$ 176,808                                               | \$ 255,185  |

The accompanying notes are an integral part of these statements.

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010 (UNAUDITED)**

**1. BUSINESS**

Wabtec is one of the world's largest providers of value-added, technology-based products and services for the global rail industry. Our products are found on virtually all U.S. locomotives, freight cars and passenger transit vehicles, as well as in approximately 100 countries throughout the world. Our products enhance safety, improve productivity and reduce maintenance costs for customers, and many of our core products and services are essential in the safe and efficient operation of freight rail and passenger transit vehicles. Wabtec is a global company with operations in 17 countries. In the first nine months of 2010, about 46% of the Company's revenues came from customers outside the U.S.

**2. ACCOUNTING POLICIES**

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

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

The notes included herein should be read in conjunction with the audited consolidated financial statements included in Wabtec's Annual Report on Form 10-K for the year ended December 31, 2009. The December 31, 2009 information has been derived from the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

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

**Accounting Standards Codification** The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) became effective on July 1, 2009. At that date, the ASC became FASB's officially recognized source of authoritative U.S. generally accepted accounting principles (GAAP) applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

**Revenue Recognition** Revenue is recognized in accordance with ASC 605 Revenue Recognition. Revenue is recognized when products have been shipped to the respective customers, title has passed and the price for the product has been determined.

The Company recognizes revenues on long-term contracts based on the percentage of completion method of accounting. The units-of-delivery method or other input-based or output-based measures, as appropriate, are used

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010 (UNAUDITED)**

to measure the progress toward completion of individual contracts. Contract revenues and cost estimates are reviewed and revised at a minimum quarterly and adjustments are reflected in the accounting period as such amounts are determined. Provisions are made currently for estimated losses on uncompleted contracts.

Certain pre-production costs relating to long-term production and supply contracts have been deferred and will be recognized over the life of the contracts. Deferred pre-production costs were \$11.0 million and \$12.1 million at September 30, 2010 and December 31, 2009, respectively.

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

**Stock-Based Compensation** The Company recognizes compensation expense for stock-based compensation based on the grant date fair value ratably over the requisite service period following the date of grant.

**Financial Derivatives and Hedging Activities** The Company has periodically entered into foreign currency forward contracts to reduce the impact of changes in currency exchange rates. Forward contracts are agreements with a counter-party to exchange two distinct currencies at a set exchange rate for delivery on a set date at some point in the future. There is no exchange of funds until the delivery date. At the delivery date the Company can either take delivery of the currency or settle on a net basis. At September 30, 2010, the Company had no forward contracts for the sale of foreign currency.

To reduce the impact of interest rate changes on a portion of its variable-rate debt, the Company entered into interest rate swaps which effectively convert a portion of the debt from variable to fixed-rate borrowings during the term of the swap contracts. The Company is exposed to credit risk in the event of nonperformance by the counterparties. However, since only the cash interest payments are exchanged, exposure is significantly less than the notional amount. The counterparties are large financial institutions and the Company does not anticipate nonperformance. The Company concluded that these interest rate swap agreements qualify for cash flow hedge accounting which permits the recording of the fair value of the interest rate swap agreements and corresponding adjustment to other comprehensive income (loss), net of tax, on the balance sheet. As of September 30, 2010, the Company had interest rate swap agreements with a notional value of \$137.0 million and which effectively changed the Company's interest rate on bank debt at September 30, 2010 from a variable rate to a fixed rate of 2.23%. The interest rate swap agreements mature at various times through December 2012. As of September 30, 2010, the Company has recorded a current liability of \$2.7 million and a corresponding offset in accumulated other comprehensive loss of \$1.6 million, net of tax, related to these agreements.

**Foreign Currency Translation** Assets and liabilities of foreign subsidiaries, except for the Company's Mexican operations whose functional currency is the U.S. Dollar, are translated at the rate of exchange in effect on the balance sheet date while income and expenses are translated at the weighted average rates of exchange prevailing during the year. Foreign currency gains and losses resulting from transactions, and the translation of financial statements are recorded in the Company's consolidated financial statements based upon the provisions of ASC 830

**Foreign Currency Matters.** The effects of currency exchange rate changes on intercompany transactions and balances of a long-term investment nature are accumulated and carried as a component of shareholders' equity. The effects of currency exchange rate changes on transactions that are denominated in a currency other than an entity's functional currency are charged or credited to earnings. Foreign exchange

**Table of Contents****WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010 (UNAUDITED)**

transaction losses recognized in other income (expense), net were \$1.0 million for the three months ended September 30, 2010. Foreign exchange transaction gains recognized in other income (expense), net were \$154,000 for the three months ended September 30, 2009. Foreign exchange transaction losses recognized in other income (expense), net were \$751,000 for the nine months ended September 30, 2010. Foreign exchange transaction gains recognized in other income (expense), net were \$377,000 for the nine months ended September 30, 2009.

**Non-controlling Interests** On January 1, 2009, the Company adopted the amendment under ASC 810 Consolidation related to non-controlling interests in consolidated financial statements. This amendment establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. The amendment clarifies that a non-controlling interest should be reported as equity in the consolidated financial statements and requires net income attributable to both the parent and the non-controlling interest to be disclosed separately on the face of the consolidated statement of income. The presentation and disclosure requirements of the amendment require retrospective application to all prior periods presented. In accordance with ASC 810, the Company classified non-controlling interests as equity on our condensed consolidated balance sheets as of September 30, 2010 and December 31, 2009. Net income attributable to non-controlling interests for the three and nine months ended September 30, 2010 and 2009 was not material.

**Other Comprehensive Income** Comprehensive income is defined as net income and all other non-owner changes in shareholders' equity. The Company's accumulated other comprehensive income consists of foreign currency translation adjustments, foreign currency hedges, foreign exchange contracts, interest rate swaps, and pension and post retirement related adjustments. Total comprehensive income was:

| <i>In thousands</i>                                                | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|--------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|------------|
|                                                                    | 2010                                | 2009      | 2010                               | 2009       |
| Net income attributable to Wabtec shareholders                     | \$ 30,544                           | \$ 27,348 | \$ 92,119                          | \$ 90,850  |
| Foreign currency translation gain (loss)                           | 34,763                              | 14,829    | (2,952)                            | 26,421     |
| Unrealized (loss) gain on foreign exchange contracts, net of tax   | (1)                                 | (33)      | 70                                 | (147)      |
| Unrealized (loss) gain on interest rate swap contracts, net of tax | (425)                               | 62        | (1,598)                            | (163)      |
| Change in pension and post retirement benefit plans, net of tax    | (444)                               | 4,298     | 934                                | 5,038      |
| Total comprehensive income                                         | \$ 64,437                           | \$ 46,504 | \$ 88,573                          | \$ 121,999 |

The components of accumulated other comprehensive loss were:

| <i>In thousands</i>                                                 | September 30,<br>2010 | December 31,<br>2009 |
|---------------------------------------------------------------------|-----------------------|----------------------|
| Foreign currency translation gain                                   | \$ 9,948              | \$ 12,900            |
| Unrealized loss on foreign exchange contracts, net of tax           |                       | (70)                 |
| Unrealized loss on interest rate swap contracts, net of tax         | (1,636)               | (38)                 |
| Pension benefit plans and post retirement benefit plans, net of tax | (42,404)              | (43,338)             |
| Total accumulated comprehensive loss                                | \$ (34,092)           | \$ (30,546)          |

**3. ACQUISITIONS AND DISCONTINUED OPERATIONS**

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On November 5, 2010, subsequent to the close of our accounting quarter, the Company acquired substantially all of the assets of Swiger Coil Systems ( Swiger ), a manufacturer of traction motors and electric coils for the rail and power generation markets. The Company has funded the acquisition through its available

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010 (UNAUDITED)**

cash reserves, without any incremental debt or the issuance of equity. The acquisition does not have a material impact on the Company's liquidity or financial position. Swiger will operate as a business unit of Wabtec's Transit Group.

On September 15, 2010, the Company formed a joint venture in China to manufacture transformer oil coolers, generator coolers and related products for the power generation market. The Company invested \$1.5 million for a 60% interest in Hubei Dengfeng Unifin Electrical Equipment Cooling System Co., Ltd. ( Unifin DF ). Unifin DF operates as a business unit of Wabtec's Freight Group.

On September 9, 2010, the Company invested an additional \$8.0 million in a joint venture in Shenyang, China. This joint venture manufactures braking related components.

On August 20, 2010, the Company acquired Bach-Simpson Corporation ( Bach-Simpson ), a designer and manufacturer of electronic instrumentation devices for rail and transit markets, for a net purchase price of approximately \$12.0 million, resulting in preliminary additional goodwill of \$3.5 million, of which \$2.6 million will be deductible for tax purposes. Bach-Simpson operates as a business unit of Wabtec's Freight Group.

On July 28, 2010, the Company acquired G&B Specialties, Inc. ( G&B ), a manufacturer of railroad track and signaling products, for a net purchase price of approximately \$31.8 million, net of cash received, resulting in preliminary additional goodwill of \$6.6 million, none of which will be deductible for tax purposes. G&B operates as a business unit of Wabtec's Freight Group.

On March 12, 2010, the Company acquired Xorail LLC ( Xorail ), a leading provider of signal engineering and design services. The purchase price was \$39.9 million, net of cash received, resulting in preliminary additional goodwill of \$29.1 million, none of which will be deductible for tax purposes. Xorail operates as a business unit of Wabtec's Freight Group.

On October 1, 2009, the Company acquired Unifin International LP, and its affiliate, Cardinal Pumps and Exchangers, Inc. ( Unifin ), a manufacturer of cooling systems and related equipment for the power generation and transmission industry. The purchase price was \$92.9 million, net of cash received, resulting in preliminary additional goodwill of \$54.7 million, of which \$31.3 million will be deductible for tax purposes. Unifin operates as a business unit of Wabtec's Freight Group. On July 22, 2009, the Company acquired certain assets for \$3.4 million.

The acquisitions listed above include escrow deposits of \$14.5 million, which may be released to the Company for indemnity and other claims in accordance with the purchase and escrow agreements. Operating results have been included in the consolidated statement of operations from the acquisition dates forward.

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For the Bach-Simpson, G&B, Xorail and Unifin acquisitions, the following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition:

| <i>In thousands</i>                  | <b>Bach-Simpson<br/>August 20,<br/>2010</b> | <b>G&amp;B<br/>July 28,<br/>2010</b> | <b>Xorail<br/>March 12,<br/>2010</b> | <b>Unifin<br/>October 1,<br/>2009</b> |
|--------------------------------------|---------------------------------------------|--------------------------------------|--------------------------------------|---------------------------------------|
| Current assets                       | \$ 4,431                                    | \$ 8,536                             | \$ 11,147                            | \$ 8,770                              |
| Property, plant & equipment          | 106                                         | 5,510                                | 2,905                                | 5,552                                 |
| Goodwill and other intangible assets | 8,801                                       | 22,550                               | 35,014                               | 88,242                                |
| Other assets                         |                                             | 44                                   | 226                                  | 4,027                                 |
| <b>Total assets acquired</b>         | <b>13,338</b>                               | <b>36,640</b>                        | <b>49,292</b>                        | <b>106,591</b>                        |
| <b>Total liabilities assumed</b>     | <b>(1,345)</b>                              | <b>(4,798)</b>                       | <b>(9,349)</b>                       | <b>(13,666)</b>                       |
| <b>Net assets acquired</b>           | <b>\$ 11,993</b>                            | <b>\$ 31,842</b>                     | <b>\$ 39,943</b>                     | <b>\$ 92,925</b>                      |

Of the preliminary allocation of \$5.3 million of acquired intangible assets for Bach-Simpson, exclusive of goodwill, \$2.9 million was assigned to customer relationships, \$800,000 was assigned to long-term contracts, \$914,000 was assigned to trade names and \$743,000 was assigned to customer backlog. The trade names are considered to have an indefinite useful life while the customer relationships average useful life is 15 years and the long term contracts average useful life is two years. Of the preliminary allocation of \$15.9 million of acquired intangible assets for G&B, exclusive of goodwill, \$12.3 million was assigned to customer relationships, \$2.8 million was assigned to trade names and \$850,000 was assigned to customer backlog. The trade names are considered to have an indefinite useful life while the customer relationships average useful life is 15 years. Of the preliminary allocation of \$5.9 million of acquired intangible assets for Xorail, exclusive of goodwill, \$4.3 million was assigned to customer relationships, \$426,000 was assigned to intellectual property, \$470,000 was assigned to non-compete agreements and \$750,000 was assigned to customer backlog. The customer relationships average useful life is 20 years, the intellectual property's average useful life is six years and the non-compete agreements average useful life is six years. Of the preliminary allocation of \$33.5 million of acquired intangible assets for Unifin, exclusive of goodwill, \$14.8 million was assigned to trade names, \$16.2 million was assigned to customer relationships, \$278,000 was assigned to patents and \$2.2 million was assigned to customer backlog. The trade names are considered to have an indefinite useful life while the customer relationships average useful life is 10 years and patents average useful life is three years.

The following unaudited pro forma financial information presents income statement results as if the acquisitions listed above had occurred on January 1, 2009:

| <i>In thousands</i>                            | <b>Three Months Ended<br/>September 30,<br/>2010</b> | <b>Three Months Ended<br/>September 30,<br/>2009</b> | <b>Nine Months Ended<br/>September 30, 2010</b> | <b>Nine Months Ended<br/>September 30, 2009</b> |
|------------------------------------------------|------------------------------------------------------|------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Net sales                                      | \$ 379,328                                           | \$ 358,655                                           | \$ 1,140,830                                    | \$ 1,124,341                                    |
| Gross profit                                   | 110,529                                              | 107,255                                              | 342,072                                         | 330,598                                         |
| Net income attributable to Wabtec shareholders | 30,081                                               | 29,550                                               | 94,117                                          | 104,582                                         |
| Diluted earnings per share                     |                                                      |                                                      |                                                 |                                                 |

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|             |    |      |    |      |    |      |    |      |
|-------------|----|------|----|------|----|------|----|------|
| As Reported | \$ | 0.63 | \$ | 0.57 | \$ | 1.92 | \$ | 1.89 |
| Pro forma   | \$ | 0.62 | \$ | 0.62 | \$ | 1.95 | \$ | 2.17 |

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**4. INVENTORIES**

The components of inventory, net of reserves, were:

| <i>In thousands</i> | September 30,<br>2010 | December 31,<br>2009 |
|---------------------|-----------------------|----------------------|
| Raw materials       | \$ 106,118            | \$ 98,196            |
| Work-in-process     | 81,399                | 87,155               |
| Finished goods      | 61,278                | 53,982               |
| Total inventories   | \$ 248,795            | \$ 239,333           |

**5. INTANGIBLES**

Goodwill was \$518.0 million and \$483.0 million at September 30, 2010 and December 31, 2009, respectively. The adjustment of \$2.4 million to Goodwill for preliminary purchase allocation is due to the Unifin and Ricon acquisitions. The change in the carrying amount of goodwill by segment for the nine months ended September 30, 2010 is as follows:

| <i>In thousands</i>                           | Freight<br>Group | Transit<br>Group | Total      |
|-----------------------------------------------|------------------|------------------|------------|
| Balance at December 31, 2009                  | \$ 311,230       | \$ 171,748       | \$ 482,978 |
| Adjustment to preliminary purchase allocation | 30               | (2,368)          | (2,338)    |
| Acquisition                                   | 39,281           |                  | 39,281     |
| Foreign currency impact                       | 2,243            | (4,124)          | (1,881)    |
| Balance at September 30, 2010                 | \$ 352,784       | \$ 165,256       | \$ 518,040 |

As of September 30, 2010 and December 31, 2009, the Company's trademarks had a net carrying amount of \$98.6 million and \$96.0 million, respectively, and the Company believes these intangibles have an indefinite life. Intangible assets of the Company, other than goodwill and trademarks, consist of the following:

| <i>In thousands</i>                                                             | September 30,<br>2010 | December 31,<br>2009 |
|---------------------------------------------------------------------------------|-----------------------|----------------------|
| Patents and other, net of accumulated amortization of \$28,075 and \$26,135     | \$ 12,331             | \$ 10,832            |
| Customer relationships, net of accumulated amortization of \$11,866 and \$7,122 | 94,805                | 80,806               |

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|       |            |           |
|-------|------------|-----------|
| Total | \$ 107,136 | \$ 91,638 |
|-------|------------|-----------|

The weighted average remaining useful life of patents, customer relationships and intellectual property were seven years, 16 years and 17 years, respectively. Amortization expense for intangible assets was \$2.6 million and \$6.7 million for the three and nine months ended September 30, 2010, respectively and \$1.7 million and \$6.1 million for the three and nine months ended September 30, 2009, respectively.

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

|      |          |
|------|----------|
| 2010 | \$ 9,917 |
| 2011 | \$ 9,025 |
| 2012 | \$ 8,702 |
| 2013 | \$ 7,941 |
| 2014 | \$ 7,916 |

**6. LONG-TERM DEBT**

Long-term debt consisted of the following:

| <i>In thousands</i>           | September 30,<br>2010 | December 31,<br>2009 |
|-------------------------------|-----------------------|----------------------|
| 6.875% Senior Notes, due 2013 | \$ 150,000            | \$ 150,000           |
| Term Loan Facility            | 137,500               | 170,000              |
| Revolving Credit Facility     | 122,000               | 71,000               |
| Capital Leases                | 342                   | 780                  |
| <b>Total</b>                  | <b>409,842</b>        | <b>391,780</b>       |
| Less current portion          | 40,070                | 32,741               |
| <b>Long-term portion</b>      | <b>\$ 369,772</b>     | <b>\$ 359,039</b>    |

*2008 Refinancing Credit Agreement*

On November 4, 2008, the Company refinanced its existing unsecured revolving credit agreement with a consortium of commercial banks. This 2008 Refinancing Credit Agreement provides the company with a \$300 million five-year revolving credit facility and a \$200 million five-year term loan facility. The Company incurred \$2.9 million of deferred financing cost related to the 2008 Refinancing Credit Agreement. Both facilities expire in January 2013. The 2008 Refinancing Credit Agreement borrowings bear variable interest rates indexed to the indices described below. At September 30, 2010, the Company had available bank borrowing capacity, net of \$29.6 million of letters of credit, of approximately \$148.4 million, subject to certain financial covenant restrictions.

Under the 2008 Refinancing Credit Agreement, the Company may elect a Base Rate of interest or an interest rate based on the London Interbank Offered Rate ( LIBOR ) of interest ( the Alternate Rate ). The Base Rate adjusts on a daily basis and is the greater of the PNC, N.A. prime rate, 30-day LIBOR plus 150 basis points or the Federal Funds Effective Rate plus 0.5% per annum, plus a margin that ranges from 25 to 50 basis points. The Alternate rate is based on quoted LIBOR rates plus a margin that ranges from 125 to 200 basis points. Both the Base Rate and Alternate Rate margins are dependent on the Company's consolidated total indebtedness to cash flow ratios. The initial Base Rate margin is 25 basis points and the Alternate Rate margin is 125 basis points. At September 30, 2010 the weighted average interest rate on the Company's variable rate debt was 1.51%. To reduce the impact of interest rate changes on a portion of this variable-rate debt, the Company entered into interest rate swaps which effectively convert a portion of the debt from variable to fixed-rate borrowings during the term of the swap contracts. On September 30, 2010, the notional value of interest rate swaps outstanding totaled \$137.0 million and effectively changed the Company's

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interest rate on bank debt at September 30, 2010 from a variable rate to a fixed rate of 2.23%. The interest rate swap agreements mature at various times through December 2012. The Company is exposed to credit risk in the event of nonperformance by the counterparties. However, since only the cash interest payments are exchanged, exposure is significantly less than the notional amount. The counterparties are large financial institutions and the Company does not anticipate nonperformance.

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The 2008 Refinancing Credit Agreement limits the Company's ability to declare or pay cash dividends and prohibits the Company from declaring or making other distributions, subject to certain exceptions. The 2008 Refinancing Credit Agreement contains various other covenants and restrictions including the following limitations: incurrence of additional indebtedness, mergers, consolidations, sales of assets and acquisitions, additional liens, sale and leasebacks, permissible investments, loans and advances, certain debt payments, and imposes a minimum interest expense coverage ratio of 3.0 and a maximum debt to cash flow ratio of 3.25. The Company is in compliance with these measurements and covenants and expects that these measurements will not be any type of limiting factor in executing our operating activities.

**6.875% Senior Notes Due August 2013**

In August 2003, the Company issued \$150 million of Senior Notes due in 2013 (the Notes). The Notes were issued at par. Interest on the Notes accrues at a rate of 6.875% per annum and is payable semi-annually on January 31 and July 31 of each year. The proceeds were used to repay debt outstanding under the Company's existing credit agreement, and for general corporate purposes. The principal balance is due in full at maturity.

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

**7. EMPLOYEE BENEFIT PLANS****Defined Benefit Pension Plans**

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

The Company uses a December 31 measurement date for the U.S., Canadian, German and U.K. plans. The following tables provide information regarding the Company's defined benefit pension plans summarized by U.S. and international components.

| <i>In thousands, except percentages</i> | U.S.                                |               | International                       |                 |
|-----------------------------------------|-------------------------------------|---------------|-------------------------------------|-----------------|
|                                         | Three months ended<br>September 30, |               | Three months ended<br>September 30, |                 |
|                                         | 2010                                | 2009          | 2010                                | 2009            |
| <b>Net periodic benefit cost</b>        |                                     |               |                                     |                 |
| Service cost                            | \$ 40                               | \$ 61         | \$ 705                              | \$ 708          |
| Interest cost                           | 570                                 | 672           | 1,879                               | 1,724           |
| Expected return on plan assets          | (853)                               | (836)         | (1,953)                             | (1,585)         |
| Net amortization/deferrals              | 282                                 | 308           | 510                                 | 445             |
| Curtailement loss recognized            |                                     |               | 330                                 |                 |
| Settlement loss recognized              |                                     |               | 454                                 |                 |
| <b>Net periodic benefit cost</b>        | <b>\$ 39</b>                        | <b>\$ 205</b> | <b>\$ 1,925</b>                     | <b>\$ 1,292</b> |

**Assumptions**

|                                   |       |       |       |       |
|-----------------------------------|-------|-------|-------|-------|
| Discount rate                     | 5.75% | 6.25% | 6.11% | 6.69% |
| Expected long-term rate of return | 8.00% | 8.00% | 6.94% | 7.34% |
| Rate of compensation increase     | 3.00% | 3.00% | 3.28% | 3.47% |

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| <i>In thousands, except percentages</i> | U.S.                               |         | International                      |          |
|-----------------------------------------|------------------------------------|---------|------------------------------------|----------|
|                                         | Nine months ended<br>September 30, |         | Nine months ended<br>September 30, |          |
|                                         | 2010                               | 2009    | 2010                               | 2009     |
| <b>Net periodic benefit cost</b>        |                                    |         |                                    |          |
| Service cost                            | \$ 200                             | \$ 212  | \$ 2,177                           | \$ 2,012 |
| Interest cost                           | 1,866                              | 2,059   | 5,623                              | 4,986    |
| Expected return on plan assets          | (2,404)                            | (2,452) | (5,830)                            | (4,564)  |
| Net amortization/deferrals              | 1,240                              | 1,090   | 1,420                              | 1,449    |
| Curtailed loss recognized               |                                    |         | 1,263                              | 414      |
| Settlement loss recognized              |                                    |         | 803                                | 1,535    |
| Net periodic benefit cost               | \$ 902                             | \$ 909  | \$ 5,456                           | \$ 5,832 |

**Assumptions**

|                                   |       |       |       |       |
|-----------------------------------|-------|-------|-------|-------|
| Discount rate                     | 5.75% | 6.25% | 6.11% | 6.69% |
| Expected long-term rate of return | 8.00% | 8.00% | 6.94% | 7.34% |
| Rate of compensation increase     | 3.00% | 3.00% | 3.28% | 3.47% |

The Company's funding methods are based on governmental requirements and differ from those methods used to recognize pension expense. The Company expects to contribute \$4.7 million to the U.S. plans and \$8.7 million to the international plans during 2010.

**Post Retirement Benefit Plans**

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

| <i>In thousands, except percentages</i> | U.S.                                |            | International                       |       |
|-----------------------------------------|-------------------------------------|------------|-------------------------------------|-------|
|                                         | Three months ended<br>September 30, |            | Three months ended<br>September 30, |       |
|                                         | 2010                                | 2009       | 2010                                | 2009  |
| <b>Net periodic benefit cost</b>        |                                     |            |                                     |       |
| Service cost                            | \$ 8                                | \$ (59)    | \$ 18                               | \$ 10 |
| Interest cost                           | 391                                 | 364        | 63                                  | 57    |
| Net amortization/deferrals              | (362)                               | (509)      | (68)                                | (65)  |
| Curtailed gain recognized               |                                     | (1,330)    |                                     |       |
| Net periodic benefit cost               | \$ 37                               | \$ (1,534) | \$ 13                               | \$ 2  |
| <b>Assumptions</b>                      |                                     |            |                                     |       |
| Discount rate                           | 5.75%                               | 7.34%      | 6.40%                               | 7.50% |

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| <i>In thousands, except percentages</i> | U.S.                               |          | International                      |       |
|-----------------------------------------|------------------------------------|----------|------------------------------------|-------|
|                                         | Nine months ended<br>September 30, |          | Nine months ended<br>September 30, |       |
|                                         | 2010                               | 2009     | 2010                               | 2009  |
| <b>Net periodic benefit cost</b>        |                                    |          |                                    |       |
| Service cost                            | \$ 33                              | \$ 65    | \$ 52                              | \$ 28 |
| Interest cost                           | 1,199                              | 1,304    | 214                                | 161   |
| Net amortization/deferrals              | (888)                              | (952)    | (191)                              | (183) |
| Curtailement gain recognized            |                                    | (1,330)  |                                    |       |
| Net periodic benefit cost               | \$ 344                             | \$ (913) | \$ 75                              | \$ 6  |
| <b>Assumptions</b>                      |                                    |          |                                    |       |
| Discount rate                           | 5.75%                              | 7.34%    | 6.40%                              | 7.50% |

**8. STOCK-BASED COMPENSATION**

As of September 30, 2010, the Company maintains employee stock-based compensation plans for stock options, restricted stock, and incentive stock awards as governed by the 2000 Stock Incentive Plan, as amended (the "2000 Plan"). The Company also maintains a Non-Employee Directors' Fee and Stock Option Plan ("Directors Plan").

Stock-based compensation expense was \$8.2 million and \$3.6 million for the nine months ended September 30, 2010 and 2009, respectively. Included in the stock-based compensation expense for 2010 above is \$1.6 million of expense related to stock options, \$2.6 million related to restricted stock, \$3.3 million related to incentive stock awards and \$675,000 as compensation for Directors' fees. At September 30, 2010, unamortized compensation expense related to those stock options, restricted shares and incentive stock awards expected to vest totaled \$14.5 million and will be recognized over a weighted average period of 1.5 years.

**Stock Options** Under the 2000 Plan, stock options are granted to eligible employees at the fair market value, which is the average of the high and low Wabtec stock price on the date of grant. Generally, the options become exercisable over a three or four year vesting period and expire 10 years from the date of grant. Options issued under the Directors Plan become exercisable over a three-year vesting period and expire 10 years from the date of grant.

The following table summarizes the Company's stock option activity and related information for both the 2000 Plan and Directors Plan for the nine months ended September 30, 2010:

|                                   | Options   | Weighted<br>Average<br>Exercise<br>Price | Weighted Average<br>Remaining<br>Contractual<br>Life | Aggregate<br>intrinsic value<br>(in thousands) |
|-----------------------------------|-----------|------------------------------------------|------------------------------------------------------|------------------------------------------------|
| Outstanding at December 31, 2009  | 1,119,253 | \$ 23.89                                 | 6.1                                                  | \$ 16,136                                      |
| Granted                           | 120,125   | 38.21                                    |                                                      | 1,133                                          |
| Exercised                         | (218,800) | 13.92                                    |                                                      | (7,378)                                        |
| Canceled                          | (8,700)   | 33.30                                    |                                                      | (125)                                          |
| Outstanding at September 30, 2010 | 1,011,878 | \$ 27.67                                 | 6.4                                                  | \$ 20,209                                      |
| Exercisable at September 30, 2010 | 554,694   | \$ 22.54                                 | 5.1                                                  | \$ 13,921                                      |



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The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

|                         | Nine months ended<br>September 30, |       |
|-------------------------|------------------------------------|-------|
|                         | 2010                               | 2009  |
| Dividend yield          | .10%                               | .13%  |
| Risk-free interest rate | 3.16%                              | 2.05% |
| Stock price volatility  | 46.1%                              | 43.1% |
| Expected life (years)   | 5.0                                | 5.0   |

The dividend yield is based on the Company's dividend rate and the current market price of the underlying common stock at the date of grant. Expected life in years is determined from historical stock option exercise data. Expected volatility is based on the historical volatility of the Company's stock. The risk-free interest rate is based on the U.S. Treasury bond rates for the expected life of the option.

**Restricted Stock and Incentive Stock Awards** Under the 2000 Plan, the Company adopted a restricted stock plan in 2006. Eligible employees are granted restricted stock that generally vests over three or four years from the date of grant.

In addition, the Company has issued incentive stock awards to eligible employees that vest upon attainment of certain cumulative three year performance goals. The incentive stock awards included in the table below represent the number of shares that may ultimately vest. As of September 30, 2010, based on the Company's performance, we estimate that these stock awards will vest and have recorded compensation expense accordingly. If our estimate of the number of these stock awards expected to vest changes in a future accounting period, compensation expense could be reduced or increased and will be recognized over the remaining vesting period.

Compensation expense for the restricted stock and incentive stock awards is based on the closing price of the Company's common stock on the date of grant and recognized over the applicable vesting period.

The following table summarizes the restricted stock and incentive stock awards activity and related information for the nine months ended September 30, 2010:

|                                   | Restricted<br>Stock | Incentive<br>Stock<br>Awards | Weighted<br>Average Grant<br>Date Fair<br>Value |
|-----------------------------------|---------------------|------------------------------|-------------------------------------------------|
| Outstanding at December 31, 2009  | 241,284             | 267,792                      | \$ 31.65                                        |
| Granted                           | 137,125             | 158,492                      | 38.49                                           |
| Vested                            | (113,259)           | (99,318)                     | 33.34                                           |
| Canceled                          | (4,075)             | (22,293)                     | 14.69                                           |
| Outstanding at September 30, 2010 | 261,075             | 304,673                      | \$ 35.38                                        |

**9. INCOME TAXES**

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The overall effective income tax rate was 33.4% and 33.7% for the three and nine months ended September 30, 2010, respectively and 35.6% and 28.3% for the three and nine months ended September 30,

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2009, respectively. The increase in the 2010 effective rate for the nine months ended September 30, 2010 is primarily due to a \$9.7 million tax benefit recorded in the second quarter of 2009 for the settlement of examinations in various taxing jurisdictions.

As of September 30, 2010, the liability for income taxes associated with uncertain tax positions is \$8.4 million. As of December 31, 2009, the liability for income taxes associated with uncertain tax positions was \$10.0 million. If the benefits of the uncertain tax positions are realized, \$2.8 million would favorably affect the Company's effective tax rate. The remaining \$5.6 million is recorded as a deferred tax asset and would not impact the Company's effective rate. The Company includes interest and penalties related to uncertain tax positions in income tax expense.

As of September 30, 2010, the Company has accrued interest and penalties of approximately \$3.0 million and \$1.5 million, respectively. As of December 31, 2009, the Company had accrued interest and penalties related to uncertain tax positions of approximately \$3.1 million and \$1.7 million, respectively.

With limited exception, the Company is no longer subject to examination by various U.S. and foreign taxing authorities for years before 2007. At this time, the Company believes that it is reasonably possible that unrecognized tax benefits of approximately \$1.3 million may change within the next twelve months due to the expiration of statutory review periods and current examinations.

**10. EARNINGS PER SHARE**

The computation of basic and diluted earnings per share for net income attributable to Wabtec shareholders is as follows:

| <i>In thousands, except per share</i>                                                                     | <b>Three Months Ended<br/>September 30,</b> |             |
|-----------------------------------------------------------------------------------------------------------|---------------------------------------------|-------------|
|                                                                                                           | <b>2010</b>                                 | <b>2009</b> |
| <b>Numerator</b>                                                                                          |                                             |             |
| Numerator for basic and diluted earnings per common share net income attributable to Wabtec shareholders  | \$ 30,544                                   | \$ 27,348   |
| Less: dividends declared common shares and non-vested restricted stock                                    | (480)                                       | (476)       |
| Undistributed earnings                                                                                    | 30,064                                      | 26,872      |
| Percentage allocated to common shareholders(1)                                                            | 99.5%                                       | 99.5%       |
|                                                                                                           | 29,914                                      | 26,738      |
| Add: dividends declared common shares                                                                     | 478                                         | 474         |
| Numerator for basic and diluted earnings per common share                                                 | \$ 30,392                                   | \$ 27,212   |
| <b>Denominator</b>                                                                                        |                                             |             |
| Denominator for basic earnings per common share weighted-average shares                                   | 47,677                                      | 47,289      |
| Effect of dilutive securities:                                                                            |                                             |             |
| Assumed conversion of dilutive stock-based compensation plans                                             | 387                                         | 463         |
| Denominator for diluted earnings per common share adjusted weighted-average shares and assumed conversion | 48,064                                      | 47,752      |
| <b>Per common share net income attributable to Wabtec shareholders</b>                                    |                                             |             |
| Basic                                                                                                     | \$ 0.64                                     | \$ 0.58     |
| Diluted                                                                                                   | \$ 0.63                                     | \$ 0.57     |
| (1) Basic weighted-average common shares outstanding                                                      | 47,677                                      | 47,289      |
| Basic weighted-average common shares outstanding and non-vested restricted stock expected to vest         | 47,909                                      | 47,512      |

Percentage allocated to common shareholders

99.5%

99.5%

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| <i>In thousands, except per share</i>                                                                     | <b>Nine Months Ended<br/>September 30,</b> |             |
|-----------------------------------------------------------------------------------------------------------|--------------------------------------------|-------------|
|                                                                                                           | <b>2010</b>                                | <b>2009</b> |
| <b>Numerator</b>                                                                                          |                                            |             |
| Numerator for basic and diluted earnings per common share net income attributable to Wabtec shareholders  | \$ 92,119                                  | \$ 90,850   |
| Less: dividends declared common shares and non-vested restricted stock                                    | (1,429)                                    | (1,438)     |
| Undistributed earnings                                                                                    | 90,690                                     | 89,412      |
| Percentage allocated to common shareholders(1)                                                            | 99.5%                                      | 99.5%       |
|                                                                                                           | 90,237                                     | 88,965      |
| Add: dividends declared common shares                                                                     | 1,422                                      | 1,431       |
| Numerator for basic and diluted earnings per common share                                                 | \$ 91,659                                  | \$ 90,396   |
| <b>Denominator</b>                                                                                        |                                            |             |
| Denominator for basic earnings per common share weighted-average shares                                   | 47,577                                     | 47,537      |
| Effect of dilutive securities:                                                                            |                                            |             |
| Assumed conversion of dilutive stock-based compensation plans                                             | 379                                        | 482         |
| Denominator for diluted earnings per common share adjusted weighted-average shares and assumed conversion | 47,956                                     | 48,019      |
| <b>Per common share net income attributable to Wabtec shareholders</b>                                    |                                            |             |
| Basic                                                                                                     | \$ 1.93                                    | \$ 1.90     |
| Diluted                                                                                                   | \$ 1.92                                    | \$ 1.89     |
| (1) Basic weighted-average common shares outstanding                                                      | 47,577                                     | 47,537      |
| Basic weighted-average common shares outstanding and non-vested restricted stock expected to vest         | 47,798                                     | 47,770      |
| Percentage allocated to common shareholders                                                               | 99.5%                                      | 99.5%       |

The Company's non-vested restricted stock contains rights to receive nonforfeitable dividends, and thus, are participating securities requiring the two-class method of computing earnings per share. The calculation of earnings per share for common stock shown above excludes the income attributable to the non-vested restricted stock from the numerator and excludes the dilutive impact of those shares from the denominator.

**11. WARRANTIES**

The following table reconciles the changes in the Company's product warranty reserve:

| <i>In thousands</i>                                  | <b>Nine Months Ended<br/>September 30,</b> |             |
|------------------------------------------------------|--------------------------------------------|-------------|
|                                                      | <b>2010</b>                                | <b>2009</b> |
| Balance at December 31, 2009 and 2008, respectively  | \$ 29,207                                  | \$ 30,676   |
| Warranty provision                                   | 18,874                                     | 16,125      |
| Warranty claim payments                              | (11,505)                                   | (14,997)    |
| Balance at September 30, 2010 and 2009, respectively | \$ 36,576                                  | \$ 31,804   |

**12. FAIR VALUE MEASUREMENT**

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ASC 820 Fair Value Measurements and Disclosures defines fair value, establishes a framework for measuring fair value and explains the related disclosure requirements. ASC 820 indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability and defines fair value based upon an exit price model.

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## WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010 (UNAUDITED)

**Valuation Hierarchy.** ASC 820 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following table provides the liabilities carried at fair value measured on a recurring basis as of September 30, 2010, which are included in other current liabilities on the Condensed Consolidated Balance sheet:

| <i>In thousands</i>           | Total Carrying<br>Value at<br>September<br>30,<br>2010 | Fair Value Measurements at September 30, 2010 Using<br>Quoted Prices in<br>Active Markets for |                                                     |                                                    |
|-------------------------------|--------------------------------------------------------|-----------------------------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------|
|                               |                                                        | Identical<br>Assets<br>(Level<br>1)                                                           | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Interest rate swap agreements | (2,709)                                                |                                                                                               | (2,709)                                             |                                                    |
| Total                         | \$ (2,709)                                             | \$                                                                                            | \$ (2,709)                                          | \$                                                 |

The following table provides the liabilities carried at fair value measured on a recurring basis as of December 31, 2009, which is included in other current liabilities on the Condensed Consolidated Balance sheet:

| <i>In thousands</i>                | Total Carrying<br>Value at<br>December<br>31,<br>2009 | Fair Value Measurements at December 31, 2009 Using<br>Quoted Prices in<br>Active Markets for |                                                     |                                                    |
|------------------------------------|-------------------------------------------------------|----------------------------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------|
|                                    |                                                       | Identical<br>Assets<br>(Level<br>1)                                                          | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Foreign currency forward contracts | \$ (110)                                              | \$                                                                                           | \$ (110)                                            | \$                                                 |
| Interest rate swap agreements      | (63)                                                  |                                                                                              | (63)                                                |                                                    |
| Total                              | \$ (173)                                              | \$                                                                                           | \$ (173)                                            | \$                                                 |

As a result of our global operating activities, the Company is exposed to market risks from changes in foreign currency exchange rates, which may adversely affect our operating results and financial position. When deemed appropriate, the Company minimizes these risks through entering into foreign currency forward contracts. The foreign currency forward contracts are valued using broker quotations, or market transactions in either the listed or over-the counter markets. As such, these derivative instruments are classified within level 2.

**13. COMMITMENTS AND CONTINGENCIES**

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Claims have been filed against the Company and certain of its affiliates in various jurisdictions across the United States by persons alleging bodily injury as a result of exposure to asbestos-containing products. Most of these claims have been made against our wholly owned subsidiary, Railroad Friction Products Corporation ( RFPC ), and are based on a product sold by RFPC prior to the time that the Company acquired any interest in RFPC.

Most of these claims, including all of the RFPC claims, are submitted to insurance carriers for defense and indemnity or to non-affiliated companies that retain the liabilities for the asbestos-containing products at issue. We cannot, however, assure that all these claims will be fully covered by insurance or that the indemnitors or

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010 (UNAUDITED)**

insurers will remain financially viable. Our ultimate legal and financial liability with respect to these claims, as is the case with other pending litigation, cannot be estimated.

It is Management's belief that the potential range of loss for asbestos-related bodily injury cases is not reasonably determinable at present due to a variety of factors, including: (1) the asbestos case settlement history of the Company's wholly owned subsidiary, RFPC; (2) the unpredictable nature of personal injury litigation in general; and (3) the uncertainty of asbestos litigation in particular. Despite this uncertainty, and although the results of the Company's operations and cash flows for any given period could be adversely affected by asbestos-related lawsuits, Management believes that the final resolution of the Company's asbestos-related cases will not be material to the Company's overall financial position, results of operations and cash flows. In general, this belief is based upon: (1) Wabtec's and RFPC's history of settlements and dismissals of asbestos-related cases to date; (2) the inability of many plaintiffs to establish any exposure or causal relationship to RFPC's product; and (3) the inability of many plaintiffs to demonstrate any identifiable injury or compensable loss.

More specifically, as to RFPC, Management's belief that any losses due to asbestos-related cases would not be material is also based on the fact that RFPC owns insurance which provides coverage for asbestos-related bodily injury claims. To date, RFPC's insurers have provided RFPC with defense and indemnity in these actions. The overall number of new claims being filed against RFPC has dropped significantly in recent years; however, these new claims, and all previously filed claims, may take a significant period of time to resolve. As to Wabtec and its divisions, Management's belief that asbestos-related cases will not have a material impact is also based on its position that it has no legal liability for asbestos-related bodily injury claims, and that the former owners of Wabtec's assets retained asbestos liabilities for the products at issue. To date, Wabtec has been able to successfully defend itself on this basis, including two arbitration decisions and a judicial opinion, all of which confirmed Wabtec's position that it did not assume any asbestos liabilities from the former owners of certain Wabtec assets. Although Wabtec has incurred defense and administrative costs in connection with asbestos bodily injury actions, these costs have not been material, and the Company has no information that would suggest these costs would become material in the foreseeable future.

On October 18, 2007, Faiveley Transport Malmo AB ( Faiveley Malmo ) filed a request for arbitration with the International Chamber of Commerce alleging breach of contract and trade secret violations relating to the Company's manufacture and sale of certain components. The components at issue are limited in number and used in the transit industry. On that same day, Faiveley Malmo also filed a related proceeding against the Company in the United States District Court for the Southern District of New York ( Federal Court ), requesting a preliminary injunction in aid of the arbitration. In both forums, Faiveley sought to prevent the Company from manufacturing and selling the subject components until the arbitration panel decides Faiveley's claim. In the arbitration, Faiveley also sought monetary damages.

In the Federal Court action, Faiveley Malmo's request for a preliminary injunction was initially granted, in part, on August 22, 2008. That injunction was vacated by the appellate court on March 9, 2009, and the case was remanded to the District Court for further proceedings. On remand, Faiveley Malmo renewed its request for injunctive relief. The District Court denied that request on August 31, 2009, and Faiveley Malmo appealed that denial to the appellate court. Faiveley Malmo later voluntarily dismissed that appeal.

In the international arbitration proceeding, Faiveley Malmo originally alleged \$128 million in damages, but later reduced its claim to \$91 million in damages. The Company has stated that Faiveley Malmo's claims were grossly overstated, not supported by the facts or circumstances surrounding the case, and frivolous in most respects. An ICC International Court of Arbitration Arbitral Tribunal heard the case during the first half of 2009.

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**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010 (UNAUDITED)**

and issued an award dated December 21, 2009. Pursuant to the Award, the Company was required to make a \$3.9 million royalty payment to Faiveley Malmö, with respect to Faiveley Malmö's claims against the Company alleging breach of contract and trade secret violations. Faiveley Malmö's parent company, Faiveley Transport, stated that other Faiveley entities were considering filing claims against the Company arising from the same allegations.

On May 14, 2010, Faiveley Transport USA, Inc., Faiveley Transport Nordic AB, Faiveley Transport Amiens S.A.S, and Ellcon National, Inc. filed a complaint against Wabtec Corporation in the U.S. District Court for the Southern District of New York. That complaint was amended on June 8, 2010. The claims in the amended complaint include misappropriation of trade secrets, unfair competition, tortious interference with prospective business relations, tortious interference with prospective economic advantage, and unjust enrichment. The Company is vigorously contesting all claims and does not believe that they would result in any material legal liability. On June 25, 2010, the Company filed a motion to dismiss the Faiveley entities' amended complaint in its entirety. That motion to dismiss was denied. The Court has not assigned a trial date, but the Company anticipates that any claims surviving motions for summary judgment will be set for trial in early 2011.

The Company is subject to a number of other commitments and contingencies as described in its Annual Report on Form 10-K for the year ended December 31, 2009, filed on February 24, 2010. During the first nine months of 2010, there were no material changes to the information described in Note 19 therein.

**14. SEGMENT INFORMATION**

Wabtec has two reportable segments—the Freight Group and the Transit Group. The key factors used to identify these reportable segments are the organization and alignment of the Company's internal operations, the nature of the products and services, and customer type. The business segments are:

**Freight Group** manufactures products and provides services geared primarily to the production and operation of freight cars and locomotives, including braking control equipment, on-board electronic components and train coupler equipment.

**Transit Group** consists of products for passenger transit vehicles and locomotives (typically subways, commuter rail and buses) that include braking, coupling, monitoring systems, climate control and door equipment engineered to meet individual customer specifications, as well as commuter rail locomotives.

The Company evaluates its business segments' operating results based on income from operations. Corporate activities include general corporate expenses, elimination of intersegment transactions, interest income and expense and other unallocated charges. Since certain administrative and other operating expenses and other items have not been allocated to business segments, the results in the following tables are not necessarily a measure computed in accordance with generally accepted accounting principles and may not be comparable to other companies.

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**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010 (UNAUDITED)**

Segment financial information for the three months ended September 30, 2010 is as follows:

| <i>In thousands</i>                               | Freight<br>Group  | Transit<br>Group  | Corporate<br>Activities and<br>Elimination | Total             |
|---------------------------------------------------|-------------------|-------------------|--------------------------------------------|-------------------|
| Sales to external customers                       | \$ 208,566        | \$ 167,141        | \$                                         | \$ 375,707        |
| Intersegment sales/(elimination)                  | 3,036             | 450               | (3,486)                                    |                   |
| <b>Total sales</b>                                | <b>\$ 211,602</b> | <b>\$ 167,591</b> | <b>\$ (3,486)</b>                          | <b>\$ 375,707</b> |
| Income (loss) from operations                     | \$ 33,248         | \$ 19,915         | \$ (2,530)                                 | \$ 50,633         |
| Interest expense and other, net                   |                   |                   | (4,787)                                    | (4,787)           |
| Income (loss) from operations before income taxes | \$ 33,248         | \$ 19,915         | \$ (7,317)                                 | \$ 45,846         |

Segment financial information for the three months ended September 30, 2009 is as follows:

| <i>In thousands</i>                               | Freight<br>Group  | Transit<br>Group  | Corporate<br>Activities and<br>Elimination | Total             |
|---------------------------------------------------|-------------------|-------------------|--------------------------------------------|-------------------|
| Sales to external customers                       | \$ 124,453        | \$ 206,002        | \$                                         | \$ 330,455        |
| Intersegment sales/(elimination)                  | 5,642             | 307               | (5,949)                                    |                   |
| <b>Total sales</b>                                | <b>\$ 130,095</b> | <b>\$ 206,309</b> | <b>\$ (5,949)</b>                          | <b>\$ 330,455</b> |
| Income (loss) from operations                     | \$ 16,487         | \$ 34,655         | \$ (5,383)                                 | \$ 45,759         |
| Interest expense and other, net                   |                   |                   | (3,293)                                    | (3,293)           |
| Income (loss) from operations before income taxes | \$ 16,487         | \$ 34,655         | \$ (8,676)                                 | \$ 42,466         |

Segment financial information for the nine months ended September 30, 2010 is as follows:

| <i>In thousands</i>              | Freight<br>Group | Transit<br>Group | Corporate<br>Activities and<br>Elimination | Total        |
|----------------------------------|------------------|------------------|--------------------------------------------|--------------|
| Sales to external customers      | \$ 563,684       | \$ 550,087       | \$                                         | \$ 1,113,771 |
| Intersegment sales/(elimination) | 14,573           | 2,466            | (17,039)                                   |              |

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|                                                   |            |            |             |              |
|---------------------------------------------------|------------|------------|-------------|--------------|
| Total sales                                       | \$ 578,257 | \$ 552,553 | \$ (17,039) | \$ 1,113,771 |
| Income (loss) from operations                     | \$ 84,196  | \$ 77,920  | \$ (10,655) | \$ 151,461   |
| Interest expense and other, net                   |            |            | (12,426)    | (12,426)     |
| Income (loss) from operations before income taxes | \$ 84,196  | \$ 77,920  | \$ (23,081) | \$ 139,035   |

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**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010 (UNAUDITED)**

Segment financial information for the nine months ended September 30, 2009 is as follows:

| <i>In thousands</i>                               | <b>Freight<br/>Group</b> | <b>Transit<br/>Group</b> | <b>Corporate<br/>Activities and<br/>Elimination</b> | <b>Total</b>        |
|---------------------------------------------------|--------------------------|--------------------------|-----------------------------------------------------|---------------------|
| Sales to external customers                       | \$ 440,479               | \$ 601,949               | \$                                                  | \$ 1,042,428        |
| Intersegment sales/(elimination)                  | 19,664                   | 2,061                    | (21,725)                                            |                     |
| <b>Total sales</b>                                | <b>\$ 460,143</b>        | <b>\$ 604,010</b>        | <b>\$ (21,725)</b>                                  | <b>\$ 1,042,428</b> |
| Income (loss) from operations                     | \$ 57,276                | \$ 95,122                | \$ (14,164)                                         | \$ 138,234          |
| Interest expense and other, net                   |                          |                          | (11,499)                                            | (11,499)            |
| Income (loss) from operations before income taxes | \$ 57,276                | \$ 95,122                | \$ (25,663)                                         | \$ 126,735          |

Sales by product are as follows:

| <i>In thousands</i>                      | <b>Three Months Ended<br/>September 30,</b> |                   |
|------------------------------------------|---------------------------------------------|-------------------|
|                                          | <b>2010</b>                                 | <b>2009</b>       |
| Brake products                           | \$ 99,826                                   | \$ 107,454        |
| Freight electronics & specialty products | 136,464                                     | 68,103            |
| Remanufacturing, overhaul & build        | 64,050                                      | 76,181            |
| Transit products                         | 53,664                                      | 62,018            |
| Other                                    | 21,703                                      | 16,699            |
| <b>Total sales</b>                       | <b>\$ 375,707</b>                           | <b>\$ 330,455</b> |

| <i>In thousands</i>                      | <b>Nine Months Ended<br/>September 30,</b> |                     |
|------------------------------------------|--------------------------------------------|---------------------|
|                                          | <b>2010</b>                                | <b>2009</b>         |
| Brake products                           | \$ 328,259                                 | \$ 348,261          |
| Freight electronics & specialty products | 340,453                                    | 248,388             |
| Remanufacturing, overhaul & build        | 210,384                                    | 210,026             |
| Transit products                         | 168,663                                    | 184,188             |
| Other                                    | 66,012                                     | 51,565              |
| <b>Total sales</b>                       | <b>\$ 1,113,771</b>                        | <b>\$ 1,042,428</b> |



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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010 (UNAUDITED)**

**15. GUARANTOR SUBSIDIARIES FINANCIAL INFORMATION**

Effective August 2003, the Company issued \$150 million of Senior Notes due in 2013 ( Notes ). The obligations under the Notes are fully and unconditionally guaranteed by all U.S. subsidiaries as guarantors. In accordance with positions established by the Securities and Exchange Commission, the following shows separate financial information with respect to the parent, the guarantor subsidiaries and the non-guarantor subsidiaries. The principal elimination entries eliminate investment in subsidiaries and certain intercompany balances and transactions.

Balance Sheet as of September 30, 2010:

| <i>In thousands</i>                               | Parent              | Guarantors          | Non-Guarantors      | Elimination           | Consolidated        |
|---------------------------------------------------|---------------------|---------------------|---------------------|-----------------------|---------------------|
| Cash and cash equivalents                         | \$ 14,526           | \$ 1,972            | \$ 160,310          | \$                    | \$ 176,808          |
| Accounts receivable                               | 342                 | 166,702             | 97,749              |                       | 264,793             |
| Inventories                                       |                     | 169,090             | 79,705              |                       | 248,795             |
| Other current assets                              | 40,733              | 3,932               | 8,717               |                       | 53,382              |
| <b>Total current assets</b>                       | <b>55,601</b>       | <b>341,696</b>      | <b>346,481</b>      |                       | <b>743,778</b>      |
| Property, plant and equipment                     | 2,308               | 119,113             | 81,721              |                       | 203,142             |
| Goodwill                                          | 7,980               | 371,059             | 139,001             |                       | 518,040             |
| Investment in subsidiaries                        | 2,305,623           | 485,417             | 401,926             | (3,192,966)           |                     |
| Other intangibles                                 |                     | 142,944             | 62,807              |                       | 205,751             |
| Other long term assets                            | (2,269)             | (5,946)             | 43,184              |                       | 34,969              |
| <b>Total Assets</b>                               | <b>\$ 2,369,243</b> | <b>\$ 1,454,283</b> | <b>\$ 1,075,120</b> | <b>\$ (3,192,966)</b> | <b>\$ 1,705,680</b> |
| <b>Current liabilities</b>                        | <b>\$ 72,715</b>    | <b>\$ 149,104</b>   | <b>\$ 97,314</b>    | <b>\$</b>             | <b>\$ 319,133</b>   |
| Intercompany                                      | 999,348             | (1,079,665)         | 80,317              |                       |                     |
| Long-term debt                                    | 369,500             | 272                 |                     |                       | 369,772             |
| Other long term liabilities                       | 54,539              | 25,376              | 63,719              |                       | 143,634             |
| <b>Total liabilities</b>                          | <b>1,496,102</b>    | <b>(904,913)</b>    | <b>241,350</b>      |                       | <b>832,539</b>      |
| Stockholders' equity                              | 873,141             | 2,359,196           | 833,770             | (3,192,966)           | 873,141             |
| <b>Total Liabilities and Stockholders' Equity</b> | <b>\$ 2,369,243</b> | <b>\$ 1,454,283</b> | <b>\$ 1,075,120</b> | <b>\$ (3,192,966)</b> | <b>\$ 1,705,680</b> |

Balance Sheet as of December 31, 2009:

| <i>In thousands</i>       | Parent    | Guarantors | Non-Guarantors | Elimination | Consolidated |
|---------------------------|-----------|------------|----------------|-------------|--------------|
| Cash and cash equivalents | \$ 12,026 | \$ 12,124  | \$ 164,509     | \$          | \$ 188,659   |
| Accounts receivable       | 522       | 121,203    | 86,535         |             | 208,260      |
| Inventories               |           | 166,638    | 72,695         |             | 239,333      |
| Other current assets      | 38,038    | 5,040      | 10,179         |             | 53,257       |

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|                                                  |                     |                     |                     |                       |                     |
|--------------------------------------------------|---------------------|---------------------|---------------------|-----------------------|---------------------|
| Total current assets                             | 50,586              | 305,005             | 333,918             |                       | 689,509             |
| Property, plant and equipment, net               | 2,232               | 119,195             | 80,280              |                       | 201,707             |
| Goodwill                                         | 7,980               | 337,603             | 137,395             |                       | 482,978             |
| Investment in subsidiaries                       | 2,102,458           | 452,653             | 382,942             | (2,938,053)           |                     |
| Other intangibles, net                           |                     | 127,705             | 59,925              |                       | 187,630             |
| Other long term assets                           | (1,416)             | (7,360)             | 32,787              |                       | 24,011              |
| <b>Total Assets</b>                              | <b>\$ 2,161,840</b> | <b>\$ 1,334,801</b> | <b>\$ 1,027,247</b> | <b>\$ (2,938,053)</b> | <b>\$ 1,585,835</b> |
| Current liabilities                              | \$ 55,907           | \$ 158,077          | \$ 91,364           | \$                    | \$ 305,348          |
| Intercompany                                     | 907,149             | (986,903)           | 79,754              |                       |                     |
| Long-term debt                                   | 358,500             | 316                 | 223                 |                       | 359,039             |
| Other long term liabilities                      | 61,371              | 18,575              | 62,589              |                       | 142,535             |
| <b>Total liabilities</b>                         | <b>1,382,927</b>    | <b>(809,935)</b>    | <b>233,930</b>      |                       | <b>806,922</b>      |
| Stockholders equity                              | 778,913             | 2,144,736           | 793,317             | (2,938,053)           | 778,913             |
| <b>Total Liabilities and Stockholders Equity</b> | <b>\$ 2,161,840</b> | <b>\$ 1,334,801</b> | <b>\$ 1,027,247</b> | <b>\$ (2,938,053)</b> | <b>\$ 1,585,835</b> |

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**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010 (UNAUDITED)**

Income Statement for the Three Months Ended September 30, 2010:

| <i>In thousands</i>                                   | <b>Parent</b> | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Elimination(1)</b> | <b>Consolidated</b> |
|-------------------------------------------------------|---------------|-------------------|-----------------------|-----------------------|---------------------|
| Net sales                                             | \$            | \$ 275,550        | \$ 119,755            | \$ (19,598)           | \$ 375,707          |
| Cost of sales                                         | 361           | (183,848)         | (96,678)              | 13,695                | (266,470)           |
| Gross profit (loss)                                   | 361           | 91,702            | 23,077                | (5,903)               | 109,237             |
| Operating expenses                                    | (9,368)       | (33,015)          | (16,221)              |                       | (58,604)            |
| Operating (loss) profit                               | (9,007)       | 58,687            | 6,856                 | (5,903)               | 50,633              |
| Interest (expense) income, net                        | (5,793)       | 1,469             | 328                   |                       | (3,996)             |
| Other income (expense), net                           | 132           | 2,498             | (3,421)               |                       | (791)               |
| Equity earnings                                       | 54,036        | 9,131             |                       | (63,167)              |                     |
| Income (loss) from operations before income tax       | 39,368        | 71,785            | 3,763                 | (69,070)              | 45,846              |
| Income tax expense                                    | (8,824)       | (3,007)           | (3,471)               |                       | (15,302)            |
| Net income (loss) attributable to Wabtec shareholders | \$ 30,544     | \$ 68,778         | \$ 292                | \$ (69,070)           | \$ 30,544           |

(1) Includes elimination of gross profit realized with certain intercompany transactions between Guarantor and Non-Guarantor subsidiaries.  
Income Statement for the Three Months Ended September 30, 2009:

| <i>In thousands</i>                             | <b>Parent</b> | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Elimination(1)</b> | <b>Consolidated</b> |
|-------------------------------------------------|---------------|-------------------|-----------------------|-----------------------|---------------------|
| Net sales                                       | \$            | \$ 249,744        | \$ 96,377             | \$ (15,666)           | \$ 330,455          |
| Cost of sales                                   | (52)          | (181,220)         | (62,663)              | 8,306                 | (235,629)           |
| Gross profit (loss)                             | (52)          | 68,524            | 33,714                | (7,360)               | 94,826              |
| Operating expenses                              | (7,062)       | (28,536)          | (13,469)              |                       | (49,067)            |
| Operating (loss) profit                         | (7,114)       | 39,988            | 20,245                | (7,360)               | 45,759              |
| Interest (expense) income, net                  | (5,214)       | 1,369             | 158                   |                       | (3,687)             |
| Other (expense) income, net                     | (3)           | 449               | (52)                  |                       | 394                 |
| Equity earnings                                 | 46,291        | 9,326             |                       | (55,617)              |                     |
| Income (loss) from operations before income tax | 33,960        | 51,132            | 20,351                | (62,977)              | 42,466              |
| Income tax expense                              | (6,612)       | (3,057)           | (5,449)               |                       | (15,118)            |

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|                                                       |           |           |           |             |           |
|-------------------------------------------------------|-----------|-----------|-----------|-------------|-----------|
| Net income (loss) attributable to Wabtec shareholders | \$ 27,348 | \$ 48,075 | \$ 14,902 | \$ (62,977) | \$ 27,348 |
|-------------------------------------------------------|-----------|-----------|-----------|-------------|-----------|

- (1) Includes elimination of gross profit realized with certain intercompany transactions between Guarantor and Non-Guarantor subsidiaries.

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010 (UNAUDITED)**

Income Statement for the Nine Months Ended September 30, 2010:

| <i>In thousands</i>                                   | <b>Parent</b> | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Elimination(1)</b> | <b>Consolidated</b> |
|-------------------------------------------------------|---------------|-------------------|-----------------------|-----------------------|---------------------|
| Net sales                                             | \$            | \$ 817,281        | \$ 355,417            | \$ (58,927)           | \$ 1,113,771        |
| Cost of sales                                         | 1,419         | (545,622)         | (277,453)             | 38,975                | (782,681)           |
| Gross profit (loss)                                   | 1,419         | 271,659           | 77,964                | (19,952)              | 331,090             |
| Operating expenses                                    | (31,052)      | (101,591)         | (46,986)              |                       | (179,629)           |
| Operating (loss) profit                               | (29,633)      | 170,068           | 30,978                | (19,952)              | 151,461             |
| Interest (expense) income, net                        | (17,171)      | 4,668             | 503                   |                       | (12,000)            |
| Other income (expense), net                           | 1,446         | 3,994             | (5,866)               |                       | (426)               |
| Equity earnings                                       | 162,484       | 23,776            |                       | (186,260)             |                     |
| Income (loss) from operations before income tax       | 117,126       | 202,506           | 25,615                | (206,212)             | 139,035             |
| Income tax expense                                    | (25,007)      | (10,149)          | (11,760)              |                       | (46,916)            |
| Net income (loss) attributable to Wabtec shareholders | \$ 92,119     | \$ 192,357        | \$ 13,855             | \$ (206,212)          | \$ 92,119           |

(1) Includes elimination of gross profit realized with certain intercompany transactions between Guarantor and Non-Guarantor subsidiaries.  
Income Statement for the Nine Months Ended September 30, 2009:

| <i>In thousands</i>                             | <b>Parent</b> | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Elimination(1)</b> | <b>Consolidated</b> |
|-------------------------------------------------|---------------|-------------------|-----------------------|-----------------------|---------------------|
| Net sales                                       | \$            | \$ 789,180        | \$ 310,964            | \$ (57,716)           | \$ 1,042,428        |
| Cost of sales                                   | 1,437         | (542,717)         | (237,395)             | 29,911                | (748,764)           |
| Gross profit (loss)                             | 1,437         | 246,463           | 73,569                | (27,805)              | 293,664             |
| Operating expenses                              | (25,405)      | (88,565)          | (41,460)              |                       | (155,430)           |
| Operating (loss) profit                         | (23,968)      | 157,898           | 32,109                | (27,805)              | 138,234             |
| Interest (expense) income, net                  | (16,806)      | 4,230             | 428                   |                       | (12,148)            |
| Other (expense) income, net                     | (48)          | (5,277)           | 5,974                 |                       | 649                 |
| Equity earnings                                 | 143,329       | 21,251            |                       | (164,580)             |                     |
| Income (loss) from operations before income tax | 102,507       | 178,102           | 38,511                | (192,385)             | 126,735             |

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|                                                       |           |            |           |              |           |
|-------------------------------------------------------|-----------|------------|-----------|--------------|-----------|
| Income tax expense                                    | (11,657)  | (9,093)    | (15,135)  |              | (35,885)  |
| Net income (loss) attributable to Wabtec shareholders | \$ 90,850 | \$ 169,009 | \$ 23,376 | \$ (192,385) | \$ 90,850 |

(1) Includes elimination of gross profit realized with certain intercompany transactions between Guarantor and Non-Guarantor subsidiaries.

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010 (UNAUDITED)**

Condensed Statement of Cash Flows for the Nine Months Ended September 30, 2010:

| <i>In thousands</i>                                  | Parent      | Guarantors | Non-Guarantors | Elimination  | Consolidated |
|------------------------------------------------------|-------------|------------|----------------|--------------|--------------|
| Net cash (used for) provided by operating activities | \$ (11,012) | \$ 258,098 | \$ 34,375      | \$ (206,212) | \$ 75,249    |
| Net cash used for investing activities               | (598)       | (75,832)   | (26,735)       |              | (103,165)    |
| Net cash provided by (used for) financing activities | 14,110      | (192,418)  | (14,232)       | 206,212      | 13,672       |
| Effect of changes in currency exchange rates         |             |            | 2,393          |              | 2,393        |
| Increase (decrease) in cash                          | 2,500       | (10,152)   | (4,199)        |              | (11,851)     |
| Cash, beginning of year                              | 12,026      | 12,124     | 164,509        |              | 188,659      |
| Cash, end of period                                  | \$ 14,526   | \$ 1,972   | \$ 160,310     | \$           | \$ 176,808   |

Condensed Statement of Cash Flows for the Nine Months Ended September 30, 2009:

| <i>In thousands</i>                                  | Parent    | Guarantors | Non-Guarantors | Elimination  | Consolidated |
|------------------------------------------------------|-----------|------------|----------------|--------------|--------------|
| Net cash provided by (used for) operating activities | \$ 1,362  | \$ 225,235 | \$ 58,629      | \$ (192,385) | \$ 92,841    |
| Net cash used for investing activities               | (1,270)   | (9,761)    | (4,363)        |              | (15,394)     |
| Net cash provided by (used for) financing activities | 25,626    | (169,032)  | (24,114)       | 192,385      | 24,865       |
| Effect of changes in currency exchange rates         |           |            | 11,068         |              | 11,068       |
| Increase in cash                                     | 25,718    | 46,442     | 41,220         |              | 113,380      |
| Cash, beginning of year                              | 37,941    | 4,272      | 99,592         |              | 141,805      |
| Cash, end of period                                  | \$ 63,659 | \$ 50,714  | \$ 140,812     | \$           | \$ 255,185   |

**16. OTHER EXPENSE, NET**

The components of other expense are as follows:

| <i>In thousands</i>               | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |        |
|-----------------------------------|-------------------------------------|--------|------------------------------------|--------|
|                                   | 2010                                | 2009   | 2010                               | 2009   |
| Foreign currency (loss) gains     | \$ (1,047)                          | \$ 154 | \$ (751)                           | \$ 377 |
| Other miscellaneous income        | 256                                 | 240    | 325                                | 272    |
| Total other (expense) income, net | \$ (791)                            | \$ 394 | \$ (426)                           | \$ 649 |



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**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and Westinghouse Air Brake Technologies Corporation's Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in its Annual Report on Form 10-K for the year ended December 31, 2009, filed with the Securities and Exchange Commission on February 24, 2010.*

**OVERVIEW**

Wabtec is one of the world's largest providers of value-added, technology-based products and services for the global rail industry. Our products are found on virtually all U.S. locomotives, freight cars and passenger transit vehicles, as well as in approximately 100 countries throughout the world. Our products enhance safety, improve productivity and reduce maintenance costs for customers, and many of our core products and services are essential in the safe and efficient operation of freight rail and passenger transit vehicles. Wabtec is a global company with operations in 17 countries. In the first nine months of 2010, about 46% of the Company's revenues came from customers outside the U.S.

*Management Review and Future Outlook*

Wabtec's long-term financial goals are to generate cash flow in excess of net income, maintain a strong credit profile while minimizing our overall cost of capital, increase margins through strict attention to cost controls, and increase revenues through a focused growth strategy, including global and market expansion, new products and technologies, aftermarket products and services, and acquisitions. In addition, Management evaluates the Company's short-term operational performance through measures such as quality and on-time delivery.

The Company monitors a variety of factors and statistics to gauge market activity. The freight rail industry is largely driven by general economic conditions, which can cause fluctuations in rail traffic. Based on those fluctuations, railroads can increase or decrease purchases of new locomotives and freight cars. In 2010, U.S. freight rail traffic has increased due to the improving overall economy and this has had a favorable effect on the Company's Freight Group. Through mid-October, revenue ton-miles were 8% higher than the year-ago period, and railroads have continued to pull freight cars and locomotives out of storage and return them to the active fleet. Deliveries of new locomotives and freight cars are expected to be lower than 2009 levels, but order rates have picked up in recent quarters. During the third quarter of 2010, the industry's backlog of new freight cars ordered increased to about 19,000 cars, which indicates that short-term demand in this market segment is continuing to improve. Although less than 15% of the Company's revenues are directly related to deliveries of new freight locomotives and freight cars, an improvement in those markets would have a favorable effect on the Company's financial results. Whether demand continues to improve will depend largely on continued strength in the overall economy and in rail traffic volumes.

In 2008, the U.S. government enacted rail safety legislation that requires certain freight and passenger railroads to equip certain locomotives with positive train control technology by the end of 2015. This technology includes an on-board locomotive computer and related software, which are being developed by Wabtec. As the industry leader, Wabtec expects to benefit from increased sales of train control-related products as the technology is deployed throughout the industry.

The North American transit industry is driven by government spending and ridership. Spending under SAFETEA-LU, the federal government's transportation funding bill, increased about 6% in 2009, while ridership decreased about 4% due to the recession and its impact on employment levels. Based on information currently

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available, ridership has decreased about 1% during the first half of 2010. Although SAFETEA-LU was scheduled to expire in September 2009, the bill has been extended through December 2010, with funding at about 2009 levels. Spending in 2011 is expected to increase by about 5%, although a new bill has not yet been passed. In early 2009, the U.S. federal government passed new spending legislation designed to stimulate the U.S. economy, with up to \$20 billion to be spent on freight and passenger transportation, as follows: \$8.4 billion for public transportation, \$8 billion for high-speed rail, \$1.5 billion for discretionary intermodal projects, and \$1.3 billion for AMTRAK. Most of this funding has already been allocated to specific projects, and Wabtec expects to benefit slightly from this additional spending, as transit authorities invest in new locomotives and buses.

In the passenger transit market, the Company believes that increases in federal funding over time and stable ridership will continue to have a beneficial effect on demand for the Company's products and services over the long term. In the short term, however, many transit agencies are facing budget issues and some are electing to defer purchases of new equipment and aftermarket parts, which is having a negative effect on Wabtec's sales in these markets. In response to these market conditions, Wabtec will continue to take certain actions to reduce costs, including plant consolidations, work force reductions and general spending cuts. Management believes these actions will not affect the company's ability to continue to invest in its strategic growth initiatives.

Wabtec continues to expand its presence in freight rail and passenger transit markets outside the U.S., particularly in Europe, Asia-Pacific and South America. In Europe, the majority of the rail system serves the passenger transit market, which is much larger than the transit market in the U.S. Asia-Pacific is the fastest-growing market segment, led by China's plans to spend a record \$120 billion in 2010.

In 2010 and beyond, general economic and market conditions in the United States and internationally will have an impact on our sales and operations. If the world economy does not continue to improve, this could result in renewed instability of capital markets, longer sales cycles, deferral or delay of customer orders or an inability to market our products effectively. Any of these factors could materially adversely affect our business and results of operations. In addition, we face risks associated with our growth strategies including the level of investment that customers are willing to make in new technologies developed by the industry and the Company, and risks inherent in global expansion. When necessary, we will modify our financial and operating strategies to reflect changes in market conditions and risks.

**RESULTS OF OPERATIONS**

The following table shows our Consolidated Statements of Operations for the periods indicated.

| <i>In millions</i>                             | Three Months Ended    |          | Nine Months Ended     |            |
|------------------------------------------------|-----------------------|----------|-----------------------|------------|
|                                                | September 30,<br>2010 | 2009     | September 30,<br>2010 | 2009       |
| Net sales                                      | \$ 375.7              | \$ 330.4 | \$ 1,113.8            | \$ 1,042.4 |
| Cost of sales                                  | (266.5)               | (235.6)  | (782.7)               | (748.8)    |
| Gross profit                                   | 109.2                 | 94.8     | 331.1                 | 293.6      |
| Selling, general and administrative expenses   | (46.6)                | (37.2)   | (142.5)               | (117.8)    |
| Engineering expenses                           | (9.4)                 | (10.2)   | (30.5)                | (31.5)     |
| Amortization expense                           | (2.6)                 | (1.7)    | (6.7)                 | (6.1)      |
| Total operating expenses                       | (58.6)                | (49.1)   | (179.7)               | (155.4)    |
| Income from operations                         | 50.6                  | 45.7     | 151.4                 | 138.2      |
| Interest expense, net                          | (4.0)                 | (3.7)    | (12.0)                | (12.1)     |
| Other (expense) income, net                    | (0.8)                 | 0.4      | (0.4)                 | 0.6        |
| Income from operations before income taxes     | 45.8                  | 42.4     | 139.0                 | 126.7      |
| Income tax expense                             | (15.3)                | (15.1)   | (46.9)                | (35.9)     |
| Net income attributable to Wabtec shareholders | \$ 30.5               | \$ 27.3  | \$ 92.1               | \$ 90.8    |

**Table of Contents****THIRD QUARTER 2010 COMPARED TO THIRD QUARTER 2009**

The following table summarizes the results of operations for the period:

| <i>In thousands</i>                            | Three months ended September 30, |            |                |
|------------------------------------------------|----------------------------------|------------|----------------|
|                                                | 2010                             | 2009       | Percent Change |
| Freight Group                                  | \$ 208,566                       | \$ 124,453 | 67.6%          |
| Transit Group                                  | 167,141                          | 206,002    | (18.9)%        |
| Net sales                                      | 375,707                          | 330,455    | 13.7%          |
| Income from operations                         | 50,633                           | 45,759     | 10.7%          |
| Net income attributable to Wabtec shareholders | \$ 30,544                        | \$ 27,348  | 11.9%          |

Net sales increased by \$45.3 million to \$375.7 million from \$330.4 million for the three months ended September 30, 2010 and 2009, respectively. The increase is primarily due to higher Freight Group original equipment and aftermarket sales and sales related to acquisitions of \$25.4 million. Partially offsetting this increase was lower Transit Group sales. The Company realized a net sales decrease of \$3.7 million from the unfavorable effects of foreign exchange, but net earnings were generally not impacted by foreign exchange. Net income for the three months ended September 30, 2010 was \$30.5 million or \$0.63 per diluted share. Net income for the three months ended September 30, 2009 was \$27.3 million or \$0.57 per diluted share. The increase in net income is primarily due to higher sales volume and operating margins, partially offset by higher selling, general and administrative expenses.

Freight Group sales increased by \$84.1 million, or 67.6%, due to higher sales of \$42.5 million for electronics and specialty products, \$9.6 million for brake products, \$4.2 million for other products and \$25.4 million from acquisitions. For the Freight Group, net sales were increased by \$1.8 million due to favorable effects of foreign exchange on sales mentioned above.

Transit Group sales decreased by \$38.8 million, or 18.9%, due to lower sales of \$14.1 million for brake products, \$11.1 million for remanufacturing, overhaul and manufacturing of locomotives and \$7.8 million for transit products. Transit Group sales are lower due in part to the completion of major contracts, as well as project delays and budget constraints at municipal transit authorities. For the Transit Group, net sales were decreased by \$5.5 million due to unfavorable effects of foreign exchange on sales mentioned above.

**Gross profit** Gross profit, which is dependent on a number of factors including pricing, sales volume and product mix, increased to \$109.2 million in the third quarter of 2010 compared to \$94.8 million in the same period of 2009. Gross profit, as a percentage of sales, was 29.1% for the third quarter of 2010 compared to 28.7%, for the third quarter of 2009, increasing due to higher sales volume and realized cost savings and consolidation actions initiated in 2009. The provision for warranty expense is generally established for specific losses, along with historical estimates of customer claims as a percentage of sales. The provision for warranty expense was \$1.3 million higher in 2010 compared to the same period of 2009 because of increased Freight Group sales. The warranty reserve increased at September 30, 2010 compared to September 30, 2009 by \$4.8 million primarily due to the timing of warranty claims for certain transit products reserves.

**Operating expenses** The following table shows our operating expenses:

| <i>In thousands</i>                          | Three months ended September 30, |           |                |
|----------------------------------------------|----------------------------------|-----------|----------------|
|                                              | 2010                             | 2009      | Percent Change |
| Selling, general and administrative expenses | \$ 46,604                        | \$ 37,162 | 25.4%          |
| Engineering expenses                         | 9,362                            | 10,157    | (7.8)%         |
| Amortization expense                         | 2,638                            | 1,748     | 50.9%          |
| Total operating expenses                     | \$ 58,604                        | \$ 49,067 | 19.4%          |



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Selling, general, and administrative expenses increased \$9.4 million in the third quarter of 2010 compared to the same period of 2009 because of acquisitions and incentive compensation. Amortization expense increased in the third quarter of 2010 compared to the same period in 2009 due to acquisitions. Total operating expenses were 15.6% and 14.8% of sales for the third quarter of 2010 and 2009, respectively.

**Income from operations** Income from operations totaled \$50.6 million (or 13.5% of sales) in the third quarter of 2010 compared with \$45.7 million (or 13.8% of sales) in the same period of 2009. The increase in income from operations is because of higher sales volume and operating margins, offset by higher selling, general and administrative expenses.

**Interest expense, net** Interest expense, net increased \$0.3 million in the third quarter of 2010 compared to the same period of 2009 due to increased long-term debt.

**Other expense, net** The Company recorded foreign exchange losses of \$1.0 million in the third quarter of 2010 and foreign exchange gains of \$0.2 million in the third quarter of 2009, due to the effect of currency exchange rate changes on intercompany transactions that are non U.S. dollar denominated and charged or credited to earnings.

**Income taxes** The effective income tax rate was 33.4% and 35.6% for the third quarter of 2010 and 2009, respectively. The decrease in the effective rate is primarily due to an increase in foreign taxable income as a percentage of total taxable income, an increase in the domestic manufacturing deduction limitation and the settlement of a state income tax examination in the third quarter of 2010.

**Net income** Net income for the third quarter of 2010 increased \$3.2 million, compared with the same period of 2009. The increase in net income is due to higher sales volume and operating margins, offset by higher selling, general and administrative expenses.

**FIRST NINE MONTHS OF 2010 COMPARED TO FIRST NINE MONTHS OF 2009**

The following table summarizes the results of operations for the period:

| <i>In thousands</i>                            | Nine months ended September 30, |            |                |
|------------------------------------------------|---------------------------------|------------|----------------|
|                                                | 2010                            | 2009       | Percent Change |
| Freight Group                                  | \$ 563,684                      | \$ 440,479 | 28.0%          |
| Transit Group                                  | 550,087                         | 601,949    | (8.6)%         |
| Net sales                                      | 1,113,771                       | 1,042,428  | 6.8%           |
| Income from operations                         | 151,461                         | 138,234    | 9.6%           |
| Net income attributable to Wabtec shareholders | \$ 92,119                       | \$ 90,850  | 1.4%           |

Net sales increased by \$71.4 million to \$1,113.8 million from \$1,042.4 million for the nine months ended September 30, 2010 and 2009, respectively. The increase is due to higher Freight Group sales and sales related to acquisitions of \$58.6 million. Partially offsetting this increase was lower Transit Group sales. The Company realized a net sales increase of \$7.3 million from the favorable effects of foreign exchange, but net earnings were generally not impacted by foreign exchange. Net income for the nine months ended September 30, 2010 was \$92.1 million or \$1.92 per diluted share. Net income for the nine months ended September 30, 2009 was \$90.8 million or \$1.89 per diluted share. The increase in net income is due to higher sales volume and operating margins, partially offset by higher selling, general and administrative expenses and income tax expense.

Freight Group sales increased by \$123.2 million or 28.0% due to higher sales of \$30.3 million for electronics and specialty products, \$8.2 million for brake products and \$58.6 million from acquisitions. For the Freight Group, net sales were increased by \$12.2 million due to favorable effects of foreign exchange on sales mentioned above.

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Transit Group sales decreased by \$51.9 million or 8.6% due to decreased sales of \$26.9 million for brake products and \$15.0 million for other transit-related products. For the Transit Group, net sales were decreased by \$4.9 million due to unfavorable effects of foreign exchange on sales mentioned above.

**Gross profit** Gross profit increased to \$331.1 million for the first nine months of 2010 compared to \$293.6 million in the same period of 2009. Gross profit is dependent on a number of factors including pricing, sales volume and product mix. Gross profit, as a percentage of sales, was 29.7% compared to 28.2%, for the first nine months of 2010 and 2009, respectively because of higher sales volume. The provision for warranty expense is generally established for specific losses, along with historical estimates of customer claims as a percentage of sales. The provision for warranty expense was \$2.7 million higher for the first nine months of 2010 compared to the same period of 2009 because of increased Freight Group sales.

**Operating expenses** The following table shows our operating expenses:

| <i>In thousands</i>                          | Nine months ended September 30, |            |                |
|----------------------------------------------|---------------------------------|------------|----------------|
|                                              | 2010                            | 2009       | Percent Change |
| Selling, general and administrative expenses | \$ 142,478                      | \$ 117,827 | 20.9%          |
| Engineering expenses                         | 30,482                          | 31,481     | (3.2)%         |
| Amortization expense                         | 6,669                           | 6,122      | 8.9%           |
| Total operating expenses                     | \$ 179,629                      | \$ 155,430 | 15.6%          |

Selling, general, and administrative expenses increased \$24.7 million in the first nine months of 2010 compared to the same period of 2009 primarily due to expenses from acquisitions, incentive compensation and non-cash compensation. Amortization expense increased in the first nine months of 2010 compared to the same period in 2009 due primarily to the acquisitions. Total operating expenses were 16.1% and 14.9% of sales for the first six months of 2010 and 2009, respectively.

**Income from operations** Income from operations totaled \$151.4 million (or 13.6% of sales) in the first nine months of 2010 compared with \$138.2 million (or 13.3% of sales) in the same period of 2009. Income from operations increased primarily due to higher sales volume and operating margins, partially offset by higher selling, general and administrative expenses.

**Interest expense, net** Interest expense, net decreased \$0.1 million in the first nine months of 2010 compared to the same period of 2009 due to lower interest rates.

**Other expense, net** The Company recorded foreign exchange losses of \$0.8 million in the first nine months of 2010 and foreign exchange gains of \$0.4 million in the first nine months of 2009, due to the effect of currency exchange rate changes on intercompany transactions that are non U.S. dollar denominated and charged or credited to earnings.

**Income taxes** The effective income tax rate was 33.7% and 28.3% for the first nine months of 2010 and 2009, respectively. The increase in the 2010 effective rate is primarily due to a \$9.7 million tax benefit recorded in the second quarter of 2009 for the settlement of examinations in various taxing jurisdictions.

**Net income** Net income for the first nine months of 2010 increased \$1.3 million, compared with the same period of 2009. The increase in net income is due to higher sales volume and operating margins, partially offset by higher selling, general and administrative expenses and income tax expense.

**Table of Contents****Liquidity and Capital Resources**

Liquidity is provided primarily by operating cash flow and borrowings under the Company's unsecured credit facility with a consortium of commercial banks. The following is a summary of selected cash flow information and other relevant data:

| <i>In thousands</i>          | Nine months ended<br>September 30, |            |
|------------------------------|------------------------------------|------------|
|                              | 2010                               | 2009       |
| Cash provided by (used for): |                                    |            |
| Operating activities         | \$ 75,249                          | \$ 92,841  |
| Investing activities         | (103,165)                          | (15,394)   |
| Financing activities         | 13,672                             | 24,865     |
| (Decrease) increase in cash  | \$ (11,851)                        | \$ 113,380 |

**Operating activities** Cash provided by operations in the first nine months of 2010 was \$75.3 million as compared to cash provided by operations of \$92.8 million for the same period of 2009. This \$17.5 million decrease is because of a net increase in working capital. Accounts payable increased from higher purchasing needs resulting in a \$59.1 million improvement. Accrued liabilities and customer deposits favorably impacted working capital by \$40.2 million due to the payment timing of certain accrued liabilities. Accounts receivables increased from higher sales volume resulting in a \$98.1 million unfavorable impact on working capital. Inventory increased to meet higher sales demand resulting in a \$27.2 million unfavorable impact on working capital.

**Investing activities** Cash used for investing activities in the first nine months of 2010 was \$103.2 million as compared to cash used for investing activities of \$15.4 million for the same period of 2009. Capital expenditures were \$12.4 million and \$10.9 million in the first nine months of 2010 and 2009, respectively. During the first nine months of 2010 the Company received \$2.4 million as part of the working capital settlement for the Ricon acquisition. During the first nine months of 2010, Wabtec acquired Xorail, a provider of signal engineering and design services for \$39.9 million, net of cash received, G&B, a manufacturer of railroad track and signaling products for \$31.8 million, net of cash received and Bach-Simpson, a manufacturer of safety-related instrumentation for locomotives and transit cars for \$12.0 million, net of cash received. During the first nine months of 2010, Wabtec invested \$9.5 million in two joint ventures in China. During the first nine months of 2009 the Company sold a facility for net cash proceeds of \$3.6 million to an unrelated third party. While certain portions of the building are being leased back, this transaction resulted in a gain of \$2.1 million and deferred gain of \$0.6 million. The deferred gain will be recognized over five years.

**Financing activities** In the first nine months of 2010, cash provided by financing activities was \$13.7 million, which included \$201.4 million in proceeds from debt and \$150.4 million of repayments of debt on the revolving credit facility, \$32.9 million of debt repayments on the term loan and other debt, \$1.4 million of dividend payments and \$8.4 million for the repurchase of 206,560 shares of stock. In the first nine months of 2009, cash provided by financing activities was \$24.9 million, which included \$176.0 million in proceeds from debt and \$108.0 million of repayments of debt on the revolving credit facility, \$23.3 million of debt repayments on the term loan and other debt, \$1.4 million of dividend payments and \$19.7 million for the repurchase of 669,700 shares of stock.

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The following table shows outstanding indebtedness at September 30, 2010 and December 31, 2009.

| <i>In thousands</i>           | September 30,<br>2010 | December 31,<br>2009 |
|-------------------------------|-----------------------|----------------------|
| 6.875% Senior Notes, due 2013 | \$ 150,000            | \$ 150,000           |
| Term Loan Facility            | 137,500               | 170,000              |
| Revolving Credit Facility     | 122,000               | 71,000               |
| Capital Leases                | 342                   | 780                  |
| <b>Total</b>                  | <b>409,842</b>        | <b>391,780</b>       |
| Less current portion          | 40,070                | 32,741               |
| <b>Long-term portion</b>      | <b>\$ 369,772</b>     | <b>\$ 359,039</b>    |

Cash balance at September 30, 2010 and December 31, 2009 was \$176.8 million and \$188.7 million, respectively.

*2008 Refinancing Credit Agreement*

On November 4, 2008, the Company refinanced its existing unsecured revolving credit agreement with a consortium of commercial banks. This 2008 Refinancing Credit Agreement provides the company with a \$300 million five-year revolving credit facility and a \$200 million five-year term loan facility. The Company incurred \$2.9 million of deferred financing cost related to the 2008 Refinancing Credit Agreement. Both facilities expire in January 2013. The 2008 Refinancing Credit Agreement borrowings bear variable interest rates indexed to the indices described below. At September 30, 2010, the Company had available bank borrowing capacity, net of \$29.6 million of letters of credit, of approximately \$148.4 million, subject to certain financial covenant restrictions.

Under the 2008 Refinancing Credit Agreement, the Company may elect a Base Rate of interest or an interest rate based on the London Interbank Offered Rate ( LIBOR ) of interest ( the Alternate Rate ). The Base Rate adjusts on a daily basis and is the greater of the PNC, N.A. prime rate, 30-day LIBOR plus 150 basis points or the Federal Funds Effective Rate plus 0.5% per annum, plus a margin that ranges from 25 to 50 basis points. The Alternate rate is based on quoted LIBOR rates plus a margin that ranges from 125 to 200 basis points. Both the Base Rate and Alternate Rate margins are dependent on the Company's consolidated total indebtedness to cash flow ratios. The initial Base Rate margin is 25 basis points and the Alternate Rate margin is 125 basis points. At September 30, 2010 the weighted average interest rate on the Company's variable rate debt was 1.51%. To reduce the impact of interest rate changes on a portion of this variable-rate debt, the Company entered into interest rate swaps which effectively convert a portion of the debt from variable to fixed-rate borrowings during the term of the swap contracts. On September 30, 2010, the notional value of interest rate swaps outstanding totaled \$137.0 million and effectively changed the Company's interest rate on bank debt at September 30, 2010 from a variable rate to a fixed rate of 2.23%. The interest rate swap agreements mature at various times through December 2012. The Company is exposed to credit risk in the event of nonperformance by the counterparties. However, since only the cash interest payments are exchanged, exposure is significantly less than the notional amount. The counterparties are large financial institutions and the Company does not anticipate nonperformance.

The 2008 Refinancing Credit Agreement limits the Company's ability to declare or pay cash dividends and prohibits the Company from declaring or making other distributions, subject to certain exceptions. The 2008 Refinancing Credit Agreement contains various other covenants and restrictions including the following limitations: incurrence of additional indebtedness, mergers, consolidations, sales of assets and acquisitions, additional liens, sale and leasebacks, permissible investments, loans and advances, certain debt payments; and imposes a minimum interest expense coverage ratio of 3.0 and a maximum debt to cash flow ratio of 3.25. The Company is in compliance with these measurements and covenants and expects that these measurements will not be any type of limiting factor in executing our operating activities.

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### *6.875% Senior Notes Due August 2013*

In August 2003, the Company issued \$150 million of Senior Notes due in 2013 (the Notes). The Notes were issued at par. Interest on the Notes accrues at a rate of 6.875% per annum and is payable semi-annually on January 31 and July 31 of each year. The proceeds were used to repay debt outstanding under the Company's existing credit agreement, and for general corporate purposes. The principal balance is due in full at maturity.

The Notes are senior unsecured obligations of the Company and rank pari passu with all existing and future senior debt and senior to all our existing and future subordinated indebtedness of the Company. The indenture under which the Notes were issued contains covenants and restrictions which limit among other things, the following: the incurrence of indebtedness, payment of dividends and certain distributions, sale of assets, change in control, mergers and consolidations and the incurrence of liens. The Company is in compliance with these measurements and covenants and expects that these measurements will not be any type of limiting factor in executing our operating activities.

Management believes that based on current levels of operations and forecasted earnings, cash flow and liquidity will be sufficient to fund working capital and capital equipment needs as well as meeting debt service requirements. If sources of funds were to fail to satisfy the Company's cash requirements, the Company may need to refinance our existing debt or obtain additional financing. There is no assurance that such new financing alternatives would be available, and, in any case, such new financing, if available, would be expected to be more costly and burdensome than the debt agreements currently in place.

### *Company Stock Repurchase Plan*

On July 31, 2006, the Board of Directors authorized the repurchase of up to \$50 million of the Company's outstanding shares. On February 20, 2008, the Board of Directors authorized the repurchase of up to an additional \$100 million of the Company's outstanding shares. During the first quarter of 2008, the Company completed the \$50 million authorization made in 2006. Cumulative purchases under both plans have totaled \$110.6 million, leaving \$39.4 million under the authorization.

The Company intends to purchase these shares on the open market or in negotiated or block trades. No time limit was set for the completion of the program which conforms to the requirements under the 2008 Refinancing Credit Agreement, as well as the 6.875% Senior Notes currently outstanding.

During the first nine months of 2010, the Company repurchased 206,560 shares at an average price of \$40.57 per share. During 2009, the Company repurchased 669,700 shares of its stock at an average price of \$29.35 per share. All purchases were on the open market.

## **Contractual Obligations and Off-Balance Sheet Arrangements**

As of September 30, 2010, the Company has recognized a total liability of \$8.4 million for unrecognized tax benefits related to uncertain tax positions. At this time, the Company is unable to make a reasonably reliable estimate of the timing of cash settlement for any of the unrecognized tax benefits due to the uncertainty of the timing and outcome of its audits and other factors.

Since December 31, 2009, there have been no other significant changes in the total amount of the Company's contractual obligations or the timing of cash flows in accordance with those obligations, as reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

## **Forward Looking Statements**

We believe that all statements other than statements of historical facts included in this report, including certain statements under Business and Management's Discussion and Analysis of Financial Condition and

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Results of Operations, may constitute forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. Although we believe that our assumptions made in connection with the forward-looking statements are reasonable, we cannot assure that our assumptions and expectations are correct.

These forward-looking statements are subject to various risks, uncertainties and assumptions about us, including, among other things:

Economic and industry conditions

prolonged unfavorable economic and industry conditions in the markets served by us, including North America, South America, Europe, Australia, Asia and South Africa;

further decline in demand for freight cars, locomotives, passenger transit cars, buses and related products and services;

reliance on major original equipment manufacturer customers;

original equipment manufacturers' program delays;

demand for services in the freight and passenger rail industry;

demand for our products and services;

orders either being delayed, cancelled, not returning to historical levels, or reduced or any combination of the foregoing;

consolidations in the rail industry;

continued outsourcing by our customers; industry demand for faster and more efficient braking equipment;

fluctuations in interest rates and foreign currency exchange rates; or

availability of credit;

Operating factors

supply disruptions;

technical difficulties;

changes in operating conditions and costs;

increases in raw material costs;

successful introduction of new products;

performance under material long-term contracts;

labor relations;

completion and integration of acquisitions; or

the development and use of new technology;

Competitive factors

the actions of competitors;

Political/governmental factors

political stability in relevant areas of the world;

future regulation/deregulation of our customers and/or the rail industry;

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levels of governmental funding on transit projects, including for some of our customers;

political developments, laws and regulations and federal and state income tax legislation; or

the outcome of our existing or any future legal proceedings, including litigation involving our principal customers and any litigation with respect to environmental, asbestos-related matters and pension liabilities; and

Transaction or commercial factors

the outcome of negotiations with partners, governments, suppliers, customers or others.

Statements in this 10-Q apply only as of the date on which such statements are made, and we undertake no obligation to update any statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

### **Critical Accounting Policies**

A summary of critical accounting policies is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. In particular, judgment is used in areas such as accounts receivable and the allowance for doubtful accounts, inventories, goodwill and indefinite-lived intangibles, warranty reserves, pensions and postretirement benefits, income taxes and revenue recognition. There have been no significant changes in accounting policies since December 31, 2009.

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Interest Rate Risk**

In the ordinary course of business, Wabtec is exposed to risks that increases in interest rates may adversely affect funding costs associated with its variable-rate debt. The Company's variable rate debt represents 30% and 38% of total long-term debt at September 30, 2010 and December 31, 2009, respectively. On an annual basis a 1% change in the interest rate for variable rate debt at September 30, 2010 would increase or decrease interest expense by \$1.2 million.

To reduce the impact of interest rate changes on a portion of this variable-rate debt, the Company entered into interest rate swaps which effectively convert a portion of the debt from variable to fixed-rate borrowings during the term of the swap contracts. The Company is exposed to credit risk in the event of nonperformance by the counterparties. However, since only the cash interest payments are exchanged, exposure is significantly less than the notional amount. The counterparties are large financial institutions and the Company does not anticipate nonperformance. The Company concluded that these interest rate swap agreements qualify for cash flow hedge accounting which permits the recording of the fair value of the interest rate swap agreements and corresponding adjustment to other comprehensive income (loss), net of tax, on the balance sheet. As of September 30, 2010, the Company had interest rate swap agreements with a notional value of \$137.0 million and which effectively changed the Company's interest rate on bank debt at September 30, 2010 from a variable rate to a fixed rate of 2.23%. The interest rate swap agreements mature at various times through December 2012. As of September 30, 2010, the Company has recorded a current liability of \$2.7 million and a corresponding offset in accumulated other comprehensive loss of \$1.6 million, net of tax, related to these agreements.

#### **Foreign Currency Exchange Risk**

The Company is subject to certain risks associated with changes in foreign currency exchange rates to the extent our operations are conducted in currencies other than the U.S. dollar. For the first nine months of 2010, approximately 54% of Wabtec's net sales were to customers in the United States, 13% in Canada, 9% in the United Kingdom, 5% in Australia, 2% in Germany, 2% in Mexico and 15% in other international locations.



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To reduce the impact of changes in currency exchange rates, the Company has periodically entered into foreign currency forward contracts. Forward contracts are agreements with a counterparty to exchange two distinct currencies at a set exchange rate for delivery on a set date at some point in the future. There is no exchange of funds until the delivery date. At the delivery date the Company can either take delivery of the currency or settle on a net basis. At September 30, 2010, the Company had no forward contracts for the sale of foreign currency.

**Item 4. CONTROLS AND PROCEDURES**

Wabtec's principal executive officer and its principal financial officer have evaluated the effectiveness of Wabtec's disclosure controls and procedures, (as defined in Exchange Act Rule 13a-15(e)) as of September 30, 2010. Based upon their evaluation, the principal executive officer and principal financial officer concluded that Wabtec's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by Wabtec in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to provide reasonable assurance that information required to be disclosed by Wabtec in such reports is accumulated and communicated to Wabtec's Management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There was no change in Wabtec's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2010, that has materially affected, or is reasonably likely to materially affect, Wabtec's internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****Item 1. LEGAL PROCEEDINGS**

Except as described in Note 13, there have been no material changes regarding the Company's commitments and contingencies as described in Note 19 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

**Item 1A. RISK FACTORS**

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On July 31, 2006, the Board of Directors authorized the repurchase of up to \$50 million of the Company's outstanding shares. On February 20, 2008, the Board of Directors authorized the repurchase of up to an additional \$100 million of the Company's outstanding shares. During the first quarter of 2008, the Company completed the \$50 million authorization made in 2006.

The Company intends to purchase these shares on the open market or in negotiated or block trades. No time limit was set for the completion of the repurchase program which conforms to the requirements under the Refinancing Credit Agreement and the 2008 Refinancing Credit Agreement, as well as the 6.875% Senior Notes currently outstanding.

During the first nine months of 2010, the Company repurchased 206,560 shares at an average price of \$40.57 per share. During 2009, the Company repurchased 669,700 shares at an average price of \$29.35 per share. All purchases were on the open market.

| <b>Period</b>                      | <b>Total<br/>Number<br/>of Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid per<br/>Share</b> | <b>Number of<br/>Shares<br/>Purchased<br/>for<br/>Announced<br/>Program</b> | <b>Approximate<br/>Dollar Value<br/>of Shares<br/>that<br/>May Yet Be<br/>Purchased</b> |
|------------------------------------|-----------------------------------------------------|-------------------------------------------------|-----------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| July 4, 2010 to July 31, 2010      | 51,960                                              | 39.83                                           | 51,960                                                                      | \$ 39,406,513                                                                           |
| August 1, 2010 to August 28, 2010  |                                                     |                                                 |                                                                             | \$ 39,406,513                                                                           |
| August 29, 2010 to October 1, 2010 |                                                     |                                                 |                                                                             | \$ 39,406,513                                                                           |
| Total                              | 51,960                                              | \$ 39.83                                        | 51,960                                                                      | \$ 39,406,513                                                                           |

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**Item 6. EXHIBITS**

The following exhibits are being filed with this report:

|          |                                                                                                         |
|----------|---------------------------------------------------------------------------------------------------------|
| 3.1      | Restated Certificate of Incorporation of the Company dated January 30, 1995, as amended March 30, 1995. |
| 3.2      | Amended and Restated By-Laws of the Company, effective December 13, 2007.                               |
| 31.1     | Rule 13a-14(a) Certification of Chief Executive Officer.                                                |
| 31.2     | Rule 13a-14(a) Certification of Chief Financial Officer.                                                |
| 32.1     | Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.                      |
| 101.INS* | XBRL Instance Document.                                                                                 |
| 101.SCH* | XBRL Taxonomy Extension Schema Document.                                                                |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document.                                                  |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document.                                                   |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document.                                                        |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document.                                                 |

\* Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.



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**EXHIBIT INDEX**

|          |                                                                                                                                                                                                                                       |
|----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1      | Restated Certificate of Incorporation of the Company dated January 30, 1995, as amended March 30, 1995, filed as an exhibit to the Company's Registration Statement on Form S-1 (No. 33-90866), and incorporated herein by reference. |
| 3.2      | Amended and Restated By-Laws of the Company, effective December 13, 2007, filed as Exhibit 3.1 to Form 8-K filed on December 14, 2007, and incorporated herein by reference.                                                          |
| 31.1     | Rule 13a-14(a) Certification of Chief Executive Officer.                                                                                                                                                                              |
| 31.2     | Rule 13a-14(a) Certification of Chief Financial Officer.                                                                                                                                                                              |
| 32.1     | Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.                                                                                                                                                    |
| 101.INS* | XBRL Instance Document.                                                                                                                                                                                                               |
| 101.SCH* | XBRL Taxonomy Extension Schema Document.                                                                                                                                                                                              |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document.                                                                                                                                                                                |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document.                                                                                                                                                                                 |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document.                                                                                                                                                                                      |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document.                                                                                                                                                                               |

\* Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.