WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP
Form 10-Q
October 29, 2009
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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, 2009**

**OR**

**¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from to**

**Commission file number: 1-13782**

## WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **25-1615902** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **1001 Air Brake Avenue Wilmerding, PA** | **15148** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**412-825-1000**

**(Registrant s telephone number, including area code)**

**N/A**

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

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

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

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

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

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

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

| **Class** | **Outstanding at October 27, 2009** |
|---|---|
| Common Stock, $.01 par value per share | 47,565,936 shares |

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**WESTINGHOUSE AIR BRAKE**

**TECHNOLOGIES CORPORATION**

**September 30, 2009 FORM 10-Q**

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## PART I FINANCIAL INFORMATION

### Item 1. FINANCIAL STATEMENTS

### WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

### CONDENSED CONSOLIDATED BALANCE SHEETS

| *In thousands, except shares and par value* | Unaudited September 30, 2009 | December 31, 2008 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 255,185 | $ 141,805 |
| Accounts receivable | 230,981 | 273,560 |
| Inventories | 244,868 | 264,158 |
| Deferred income taxes | 31,708 | 31,133 |
| Other current assets | 10,351 | 14,693 |
| Total current assets | 773,093 | 725,349 |
| Property, plant and equipment | 440,005 | 431,604 |
| Accumulated depreciation | (243,954) | (224,056) |
| Property, plant and equipment, net | 196,051 | 207,548 |
| **Other Assets** | | |
| Goodwill | 424,717 | 319,449 |
| Other intangibles, net | 160,792 | 236,740 |
| Deferred income taxes | 607 | 1,052 |
| Other noncurrent assets | 19,555 | 17,382 |
| Total other assets | 605,671 | 574,623 |
| Total Assets | $ 1,574,815 | $ 1,507,520 |
| **Liabilities and Shareholders Equity** | | |
| **Current Liabilities** | | |
| Accounts payable | $ 113,101 | $ 162,633 |
| Customer deposits | 57,475 | 80,353 |
| Accrued compensation | 29,395 | 36,483 |
| Accrued warranty | 19,177 | 20,933 |
| Current portion of long-term debt | 31,977 | 30,381 |
| Other accrued liabilities | 58,696 | 57,268 |
| Total current liabilities | 309,821 | 388,051 |
| Long-term debt | 400,365 | 356,699 |
| Reserve for postretirement and pension benefits | 55,711 | 69,343 |
| Deferred income taxes | 28,363 | 12,870 |
| Accrued warranty | 12,627 | 9,743 |
| Other long term liabilities | 15,384 | 25,007 |
| Total liabilities | 822,271 | 861,713 |
| **Shareholders Equity** | | |

| | | |
|---|---|---|
| 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 47,560,441 and 47,907,357 outstanding at September 30, 2009 and December 31, 2008, respectively | 662 | 662 |
| Additional paid-in capital | 328,510 | 328,587 |
| Treasury stock, at cost, 18,614,326 and 18,267,410 shares, at September 30, 2009 and December 31, 2008, respectively | (291,148) | (276,421) |
| Retained earnings | 742,495 | 653,083 |
| Accumulated other comprehensive loss | (29,391) | (60,540) |
| Total Westinghouse Air Brake Technologies Corporation shareholders equity | 751,128 | 645,371 |
| Non-controlling interest | 1,416 | 436 |
| Total shareholders equity | 752,544 | 645,807 |
| Total Liabilities and Shareholders Equity | $ 1,574,815 | $ 1,507,520 |

The accompanying notes are an integral part of these statements.

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Unaudited Three Months Ended September 30 | | Unaudited Nine Months Ended September 30 | |
|---|---|---|---|---|
| ***In thousands, except per share data*** | **2009** | **2008** | **2009** | **2008** |
| Net sales | $ 330,455 | $ 396,017 | $ 1,042,428 | $ 1,169,538 |
| Cost of sales | (235,629) | (288,343) | (749,484) | (848,148) |
| Gross profit | 94,826 | 107,674 | 292,944 | 321,390 |
| Selling, general and administrative expense | (37,395) | (43,841) | (118,528) | (126,322) |
| Engineering expense | (10,157) | (9,713) | (31,481) | (29,325) |
| Amortization expense | (1,515) | (1,666) | (4,701) | (3,481) |
| Total operating expenses | (49,067) | (55,220) | (154,710) | (159,128) |
| Income from operations | 45,759 | 52,454 | 138,234 | 162,262 |
| Other income and expenses | | | | |
| Interest expense, net | (3,687) | (1,943) | (12,148) | (4,717) |
| Other income (expense) , net | 394 | (100) | 649 | (1,179) |
| Income from continuing operations before income taxes | 42,466 | 50,411 | 126,735 | 156,366 |
| Income tax expense | (15,118) | (17,241) | (35,885) | (56,921) |
| Income from continuing operations | 27,348 | 33,170 | 90,850 | 99,445 |
| Discontinued operations | | | | |
| Loss from discontinued operations (net of tax) | | | | (3) |
| Net income attributable to Wabtec shareholders | $ 27,348 | $ 33,170 | $ 90,850 | $ 99,442 |
| **Earnings Per Common Share** | | | | |
| Basic | | | | |
| Net income attributable to Wabtec shareholders | $ 0.58 | $ 0.68 | $ 1.90 | $ 2.05 |
| Diluted | | | | |
| Net income attributable to Wabtec shareholders | $ 0.57 | $ 0.68 | $ 1.89 | $ 2.03 |
| Weighted average shares outstanding | | | | |
| Basic | 47,289 | 48,161 | 47,537 | 48,269 |
| Diluted | 47,752 | 48,827 | 48,019 | 48,918 |

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**

| *In thousands* | Unaudited Nine Months Ended September 30, 2009 | 2008 |
|---|---|---|
| **Operating Activities** | | |
| Net income attributable to Wabtec shareholders | $ 90,850 | $ 99,442 |
| Stock-based compensation expense | 3,632 | 7,684 |
| (Gain) loss on disposal of property, plant and equipment | (2,561) | 2,473 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Discontinued operations | | (38) |
| Depreciation and amortization | 23,853 | 22,035 |
| Excess income tax benefits from exercise of stock options | (481) | (1,643) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 52,048 | (71,810) |
| Inventories | 24,870 | (31,808) |
| Accounts payable | (53,327) | 13,213 |
| Accrued income taxes | 2,484 | 3,153 |
| Accrued liabilities and customer deposits | (49,712) | 39,655 |
| Other assets and liabilities | (2,417) | (5,061) |
| Net cash provided by operating activities | 89,239 | 77,295 |
| **Investing Activities** | | |
| Purchase of property, plant and equipment and other | (10,848) | (12,483) |
| Acquisitions of business, net of cash acquired | (3,446) | (82,263) |
| Acquisition purchase price adjustment | (4,771) | |
| Proceeds from disposal of property, plant and equipment | 3,671 | 94 |
| Net cash used for investing activities | (15,394) | (94,652) |
| **Financing Activities** | | |
| Proceeds from debt | 176,000 | |
| Payments of debt | (131,261) | (64) |
| Proceeds from exercise of stock options and other benefit plans | 737 | 2,431 |
| Stock repurchase | (19,654) | (24,653) |
| Excess income tax benefits from exercise of stock options | 481 | 1,643 |
| Cash dividends ($0.03 per share for the nine months ended September 30, 2009 and 2008) | (1,438) | (1,454) |
| Net cash provided by (used for) financing activities | 24,865 | (22,097) |
| Effect of changes in currency exchange rates | 14,670 | (8,845) |
| Increase (decrease) in cash | 113,380 | (48,299) |
| Cash, beginning of year | 141,805 | 234,689 |
| Cash, end of period | $ 255,185 | $ 186,390 |

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, 2009 (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 more than 100 countries throughout the world. Our products enhance safety, improve productivity and reduce maintenance costs for customers, and many of our core products and services are essential in the safe and efficient operation of freight rail and passenger transit vehicles. Wabtec is a global company with operations in 16 countries. In the first nine months of 2009, about 39% 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, 2008. The December 31, 2008 information has been derived from the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

In preparing the accompanying unaudited condensed consolidated interim financial statements, the Company has reviewed, as determined necessary by the Company s management, events that have occurred after September 30, 2009 until October 29, 2009, the issuance date of the financial statements.

***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

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009 (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 $12.0 million and $11.0 million at September 30, 2009 and December 31, 2008, 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 entered into foreign currency forward contracts to reduce the impact of changes in currency exchange rates. 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, 2009, the Company had forward contracts for the sale of South African Rand (ZAR) and the purchase of U.S. Dollars (USD). The Company concluded that these foreign currency forward contracts qualify for cash flow hedge accounting which permits the recording of the fair value of the forward contract and corresponding adjustment to other comprehensive income (loss), net of tax, on the balance sheet. As of September 30, 2009, the Company had forward contracts with a notional value of 13.0 million ZAR (or $1.5 million USD), with an average exchange rate of 8.59 ZAR per $1USD, resulting in the recording of a current liability of $190,000 and a corresponding offset in accumulated other comprehensive loss of $121,000, net of tax.

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 special 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, 2009, the Company had interest rate swap agreements with a notional value of $127.5 million and which effectively changed the Company s interest rate on that bank debt at September 30, 2009 from a variable rate to a fixed rate of 1.83%. The interest rate swap agreements mature at various times through January 2010. As of September 30, 2009, the Company recorded a current liability of $270,000 and a corresponding offset in accumulated other comprehensive loss of $163,000, net of tax.

***Noncontrolling Interests*** On January 1, 2009, the Company adopted the amendment under ASC 810 Consolidation related to noncontrolling interests in consolidated financial statements. This amendment establishes

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009 (UNAUDITED)**

accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The amendment clarifies that a noncontrolling interest should be reported as equity in the consolidated financial statements and requires net income attributable to both the parent and the noncontrolling 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 noncontrolling interests as equity on our condensed consolidated balance sheets as of September 30, 2009 and December 31, 2008. Net income attributable to noncontrolling interests for the three and nine months ended September 30, 2009 and 2008 was not material.

***Foreign Currency Translation*** Assets and liabilities of foreign subsidiaries, except for the Company s Mexican operations whose functional currency is the U.S. Dollar, are translated at the rate of exchange in effect on the balance sheet date while income and expenses are translated at the average rates of exchange prevailing during the year. Foreign currency gains and losses resulting from transactions, and the translation of financial statements are recorded in the Company s consolidated financial statements based upon the provisions of ASC 830 Foreign Currency Matters. The effects of currency exchange rate changes on intercompany transactions and balances of a long-term investment nature are accumulated and carried as a component of 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 transaction gains recognized in other (expense) income, net were $154,000 for the three months ended September 30, 2009 and foreign exchange transaction losses recognized in other (expense) income, net were $601,000 for the three months ended September 30, 2008. Foreign exchange transaction gains recognized in other (expense) income, net were $377,000 for the nine months ended September 30, 2009 and foreign exchange transaction losses recognized in other (expense) income, net were $1.8 million for the nine months ended September 30, 2008.

***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. Changes in the table below adjust components of accumulated other comprehensive income. Total comprehensive income was:

| | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| ***In thousands*** | **2009** | **2008** | **2009** | **2008** |
| Net income attributable to Wabtec shareholders | $ 27,348 | $ 33,170 | $ 90,850 | $ 99,442 |
| Foreign currency translation gain (loss) | 14,829 | (30,731) | 26,421 | (18,340) |
| Unrealized (loss) gain on foreign exchange contracts, net of tax | (33) | | (147) | 43 |
| Unrealized gain (loss) on interest rate swap contracts, net of tax | 62 | | (163) | |
| Change in pension and post retirement benefit plans, net of tax | 4,298 | 227 | 5,038 | 709 |
| Total comprehensive income | $ 46,504 | $ 2,666 | $ 121,999 | $ 81,854 |

The components of accumulated other comprehensive loss were:

| ***In thousands*** | **September 30, 2009** | **December 31, 2008** |
|---|---|---|
| Foreign currency translation gain (loss) | $ 7,281 | $ (19,140) |
| Unrealized (loss) gain on foreign exchange contracts, net of tax | (121) | 26 |
| Unrealized loss on interest rate swap contracts, net of tax | (163) | |
| Pension benefit plans and post retirement benefit plans, net of tax | (36,388) | (41,426) |

| | | | | |
|---|---|---|---|---|
| Total accumulated comprehensive loss | $ | (29,391) | $ | (60,540) |

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009 (UNAUDITED)**

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

***Recent Accounting Pronouncements*** In June 2009, the FASB issued Update No. 2009-01, Topic 105-Generally Accepted Accounting Principles amendments based on Statement of Financial Accounting Standards No. 168-The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (ASU 2009-01). ASU 2009-01 establishes only two levels of GAPP, authoritative and nonauthoritative. 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. The Company began using the new guidelines and number system prescribed by the ASC when referring to GAAP in the third quarter 2009. As the ASC was not intended to change or alter existing GAAP, and adoption of this standard did not have any impact on the Company s financial condition or results of operations.

In June 2009, an update was made to ASC 860 Transfers and Servicing . Among other items, the update removes the concept of a qualifying special-purpose entity and clarifies that the objective of ASC 860 is to determine whether a transferor and all of the entities included in the transferor s financial statements being presented have surrendered control over transferred financial assets. The update is effective January 1, 2010. Upon adoption, the Company does not expect this update to have a material impact on its financial condition or results of operations.

In June 2009, an update was made to ASC 810 Consolidation . This update amends the consolidation guidance applicable to variable interest entities and is effective as of the beginning of the first annual reporting period that begins after November 15, 2009. Upon adoption, the Company does not expect this update to have a material impact on its financial condition or results of operations.

In August 2009, the FASB issued Update No. 2009-05, Fair Value measurement and Disclosures (Topic 820) Measuring Liabilities at Fair Value (ASU 2009-05). ASU 2009-05 amends ASC 820 Fair Value Measurements and Disclosures to provide further guidance on how to measure the fair value of a liability. It primarily does three things: 1) sets forth the types of valuation techniques to be used to value a liability when a quoted price in an active market for the identical liability is not available, 2) clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability and 3) clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. ASU 2009-05 is effective beginning fourth quarter of 2009 for the Company. Upon adoption, the Company does not expect this update to have a material impact on its financial condition or results of operations.

In September 2009, the FASB issued Update No. 2009-12, Fair Value Measurements and Disclosures (Topic 820) Investments in Certain Entities that Calculate Net Asset Value per share (or Its Equivalent) (ASU 2009-12). ASU 2009-12 provides amendments to ASC 820-10 Fair Value Measurements and Disclosures Overall for the fair value measurement of investments in certain entities. In addition, ASU 2009-12 requires disclosures by major category of investment about the attributes of investments within the scope of the amendments in the update. ASU 2009-12 is effective for interim and annual periods ending after December 15, 2009. Upon adoption, the Company does not expect this update to have a material impact on its financial condition or results of operations.

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009 (UNAUDITED)**

In October 2009, the FASB issued Update No. 2009-13, Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force (ASU 2009-13). ASU 2009-13 provides amendments to the criteria in ASC 605-25 for separating consideration in multiple-deliverable arrangements. As a result of those amendments, multiple-deliverable arrangements will be separated in more circumstances than under existing U.S. GAAP. ASU 2009-13: 1) establishes a selling price hierarchy for determining the selling price of a deliverable, 2) eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method, 3) requires that a vendor determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis, 4) significantly expands the disclosures related to a vendor s multiple-deliverable revenue arrangements. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the impact of adopting ASU 2009-13.

In October 2009, the FASB issued Update No. 2009-14, Software (Topic 985) Certain Revenue Arrangements That Include Software Elements a consensus of the FASB Emerging Issues Task Force (ASU 2009-14). ASU 2009-14 changes the accounting model for revenue arrangements that include both tangible products and software elements and provides additional guidance on how to determine which software, if any, relating to tangible product would be excluded from the scope of the software revenue guidance. In addition, ASU 2009-14 provides guidance on how a vendor should allocate arrangement consideration to deliverables in an arrangement that includes both tangible products and software. ASU 2009-14 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the impact of adopting ASU 2009-14.

**3. ACQUISITIONS AND DISCONTINUED OPERATIONS**

On October 1, 2009, subsequent to the close of our accounting quarter, the Company used cash on hand to acquire Unifin International LP, and its affiliate, Cardinal Pumps and Exchangers, Inc. ( Unifin ), a leading manufacturer of cooling systems and related equipment for the power generation and transmission industry, for a net purchase price of $93.3 million. Unifin will operate as a business of Wabtec s Freight Group.

On July 22, 2009, the Company acquired certain assets from Chardon Rubber Company for $3.4 million. Chardon Rubber is a designer and manufacturer of rubber and plastic components and systems.

On December 5, 2008, the Company acquired Standard Car Truck Company ( SCT ), a manufacturer and designer of stabilization systems for freight cars, including engineered truck (undercarriage) components such as springs, friction wedges and wear plates. Its Barber® brand truck design is used throughout the world and holds a leading share of the North American market. The company also manufactures and services locomotives components, including compressors and pumps. The purchase price was $302.6 million, net of cash received, resulting in preliminary additional goodwill of $151.8 million, of which all will be deductible for tax purposes. Included in the purchase price of $302.6 million is $25.0 million related to an escrow deposit, which may be released to the Company for working capital adjustments or indemnity claims in accordance with the purchase and escrow agreements. On December 5, 2008, the Company acquired a majority of Beijing Wabtec Huaxia Technology Company, Ltd. ( Huaxia ) for $5.6 million. On December 31, 2008, the Company invested $2.8 million in Shenyang CNR Wabtec Railway Brake Technology Company, Ltd. ( Shenyang ) for a minority interest in the joint venture Company. Huaxia and Shenyang manufacture braking equipment, including brake shoes, pads and friction linings for the freight car market in China. On October 27, 2008, the Company acquired certain assets related to the development, sale, service, and maintenance of software programs used in train

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009 (UNAUDITED)**

management systems for $4.5 million. On June 30, 2008, the Company acquired 100% of the stock of Poli S.p.A. (Poli), a European-based manufacturer of rail braking equipment including brake discs for high speed applications, as well as tread brake units and pneumatic brake valves that meet International Union of Railways (UIC) standards. Poli will primarily operate as a business of Wabtec s Transit Group. The purchase price was 55.2 million (about $87.0 million USD), net of cash received, resulting in additional goodwill of $38.9 million, of which none will be deductible for tax purposes. Included in the purchase price is $11.8 million related to an escrow deposit, which may be released to the Company for indemnity claims, environmental claims or allocation of tax liabilities in accordance with the purchase and escrow agreements.

Operating results have been included in the consolidated statement of operations from the acquisition date forward.

For the SCT acquisition, the following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition:

| *In thousands* | SCT December 5, 2008 | Poli June 30, 2008 |
|---|---|---|
| Current assets | $ 82,177 | $ 25,595 |
| Property, plant & equipment | 22,275 | 11,999 |
| Goodwill and other intangible assets | 225,105 | 76,342 |
| Other assets | 1,123 | 4,236 |
| Total assets acquired | 330,680 | 118,172 |
| Total liabilities assumed | (28,065) | (31,138) |
| Net assets acquired | $ 302,615 | $ 87,034 |

Of the preliminary allocation of $73.3 million of acquired intangible assets for SCT exclusive of goodwill, $28.9 million was assigned to trade names, $38.5 million was assigned to customer relationships, $743,000 was assigned to patents, $1.0 million was assigned to customer backlog and $4.1 million was assigned to long-term contracts. The trade names are considered to have an indefinite useful life while the customer relationships average useful life is 24 years and patents average useful life is nine years. Of the allocation of $37.4 million of acquired intangible assets for Poli, exclusive of goodwill, $18.8 million was assigned to trade names, $17.8 million was assigned to customer relationships, $449,000 was assigned to patents and $312,000 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 patents average useful life is eight years.

The following unaudited pro forma financial information presents income statement results as if the acquisitions listed above had occurred on January 1, 2008:

| *In thousands* | Three Months Ended September 30, 2008 | Nine Months Ended September 30, 2008 |
|---|---|---|
| Net sales | $ 468,320 | $ 1,379,448 |
| Gross profit | 125,588 | 377,829 |
| Net income attributable to Wabtec shareholders(1) | (7,436) | 73,192 |
| Diluted earnings per share | | |

| | | | | |
|---|---|---|---|---|
| As Reported | $ | 0.68 | $ | 2.03 |
| Pro forma | $ | (0.15) | $ | 1.50 |

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009 (UNAUDITED)**

(1) For the period ended September 30, 2008, net income attributable to Wabtec shareholders included $48.5 million of expense for management incentive bonus recorded by SCT in conjunction with signing the purchase agreement.

**4. INVENTORIES**

The components of inventory, net of reserves, were:

| *In thousands* | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Raw materials | $ 97,208 | $ 99,735 |
| Work-in-process | 89,637 | 91,155 |
| Finished goods | 58,023 | 73,268 |
| Total inventory | $ 244,868 | $ 264,158 |

**5. RESTRUCTURING AND IMPAIRMENT CHARGES**

Wabtec downsized its Canadian operations by moving certain products to lower-cost facilities and outsourcing. In the Freight segment, Wabtec recorded charges of $1.1 million and $4.1 million for the three and nine months ended September 30, 2008. No charges have been recorded for this in 2009. Total expenses for restructuring and other expenses recorded since 2006 have been $16.5 million, comprised of the $5.6 million for employee severance costs for approximately 400 salaried and hourly employees; $5.5 million of pension and postretirement benefit curtailment for those employees; $4.8 million related to asset impairments for structures, machinery, and equipment; and $541,000 for goodwill impairment. Goodwill impairment was recorded as amortization expense and most of the other charges were recorded in cost of sales. Severance costs are contractual liabilities and payment is dependent on the waiver by or expiration of certain seniority rights of those employees. As of September 30, 2009, $4.1 million of this amount had been paid.

**6. INTANGIBLES**

Goodwill was $424.7 million and $319.4 million at September 30, 2009 and December 31, 2008, respectively. The adjustment of $99.3 million to Goodwill for preliminary purchase allocation is due to Standard Car Truck and Poli. The change in the carrying amount of goodwill by segment for the nine months ended September 30, 2009 is as follows:

| *In thousands* | Freight Group | Transit Group | Total |
|---|---|---|---|
| Balance at December 31, 2008 | $ 182,247 | $ 137,202 | $ 319,449 |
| Adjustment to preliminary purchase allocation | 84,122 | 15,214 | 99,336 |
| Foreign currency impact | 2,153 | 3,779 | 5,932 |
| Balance at September 30, 2009 | $ 268,522 | $ 156,195 | $ 424,717 |

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009 (UNAUDITED)**

As of September 30, 2009 and December 31, 2008, the Company s trademarks had a net carrying amount of $80.6 million and $75.6 million, respectively, and the Company believes these intangibles have an indefinite life. Intangible assets of the Company, other than goodwill and trademarks, consist of the following:

| *In thousands* | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Patents and other, net of accumulated amortization of $30,043 and $28,294 | $ 14,209 | $ 19,409 |
| Customer relationships, net of accumulated amortization of $5,911 and $3,399 | 66,009 | 141,739 |
| Total | $ 80,218 | $ 161,148 |

The weighted average remaining useful life of patents, customer relationships and intellectual property were seven years, 19 years and 19 years, respectively. Amortization expense for intangible assets was $1.5 million and $4.7 million for the three and nine months ended September 30, 2009, respectively, and $1.7 million and $3.5 million for the three and nine months ended September 30, 2008, respectively.

## 7. LONG-TERM DEBT

Long-term debt consisted of the following:

| *In thousands* | September 30, 2009 | December 31, 2008 |
|---|---|---|
| 6.875% Senior Notes, due 2013 | $ 150,000 | $ 150,000 |
| Term Loan Facility | 177,500 | 200,000 |
| Revolving Credit Facility | 104,000 | 36,000 |
| Capital Leases | 842 | 1,080 |
| Total | 432,342 | 387,080 |
| Less current portion | 31,977 | 30,381 |
| Long-term portion | $ 400,365 | $ 356,699 |

*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, 2009 the weighted average interest rate on the Company s variable rate debt was 1.50%. At September 30, 2009, the Company had available bank borrowing capacity, net of $53.1 million of letters of credit, of approximately $142.9 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

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009 (UNAUDITED)**

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 Base Rate margin is zero basis points and the initial Alternate Rate margin is 125 basis points. 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, 2009, the notional value of interest rate swaps outstanding totaled $127.5 million and effectively changed the Company s interest rate on that bank debt at September 30, 2009 from a variable rate to a fixed rate of 1.83%. The interest rate swap agreements mature at various times through January 2010. 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.

*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.

**8. EMPLOYEE BENEFIT PLANS**

The Company sponsors various defined benefit plans including pension and post retirement benefits as disclosed below. Effective January 1, 2008, the Company early-adopted the measurement date (the date at which plan assets and the benefit obligation are measured) provisions of ASC 715 Compensation Retirement Benefits . Under ASC 715, the measurement date is required to be the Company s fiscal year-end. The Company s U.K. defined benefit pension plan previously used an October 31 measurement date. All plans are now measured as of December 31, consistent with the Company s fiscal year-end. The non-cash effect of the adoption of the measurement date provisions of SFAS 158 at January 1, 2008 decreased retained earnings by $66,000, net of tax. There was no effect on the results of operations.

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009 (UNAUDITED)**

**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.

| *In thousands, except percentages* | U.S. Three months ended September 30, 2009 | U.S. Three months ended September 30, 2008 | International Three months ended September 30, 2009 | International Three months ended September 30, 2008 |
|---|---|---|---|---|
| **Net periodic benefit cost** | | | | |
| Service cost | $ 61 | $ 55 | $ 708 | $ 859 |
| Interest cost | 672 | 691 | 1,724 | 1,855 |
| Expected return on plan assets | (836) | (828) | (1,585) | (2,136) |
| Net amortization/deferrals | 308 | 289 | 445 | 356 |
| Curtailment loss recognized | | | | 923 |
| Settlement loss recognized | | | | 539 |
| Net periodic benefit cost | $ 205 | $ 207 | $ 1,292 | $ 2,396 |
| **Assumptions** | | | | |
| Discount rate | 6.25% | 6.35% | 6.69% | 5.62% |
| Expected long-term rate of return | 8.00% | 8.00% | 7.34% | 7.17% |
| Rate of compensation increase | 3.00% | 3.00% | 3.47% | 3.84% |

| *In thousands, except percentages* | U.S. Nine months ended September 30, 2009 | U.S. Nine months ended September 30, 2008 | International Nine months ended September 30, 2009 | International Nine months ended September 30, 2008 |
|---|---|---|---|---|
| **Net periodic benefit cost** | | | | |
| Service cost | $ 212 | $ 208 | $ 2,012 | $ 2,634 |
| Interest cost | 2,059 | 2,072 | 4,986 | 5,694 |
| Expected return on plan assets | (2,452) | (2,493) | (4,564) | (6,564) |
| Net amortization/deferrals | 1,090 | 966 | 1,449 | 1,091 |
| Curtailment loss recognized | | | 414 | 3,045 |
| Settlement loss recognized | | | 1,535 | 1,059 |
| Net periodic benefit cost | $ 909 | $ 753 | $ 5,832 | $ 6,959 |
| **Assumptions** | | | | |
| Discount rate | 6.25% | 6.35% | 6.69% | 5.62% |
| Expected long-term rate of return | 8.00% | 8.00% | 7.34% | 7.17% |
| Rate of compensation increase | 3.00% | 3.00% | 3.47% | 3.84% |

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 $1.3 million to the U.S. plans and $10.3 million to the international plans during 2009.

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009 (UNAUDITED)**

**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.

| | U.S. Three months ended September 30, | | International Three months ended September 30, | |
|---|---|---|---|---|
| *In thousands, except percentages* | **2009** | **2008** | **2009** | **2008** |
| **Net periodic benefit cost** | | | | |
| Service cost | $ (59) | $ 82 | $ 10 | $ 13 |
| Interest cost | 364 | 514 | 57 | 51 |
| Net amortization/deferrals | (509) | (120) | (65) | (100) |
| Curtailment gain recognized | (1,330) | | | (262) |
| Net periodic benefit cost | $ (1,534) | $ 476 | $ 2 | $ (298) |
| **Assumptions** | | | | |
| Discount rate | 7.34% | 6.35% | 7.50% | 5.50% |

| | U.S. Nine months ended September 30, | | International Nine months ended September 30, | |
|---|---|---|---|---|
| *In thousands, except percentages* | **2009** | **2008** | **2009** | **2008** |
| **Net periodic benefit cost** | | | | |
| Service cost | $ 65 | $ 182 | $ 28 | $ 40 |
| Interest cost | 1,304 | 1,504 | 161 | 156 |
| Net amortization/deferrals | (952) | (572) | (183) | (305) |
| Curtailment gain recognized | (1,330) | | | (1,216) |
| Special termination benefit recognized | | | | 32 |
| Net periodic benefit cost | $ (913) | $ 1,114 | $ 6 | $ (1,293) |
| **Assumptions** | | | | |
| Discount rate | 7.34% | 6.35% | 7.50% | 5.50% |

**9. STOCK-BASED COMPENSATION**

As of September 30, 2009, 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 $3.6 million and $7.7 million for the nine months ended September 30, 2009 and 2008, respectively. Included in the stock-based compensation expense for 2009 above is $1.3 million of expense related to stock options, $2.2 million related to restricted stock and $472,000 as compensation for Directors fees, offset by a reduction in expense of $414,000 related to incentive stock awards. The expense reduction for incentive awards is due to a modification of projected achievement of performance criteria. At September 30, 2009, unamortized compensation expense related to those stock options, restricted shares and incentive stock awards expected to vest totaled $16.3 million and will be recognized over a weighted average period of 2.2 years.

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009 (UNAUDITED)**

***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, 2009:

| | Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate intrinsic value (in thousands) |
|---|---|---|---|---|
| Outstanding at December 31, 2008 | 1,054,244 | $ 20.16 | 5.5 | $ 20,655 |
| Granted | 313,000 | 30.23 | | 2,528 |
| Exercised | (60,200) | 15.24 | | (1,389) |
| Canceled | (29,168) | 23.60 | | (1,117) |
| Outstanding at September 30, 2009 | 1,277,876 | $ 22.78 | 6.0 | $ 19,847 |
| Exercisable at September 30, 2009 | 764,909 | $ 16.31 | 4.2 | $ 16,824 |

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 September 30, 2009 | 2008 |
|---|---|---|
| Dividend yield | .13% | .11% |
| Risk-free interest rate | 2.05% | 3.5% |
| Stock price volatility | 43.1% | 33.9% |
| 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 maximum number of shares that may ultimately vest. As of September 30, 2009, based on the Company s performance, we estimate that the majority of 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 and will be recognized over the remaining vesting period.

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009 (UNAUDITED)**

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, 2009:

| | Restricted Stock | Incentive Stock Awards | Weighted Average Grant Date Fair Value |
|---|---|---|---|
| Outstanding at December 31, 2008 | 279,792 | 699,666 | $ 35.12 |
| Granted | 89,500 | 174,000 | 29.00 |
| Vested | (104,584) | (170,334) | 36.39 |
| Canceled | (10,750) | (7,000) | 32.72 |
| Outstanding at September 30, 2009 | 253,958 | 696,332 | $ 33.10 |

**10. INCOME TAXES**

The overall effective income tax rate was 35.6% and 28.3% for the three and nine months ended September 30, 2009, respectively and 34.2% and 36.4% for the three and nine months ended September 30, 2008, respectively. The decrease in effective rate for the nine months ended September 30, 2009 is primarily due to the settlement of examinations in various taxing jurisdictions during the first nine months ended September 30, 2009.

As of December 31, 2008, the liability for income taxes associated with uncertain tax positions was $17.1 million. As of September 30, 2009 the liability for income taxes associated with uncertain tax positions is $10.0 million. If the benefits of the uncertain tax positions are realized, $2.6 million would favorably affect the Company s effective tax rate. The remaining $7.4 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 December 31, 2008, the Company had accrued interest and penalties related to uncertain tax positions of approximately $4.4 million and $2.4 million, respectively. As of September 30, 2009 the Company has accrued interest and penalties of approximately $3.0 million and $1.6 million, respectively. With limited exception, the Company is no longer subject to examination by various U.S. and foreign taxing authorities for years before 2006. At this time, the settlement period for the Company s unrecognized tax benefits cannot be determined; however, they are not expected to be settled within the next 12 months.

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009 (UNAUDITED)**

**11. EARNINGS PER SHARE**

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

| | Three Months Ended September 30, | |
|---|---|---|
| ***In thousands, except per share*** | **2009** | **2008** |
| **Numerator** | | |
| Numerator for basic and diluted earnings per common share net income attributable to Wabtec shareholders | $ 27,348 | $ 33,170 |
| Less: dividends declared common shares and non-vested restricted stock | (476) | (485) |
| Undistributed earnings | 26,872 | 32,685 |
| Percentage allocated to common shareholders(1) | 99.5% | 99.5% |
| | 26,738 | 32,522 |
| Add: dividends declared common shares | 474 | 482 |
| Numerator for basic and diluted earnings per common share | $ 27,212 | $ 33,004 |
| **Denominator** | | |
| Denominator for basic earnings per common share weighted-average shares | 47,289 | 48,161 |
| Effect of dilutive securities: | | |
| Assumed conversion of dilutive stock-based compensation plans | 463 | 666 |
| Denominator for diluted earnings per common share adjusted weighted-average shares and assumed conversion | 47,752 | 48,827 |
| **Per common share net income attributable to Wabtec shareholders** | | |
| Basic | $ 0.58 | $ 0.68 |
| Diluted | $ 0.57 | $ 0.68 |
| (1) Basic weighted-average common shares outstanding | 47,289 | 48,161 |
| Basic weighted-average common shares outstanding and non-vested restricted stock expected to vest | 47,512 | 48,414 |
| Percentage allocated to common shareholders | 99.5% | 99.5% |

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009 (UNAUDITED)**

| *In thousands, except per share* | **Nine Months Ended September 30, 2009** | **2008** |
|---|---|---|
| **Numerator** | | |
| Numerator for basic and diluted earnings per common share net income attributable to Wabtec shareholders | $ 90,850 | $ 99,442 |
| Less: dividends declared common shares and non-vested restricted stock | (1,438) | (1,454) |
| Undistributed earnings | 89,412 | 97,988 |
| Percentage allocated to common shareholders(1) | 99.5% | 99.5% |
| | 88,965 | 97,498 |
| Add: dividends declared common shares | 1,431 | 1,446 |
| Numerator for basic and diluted earnings per common share | $ 90,396 | $ 98,944 |
| **Denominator** | | |
| Denominator for basic earnings per common share weighted-average shares | 47,537 | 48,269 |
| Effect of dilutive securities: | | |
| Assumed conversion of dilutive stock-based compensation plans | 482 | 649 |
| Denominator for diluted earnings per common share adjusted weighted-average shares and assumed conversion | 48,019 | 48,918 |
| **Per common share net income attributable to Wabtec shareholders** | | |
| Basic | $ 1.90 | $ 2.05 |
| Diluted | $ 1.89 | $ 2.03 |
| (1) Basic weighted-average common shares outstanding | 47,537 | 48,269 |
| Basic weighted-average common shares outstanding and non-vested restricted stock expected to vest | 47,770 | 48,528 |
| 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.

**12. WARRANTIES**

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

| *In thousands* | **Nine Months Ended September 30, 2009** | **2008** |
|---|---|---|
| Balance at December 31, 2008 and 2007, respectively | $ 30,676 | $ 22,314 |
| Warranty provision | 16,125 | 14,977 |
| Warranty claim payments | (14,997) | (8,821) |
| Balance at September 30, 2009 and 2008, respectively | $ 31,804 | $ 28,470 |

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009 (UNAUDITED)**

**13. FAIR VALUE MEASUREMENT**

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.

**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, 2009, which are included in other current liabilities on the Condensed Consolidated Balance sheet:

| | | Fair Value Measurements at September 30, 2009 Using | | |
|---|---|---|---|---|
| *In thousands* | **Total Carrying Value at September 30, 2009** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Foreign currency forward contracts | $ (190) | $ | $ (190) | $ |
| Interest rate swap agreements | (270) | | (270) | |
| Total | $ (460) | $ | $ (460) | $ |

The following table provides the asset carried at fair value measured on a recurring basis as of December 31, 2008, which is included in other current assets on the Condensed Consolidated Balance sheet:

| | | Fair Value Measurements at December 31, 2008 Using | | |
|---|---|---|---|---|
| *In thousands* | **Total Carrying Value at December 31, 2008** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Foreign currency forward contracts | $ 41 | $ | $ 41 | $ |
| Total | $ 41 | $ | $ 41 | $ |

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.

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009 (UNAUDITED)**

**14. COMMITMENTS AND CONTINGENCIES**

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. Over the last four years, the overall number of new claims filed has significantly decreased as compared to the previous four-year period; however, the resolution of these new claims, and all previously filed claims, may take a significant period of time. 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 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 for a variety of factors, including: (1) the limited 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 limited 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. 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 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 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 seeks to prevent the Company from manufacturing and selling the subject components until the arbitration panel decides Faiveley s claim. In the arbitration, Faiveley also seeks monetary damages.

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009 (UNAUDITED)**

The Company s motion and subsequent appeal to initially dismiss the Federal Court action on jurisdictional grounds was denied on May 2, 2008. During the week of July 28, 2008, the Federal Court conducted a hearing on Faiveley s injunction request. On August 22, 2008 the Federal Court issued an order denying in part and granting in part Faiveley s injunction request. Under the order, Wabtec was permitted to perform under all contracts entered into prior to August 22, 2008, including a New York City Transit contract that was the parties main focus during the hearing. However, Wabtec was not permitted to enter into any future contracts for the supply of one of the products at issue, or its components, until the international arbitrators decided the merits of the dispute. Wabtec requested, and was granted, an expedited appeal on the merits of the Federal Court action; that appeal was argued on February 9, 2009. On March 9, 2009, the Second Circuit Court of Appeals vacated the injunction. On April 8, 2009, Faiveley orally asked the Federal Court to issue (immediately) a temporary restraining order ( TRO ) and (later) another preliminary injunction, both of which would prevent the Company from selling one of the products at issue, or its components, until a final resolution of the arbitration. In an April 10, 2009 order, the Federal Court said it was denying Faiveley s request for a TRO and permitting limited discovery on the issues raised by Faiveley s preliminary injunction request. The preliminary injunction motion was briefed in June, and oral argument was held on July 8, 2009. The Court denied Faiveley s preliminary injunction motion on August 31, 2009.

On October 1, 2008 in a filing before the international arbitration panel, Faiveley alleged $128 million in damages. On March 20, 2009, Faiveley filed a revised damages claim reducing its claim to $91 million in damages. The Company believes that this claim is grossly overstated, is not supported by the facts or circumstances surrounding the case, and is frivolous in most respects. On February 11, 2009, the international arbitration panel completed the first part of a hearing on the underlying breach of contract and trade secret issues. The second part of the hearing was conducted April 26-29, 2009. Closing arguments were held on May 18 and 19, 2009. The international arbitration panel has said it expects to issue its decision on the merits this year. The Company denies Faiveley s allegations and does not believe that it has any material legal liability in this matter; it is vigorously contesting all claims.

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, 2008, filed on February 27, 2009. During the first nine months of 2009, there were no material changes to the information described in Note 19 therein.

**15. 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

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009 (UNAUDITED)**

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.

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

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

Segment financial information for the three months ended September 30, 2008 is as follows:

| ***In thousands*** | **Freight Group** | **Transit Group** | **Corporate Activities and Elimination** | **Total** |
|---|---|---|---|---|
| Sales to external customers | $ 183,276 | $ 212,741 | $ | $ 396,017 |
| Intersegment sales/(elimination) | 5,492 | 389 | (5,881) | |
| Total sales | $ 188,768 | $ 213,130 | $ (5,881) | $ 396,017 |
| Income (loss) from operations | $ 32,442 | $ 24,473 | $ (4,461) | $ 52,454 |
| Interest expense and other, net | | | (2,043) | (2,043) |
| Income (loss) from continuing operations before income taxes | $ 32,442 | $ 24,473 | $ (6,504) | $ 50,411 |

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

| ***In thousands*** | **Freight Group** | **Transit Group** | **Corporate Activities and Elimination** | **Total** |
|---|---|---|---|---|
| Sales to external customers | $ 440,479 | $ 601,949 | $ | $ 1,042,428 |
| Intersegment sales/(elimination) | 19,664 | 2,061 | (21,725) | |
| Total sales | $ 460,143 | $ 604,010 | $ (21,725) | $ 1,042,428 |

| | | | | |
|---|---|---|---|---|
| Income (loss) from operations | $ 57,276 | $ 95,122 | $ (14,164) | $ 138,234 |
| Interest expense and other, net | | | (11,499) | (11,499) |
| Income (loss) from continuing operations before income taxes | $ 57,276 | $ 95,122 | $ (25,663) | $ 126,735 |

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009 (UNAUDITED)**

Segment financial information for the nine months ended September 30, 2008 is as follows:

| ***In thousands*** | **Freight Group** | **Transit Group** | **Corporate Activities and Elimination** | **Total** |
|---|---|---|---|---|
| Sales to external customers | $ 574,673 | $ 594,865 | $ | $ 1,169,538 |
| Intersegment sales/(elimination) | 15,389 | 1,390 | (16,779) | |
| Total sales | $ 590,062 | $ 596,255 | $ (16,779) | $ 1,169,538 |
| Income (loss) from operations | $ 104,605 | $ 72,007 | $ (14,350) | $ 162,262 |
| Interest expense and other, net | | | (5,896) | (5,896) |
| Income (loss) from continuing operations before income taxes | $ 104,605 | $ 72,007 | $ (20,246) | $ 156,366 |

Sales by product are as follows:

| ***In thousands*** | **Three Months Ended September 30, 2009** | **2008** |
|---|---|---|
| Brake products | $ 107,454 | $ 143,616 |
| Freight electronics & specialty products | 68,103 | 94,961 |
| Remanufacturing, overhaul & build | 76,181 | 79,873 |
| Transit products | 62,018 | 58,303 |
| Other | 16,699 | 19,264 |
| Total sales | $ 330,455 | $ 396,017 |

| ***In thousands*** | **Nine Months Ended September 30, 2009** | **2008** |
|---|---|---|
| Brake products | $ 348,261 | $ 405,878 |
| Freight electronics & specialty products | 248,388 | 285,314 |
| Remanufacturing, overhaul & build | 210,026 | 259,084 |
| Transit products | 184,188 | 161,682 |
| Other | 51,565 | 57,580 |
| Total sales | $ 1,042,428 | $ 1,169,538 |

**16. 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.

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009 (UNAUDITED)**

Balance Sheet as of September 30, 2009:

| *In thousands* | Parent | Guarantors | Non-Guarantors | Elimination | Consolidated |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 63,659 | $ 50,714 | $ 140,812 | $ | $ 255,185 |
| Accounts receivable | 309 | 140,467 | 90,205 | | 230,981 |
| Inventories | | 174,593 | 70,275 | | 244,868 |
| Other current assets | 33,076 | 3,215 | 5,768 | | 42,059 |
| Total current assets | 97,044 | 368,989 | 307,060 | | 773,093 |
| Property, plant and equipment | 2,368 | 116,701 | 76,982 | | 196,051 |
| Goodwill | 7,980 | 303,324 | 113,413 | | 424,717 |
| Investment in subsidiaries | 2,016,560 | 347,944 | 300,381 | (2,664,885) | |
| Other intangibles | (33) | 117,746 | 43,079 | | 160,792 |
| Other long term assets | (11,835) | 1,248 | 30,749 | | 20,162 |
| Total Assets | $ 2,112,084 | $ 1,255,952 | $ 871,664 | $ (2,664,885) | $ 1,574,815 |
| Current liabilities | $ 44,633 | $ 179,236 | $ 85,952 | $ | $ 309,821 |
| Intercompany | 877,703 | (957,695) | 79,992 | | |
| Long-term debt | 399,625 | 324 | 416 | | 400,365 |
| Other long term liabilities | 37,579 | 22,628 | 51,878 | | 112,085 |
| Total liabilities | 1,359,540 | (755,507) | 218,238 | | 822,271 |
| Stockholders equity | 752,544 | 2,011,459 | 653,426 | (2,664,885) | 752,544 |
| Total Liabilities and Stockholders Equity | $ 2,112,084 | $ 1,255,952 | $ 871,664 | $ (2,664,885) | $ 1,574,815 |

Balance Sheet as of December 31, 2008:

| *In thousands* | Parent | Guarantors | Non-Guarantors | Elimination | Consolidated |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 37,941 | $ 4,272 | $ 99,592 | $ | $ 141,805 |
| Accounts receivable | 396 | 180,990 | 92,174 | | 273,560 |
| Inventories | | 186,761 | 77,397 | | 264,158 |
| Other current assets | 36,300 | 4,397 | 5,129 | | 45,826 |
| Total current assets | 74,637 | 376,420 | 274,292 | | 725,349 |
| Property, plant and equipment | 1,598 | 129,092 | 76,858 | | 207,548 |
| Goodwill | 7,980 | 219,062 | 92,407 | | 319,449 |
| Investment in subsidiaries | 1,794,010 | 323,131 | 290,783 | (2,407,924) | |
| Other intangibles | 561 | 194,841 | 41,338 | | 236,740 |
| Other long term assets | (2,139) | 650 | 19,923 | | 18,434 |
| Total Assets | $ 1,876,647 | $ 1,243,196 | $ 795,601 | $ (2,407,924) | $ 1,507,520 |

| | | | | | |
|---|---|---|---|---|---|
| Current liabilities | $ 36,418 | $ 248,245 | $ 103,388 | $ | $ 388,051 |
| Intercompany | 776,708 | (846,466) | 69,758 | | |
| Long-term debt | 356,000 | 394 | 305 | | 356,699 |
| Other long term liabilities | 61,714 | 22,590 | 32,659 | | 116,963 |
| Total liabilities | 1,230,840 | (575,237) | 206,110 | | 861,713 |
| Stockholders equity | 645,807 | 1,818,433 | 589,491 | (2,407,924) | 645,807 |
| Total Liabilities and Stockholders Equity | $ 1,876,647 | $ 1,243,196 | $ 795,601 | $ (2,407,924) | $ 1,507,520 |

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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009 (UNAUDITED)**

Income Statement for the Three Months Ended September 30, 2009:

| *In thousands* | Parent | Guarantors | Non-Guarantors | Elimination(1) | Consolidated |
|---|---|---|---|---|---|
| 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 income (expense), net | (3) | 449 | (52) | | 394 |
| Equity earnings | 46,291 | 9,326 | | (55,617) | |
| Income (loss) from continuing 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) |
| 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.

Income Statement for the Three Months Ended September 30, 2008:

| *In thousands* | Parent | Guarantors | Non-Guarantors | Elimination(1) | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ | $ 295,004 | $ 133,103 | $ (32,090) | $ 396,017 |
| Cost of sales | 719 | (199,592) | (109,306) | 19,836 | (288,343) |
| Gross profit (loss) | 719 | 95,412 | 23,797 | (12,254) | 107,674 |
| Operating expenses | (12,851) | (27,512) | (14,857) | | (55,220) |
| Operating (loss) profit | (12,132) | 67,900 | 8,940 | (12,254) | 52,454 |
| Interest (expense) income, net | (4,778) | 2,109 | 726 | | (1,943) |
| Other (expense) income, net | (188) | 2,022 | (1,934) | | (100) |
| Equity earnings | 59,931 | 9,342 | | (69,273) | |
| Income (loss) from continuing operations before income tax | 42,833 | 81,373 | 7,732 | (81,527) | 50,411 |
| Income tax expense | (9,663) | (2,836) | (4,742) | | (17,241) |

| | | | | | |
|---|---|---|---|---|---|
| Net income (loss) attributable to Wabtec shareholders | $ 33,170 | $ 78,537 | $ 2,990 | $ (81,527) | $ 33,170 |

(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, 2009 (UNAUDITED)**

Income Statement for the Nine Months Ended September 30, 2009:

| *In thousands* | Parent | Guarantors | Non-Guarantors | Elimination(1) | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ | $ 789,180 | $ 310,964 | $ (57,716) | $ 1,042,428 |
| Cost of sales | 1,437 | (543,437) | (237,395) | 29,911 | (749,484) |
| Gross profit (loss) | 1,437 | 245,743 | 73,569 | (27,805) | 292,944 |
| Operating expenses | (25,405) | (87,845) | (41,460) | | (154,710) |
| 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 continuing operations before income tax | 102,507 | 178,102 | 38,511 | (192,385) | 126,735 |
| 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.

Income Statement for the Nine Months Ended September 30, 2008:

| *In thousands* | Parent | Guarantors | Non-Guarantors | Elimination(1) | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ | $ 870,036 | $ 400,526 | $ (101,024) | $ 1,169,538 |
| Cost of sales | 349 | (588,540) | (332,598) | 72,641 | (848,148) |
| Gross profit (loss) | 349 | 281,496 | 67,928 | (28,383) | 321,390 |
| Operating expenses | (39,843) | (83,155) | (36,130) | | (159,128) |
| Operating (loss) profit | (39,494) | 198,341 | 31,798 | (28,383) | 162,262 |
| Interest (expense) income, net | (14,321) | 6,603 | 3,001 | | (4,717) |
| Other (expense) income, net | (599) | 3,960 | (4,540) | | (1,179) |
| Equity earnings | 186,683 | 25,399 | | (212,082) | |
| Income (loss) from continuing operations before income tax | 132,269 | 234,303 | 30,259 | (240,465) | 156,366 |
| Income tax expense | (32,827) | (10,169) | (13,925) | | (56,921) |

| | | | | | |
|---|---|---|---|---|---|
| Income (loss) from continuing operations | 99,442 | 224,134 | 16,334 | (240,465) | 99,445 |
| Loss from discontinued operations (net of tax) | | | (3) | | (3) |
| Net income (loss) attributable to Wabtec shareholders | $ 99,442 | $ 224,134 | $ 16,331 | $ (240,465) | $ 99,442 |

(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, 2009 (UNAUDITED)**

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

| *In thousands* | Parent | Guarantors | Non-Guarantors | Elimination | Consolidated |
|---|---|---|---|---|---|
| Net cash provided by (used for) operating activities | $ 1,362 | $ 225,235 | $ 55,027 | $ (192,385) | $ 89,239 |
| 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 | | | 14,670 | | 14,670 |
| 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 |

Condensed Statement of Cash Flows for the Nine Months Ended September 30, 2008:

| *In thousands* | Parent | Guarantors | Non-Guarantors | Elimination | Consolidated |
|---|---|---|---|---|---|
| Net cash provided by (used for) operating activities | $ 31,833 | $ 223,206 | $ 62,721 | $ (240,465) | $ 77,295 |
| Net cash used for investing activities | (259) | (6,764) | (87,629) | | (94,652) |
| Net cash (used for) provided by financing activities | (41,875) | (224,198) | 3,511 | 240,465 | (22,097) |
| Effect of changes in currency exchange rates | | | (8,845) | | (8,845) |
| Decrease in cash | (10,301) | (7,756) | (30,242) | | (48,299) |
| Cash, beginning of year | 82,911 | 10,004 | 141,774 | | 234,689 |
| Cash, end of period | $ 72,610 | $ 2,248 | $ 111,532 | $ | $ 186,390 |

**17. OTHER EXPENSE, NET**

The components of other expense are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *In thousands* | 2009 | 2008 | 2009 | 2008 |
| Foreign currency gains (losses), net | $ 154 | $ (601) | $ 377 | $ (1,797) |
| Other miscellaneous income | 240 | 501 | 272 | 618 |
| Total other income (expense), net | $ 394 | $ (100) | $ 649 | $ (1,179) |

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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, 2008, filed with the Securities and Exchange Commission on February 27, 2009.*

**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 more than 100 countries throughout the world. Our products enhance safety, improve productivity and reduce maintenance costs for customers, and many of our core products and services are essential in the safe and efficient operation of freight rail and passenger transit vehicles. Wabtec is a global company with operations in 16 countries. In the first nine months of 2009, about 39% 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. These fluctuations can cause changes in demand for new locomotives and freight cars, and for aftermarket service and repair work. The passenger transit industry is primarily driven by government funding of projects and passenger ridership, which affect demand for new locomotives, subway cars and buses, and for aftermarket service and repair work.

Through the third quarter of 2009, conditions have remained generally stable in the Company s passenger transit rail markets, while conditions in the freight rail markets have declined significantly compared to 2008, due to the global recession. Through mid-October 2009, revenue ton-miles in the U.S. freight rail industry have decreased 17%. As a result, demand for new locomotives and freight cars is significantly lower than in 2008. At September 30, 2009, the U.S. industry backlog of freight cars ordered was 19,343 compared to 21,558 at June 30, 2009. Less than 20% of the Company s revenues are directly related to deliveries of new freight cars. In the passenger transit rail market, ridership in the U.S. was down about 2% in the second quarter due to the economic slowdown, but U.S. federal government funding was expected to increase 6% for the year. This increase in funding has helped the Company build a strong backlog of transit projects. In addition, the Company has continued to expand its passenger transit capabilities outside the U.S., into markets such as Europe, which are much larger.

In 2009 and beyond, we will continue to face many challenges, including economic uncertainty in the markets in which we operate, fluctuations in the costs for raw materials, higher costs for medical and insurance premiums, and foreign currency fluctuations. In addition, we face general economic risks, as well as the risk that our customers could curtail spending on new and existing equipment. Risks associated with our four-point growth strategy include 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.

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Wabtec downsized its Canadian operations by moving certain products to lower-cost facilities and outsourcing. In the Freight segment, Wabtec recorded charges of $1.1 million and $4.1 million for the three and nine months ended September 30, 2008. No charges have been recorded for this in 2009. Total expenses for restructuring and other expenses recorded since 2006 have been $16.5 million, comprised of the $5.6 million for employee severance costs for approximately 400 salaried and hourly employees; $5.5 million of pension and postretirement benefit curtailment for those employees; $4.8 million related to asset impairments for structures, machinery, and equipment; and $541,000 for goodwill impairment. Goodwill impairment was recorded as amortization expense and most of the other charges were recorded in cost of sales. Severance costs are contractual liabilities and payment is dependent on the waiver by or expiration of certain seniority rights of those employees. As of September 30, 2009, $4.1 million of this amount had been paid.

**RESULTS OF OPERATIONS**

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *In millions* | **2009** | **2008** | **2009** | **2008** |
| Net sales | $ 330.4 | $ 396.0 | $ 1,042.4 | $ 1,169.5 |
| Cost of sales | (235.6) | (288.3) | (749.5) | (848.1) |
| Gross profit | 94.8 | 107.7 | 292.9 | 321.4 |
| Selling, general and administrative expenses | (37.4) | (43.8) | (118.5) | (126.3) |
| Engineering expenses | (10.2) | (9.7) | (31.5) | (29.3) |
| Amortization expense | (1.5) | (1.7) | (4.7) | (3.5) |
| Total operating expenses | (49.1) | (55.2) | (154.7) | (159.1) |
| Income from operations | 45.7 | 52.5 | 138.2 | 162.3 |
| Interest income (expense), net | (3.7) | (2.0) | (12.1) | (4.7) |
| Other income (expense), net | 0.4 | (0.1) | 0.6 | (1.2) |
| Income from continuing operations before income taxes | 42.4 | 50.4 | 126.7 | 156.4 |
| Income tax expense | (15.1) | (17.2) | (35.9) | (57.0) |
| Net income attributable to Wabtec shareholders | $ 27.3 | $ 33.2 | $ 90.8 | $ 99.4 |

**THIRD QUARTER 2009 COMPARED TO THIRD QUARTER 2008**

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

| | Three months ended September 30, | | |
|---|---|---|---|
| *In thousands* | **2009** | **2008** | **Percent Change** |
| Freight Group | $ 124,453 | $ 183,276 | (32.1)% |
| Transit Group | 206,002 | 212,741 | (3.2)% |
| Net sales | 330,455 | 396,017 | (16.6)% |
| Income from operations | 45,759 | 52,454 | (12.8)% |
| Net income attributable to Wabtec shareholders | $ 27,348 | $ 33,170 | (17.6)% |

Net sales decreased by $65.6 million to $330.4 million from $396.0 million for the three months ended September 30, 2009 and 2008, respectively. The decrease is primarily due to the current economic conditions and lower rail traffic leading to lower Freight Group sales. The Company realized a net sales reduction of $7.4 million due to unfavorable effects of foreign exchange, but net earnings were generally not impacted by foreign exchange. Net income for the three months ended September 30, 2009 was $27.3 million or $0.57 per diluted

share. Net income for the three months ended September 30, 2008 was $33.2 million or $0.68 per diluted share. The decrease in net income is primarily due to lower Freight Group sales, partially offset by higher operating margins and cost-saving initiatives.

Freight Group sales decreased by $58.8 million, or 32.1%, primarily due to lower sales of $44.0 million for specialty products, $26.3 million for brake products, $4.6 million for remanufacturing, overhaul and manufacturing of locomotives, and $3.4 million for other products. Offsetting those reductions was an increase in sales of $20.5 million from acquisitions. For the Freight Group, net sales were reduced by $1.0 million due to unfavorable effects of foreign exchange on sales mentioned above.

Transit Group sales decreased by $6.8 million, or 3.2%, primarily due to unfavorable effects of foreign exchange on sales.

***Gross profit*** Gross profit decreased to $94.8 million in the third quarter of 2009 compared to $107.7 million in the same period of 2008. Gross profit is dependent on a number of factors including pricing, sales volume and product mix. Gross profit, as a percentage of sales, was 28.7% for the third quarter of 2009 compared to 27.2%, for the third quarter of 2008. The gross profit percentage increased due to realized cost savings related to downsizing and consolidation actions. A 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 $1.5 million higher in 2009 compared to the same period of 2008 due primarily to specific reserves on certain transit products.

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

| | Three months ended September 30, | | |
|---|---|---|---|
| ***In thousands*** | **2009** | **2008** | **Percent Change** |
| Selling, general and administrative expenses | $ 37,395 | $ 43,841 | (14.7)% |
| Engineering expenses | 10,157 | 9,713 | 4.6% |
| Amortization expense | 1,515 | 1,666 | (9.1)% |
| Total operating expenses | $ 49,067 | $ 55,220 | (11.1)% |

Selling, general, and administrative expenses decreased $6.4 million in the third quarter of 2009 compared to the same period of 2008 primarily due to cost-saving initiatives, partially offset by increased expenses from acquisitions. Engineering expenses increased by $0.4 million in the third quarter of 2009 compared to the same period of 2008 due primarily to the acquisitions that occurred in 2008. Amortization expense decreased in the third quarter of 2009 compared to the same period in 2008. Total operating expenses were 14.8% and 13.9% of sales for the third quarter of 2009 and 2008, respectively.

***Income from operations*** Income from operations totaled $45.7 million (or 13.8% of sales) in the third quarter of 2009 compared with $52.5 million (or 13.2% of sales) in the same period of 2008. Income from operations decreased primarily due to lower Freight Group sales, partially offset by higher operating margins and cost-saving initiatives.

***Interest expense, net*** Interest expense, net increased $1.7 million in the third quarter of 2009 compared to the same period of 2008 due to additional borrowings for acquisitions.

***Other expense, net*** The Company recorded foreign exchange gains of $154,000 in the third quarter of 2009 and foreign exchange losses of $601,000 in the third quarter of 2008, because of the effect of currency exchange rate changes on intercompany transactions that are non U.S. dollar denominated and charged or credited to earnings.

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***Income taxes*** The effective income tax rate was 35.6% and 34.2% for the third quarters of 2009 and 2008, respectively. The increase in effective rate is primarily due to the expiration of statutory review periods and the settlement of examinations during the third quarter of 2008.

***Net income*** Net income for the third quarter of 2009 decreased $5.8 million, compared with the same period of 2008. The decrease in net income is primarily due to lower Freight Group sales, partially offset by higher operating margins and cost-saving initiatives.

**FIRST NINE MONTHS OF 2009 COMPARED TO FIRST NINE MONTHS OF 2008**

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

| | Nine months ended September 30, | | |
|---|---|---|---|
| ***In thousands*** | **2009** | **2008** | **Percent Change** |
| Freight Group | $ 440,479 | $ 574,673 | (23.4)% |
| Transit Group | 601,949 | 594,865 | 1.2% |
| Net sales | 1,042,428 | 1,169,538 | (10.9)% |
| Income from operations | 138,234 | 162,262 | (14.8)% |
| Net income attributable to Wabtec shareholders | $ 90,850 | $ 99,442 | (8.6)% |

Net sales decreased by $127.1 million to $1,042.4 million from $1,169.5 million for the nine months ended September 30, 2009 and 2008, respectively. The decrease is primarily due to the current economic conditions and lower rail traffic leading to lower Freight Group sales. The Company realized a net sales reduction of $46.4 million due to unfavorable effects of foreign exchange, but net earnings were generally not impacted by foreign exchange. Net income for the nine months ended September 30, 2009 was $90.8 million or $1.89 per diluted share. Net income for the nine months ended September 30, 2008 was $99.4 million or $2.03 per diluted share. The decrease in net income is primarily due to lower Freight Group sales, severance and other costs related to downsizing and consolidation actions, partially offset by cost-saving initiatives and lower income taxes.

Freight Group sales decreased by $134.2 million, or 23.4%, primarily due to lower sales of $104.0 million for specialty products, $80.5 million for brake products and $14.8 million for remanufacturing, overhaul and manufacturing of locomotives. Offsetting those reductions was an increase in sales of $80.5 million from acquisitions. For the Freight Group, net sales were reduced by $8.7 million due to unfavorable effects of foreign exchange on sales mentioned above.

Transit Group sales increased by $7.1 million, or 1.2%, primarily due to increased sales of $20.5 million for brake products, $24.1 million for other transit-related products and $11.9 million from acquisitions. Offsetting those increases was a decrease in sales of $11.1 million for remanufacturing, overhaul and build of locomotives. For the Transit Group, net sales were reduced by $37.7 million due to unfavorable effects of foreign exchange on sales mentioned above.

***Gross profit*** Gross profit decreased to $292.9 million for the first nine months of 2009 compared to $321.4 million in the same period of 2008. Gross profit is dependent on a number of factors including pricing, sales volume and product mix. Gross profit, as a percentage of sales, was 28.1% compared to 27.5%, for the first nine months of 2009 and 2008, respectively. The gross profit percentage increased due to realized cost savings related to downsizing and consolidation actions. 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 $1.1 million higher for the first nine months of 2009 compared to the same period of 2008 primarily due to transit products. The warranty reserve increased at September 30, 2009 compared to September 30, 2008 by $3.3 million due to higher sales on transit authority contracts.

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

| | Nine months ended September 30, | | |
|---|---|---|---|
| *In thousands* | 2009 | 2008 | Percent Change |
| Selling, general and administrative expenses | $ 118,528 | $ 126,322 | (6.2)% |
| Engineering expenses | 31,481 | 29,325 | 7.4% |
| Amortization expense | 4,701 | 3,481 | 35.0% |
| Total operating expenses | $ 154,710 | $ 159,128 | (2.8)% |

Selling, general, and administrative expenses decreased a net $7.8 million in the first nine months of 2009 compared to the same period of 2008 due to cost-saving initiatives, partially offset by increased expenses from acquisitions. Engineering expenses increased by $2.2 million in the first nine months of 2009 compared to the same period of 2008 because of acquisitions that occurred in 2008. Amortization expense increased in the first nine months of 2009 compared to the same period in 2008 because of acquisitions that occurred in 2008. During the nine months ended September 30, 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. Total operating expenses were 14.8% and 13.6% of sales for the first nine months of 2009 and 2008, respectively.

***Income from operations*** Income from operations totaled $138.2 million (or 13.3% of sales) in the first nine months of 2009 compared with $162.3 million (or 13.9% of sales) in the same period of 2008. Income from operations decreased primarily due to lower Freight Group sales, severance and other costs related to downsizing and consolidation actions, partially offset by cost-saving initiatives.

***Interest expense, net*** Interest expense, net increased $7.4 million in the first nine months of 2009 compared to the same period of 2008 because of additional borrowings for acquisitions.

***Other expense, net*** The Company recorded foreign exchange gains of $377,000 in the first nine months of 2009 and foreign exchange losses of $1.8 million in the first nine months of 2008, because of 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 28.3% and 36.4% for the first nine months of 2009 and 2008, respectively. The decrease in effective rate is primarily due to the settlement of examinations in various taxing jurisdictions during the first nine months ended September 30, 2009.

***Net income*** Net income for the first nine months of 2009 decreased $8.6 million, compared with the same period of 2008. The decrease in net income is primarily due to lower sales.

**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:

| | Nine months ended September 30, | |
|---|---|---|
| *In thousands* | 2009 | 2008 |
| Cash provided by (used for): | | |
| Operating activities | $ 89,239 | $ 77,295 |
| Investing activities | (15,394) | (94,652) |
| Financing activities | 24,865 | (22,097) |
| Increase (decrease) in cash | $ 113,380 | $ (48,299) |

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***Operating activities*** Cash provided by operations in the first nine months of 2009 was $89.2 million as compared to $77.3 million for the same period of 2008. This $11.9 million increase in cash provided by operations resulted from a decrease in working capital. The accounts receivable decrease resulted in an $123.8 million improvement. The inventory decrease resulted in a $56.7 million improvement. Accounts payables used cash of $66.5 million due to a reduction in purchasing. These changes were the result of overall reduced volume of sales. Accrued liabilities and customer deposits used cash of $89.4 million due to a reduction in customer deposits on contracts. Other assets and liabilities, including accrued income taxes, provided cash of $2.0 million.

***Investing activities*** Cash used for investing activities in the first nine months of 2009 was $15.4 million as compared to $94.7 million for the same period of 2008. Capital expenditures were $10.9 million and $12.5 million in the first nine months of 2009 and 2008, respectively. During the first nine months of 2009 the Company paid $4.7 million as part of the working capital settlement for the Poli acquisition and $3.4 million to acquire certain assets from Chardon Rubber Company. 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. During the third quarter of 2008, Wabtec acquired Poli S.p.A, a European-based manufacture of rail braking equipment for a net price of $82.3 million in cash.

On October 1, 2009, subsequent to the close of our accounting quarter, the Company used cash on hand to acquire Unifin International LP, and its affiliate, Cardinal Pumps and Exchangers, Inc. ( Unifin ), a leading manufacturer of cooling systems and related equipment for the power generation and transmission industry, for a net purchase price of $93.3 million. Unifin will operate as a business of Wabtec s Freight Group.

***Financing activities*** 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. In the first nine months of 2008, cash used for financing activities was $22.1 million, which included $4.1 million of proceeds from the exercise of stock options and other benefit plans, offset by $1.5 million of dividend payments and $24.7 million for the repurchase of 718,100 shares of stock.

The following table shows outstanding indebtedness at September 30, 2009 and December 31, 2008.

| *In thousands* | **September 30, 2009** | **December 31, 2008** |
|---|---|---|
| 6.875% Senior Notes, due 2013 | $ 150,000 | $ 150,000 |
| Term Loan Facility | 177,500 | 200,000 |
| Revolving Credit Facility | 104,000 | 36,000 |
| Capital Leases | 842 | 1,080 |
| Total | 432,342 | 387,080 |
| Less current portion | 31,977 | 30,381 |
| Long-term portion | $ 400,365 | $ 356,699 |

Cash balance at September 30, 2009 and December 31, 2008 was $255.2 million and $141.8 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, 2009 the weighted average interest rate on the Company s variable rate debt was 1.50%. At September 30, 2009, the Company had available bank borrowing capacity, net of $53.1 million of letters of credit, of approximately $142.9 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 Base Rate margin is zero basis points and the initial Alternate Rate margin is 125 basis points. 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, 2009, the notional value of interest rate swaps outstanding totaled $127.5 million and effectively changed the Company s interest rate on that bank debt at September 30, 2009 from a variable rate to a fixed rate of 1.83%. The interest rate swap agreements mature at various times through January 2010. 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.

*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 Company believes, based on current levels of operations and forecasted earnings, cash flow and liquidity will be sufficient to fund its working capital and capital equipment needs as well as to meet its debt service requirements. If the Company s sources of funds were to fail to satisfy the Company s cash requirements, the Company may need to refinance its 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

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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 $102.2 million, leaving $47.8 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 2009, the Company repurchased 669,700 shares at an average price of $29.35 per share. During 2008, the Company repurchased 1,317,900 shares of its stock at an average price of $34.75 per share. All purchases were on the open market.

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

As of September 30, 2009, the Company has recognized a total liability of $10.0 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, 2008, 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, 2008.

**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 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 you 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

- materially adverse changes in economic or industry conditions generally or in the markets served by us, including North America, South America, Europe, Australia and Asia;
- 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, canceled, 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; or fluctuations in interest rates and foreign currency exchange rates;

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;

the development and use of new technology; or

the integration of recently completed or future acquisitions.

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;

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

political developments and laws and regulations; 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, 2008. 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, 2008.

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**Recent Accounting Pronouncements**

See Note 2 of  Notes to Condensed Consolidated Financial Statements  included elsewhere in this report.

**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 65% and 61% of total long-term debt at September 30, 2009 and December 31, 2008, respectively. On an annual basis a 1% change in the interest rate for variable rate debt at September 30, 2009 would increase or decrease interest expense by $2.8 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 special 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, 2009, the Company had interest rate swap agreements with a notional value of $127.5 million and which effectively changed the Company s interest rate on that bank debt at September 30, 2009 from a variable rate to a fixed rate of 1.83%. The interest rate swap agreements mature at various times through January 2010. As of September 30, 2009, the Company recorded a current liability of $270,000 and a corresponding offset in accumulated other comprehensive loss of $163,000, net of tax.

**Foreign Currency Exchange Risk**

The Company has entered into foreign currency forward contracts to reduce the impact of changes in currency exchange rates. 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, 2009, the Company had forward contracts for the sale of South African Rand (ZAR) and the purchase of U.S. Dollars (USD). The Company concluded that these foreign currency forward contracts qualify for cash flow hedge accounting which permits the recording of the fair value of the forward contract and corresponding adjustment to other comprehensive income (loss), net of tax, on the balance sheet. As of September 30, 2009, the Company had forward contracts with a notional value of 13.0 million ZAR (or $1.5 million USD), with an average exchange rate of 8.59 ZAR per $1 USD, resulting in the recording of a current liability of $190,000 and a corresponding offset in accumulated other comprehensive loss of $121,000, net of tax.

We are also 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 nine months of 2009, approximately 61% of Wabtec s net sales were to customers in the United States, 10% in the United Kingdom, 8% in Canada, 2% in Mexico, 4% in Australia, 3% in Germany, and 12% in other international locations.

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**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, 2009. 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, 2009, that has materially affected, or is reasonably likely to materially affect, Wabtec s internal control over financial reporting.

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## PART II OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

Except as described in Note 14, 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, 2008.

### 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, 2008.

### 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 2009, the Company repurchased 669,700 shares at an average price of $29.35 per share. During 2008, the Company repurchased 1,317,900 shares of its stock at an average price of $34.75 per share. All purchases were on the open market.

There were no repurchases of shares during the third quarter of 2009.

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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. |

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WESTINGHOUSE AIR BRAKE

TECHNOLOGIES CORPORATION

By: /s/ ALVARO GARCIA-TUNON

**Alvaro Garcia-Tunon,**
**Senior Vice President,**
**Chief Financial Officer and Secretary**

(Duly Authorized Officer and Principal Financial Officer)

DATE: October 29, 2009

**EXHIBIT INDEX**

| Exhibit Number | Description and Method of Filing |
|---|---|
| 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, filed herewith. |
| 31.2 | Rule 13a-14(a) Certification of Chief Financial Officer, filed herewith. |
| 32.1 | Section 1350 Certification of Chief Executive Officer and Chief Financial Officer, filed herewith. |