

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP  
Form 10-Q  
November 09, 2007  
Table of Contents

---

**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, 2007**

**OR**

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

**Commission file number: 1-13782**

---

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

---

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**1001 Air Brake Avenue**

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

**25-1615902**  
**(I.R.S. Employer**  
**Identification No.)**

**15148**  
**(Zip Code)**

---

**412-825-1000**

Edgar Filing: WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP - Form 10-Q

(Registrant's telephone number, including area code)

N/A

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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

Class	Outstanding at November 5, 2007
Common Stock, \$.01 par value per share	48,774,445 shares

---

**Table of Contents**

**WESTINGHOUSE AIR BRAKE  
TECHNOLOGIES CORPORATION**

**September 30, 2007 FORM 10-Q**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>PART I FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	
<u>Condensed Consolidated Balance Sheets as of September 30, 2007 and December 31, 2006</u>	3
<u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2007 and 2006</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2007 and 2006</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	37
Item 4. <u>Controls and Procedures</u>	37
<b>PART II OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	39
Item 1A. <u>Risk Factors</u>	39
Item 2. <u>Unregistered Sale of Equity Securities and Use of Proceeds</u>	39
Item 6. <u>Exhibits</u>	40
<u>Signatures</u>	41

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

<i>In thousands, except shares and par value</i>	<b>Unaudited September 30, 2007</b>	<b>December 31, 2006</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 158,026	\$ 187,979
Accounts receivable	215,688	177,345
Inventories	185,884	145,481
Deferred income taxes	23,728	24,773
Other current assets	12,888	11,613
Total current assets	596,214	547,191
Property, plant and equipment	416,204	390,178
Accumulated depreciation	(234,718)	(211,869)
Property, plant and equipment, net	181,486	178,309
<b>Other Assets</b>		
Goodwill	232,876	173,251
Other intangibles, net	47,145	44,494
Deferred income taxes	26,500	16,588
Other noncurrent assets	18,541	13,009
Total other assets	325,062	247,342
Total Assets	\$ 1,102,762	\$ 972,842
<b>Liabilities and Shareholders Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 118,383	\$ 92,624
Accrued income taxes	4,558	4,491
Customer deposits	40,797	75,537
Accrued compensation	28,210	26,297
Accrued warranty	12,018	10,305
Other accrued liabilities	37,968	34,537
Total current liabilities	241,934	243,791
Long-term debt	150,000	150,000
Reserve for postretirement and pension benefits	67,758	74,511
Deferred income taxes	16,421	15,014
Accrued warranty	7,791	7,094
Other long term liabilities	33,127	12,543
Total liabilities	517,031	502,953
<b>Shareholders Equity</b>		

Edgar Filing: WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP - Form 10-Q

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 48,762,944 and 48,250,776 outstanding at September 30, 2007 and December 31, 2006, respectively	662	662
Additional paid-in capital	321,205	314,752
Treasury stock, at cost, 17,411,823 and 17,923,991 shares, at September 30, 2007 and December 31, 2006, respectively	(229,269)	(232,823)
Retained earnings	496,343	419,603
Accumulated other comprehensive loss	(3,210)	(32,305)
<b>Total shareholders equity</b>	<b>585,731</b>	<b>469,889</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 1,102,762</b>	<b>\$ 972,842</b>

The accompanying notes are an integral part of these statements.

**Table of Contents**

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

<i>In thousands, except per share data</i>	Unaudited Three Months Ended September 30		Unaudited Nine Months Ended September 30	
	2007	2006	2007	2006
Net sales	\$ 354,834	\$ 268,889	\$ 994,820	\$ 793,200
Cost of sales	(259,117)	(202,691)	(721,687)	(574,920)
Gross profit	95,717	66,198	273,133	218,280
Selling, general and administrative expense	(39,679)	(31,294)	(109,539)	(97,842)
Engineering expense	(9,237)	(8,068)	(27,079)	(24,206)
Amortization expense	(1,157)	(1,354)	(2,985)	(3,065)
Total operating expenses	(50,073)	(40,716)	(139,603)	(125,113)
Income from operations	45,644	25,482	133,530	93,167
Other income and expenses				
Interest (expense) income, net	(1,289)	196	(2,463)	(1,348)
Other expense, net	(927)	(146)	(3,373)	(1,308)
Income from continuing operations before income taxes	43,428	25,532	127,694	90,511
Income tax expense	(16,668)	(7,791)	(47,255)	(30,920)
Income from continuing operations	26,760	17,741	80,439	59,591
Discontinued operations				
Income (loss) from discontinued operations (net of tax)	482	(370)	455	(1,029)
Net income	\$ 27,242	\$ 17,371	\$ 80,894	\$ 58,562
<b>Earnings Per Common Share</b>				
<b>Basic</b>				
Income from continuing operations	\$ 0.55	\$ 0.36	\$ 1.66	\$ 1.23
Income (loss) from discontinued operations	0.01		0.01	(0.02)
Net income	\$ 0.56	\$ 0.36	\$ 1.67	\$ 1.21
<b>Diluted</b>				
Income from continuing operations	\$ 0.54	\$ 0.36	\$ 1.64	\$ 1.22
Income (loss) from discontinued operations	0.01	(0.01)	0.01	(0.02)
Net income	\$ 0.55	\$ 0.35	\$ 1.65	\$ 1.20
<b>Weighted average shares outstanding</b>				
Basic	48,736	48,689	48,488	48,309
Diluted	49,381	49,293	49,100	48,905

The accompanying notes are an integral part of these statements.

**Table of Contents**

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

<i>In thousands</i>	<b>Unaudited Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Operating Activities</b>		
Net income	\$ 80,894	\$ 58,562
Stock-based compensation expense	7,567	7,696
Adjustments to reconcile net income to net cash provided by operations:		
Discontinued operations	(455)	(1,178)
Depreciation and amortization	21,664	21,630
Excess income tax benefits from exercise of stock options	(1,985)	(4,389)
Changes in operating assets and liabilities		
Accounts receivable	(23,480)	53,901
Inventories	(23,407)	(22,757)
Accounts payable	13,846	(16,954)
Accrued income taxes	10,563	9,802
Accrued liabilities and customer deposits	(37,109)	5,541
Other assets and liabilities	(3,562)	(1,946)
<b>Net cash provided by operating activities</b>	<b>44,536</b>	<b>109,908</b>
<b>Investing Activities</b>		
Purchase of property, plant and equipment and other	(12,852)	(13,503)
Proceeds from disposal of property, plant and equipment	27	672
Acquisitions of business, net of cash acquired	(73,547)	
Sale of discontinued operations	398	3,018
<b>Net cash used for investing activities</b>	<b>(85,974)</b>	<b>(9,813)</b>
<b>Financing Activities</b>		
Proceeds from the issuance of treasury stock for stock options and other benefit plans	5,271	13,586
Stock repurchase	(4,816)	(13,528)
Excess income tax benefits from exercise of stock options	1,985	4,389
Cash dividends (\$0.03 per share for the nine months ended September 30, 2007 and 2006)	(1,463)	(1,458)
<b>Net cash provided by financing activities</b>	<b>977</b>	<b>2,989</b>
Effect of changes in currency exchange rates	10,508	3,136
<b>(Decrease) increase in cash</b>	<b>(29,953)</b>	<b>106,220</b>
Cash, beginning of year	187,979	141,365
<b>Cash, end of period</b>	<b>\$ 158,026</b>	<b>\$ 247,585</b>

The accompanying notes are an integral part of these statements.

**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007 (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 11 countries. In the first nine months of 2007, about 38% of the Company's revenues came from outside the U.S.

**2. ACCOUNTING POLICIES**

**Basis of Presentation** The unaudited 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 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, 2006. The December 31, 2006 information has been derived from the Company's December 31, 2006 Annual Report on Form 10-K.

**Revenue Recognition** Revenue is recognized in accordance with Staff Accounting Bulletins (SABs) 101, "Revenue Recognition in Financial Statements" and 104 "Revision of Topic 13." 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 certain long-term contracts based on the percentage of completion method of accounting. The units-of-delivery method or other input-based or output-based measures, as appropriate, are used to measure the progress toward completion of individual contracts. Contract revenues and cost estimates are reviewed and revised at a minimum quarterly and adjustments are reflected in the accounting period as such amounts are determined. Provisions are made currently for estimated losses on uncompleted contracts.

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 \$9.3 million and \$6.5 million at September 30, 2007 and December 31, 2006, 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.



**Table of Contents****WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007 (UNAUDITED)**

**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, 2007, the Company had forward contracts for the sale of U.S. Dollars (USD) and the purchase of Canadian Dollars (CAD) with a notional value of \$12.0 million CAD (or \$10.7 million U.S.), with an average exchange rate of \$0.89 USD per \$1 CAD. The Company has determined that these foreign currency 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. The adjustment resulted in the recording of a current asset and an increase in comprehensive income of \$823,000, net of tax.

At September 30, 2007, the Company had forward contracts for the sale of USD and the purchase of Euro with a notional value of 2.3 million Euro (or \$3.1 million USD), with an average exchange rate of \$1.32 USD per 1 Euro. These forward contracts are used to mitigate the variability in cash flows from the payment of liabilities denominated in currencies other than the USD. Since the Company does not treat these derivatives as hedges, the change in fair value of both the forward contracts and the related liabilities are recorded in the income statement. For the three and nine months ended September 30, 2007, the Company recorded a fair value gain in the amount of \$154,000 and \$251,000, respectively.

**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 SFAS No. 52, Foreign Currency Translation. 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 intercompany transactions that are non U.S. dollar denominated amounts are charged or credited to earnings. Foreign exchange intercompany transaction losses recognized as other expense were \$519,000 and \$124,000 for the three months ended September 30, 2007 and 2006, respectively, and \$2.6 million and \$1.1 million for the nine months ended September 30, 2007 and 2006, respectively.

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

<i>In thousands</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net income	\$ 27,242	\$ 17,371	\$ 80,894	\$ 58,562
Foreign currency translation adjustment	13,398	(176)	26,361	10,044
Unrealized gain (loss) on foreign exchange contracts, net of tax	67	(562)	1,648	(338)
Pension and post retirement benefit plan adjustments	145		1,086	
<b>Total comprehensive income</b>	<b>\$ 40,852</b>	<b>\$ 16,633</b>	<b>\$ 109,989</b>	<b>\$ 68,268</b>

**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007 (UNAUDITED)**

The components of accumulated other comprehensive loss were:

<i>In thousands</i>	September 30, 2007	December 31, 2006
Foreign currency translation adjustment	\$ 37,389	\$ 11,028
Unrealized gain (loss) on foreign exchange contracts, net of tax	823	(825)
Pension and post retirement benefit plan adjustments, net of tax	(41,422)	(42,508)
Total accumulated comprehensive loss	\$ (3,210)	\$ (32,305)

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

**Recent Accounting Pronouncements** In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. SFAS 157 becomes effective for Wabtec on January 1, 2008. Upon adoption, the provisions of SFAS 157 are to be applied prospectively with limited exceptions. The Company is currently evaluating the impact of adopting this statement.

The Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48 Accounting for Uncertainty in Income Taxes ( FIN 48 ) an interpretation of FASB Statement No. 109 on January 1, 2007. The implementation of FIN 48 has resulted in a \$2.7 million reduction to the beginning balance of retained earnings, reported as a change in accounting principle. At the adoption date of January 1, 2007, the liability for income taxes associated with uncertain tax positions was \$13.5 million, of which \$8.0 million, if recognized, would favorably affect the Company's effective tax rate. As of September 30, 2007, the liability for income taxes associated with uncertain tax positions was \$16.6 million, of which \$10.9 million, if recognized, would favorably affect the Company's effective income tax rate. The \$3.1 million increase in unrecognized tax benefits during the quarter ended September 30, 2007 primarily relates to the filing of amended returns and additional items identified during various income tax audits currently in process. The Company includes interest and penalties related to uncertain tax positions in income tax expense. At January 1, 2007, the Company accrued interest and penalties of approximately \$1.7 million and \$1.1 million, respectively, related to uncertain tax positions. Due to the increase in unrecognized tax benefits identified above, the Company has accrued additional interest and penalties related to uncertain tax positions during the quarter ended September 30, 2007. The total interest and penalties accrued as of September 30, 2007 are approximately \$3.0 million and \$1.7 million, respectively.

As of December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS 158). The Company must adopt the measurement date provisions of SFAS 158 by December 31, 2008.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on

**Table of Contents****WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007 (UNAUDITED)**

items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting this statement.

**3. ACQUISITIONS AND DISCONTINUED OPERATIONS**

On June 11, 2007, the Company acquired 100% of the stock of Ricon Corporation (Ricon), a manufacturer of a variety of electro-mechanical wheelchair lifts and ramps and anti-graffiti windows. The purchase price was \$73.5 million resulting in preliminary additional goodwill of \$50.6 million. On October 6, 2006, the Company acquired 100% of the stock of Schaefer Equipment, Inc. (Schaefer), a manufacturer of a variety of forged components for body-mounted and truck-mounted braking systems. The purchase price was \$36.7 million, net of cash received, resulting in additional goodwill of \$24.4 million. On December 1, 2006, the Company acquired 100% of the stock of Becorit GmbH (Becorit), a manufacturer of a variety of brake shoes, pads and friction linings for passenger transit cars, freight cars and locomotives, and friction products for industrial markets such as mining and wind power generation. The purchase price was \$51.3 million, net of cash received, resulting in additional goodwill of \$33.2 million.

Due to the timing of the Ricon acquisition, we are still in the process of finalizing the valuation of the acquired assets and liabilities, and therefore the purchase price allocation is preliminary and subject to change once finalized. Operating results have been included in the consolidated statement of operations from the acquisition date forward.

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

<i>In thousands</i>	<b>Ricon June 11, 2007</b>
Current assets	\$ 20,324
Property, plant & equipment	2,900
Goodwill and other intangible assets	60,500
Other assets	7,676
<b>Total assets acquired</b>	<b>91,400</b>
Total liabilities assumed	(17,900)
<b>Net assets acquired</b>	<b>\$ 73,500</b>

The following unaudited pro forma financial information presents income statement results as if all these acquisitions described above had occurred on January 1, 2006:

<i>In thousands</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net sales	\$ 354,834	\$ 301,243	\$ 1,022,859	\$ 889,425
Gross profit	95,717	77,654	281,209	251,906
Net income	27,242	20,365	80,186	67,046

Edgar Filing: WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP - Form 10-Q

Diluted earnings per share

As Reported	\$	0.55	\$	0.35	\$	1.65	\$	1.20
Pro forma		0.55		0.41		1.63		1.37

**Table of Contents****WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007 (UNAUDITED)**

At March 31, 2006, the sale of a non-core product division was completed for approximately \$1.4 million in cash, including a working capital adjustment of approximately \$600,000 which was established with the buyer in the fourth quarter of 2006. The assets sold primarily included transit car interior products and services for customers located in Europe. This sale resulted in a loss of approximately \$1.7 million including the working capital adjustment. This adjustment is subject to review through independent arbitration and a ruling is expected sometime in late 2007.

At August 6, 2007, the sale of a joint venture in China was completed for approximately \$398,000 in cash.

In accordance with SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets, the operating results of businesses that have been classified as discontinued operations for all years presented and are summarized as of December 31, as follows:

<i>In thousands</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net sales	\$	\$	\$	\$ 2,600
Income (loss) before income taxes	746	(373)	719	(870)
Income tax benefit	(264)	3	(264)	(159)
Income (loss) from discontinued operations	\$ 482	\$ (370)	\$ 455	\$ (1,029)

**4. INVENTORIES**

The components of inventory, net of reserves, were:

<i>In thousands</i>	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Raw materials	\$ 77,465	\$ 51,685
Work-in-process	73,072	64,229
Finished goods	35,347	29,567
Total inventory	\$ 185,884	\$ 145,481

**5. RESTRUCTURING AND IMPAIRMENT CHARGES**

On July 19, 2006, the Board of Directors approved a restructuring plan to improve the profitability and efficiency of certain business units. As part of the plan, Wabtec downsized two of its Canadian plants, in Stoney Creek and Wallaceburg, by moving certain products to lower-cost facilities and outsourcing. For the three months ended September 30, 2007, Wabtec recorded a curtailment gain of \$361,000, and for the nine months ended September 30, 2007, Wabtec recorded charges of \$3.6 million. In the third quarter of 2006, Wabtec recorded charges of \$6.8 million. Total charges for restructuring and other expenses recorded to date as a result of the approval of this plan has been \$10.4 million. These expenses were comprised of the following components: \$2.9 million for employee severance costs associated with approximately 330 salaried and hourly employees located at our Wallaceburg and Stoney Creek locations; \$4.1 million of pension and postretirement benefit curtailment for those employees; \$2.9 million related to asset impairments for structures, machinery, and equipment; and \$541,000 for goodwill impairment specific to the Wallaceburg facility. 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, 2007, \$931,000 of this amount had been paid.



**Table of Contents****WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007 (UNAUDITED)**

Additional severance, pension, and asset impairment charges of \$1.1 million were recorded in the first quarter of 2007 related to other Canadian operations. As of September 30, 2007, none of these expenses have been paid.

In the fourth quarter of 2005, the Company recorded restructuring charges of \$800,000 relating to consolidating two Australian facilities into one. During the fourth quarter of 2006 and during 2007, an additional \$490,000 was recorded, with a majority recorded during the second quarter of 2007. Total restructuring charges to date has been \$1.3 million, consisting of severance costs of \$797,000 for 14 employees, relocation and other costs of \$437,000, and an asset impairment of \$56,000. The majority of these expenses have been paid.

**6. INTANGIBLES**

Goodwill is \$232.9 million and \$173.3 million at September 30, 2007 and December 31, 2006, respectively. The change in the carrying amount of goodwill by segment for the nine months ended September 30, 2007 is as follows:

<i>In thousands</i>	<b>Freight Group</b>	<b>Transit Group</b>	<b>Total</b>
Balance at December 31, 2006	\$ 112,991	\$ 60,260	\$ 173,251
Adjustment to preliminary purchase allocation	318	3,399	3,717
Acquisition		50,607	50,607
Foreign currency impact	1,169	4,132	5,301
Balance at September 30, 2007	\$ 114,478	\$ 118,398	\$ 232,876

As of September 30, 2007 and December 31, 2006, the Company's trademarks had a net carrying amount of \$24.5 million and \$24.0 million, respectively, and the Company believes these intangibles have an indefinite life. Intangible assets of the Company, other than goodwill and trademarks, consist of the following:

<i>In thousands</i>	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Patents and other, net of accumulated amortization of \$25,082 and \$27,305	\$ 7,632	\$ 9,245
Customer relationships, net of accumulated amortization of \$1,584 and \$983	14,965	11,239
Total	\$ 22,596	\$ 20,484

The weighted average useful lives of patents and customer relationships were 13 years and 20 years, respectively. Amortization expense for intangible assets was \$1.0 million and \$2.5 million for the three and nine months ended September 30, 2007, and \$1.1 million and \$2.5 million for the three and nine months ended September 30, 2006.

**7. LONG-TERM DEBT**

Long-term debt consisted of the following:

<i>In thousands</i>	<b>September 30, 2007</b>	<b>December 31, 2006</b>
6.875% Senior Notes	\$ 150,000	\$ 150,000
Total	\$ 150,000	\$ 150,000
Less current portion		
Long term portion	\$ 150,000	\$ 150,000



**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007 (UNAUDITED)**

*Refinancing Credit Agreement*

In January 2004, the Company refinanced its existing unsecured revolving credit agreement with a consortium of commercial banks. This Refinancing Credit Agreement provided a \$175 million five-year revolving credit facility expiring in January 2009. In November 2005, the Company entered into an amendment to the Refinancing Credit Agreement which, among other things, extended the expiration of the agreement until December 2010. The Company entered into an amendment to its Refinancing Credit Agreement in February 2007 which permits the Company to complete any acquisitions without prior approval of the bank consortium as long as certain financial parameters and ratios are met. At September 30, 2007, the Company had available bank borrowing capacity, net of \$23.0 million of letters of credit, of approximately \$152.0 million, subject to certain financial covenant restrictions.

Refinancing Credit Agreement borrowings bear variable interest rates indexed to the indices described below. The Company did not borrow under the Refinancing Credit Agreement during the nine months ended September 30, 2007 or during the year ended December 31, 2006.

Under the Refinancing Credit Agreement, the Company may elect a base interest rate or an interest rate based on the London Interbank Offered Rates of Interest ( LIBOR ). The base interest rate is the greater of LaSalle Bank National Association's prime rate or the federal funds effective rate plus 0.5% per annum. The LIBOR rate is based on LIBOR plus a margin that ranges from 62.5 to 175 basis points depending on the Company's consolidated total indebtedness to cash flow ratios. The current margin is 62.5 basis points.

The 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 Refinancing Credit Agreement contains various other covenants and restrictions including the following limitations: incurrence of additional indebtedness; mergers, consolidations and sales of assets and acquisitions; additional liens; sale and leasebacks; permissible investments, loans and advances; certain debt payments; capital expenditures; and imposes a minimum interest expense coverage ratio and a maximum debt to cash flow ratio.

The Refinancing Credit Agreement contains customary events of default, including payment defaults, failure of representations or warranties to be true in any material respect, covenant defaults, defaults with respect to other indebtedness of the Company, bankruptcy, certain judgments against the Company, ERISA defaults and change of control of the Company. The Refinancing Credit Agreement includes the following covenants: a minimum interest coverage ratio of 3, maximum debt to cash flow ratio of 3.25 and a minimum net worth of \$180 million plus 50% of consolidated net income since September 30, 2003. The Company is in compliance with these measurements and covenants.

*6.875% Senior Notes Due August 2013*

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

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

**Table of Contents****WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007 (UNAUDITED)**

No shares were purchased during the first quarter of 2007. During the second quarter 2007, the Company repurchased 92,700 shares of Wabtec stock at an average price of \$36.87 per share. During the third quarter 2007, the Company repurchased 38,500 shares of Wabtec stock at an average price of \$36.22 per share.

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

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

<i>In thousands, except percentages</i>	U.S.		International	
	Three months ended September 30,		Three months ended September 30,	
	2007	2006	2007	2006
<b>Net periodic benefit cost</b>				
Service cost	\$ 63	\$ 105	\$ 793	\$ 987
Interest cost	689	656	1,850	1,352
Expected return on plan assets	(877)	(737)	(1,970)	(1,445)
Plan curtailments			1,126	1,368
Net amortization/deferrals	368	380	391	542
<b>Net periodic benefit cost</b>	<b>\$ 243</b>	<b>\$ 404</b>	<b>\$ 2,190</b>	<b>\$ 2,804</b>
<b>Assumptions</b>				
Discount rate	5.80%	5.50%	5.11%	5.07%
Expected long-term rate of return	8.00%	8.00%	6.70%	6.50%
Rate of compensation increase	3.00%	3.00%	3.62%	3.68%

<i>In thousands, except percentages</i>	U.S.		International	
	Nine months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
<b>Net periodic benefit cost</b>				
Service cost	\$ 240	\$ 316	\$ 2,676	\$ 2,929
Interest cost	2,033	1,968	5,164	4,007
Expected return on plan assets	(2,428)	(2,212)	(5,645)	(4,282)
Plan curtailments			2,469	1,368
Net amortization/deferrals	1,174	1,140	1,190	1,610
<b>Net periodic benefit cost</b>	<b>\$ 1,019</b>	<b>\$ 1,212</b>	<b>\$ 5,854</b>	<b>\$ 5,632</b>
<b>Assumptions</b>				
Discount rate	5.80%	5.50%	5.11%	5.07%
Expected long-term rate of return	8.00%	8.00%	6.70%	6.50%

## Edgar Filing: WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP - Form 10-Q

Rate of compensation increase	3.00%	3.00%	3.62%	3.68%
-------------------------------	-------	-------	-------	-------

The Company's funding methods are based on governmental requirements and differ from those methods used to recognize pension expense, which is primarily based on the projected unit credit method applied in the accompanying financial statements. The Company expects to contribute \$5.9 million to the U.S. plan and \$6.6 million to the international plans during 2007.

**Table of Contents****WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007 (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.

<i>In thousands, except percentages</i>	U.S.		International	
	Three months ended September 30,		Three months ended September 30,	
<b>Net periodic benefit cost</b>	2007	2006	2007	2006
Service cost	\$ 54	\$ 251	\$ (32)	\$ 74
Interest cost	481	559	12	97
Plan curtailments			(361)	826
Net amortization/deferrals	(321)	183	(200)	90
Net periodic benefit cost	\$ 214	\$ 993	\$ (581)	\$ 1,087

**Assumptions**

Discount rate	5.80%	5.80%	5.29%	5.25%
---------------	-------	-------	-------	-------

<i>In thousands, except percentages</i>	U.S.		International	
	Nine months ended September 30,		Nine months ended September 30,	
<b>Net periodic benefit cost</b>	2007	2006	2007	2006
Service cost	\$ 171	\$ 754	\$ 85	\$ 219
Interest cost	1,536	1,677	193	289
Plan curtailments			(516)	826
Net amortization/deferrals	(487)	548	(87)	268
Net periodic benefit cost	\$ 1,220	\$ 2,979	\$ (325)	\$ 1,602

**Assumptions**

Discount rate	5.80%	5.80%	5.29%	5.25%
---------------	-------	-------	-------	-------

**9. STOCK-BASED COMPENSATION**

**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.

Stock based compensation was \$7.6 million and \$7.7 million for the nine months ended September 30, 2007 and 2006, respectively. The accounting for the non-vested stock and the stock awards under the incentive plan was not impacted significantly by the adoption of FAS 123(R) in 2006. At September 30, 2007, unamortized compensation expense related to stock options, non-vested shares and stock awards expected to vest totaled \$11.6 million and will be recognized over a weighted average period of 1.1 years.

## Edgar Filing: WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP - Form 10-Q

*Stock Options:* Stock options have been granted at not less than market prices on the dates of grant. Generally, the options become exercisable over a three-year vesting period and expire 10 years from the date of grant. In January, February, and July 2007, Wabtec granted 38,000 stock options to certain individuals.

**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007 (UNAUDITED)**

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:

	Three and Nine months ended	
	September 30,	
	2007	2006
Dividend yield	.1%	.3%
Risk-free interest rate	4.4%	4.21%
Stock price volatility	40.4	43.3
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. The risk-free interest rate is based on the U.S. Treasury bond rates for the expected life of the option. Expected volatility is based on the historical volatility of Wabtec stock. Expected life in years is determined from historical stock option exercise data.

The following table summarizes the stock option activity and related information for the period indicated:

	Options	Weighted Average Exercise Price	Weighted Average		Aggregate intrinsic value  (in thousands)
			Remaining Contractual Life	Aggregate intrinsic value	
Beginning of year January 1, 2007	1,375,654	\$ 13.52			\$ 23,198
Granted	38,000	32.01			207
Exercised	(374,158)	12.15			9,471
Canceled	(16,668)	22.23			254
Year to date September 30, 2007	1,022,828	\$ 14.56	5.4		\$ 23,421
Exercisable	881,977	\$ 13.25	5.2		\$ 21,354
Weighted average fair value of options granted during 2007	\$ 11.94				

*Non-Vested Restricted Stock and Incentive Stock Awards:* The Company adopted a non-vested stock plan in 2006. In February and July 2007, the Company issued 124,000 awards to certain individuals. The non-vested stock generally vests over four years from the date of grant. In 2004, the Company established a stock-based incentive plan for eligible employees. The plan provides stock awards which vest upon attainment of certain three year performance targets. The Company issued 244,000 awards to certain individuals in February and July 2007 with 229,000 awards becoming vested during the first quarter of 2007.

The following table summarizes the non-vested stock and stock awards activity and related information for the period indicated:

	<b>Non-Vested</b>	<b>Incentive</b>	
	<b>Restricted</b>	<b>Stock</b>	<b>Weighted</b>
	<b>Stock</b>	<b>Awards</b>	<b>Average FMV</b>
Outstanding at January 1, 2007	197,500	701,666	\$ 23.63
Granted	124,000	244,000	34.04
Vested	(22,500)	(229,000)	17.86
Canceled		(6,000)	38.00
Outstanding at September 30, 2007	299,000	710,666	\$ 27.85

**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007 (UNAUDITED)**

Stock awards granted under the incentive plan are awarded but not vested. These stock awards will vest based upon the achievement of certain financial goals for each three year periods ending December 31, 2007, 2008, and 2009, respectively. The stock awards included in the table above represent the maximum number of shares that may ultimately vest. As of September 30, 2007, based on the Company's performance, we have estimated the most probable amount of these stock awards which 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 different and will be recognized in the current period.

**10. INCOME TAXES**

The overall effective income tax rate was 38.4% and 37.0% for the three and nine months ended September 30, 2007 and 30.5% and 34.2% for the three and nine months ended September 30, 2006, respectively.

The Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48 Accounting for Uncertainty in Income Taxes ( FIN 48 ) an interpretation of FASB Statement No. 109 on January 1, 2007. The implementation of FIN 48 resulted in a \$2.7 million direct reduction to the beginning balance of retained earnings, reported as a change in accounting principle.

At the adoption date of January 1, 2007, the liability for income taxes associated with uncertain tax positions was \$13.5 million, of which \$8.0 million, if recognized, would favorably affect the Company's effective tax rate. As of September 30, 2007, the liability for income taxes associated with uncertain tax positions was \$16.6 million, of which \$10.9 million, if recognized, would favorably affect the Company's effective income tax rate. The \$3.1 million increase in unrecognized tax benefits during the quarter ended September 30, 2007 primarily relates to the filing of amended returns and additional items identified during various income tax audits currently in process.

The Company includes interest and penalties related to uncertain tax positions in income tax expense. At January 1, 2007, the Company accrued interest and penalties of approximately \$1.7 million and \$1.1 million, respectively, related to uncertain tax positions. Due to the increase in unrecognized tax benefits identified above, the Company has accrued additional interest and penalties related to uncertain tax positions during the quarter ended September 30, 2007. The total interest and penalties accrued as of September 30, 2007 are approximately \$3.0 million and \$1.7 million, respectively.

With limited exception, the Company is no longer subject to examination by various U.S. and foreign taxing authorities for years before 2002. The Internal Revenue Service is currently auditing the tax year ended December 31, 2004.

The Company estimates that \$2.6 million to \$3.6 million of the total unrecognized tax benefits relate to uncertain tax positions in various taxing jurisdictions that may be resolved within the next 12 months.



**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007 (UNAUDITED)**

**11. EARNINGS PER SHARE**

The computation of earnings per share is as follows:

<i>In thousands, except per share</i>	<b>Three Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Basic earnings per share</b>		
Income from continuing operations applicable to common shareholders	\$ 26,760	\$ 17,741
Divided by		
Weighted average shares outstanding	48,736	48,689
Basic earnings from continuing operations per share	\$ 0.55	\$ 0.36
<b>Diluted earnings per share</b>		
Income from continuing operations applicable to common shareholders	\$ 26,760	\$ 17,741
Divided by sum of the		
Weighted average shares outstanding	48,736	48,689
Conversion of dilutive stock options and non-vested stock	645	604
Diluted shares outstanding	49,381	49,293
Diluted earnings from continuing operations per share	\$ 0.54	\$ 0.36
<i>In thousands, except per share</i>	<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Basic earnings per share</b>		
Income from continuing operations applicable to common shareholders	\$ 80,439	\$ 59,591
Divided by		
Weighted average shares outstanding	48,488	48,309
Basic earnings from continuing operations per share	\$ 1.66	\$ 1.23
Diluted earnings per share		
Income from continuing operations applicable to common shareholders	\$ 80,439	\$ 59,591
Divided by sum of the		
Weighted average shares outstanding	48,488	48,309
Conversion of dilutive stock options and non-vested stock	612	596
Diluted shares outstanding	49,100	48,905
Diluted earnings from continuing operations per share	\$ 1.64	\$ 1.22

**12. WARRANTIES**

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

<i>In thousands</i>	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>
Balance at December 31, 2006 and 2005, respectively	\$ 17,399	\$ 16,158
Warranty provision	8,388	9,263
Acquisition	1,635	
Warranty claim payments	(7,613)	(6,227)
Balance at September 30, 2007 and 2006, respectively	\$ 19,809	\$ 19,194

**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007 (UNAUDITED)**

**13. 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. Since 2000, the number of such claims has increased and the resolution of these 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. On April 17, 2005, a claim against the Company by a former stockholder of RFPC contending that the Company assumed that entity's liability for asbestos claims arising from exposure to RFPC's product was resolved in the Company's favor.

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.

In April 2005, Amtrak decided to suspend its Acela Express train service due to cracks in the spokes of some of the cars' brake discs. Amtrak's Acela service was resumed on a limited basis in July 2005, and complete service was resumed in September 2005. Wabtec did not design or supply the braking system for the Acela cars. The braking system was supplied by Knorr Brake Corporation and the brake discs were designed by Faiveley Transport. Wabtec did provide and machine approximately one-third of the brake discs for the cars and assisted Amtrak and others, including Bombardier Corporation, Alstom Transportation Inc., Knorr and Faiveley, in their evaluation and investigation of the brake disc cracks.

**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007 (UNAUDITED)**

On July 11, 2005, Wabtec received a written notice of a potential claim for damages from Knorr and on March 2, 2006 received a notice from Knorr in which Knorr stated that Amtrak is of the view that it may have warranty claims against Wabtec, Knorr, and Faiveley. Neither Knorr notice specified any amount or range of claims against the Company, although Knorr has indicated that it expects the Company to participate in any financial settlement arising from the alleged defects and failures of the Acela brake discs. Wabtec, in turn, has forwarded Knorr's notices to Faiveley and has notified Faiveley of potential claims by Wabtec against Faiveley.

In a presentation provided to Wabtec and Faiveley on August 22, 2006, Bombardier claimed that it has reached a settlement with Amtrak and Knorr related to the suspension of Amtrak's Acela service. Bombardier has alleged that it has incurred damages of approximately \$38 million, and has been assigned the rights to pursue additional claims by Amtrak and Knorr of approximately \$17 million and \$10 million, respectively. Wabtec has contacted Faiveley, asserting that Faiveley is fully responsible for any claims made by Bombardier, including the assigned claims of Amtrak and Knorr.

While Wabtec does not believe that it has any material legal liability with regard to this matter, Management has pursued a commercial resolution with Bombardier that would be mutually beneficial to both parties. As a result of those discussions, the Company has reached a framework for a settlement which provides for Bombardier to receive payments based on certain sales with the Company, taking into account historical sales volume, and for the Company to be fully released from Bombardier's claims and the assigned claims of Knorr and Amtrak. This arrangement would be in effect from 2007 to 2009, and would be subject to a maximum amount of \$4.4 million in total assuming the corresponding level of sales was reached. The Company expects the settlement to be finalized before the end of 2007. The Company recorded a provision of \$2.5 million for this pending settlement in the first quarter of 2007. The Company recorded an additional \$1.9 million for this pending settlement in the third quarter of 2007 to provide for payments that would be payable based on current sales levels. The total amount provided for this item as of September 30, 2007 is \$4.4 million.

In March 2006, Management began an internal investigation related to business transactions conducted by a subsidiary, Pioneer Friction Limited (Pioneer), in West Bengal, India. Through an internal compliance review, Management discovered that disbursements were made which may be in violation of applicable laws and regulations. Pioneer is a fourth-tier subsidiary of Wabtec; two of the intermediate subsidiaries are Australian companies which are, in turn, owned by a U.S holding company. The Company has agreed with the United States Department of Justice and the Securities and Exchange Commission to pay a fine of about \$675,000. The Company expects the agreements to be finalized and signed before the end of 2007.

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, 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 an unspecified amount of damages. The Company's motion to dismiss the federal court action on jurisdictional grounds is pending. The Company denies Faiveley's allegations and does not believe that it has any material legal liability in this matter; it will vigorously contest both proceedings.

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, 2006, filed on March 1, 2007. During the first nine months of 2007, there were no material changes other than what is discussed above to the information described in Note 18 therein.

Table of Contents

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007 (UNAUDITED)**

**14. SEGMENT INFORMATION**

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

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

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

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

Beginning in the fourth quarter 2006, the Company transferred certain operations between the Freight and Transit Group to reflect a shift in the markets and customers served by those operations and to reflect the information used by the chief decision maker in evaluating the operations of the Company. In addition, beginning in the fourth quarter 2006, the Company has allocated certain corporate costs to the Freight and Transit groups to reflect the beneficial use of these costs by the specific groups. Prior period results have been adjusted for comparability purposes.

Segment financial information for the three months ended September 30, 2007 is as follows:

<i>In thousands</i>	<b>Freight Group</b>	<b>Transit Group</b>	<b>Corporate Activities and Elimination</b>	<b>Total</b>
Sales to external customers	\$ 182,698	\$ 172,136	\$	\$ 354,834
Intersegment sales/(elimination)	5,159	208	(5,367)	
<b>Total sales</b>	<b>\$ 187,857</b>	<b>\$ 172,344</b>	<b>\$ (5,367)</b>	<b>\$ 354,834</b>
Income (loss) from operations	\$ 30,615	\$ 18,610	\$ (3,581)	\$ 45,644
Interest expense and other			(2,216)	(2,216)
Income (loss) from continuing operations before income taxes	\$ 30,615	\$ 18,610	\$ (5,797)	\$ 43,428

**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007 (UNAUDITED)**

Segment financial information for the three months ended September 30, 2006 is as follows:

<i>In thousands</i>	<b>Freight Group</b>	<b>Transit Group</b>	<b>Corporate Activities and Elimination</b>	<b>Total</b>
Sales to external customers	\$ 173,874	\$ 95,015	\$	\$ 268,889
Intersegment sales/(elimination)	3,410	208	(3,618)	
<b>Total sales</b>	<b>\$ 177,284</b>	<b>\$ 95,223</b>	<b>\$ (3,618)</b>	<b>\$ 268,889</b>
Income (loss) from operations	\$ 21,250	\$ 7,292	\$ (3,060)	\$ 25,482
Interest expense and other			50	50
Income (loss) from continuing operations before income taxes	\$ 21,250	\$ 7,292	\$ (3,010)	\$ 25,532

Segment financial information for the nine months ended September 30, 2007 is as follows:

<i>In thousands</i>	<b>Freight Group</b>	<b>Transit Group</b>	<b>Corporate Activities and Elimination</b>	<b>Total</b>
Sales to external customers	\$ 548,351	\$ 446,469	\$	\$ 994,820
Intersegment sales/(elimination)	12,566	661	(13,227)	
<b>Total sales</b>	<b>\$ 560,917</b>	<b>\$ 447,130</b>	<b>\$ (13,227)</b>	<b>\$ 994,820</b>
Income (loss) from operations	\$ 96,859	\$ 48,206	\$ (11,535)	\$ 133,530
Interest expense and other			(5,836)	(5,836)
Income (loss) from continuing operations before income taxes	\$ 96,859	\$ 48,206	\$ (17,371)	\$ 127,694

Segment financial information for the nine months ended September 30, 2006 is as follows:

<i>In thousands</i>	<b>Freight Group</b>	<b>Transit Group</b>	<b>Corporate Activities and Elimination</b>	<b>Total</b>
Sales to external customers	\$ 534,859	\$ 258,341	\$	\$ 793,200
Intersegment sales/(elimination)	10,935	470	(11,405)	
<b>Total sales</b>	<b>\$ 545,794</b>	<b>\$ 258,811</b>	<b>\$ (11,405)</b>	<b>\$ 793,200</b>

Edgar Filing: WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP - Form 10-Q

Income (loss) from operations	\$ 80,853	\$ 22,021	\$ (9,707)	\$ 93,167
Interest expense and other			(2,656)	(2,656)
Income (loss) from continuing operations before income taxes	\$ 80,853	\$ 22,021	\$ (12,363)	\$ 90,511

Sales by product is as follows:

<i>In thousands</i>	<b>Three Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
Brake Products	\$ 110,677	\$ 89,681
Freight Electronics & Specialty Products	99,987	87,061
Remanufacturing, Overhaul & Build	90,619	57,350
Transit Products	45,331	25,109
Other	8,220	9,688
Total Sales	\$ 354,834	\$ 268,889

**Table of Contents****WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007 (UNAUDITED)**

<i>In thousands</i>	Nine Months Ended September 30,	
	2007	2006
Brake Products	\$ 333,682	\$ 291,841
Freight Electronics & Specialty Products	293,510	249,594
Remanufacturing, Overhaul & Build	237,922	148,197
Transit Products	104,506	79,737
Other	25,200	23,831
Total Sales	\$ 994,820	\$ 793,200

**15. GUARANTOR SUBSIDIARIES FINANCIAL INFORMATION**

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

Balance Sheet as of September 30, 2007:

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Cash and Cash Equivalents	\$ 37,775	\$ 1,510	\$ 118,741	\$	\$ 158,026
Accounts Receivable	58	136,108	79,522		215,688
Inventories		111,727	74,157		185,884
Other Current Assets	26,750	4,283	5,583		36,616
Total Current Assets	64,583	253,628	278,003		596,214
Net Property, Plant and Equipment	2,293	101,003	78,190		181,486
Goodwill	7,980	154,763	70,133		232,876
Investment in Subsidiaries	1,247,918	223,043	59,945	(1,530,906)	
Intangibles	1,552	35,837	9,756		47,145
Other Long Term Assets	18,534	10,303	16,204		45,041
Total Assets	\$ 1,342,860	\$ 778,577	\$ 512,231	\$ (1,530,906)	\$ 1,102,762
Current Liabilities	\$ (4,672)	\$ 163,261	\$ 83,345	\$	\$ 241,934
Intercompany	536,631	(576,157)	39,526		
Long-Term Debt	150,000				150,000
Other Long Term Liabilities	75,170	16,259	33,668		125,097
Total Liabilities	757,129	(396,637)	156,539		517,031
Stockholders' Equity	585,731	1,175,214	355,692	(1,530,906)	585,731
Total Liabilities and Stockholders' Equity	\$ 1,342,860	\$ 778,577	\$ 512,231	\$ (1,530,906)	\$ 1,102,762





**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007 (UNAUDITED)**

Balance Sheet for December 31, 2006:

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Cash and Cash Equivalents	\$ 106,233	\$ (231)	\$ 81,977	\$	\$ 187,979
Accounts Receivable	541	105,927	70,877		177,345
Inventory		85,449	60,032		145,481
Other Current Assets	30,431	2,086	3,869		36,386
<b>Total Current Assets</b>	<b>137,205</b>	<b>193,231</b>	<b>216,755</b>		<b>547,191</b>
Net Property, Plant and Equipment	2,588	100,676	75,045		178,309
Goodwill	7,980	100,615	64,656		173,251
Investment in Subsidiaries	993,453	151,861	59,906	(1,205,220)	
Intangibles	2,146	27,760	14,588		44,494
Other Long Term Assets	11,444	4,532	13,621		29,597
<b>Total Assets</b>	<b>\$ 1,154,816</b>	<b>\$ 578,675</b>	<b>\$ 444,571</b>	<b>\$ (1,205,220)</b>	<b>\$ 972,842</b>
Current Liabilities	\$ 5,166	\$ 166,399	\$ 72,226	\$	\$ 243,791
Intercompany	466,466	(493,650)	27,184		
Long-Term Debt	150,000				150,000
Other Long Term Liabilities	63,295	15,575	30,292		109,162
<b>Total Liabilities</b>	<b>684,927</b>	<b>(311,676)</b>	<b>129,702</b>		<b>502,953</b>
Stockholders' Equity	469,889	890,351	314,869	(1,205,220)	469,889
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 1,154,816</b>	<b>\$ 578,675</b>	<b>\$ 444,571</b>	<b>\$ (1,205,220)</b>	<b>\$ 972,842</b>

Income Statement for the Three Months Ended September 30, 2007:

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination(1)	Consolidated
Net Sales	\$	\$ 265,255	\$ 115,821	\$ (26,242)	\$ 354,834
Cost of Sales	1,561	(182,326)	(95,619)	17,267	(259,117)
<b>Gross Profit (Loss)</b>	<b>1,561</b>	<b>82,929</b>	<b>20,202</b>	<b>(8,975)</b>	<b>95,717</b>
Operating Expenses	(11,431)	(26,501)	(12,141)		(50,073)
<b>Operating (Loss) Profit</b>	<b>(9,870)</b>	<b>56,428</b>	<b>8,061</b>	<b>(8,975)</b>	<b>45,644</b>
Interest (Expense) Income	(4,884)	2,776	819		(1,289)
Other (Expense) Income	(346)	1,091	(1,672)		(927)
Equity Earnings	51,240	6,727		(57,967)	
	36,140	67,022	7,208	(66,942)	43,428

Edgar Filing: WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP - Form 10-Q

Income (Loss) From Continuing Operations Before Income Tax					
Income Tax Expense	(9,538)	(3,342)	(3,788)		(16,668)
Income (Loss) From Continuing Operations	26,602	63,680	3,420	(66,942)	26,760
Income (loss) from discontinued operations (net of tax)	640	(215)	57		482
Net Income (Loss)	\$ 27,242	\$ 63,465	\$ 3,477	\$ (66,942)	\$ 27,242

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

**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007 (UNAUDITED)**

Income Statement for the Three Months Ended September 30, 2006:

<i>In thousands</i>	<b>Parent</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Elimination(1)</b>	<b>Consolidated</b>
Net Sales	\$	\$ 211,359	\$ 81,591	\$ (24,061)	\$ 268,889
Cost of Sales	737	(158,348)	(64,365)	19,285	(202,691)
Gross Profit (Loss)	737	53,011	17,226	(4,776)	66,198
Operating Expenses	(9,618)	(22,506)	(8,592)		(40,716)
Operating (Loss) Profit	(8,881)	30,505	8,634	(4,776)	25,482
Interest (Expense) Income	(3,823)	3,429	590		196
Other (Expense) Income	(645)	1,108	(609)		(146)
Equity Earnings	32,675	3,664		(36,339)	
Income (Loss) From Continuing Operations Before Income Tax	19,326	38,706	8,615	(41,115)	25,532
Income Tax Expense	(1,641)	(3,272)	(2,878)		(7,791)
Income (Loss) From Continuing Operations	17,685	35,434	5,737	(41,115)	17,741
Discontinued Operations	(314)		(56)		(370)
Net Income (Loss)	\$ 17,371	\$ 35,434	\$ 5,681	\$ (41,115)	\$ 17,371

(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, 2007:

<i>In thousands</i>	<b>Parent</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Elimination(1)</b>	<b>Consolidated</b>
Net Sales	\$	\$ 752,997	\$ 329,395	\$ (87,572)	\$ 994,820
Cost of Sales	1,978	(508,850)	(274,356)	59,541	(721,687)
Gross Profit (Loss)	1,978	244,147	55,039	(28,031)	273,133
Operating Expenses	(34,698)	(71,658)	(33,247)		(139,603)
Operating (Loss) Profit	(32,720)	172,489	21,792	(28,031)	133,530
Interest (Expense) Income	(13,004)	8,276	2,265		(2,463)
Other (Expense) Income	(1,242)	2,425	(4,556)		(3,373)
Equity Earnings	154,679	15,670		(170,349)	
Income (Loss) From Continuing Operations Before Income Tax	107,713	198,860	19,501	(198,380)	127,694

Edgar Filing: WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP - Form 10-Q

Income Tax Expense	(27,489)	(11,028)	(8,738)		(47,255)
Income (Loss) from Continuing Operations	80,224	187,832	10,763	(198,380)	80,439
Discontinued Operations	670	(215)			455
Net Income (Loss)	\$ 80,894	\$ 187,617	\$ 10,763	\$ (198,380)	\$ 80,894

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

**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007 (UNAUDITED)**

Income Statement for the Nine Months Ended September 30, 2006:

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination(1)	Consolidated
Net Sales	\$	\$ 621,549	\$ 263,076	\$ (91,425)	\$ 793,200
Cost of Sales	1,275	(439,388)	(209,899)	73,092	(574,920)
Gross Profit (Loss)	1,275	182,161	53,177	(18,333)	218,280
Operating Expenses	(35,489)	(63,847)	(25,777)		(125,113)
Operating (Loss) Profit	(34,214)	118,314	27,400	(18,333)	93,167
Interest (Expense) Income	(12,490)	9,551	1,591		(1,348)
Other (Expense) Income	(1,024)	2,230	(2,514)		(1,308)
Equity Earnings	116,243	7,402		(123,645)	
Income (Loss) From Continuing Operations					
Before Income Tax	68,515	137,497	26,477	(141,978)	90,511
Income Tax Expense	(9,915)	(11,284)	(9,721)		(30,920)
Income (Loss) From Continuing Operations	58,600	126,213	16,756	(141,978)	59,591
Discontinued Operations	(38)		(991)		(1,029)
Net Income (Loss)	\$ 58,562	\$ 126,213	\$ 15,765	\$ (141,978)	\$ 58,562

(1) Includes elimination of gross profit realized with certain intercompany transactions between Guarantor and Non-Guarantor subsidiaries.  
Condensed Statement of Cash Flows for the Nine Months Ended September 30, 2007:

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net Cash Provided by (Used in) Operating Activities	\$ 4,720	\$ 196,764	\$ 41,432	\$ (198,380)	\$ 44,536
Net Cash (Used in) Provided by Investing Activities	(74,155)	(7,406)	(4,413)		(85,974)
Net Cash Provided by (Used in) Financing Activities	977	(187,617)	(10,763)	198,380	977
Effect of Changes in Currency Exchange Rates			10,508		10,508
(Decrease) Increase in Cash	(68,458)	1,741	36,764		(29,953)
Cash at Beginning of Period	106,233	(231)	81,977		187,979
Cash at End of Period	\$ 37,775	\$ 1,510	\$ 118,741	\$	\$ 158,026



**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007 (UNAUDITED)**

Condensed Statement of Cash Flows for the Nine Months Ended September 30, 2006:

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net Cash Provided by (Used in) Operating Activities	\$ 76,656	\$ 132,227	\$ 43,003	\$ (141,978)	\$ 109,908
Net Cash (Used in) Provided by Investing Activities	(524)	(8,539)	(750)		(9,813)
Net Cash Provided by (Used in) Financing Activities	2,989	(126,213)	(15,765)	141,978	2,989
Effect of Changes in Currency Exchange Rates			3,136		3,136
Increase (Decrease) in Cash	79,121	(2,525)	29,624		106,220
Cash at Beginning of Period	87,899	(2,758)	56,224		141,365
Cash at End of Period	\$ 167,020	\$ (5,283)	\$ 85,848	\$	\$ 247,585

**16. OTHER EXPENSE, NET**

The components of other expense, net are as follows:

<i>In thousands</i>	Three Months Ended September 30, 2007		Nine Months Ended September 30, 2006	
Foreign currency loss	\$ 519	\$ 124	\$ 2,614	\$ 1,054
Other miscellaneous expense	408	22	759	254
Total other expense	\$ 927	\$ 146	\$ 3,373	\$ 1,308



**Table of Contents****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 2006 Annual Report on Form 10-K, filed March 1, 2007.

**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 11 countries. In the first nine months of 2007, about 38% of the Company's revenues came from outside the U.S.

*Management Review and Future Outlook*

Wabtec's long-term financial goals are to generate free 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 monitors the Company's short-term operational performance through measures such as quality and on-time delivery.

Demand for new freight cars has slowed in 2007. Deliveries of new freight cars were 48,323 and 57,016 for the first nine months of 2007 and 2006, respectively. Orders of new freight cars were 30,868 and 75,647 for the first nine months of 2007 and 2006, respectively. The backlog of cars ordered, however, remains at a relatively high level of 67,000 units.

The Company has been able to offset the slowing freight car market with other growth initiatives in the freight and transit markets. Following are quarterly freight car statistics for the past three years:

	<b>Orders</b>	<b>Deliveries</b>	<b>Backlog</b>
First quarter 2005	17,563	15,781	59,416
Second quarter 2005	19,132	17,914	60,544
Third quarter 2005	17,439	16,987	60,986
Fourth quarter 2005	26,569	17,975	69,408
	80,703	68,657	
First quarter 2006	35,991	18,542	86,857
Second quarter 2006	18,190	19,466	85,692
Third quarter 2006	21,466	19,008	88,116
Fourth quarter 2006	15,819	17,927	85,826
	91,466	74,943	
First quarter 2007	11,152	17,148	79,038
Second quarter 2007	11,595	16,143	73,911
Third quarter 2007	8,121	15,032	67,000

Source: Railway Supply Institute

**Table of Contents**

Carloadings and Intermodal Units Originated remained fairly constant over the past three years reflecting strong rail traffic and opportunities for maintenance and aftermarket sales for the Company. Compared to a record year in 2006, carloadings decreased and intermodal units stayed about the same in the third quarter of 2007:

**Carloadings Originated (in thousands):**

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2005	4,403	4,366	4,309	4,135	17,213
2006	4,338	4,453	4,345	4,244	17,380
2007	4,126	4,306	4,276	n/a	n/a

**Intermodal Units Originated (in thousands):**

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2005	2,781	2,885	2,992	3,036	11,694
2006	2,937	3,093	3,173	3,079	12,282
2007	2,939	3,013	3,073	n/a	n/a

Source: Association of American Railroads Weekly Rail Traffic

Deliveries of transit cars were 738 and 918 for the years ended December 31, 2006 and 2005, respectively. Deliveries of locomotives were 1,244 and 1,106 for the years ended December 31, 2006 and 2005, respectively.

In the future, we will continue to face many challenges, including increased 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.

On July 19, 2006, the Board of Directors approved a restructuring plan to improve the profitability and efficiency of certain business units. As part of the plan, Wabtec downsized two of its Canadian plants, in Stoney Creek and Wallaceburg, by moving certain products to lower-cost facilities and outsourcing. For the three months ended September 30, 2007, Wabtec recorded a curtailment gain of \$361,000, and for the nine months ended September 30, 2007, Wabtec recorded charges of \$3.6 million. In the third quarter of 2006, Wabtec recorded charges of \$6.8 million. Total charges for restructuring and other expenses recorded to date as a result of the approval of this plan has been \$10.4 million. These expenses were comprised of the following components: \$2.9 million for employee severance costs associated with approximately 330 salaried and hourly employees located at our Wallaceburg and Stoney Creek locations; \$4.1 million of pension and postretirement benefit curtailment for those employees; \$2.9 million related to asset impairments for structures, machinery, and equipment; and \$541,000 for goodwill impairment specific to the Wallaceburg facility. 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, 2007, \$931,000 of this amount had been paid.

Additional severance, pension, and asset impairment charges of \$1.1 million were recorded in the first quarter of 2007 related to other Canadian operations. As of September 30, 2007, none of these expenses have been paid.

**Table of Contents****RESULTS OF OPERATIONS**

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

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net sales	\$ 354.8	\$ 268.9	\$ 994.8	\$ 793.2
Cost of sales	(259.1)	(202.7)	(721.7)	(574.9)
Gross profit	95.7	66.2	273.1	218.3
Selling, general and administrative expenses	(39.7)	(31.3)	(109.5)	(97.8)
Engineering expenses	(9.2)	(8.1)	(27.1)	(24.2)
Amortization expense	(1.2)	(1.3)	(3.0)	(3.1)
Total operating expenses	(50.1)	(40.7)	(139.6)	(125.1)
Income from operations	45.6	25.5	133.5	93.2
Interest income (expense), net	(1.3)	0.1	(2.4)	(1.4)
Other expense, net	(0.9)	(0.1)	(3.4)	(1.3)
Income from continuing operations before income taxes	43.4	25.5	127.7	90.5
Income tax expense	(16.6)	(7.8)	(47.3)	(30.9)
Income from continuing operations	26.8	17.7	80.4	59.6
Discontinued operations	0.4	(0.3)	0.5	(1.0)
Net income	\$ 27.2	\$ 17.4	\$ 80.9	\$ 58.6

**THIRD QUARTER 2007 COMPARED TO THIRD QUARTER 2006**

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

<i>In thousands</i>	Three months ended September 30,		
	2007	2006	Percent Change
Net sales	\$ 354,834	\$ 268,889	32.0%
Income from operations	45,644	25,482	79.1%
Net income	27,242	17,371	56.8%

Net sales increased by \$85.9 million to \$354.8 million from \$268.9 million for the three months ended September 30, 2007 and 2006, respectively. The increase is primarily due to internal growth from increased sales from contracts to build locomotives of about \$19.4 million, sales for refurbishing transit cars of \$11.1 million, sales from heat exchangers in the power generation market of \$9.8 million, and contracts related to transit authorities of \$8.1 million. Acquisitions completed in the fourth quarter of 2006 and second quarter of 2007 increased sales by \$35.5 million. Offsetting those increases were decreases of \$4.7 million related to a 2006 international train control contract and \$1.3 million in our Freight segment primarily related to lower industry deliveries of freight cars. The Company did realize a net sales improvement of about \$5.4 million due to foreign exchange but net earnings are mostly not impacted. Net income for the three months ended September 30, 2007 was \$27.2 million or \$0.55 per diluted share. Net income for the three months ended September 30, 2006 was \$17.4 million or \$0.35 per diluted share. Net income improved primarily due to sales increases and consistent operating costs.

**Table of Contents**

**Net sales by Segment** The following table shows the Company's net sales by business segment:

<i>In thousands</i>	Three months ended	
	September 30, 2007	September 30, 2006
Freight Group	\$ 182,698	\$ 173,874
Transit Group	172,136	95,015
Net sales	\$ 354,834	\$ 268,889

Sales increased in the Freight Group from \$173.9 million to \$182.7 million. This increase of \$8.8 million or 5.1% is due to increased sales from heat exchangers in the power generation market of \$9.8 million, and sales of \$5.9 million from an acquisition completed in the fourth quarter of 2006. Offsetting these increases were decreases of \$4.7 million related to a 2006 international train control contract and \$1.3 million primarily related to lower industry deliveries of freight cars. Transit Group sales increased from \$95.0 million to \$172.1 million or 81.2% due to increased commuter locomotive sales of \$19.0 million, increased sales of \$11.1 million related to refurbishment of transit cars, contracts related to transit authorities of \$8.1 million, and sales of \$29.6 million from acquisitions completed in the fourth quarter of 2006 and second quarter of 2007.

**Gross profit** Gross profit increased to \$95.7 million in the third quarter of 2007 compared to \$66.2 million in the same period of 2006. Gross profit is dependent on a number of factors including pricing, sales volume and product mix. In the third quarter of 2007, gross profit, as a percentage of sales, was 27.0% compared to 24.6% in 2006. In the third quarter of 2006, restructuring plan expenses of \$6.3 million were recorded in cost of sales. 2006 gross profit, as a percentage of sales, excluding these charges, would have been 28.3%. This adjusted decrease is due to the changing mix of revenues from Freight to Transit, as Transit OEM contracts typically realize a lower gross margin. Ongoing improvements and cost savings are being realized from sourcing raw materials from lower cost suppliers, reduced labor costs, and continuing improvements in our manufacturing processes.

The provision for warranty expense was \$828,000 lower for the third quarter of 2007 compared to the same period of 2006, which had a positive impact on gross profit. The most significant reason for the decrease is due to specific reserves related to certain transit door components of \$1.4 million that were recognized during the third quarter 2006. The warranty reserve increased at September 30, 2007 compared to September 30, 2006 by \$615,000 due to \$1.9 million from acquisitions completed in the fourth quarter of 2006 and the second quarter of 2007 offset by \$1.3 million in claims in excess of provisions recognized.

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

<i>In thousands</i>	Three months ended September 30, Percent		
	2007	2006	Change
Selling, general and administrative expenses	\$ 39,679	\$ 31,294	26.8%
Engineering expenses	9,237	8,068	14.5%
Amortization expense	1,157	1,354	-14.5%
Total operating expenses	\$ 50,073	\$ 40,716	23.0%

Operating expenses increased \$9.4 million in the third quarter of 2007 compared to the same period of 2006 mostly because of the acquisitions that were completed in the fourth quarter of 2006 and second quarter of 2007. These expenses were 14.1% and 15.1% of sales for the quarters ended September 30, 2007 and 2006, respectively. In addition, during the third quarter of 2007, the Company recorded a provision of \$1.9 million for the pending settlement with Bombardier (see Note 13 of Notes to Condensed Consolidated Financial Statements).

**Table of Contents**

**Income from operations** Income from operations totaled \$45.6 million (or 12.9% of sales) in the third quarter of 2007 compared with \$25.5 million (or 9.5% of sales) in the same period of 2006. Income from operations improved primarily due to sales increases, restructuring charges recorded in the third quarter of 2006, and lower operating costs as a percentage of sales.

**Interest expense, net** Interest expense, net increased \$1.5 million in the third quarter of 2007 compared to the same period of 2006 primarily due to the Company's overall lower cash balances, resulting in lower interest income.

**Other expense, net** The Company recorded foreign exchange expense of \$519,000 and \$124,000 in the third quarter of 2007 and 2006, respectively, due to the effect of currency exchange rate changes on intercompany transactions that are non U.S. dollar denominated amounts and charged or credited to earnings.

**Income taxes** The effective income tax rate was 38.4% and 30.5% for the third quarter of 2007 and 2006, respectively. The increase in effective tax rate is primarily the result of a tax benefit of approximately \$1.4 million that was recognized during the third quarter of 2006. This tax benefit related to the release of tax contingency reserves as the result of the closure of open tax years as well as settlements reached with taxing authorities. In addition, the 2007 effective tax rate is higher due to the Company's adoption of FIN48.

**Net income** Net income for the third quarter of 2007 increased \$9.9 million, compared with the same period of 2006. Net income improved primarily due to sales increases and consistent operating costs.

**FIRST NINE MONTHS OF 2007 COMPARED TO FIRST NINE MONTHS OF 2006**

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

<i>In thousands</i>	Nine months ended September 30,		
	2007	2006	Percent Change
Net sales	\$ 994,820	\$ 793,200	25.4%
Income from operations	133,530	93,167	43.3%
Net income	80,894	58,562	38.1%

Net sales increased by \$201.6 million to \$994.8 million from \$793.2 million for the nine months ended September 30, 2007 and 2006, respectively. The increase is primarily due to internal growth from increased sales from contracts to build locomotives of about \$53.6 million, sales for refurbishing transit cars of \$27.8 million, sales from heat exchangers in the power generation market of \$29.6 million, contracts related to transit authorities of \$13.8 million, and sales of \$75.8 million from acquisitions completed in the fourth quarter of 2006 and second quarter of 2007. Offsetting those increases was a decrease of \$21.1 million in our Freight segment primarily related to lower industry deliveries of freight cars. The Company did realize a net sales improvement of about \$15.8 million due to foreign exchange but net earnings are mostly not impacted. Net income for the nine months ended September 30, 2007 was \$80.9 million or \$1.65 per diluted share. Net income for the nine months ended September 30, 2006 was \$58.6 million or \$1.20 per diluted share. Net income improved primarily due to sales increases and consistent operating costs.

**Net sales by Segment** The following table shows the Company's net sales by business segment:

<i>In thousands</i>	Nine months ended	
	September 30, 2007	September 30, 2006
Freight Group	\$ 548,351	\$ 534,859
Transit Group	446,469	258,341
Net sales	\$ 994,820	\$ 793,200

**Table of Contents**

Sales increased in the Freight Group from \$534.9 million to \$548.4 million. This increase of \$13.5 million or 2.5% is due to increased sales from heat exchangers in the power generation market of \$29.6 million, and sales of \$19.7 million from an acquisition completed in the fourth quarter of 2006. Offsetting these increases were decreases of \$13.0 million in locomotive component, repair and refurbishment services, and decreases of \$21.1 million primarily related to lower industry deliveries of freight cars. Transit Group sales increased by \$188.1 million or 72.8% due to increased commuter locomotive sales of \$66.6 million, increased sales of \$27.8 million related to refurbishment of transit cars, contracts related to transit authorities of \$13.8 million, and sales of \$56.1 million from acquisitions completed in the fourth quarter of 2006 and second quarter of 2007.

**Gross profit** Gross profit increased to \$273.1 million for the first nine months of 2007 compared to \$218.3 million in the same period of 2006. Gross profit is dependent on a number of factors including pricing, sales volume and product mix. For the first nine months of 2007, gross profit, as a percentage of sales, was 27.5% compared to 27.5% in 2006. The percentage is flat as the decrease due to the changing mix of revenues from Freight to Transit is being offset by ongoing improvements and cost savings. During 2007, restructuring plan expenses of \$4.7 million were recorded in cost of sales. 2007 gross profit, as a percentage of sales, excluding these charges, would have been 27.0%. In the third quarter of 2006, restructuring plan expenses of \$6.3 million were recorded in cost of sales. 2006 gross profit, as a percentage of sales, excluding these charges, would have been 26.7%.

The provision for warranty expense was \$875,000 less for the first nine months of 2007 compared to the same period of 2006. The most significant reason for the decrease is due to specific reserves related to certain transit door components of \$1.4 million that were recognized during the third quarter 2006. The warranty reserve increased at September 30, 2007 compared to September 30, 2006 by \$615,000 due to \$1.9 million from acquisitions completed in the fourth quarter of 2006 and the second quarter of 2007 offset by \$1.3 million in claims in excess of provisions recognized.

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

<i>In thousands</i>	<b>Nine months ended September 30,</b>		
	<b>Percent</b>		
	<b>2007</b>	<b>2006</b>	<b>Change</b>
Selling, general and administrative expenses	\$ 109,539	\$ 97,842	12.0%
Engineering expenses	27,079	24,206	11.9%
Amortization expense	2,985	3,065	-2.6%
Total operating expenses	\$ 139,603	\$ 125,113	11.6%

Operating expenses increased \$14.5 million for the first nine months of 2007 compared to the same period of 2006 mostly because of the acquisitions that were completed during the fourth quarter of 2006 and second quarter of 2007. These expenses were 14.0% and 15.8% of sales for the nine months ended September 30, 2007 and 2006, respectively. In addition, during 2007, the Company recorded a provision of \$4.4 million for the pending settlement with Bombardier (see Note 13 of Notes to Condensed Consolidated Financial Statements ).

**Income from operations** Income from operations totaled \$133.5 million (or 13.4% of sales) for the first nine months of 2007 compared with \$93.2 million (or 11.7% of sales) in the same period of 2006. Income from operations improved primarily due to sales increases and consistent operating costs.

**Interest expense, net** Interest expense, net increased \$1.0 million for the first nine months of 2007 compared to the same period of 2006 primarily due to the Company's overall lower cash balances, resulting in lower interest income.

**Table of Contents**

**Other expense, net** The Company recorded foreign exchange expense of \$2.6 million and \$1.1 million respectively, during the first nine months of 2007 and 2006, due to the effect of currency exchange rate changes on intercompany transactions that are non U.S. dollar denominated amounts and charged or credited to earnings.

**Income taxes** The effective income tax rate was 37.0% and 34.2% for the first nine months of 2007 and 2006, respectively. The increase in effective tax rate is primarily the result of the Company's adoption of FIN48. Approximately \$1.3 million of a tax benefit was recognized during the second quarter of 2007 related to the reversal of a state deferred tax valuation allowance. During the third quarter of 2006, approximately \$1.4 million of tax benefit was recognized related to the release of tax contingency reserves as the result of the closure of open tax years as well as settlements reached with taxing authorities.

**Net income** Net income for the first nine months of 2007 increased \$22.3 million, compared with the same period of 2006. Net income improved primarily due to sales increases and consistent operating costs.

**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 (credit agreement). The following is a summary of selected cash flow information and other relevant data:

<i>In thousands</i>	Nine months ended	
	2007	September 30, 2006
Cash provided (used) by:		
Operating activities	\$ 44,536	\$ 109,908
Investing activities	(85,974)	(9,813)
Financing activities	977	2,989
Net Change in Cash	\$ (29,953)	\$ 106,220

**Operating activities** Cash provided by operations in the first nine months of 2007 was \$44.5 million as compared to \$109.9 million in the same period of 2006. This \$65.4 million decrease was the result of increased earnings offset by certain changes in operating assets and liabilities. Net income for the Company increased \$22.3 million primarily as a result of increased sales and consistent operating costs. Cash provided by (used by) accounts receivable decreased operating cash flows by \$77.4 million due to large customer receivables collected for certain locomotive contracts in 2006. Accounts payable and accrued liabilities used cash of \$11.9 million as the result of applying customer deposits against customer contract revenue in 2007. Other assets and liabilities used cash of \$1.6 million.

**Investing activities** In the first nine months of 2007 and 2006, cash used in investing activities was \$86.0 million and \$9.8 million, respectively. On June 11, 2007, Wabtec acquired Ricon Corporation, a manufacturer of wheelchair lifts and ramps, for \$73.5 million. Capital expenditures were \$12.9 million and \$13.5 million in the first nine months of 2007 and 2006, respectively. In 2006, the Company sold a non-core division for \$3.0 million.

**Financing activities** In the first nine months of 2007 and 2006, cash provided by financing activities was \$977,000 and \$3.0 million, respectively. The cash provided in 2007 included \$7.3 million of proceeds from the exercise of stock options and other benefit plans, offset by \$1.5 million of dividend payments and \$4.8 million for the repurchase of 131,200 shares of stock. The cash provided in 2006 included \$18.0 million of proceeds from the exercise of stock options and other benefit plans, offset by \$1.5 million of dividend payments and \$13.5 million for the repurchase of 502,400 shares of stock.

**Table of Contents**

The following table shows our outstanding indebtedness at September 30, 2007 and December 31, 2006. The other term loan interest rates are variable and dependent on market conditions.

	September 30,	December 31,
<i>In thousands</i>	2007	2006
6.875% Senior Notes due 2013	\$ 150,000	\$ 150,000
Total	\$ 150,000	\$ 150,000
Less-current portion		
Long-term portion	\$ 150,000	\$ 150,000

Cash balances at September 30, 2007 and December 31, 2006 were \$158.0 million and \$188.0 million, respectively.

*Refinancing Credit Agreement*

In January 2004, the Company refinanced its existing unsecured revolving credit agreement with a consortium of commercial banks. This Refinancing Credit Agreement provided a \$175 million five-year revolving credit facility expiring in January 2009. In November 2005, the Company entered into an amendment to the Refinancing Credit Agreement which, among other things, extended the expiration of the agreement until December 2010. The Company entered into an amendment to its Refinancing Credit Agreement in February 2007 which permits the Company to complete any acquisitions without prior approval of the bank consortium as long as certain financial parameters and ratios are met. At September 30, 2007, the Company had available bank borrowing capacity, net of \$23.0 million of letters of credit, of approximately \$152.0 million, subject to certain financial covenant restrictions.

Refinancing Credit Agreement borrowings bear variable interest rates indexed to the indices described below. The Company did not borrow under the Refinancing Credit Agreement during the nine months ended September 30, 2007 or during the year ended December 31, 2006.

Under the Refinancing Credit Agreement, the Company may elect a base interest rate or an interest rate based on the London Interbank Offered Rates of Interest ( LIBOR ). The base interest rate is the greater of LaSalle Bank National Association's prime rate or the federal funds effective rate plus 0.5% per annum. The LIBOR rate is based on LIBOR plus a margin that ranges from 62.5 to 175 basis points depending on the Company's consolidated total indebtedness to cash flow ratios. The current margin is 62.5 basis points.

The 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 Refinancing Credit Agreement contains various other covenants and restrictions including the following limitations: incurrence of additional indebtedness; mergers, consolidations and sales of assets and acquisitions; additional liens; sale and leasebacks; permissible investments, loans and advances; certain debt payments; capital expenditures; and imposes a minimum interest expense coverage ratio and a maximum debt to cash flow ratio.

The Refinancing Credit Agreement contains customary events of default, including payment defaults, failure of representations or warranties to be true in any material respect, covenant defaults, defaults with respect to other indebtedness of the Company, bankruptcy, certain judgments against the Company, ERISA defaults and change of control of the Company. The Refinancing Credit Agreement includes the following covenants: a minimum interest coverage ratio of three, maximum debt to cash flow ratio of 3.25 and a minimum net worth of \$180 million plus 50% of consolidated net income since September 30, 2003. The Company is in compliance with these measurements and covenants.

*6<sup>7</sup>/8% 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



## **Table of Contents**

January 31 and July 31 of each year. The proceeds were used to repay debt outstanding under the Company's existing credit agreement, and for general corporate purposes.

The Company 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.

On July 31, 2006, the Board of Directors authorized the repurchase of up to \$50 million of the Company's outstanding shares. 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 qualifies under the Refinancing Credit Agreement, as well as the 6<sup>7/8</sup>% Senior Notes currently outstanding.

No shares were purchased during the first quarter of 2007. During the second quarter 2007, the Company repurchased 92,700 shares of Wabtec stock at an average price of \$36.87 per share. During the third quarter 2007, the Company repurchased 38,500 shares of Wabtec stock at an average price of \$36.22 per share.

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

After the adoption of FIN 48, the Company has recognized a liability of \$16.6 million for unrecognized tax benefits. The Company estimates that \$2.6 million to \$3.6 million of the total unrecognized tax benefits relate to uncertain tax positions in various taxing jurisdictions that may be resolved within the next 12 months. At this time, the Company is unable to make a reasonably reliable estimate of the timing of cash settlement for the remaining balances due to the uncertainty of the timing and outcome of its audits and other factors.

Since December 31, 2006, 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, 2006.

## **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;



**Table of Contents**

demand for services in the freight and passenger rail industry;

demand for our products and services;

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

consolidations in the rail industry;

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

fluctuations in interest rates and foreign currency exchange rates;

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

## Edgar Filing: WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP - Form 10-Q

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, 2006. In particular, judgment is used in areas such as accounts receivable and the

---

## **Table of Contents**

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, 2006 except for the adoption on January 1, 2007 of FIN 48 as it relates to the accounting for income taxes. See Note 10 of Notes to Condensed Consolidated Financial Statements included herein for the impact of adoption.

### **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. There was no outstanding variable-rate debt at September 30, 2007.

### **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, 2007, the Company had forward contracts for the sale of U.S. Dollars (USD) and the purchase of Canadian Dollars (CAD) with a notional value of \$12.0 million CAD (or \$10.7 million U.S.), with an average exchange rate of \$0.89 USD per \$1 CAD. The Company has determined that these foreign currency 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. The adjustment resulted in the recording of a current asset and an increase in comprehensive income of \$823,000, net of tax.

At September 30, 2007, the Company had forward contracts for the sale of USD and the purchase of Euro with a notional value of 2.3 million Euro (or \$3.1 million USD), with an average exchange rate of \$1.32 USD per 1 Euro. These forward contracts are used to mitigate the variability in cash flows from the payment of liabilities denominated in currencies other than the USD. Since the Company does not treat these derivatives as hedges, the change in fair value of both the forward contracts and the related liabilities are recorded in the income statement. For the three and nine months ended September 30, 2007, the Company recorded a fair value gain in the amount of \$154,000 and \$251,000, respectively.

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 2007, approximately 62% of Wabtec's net sales were in the United States, 11% in Canada, 2% in Mexico, 3% in Australia, 2% in Germany, 11% in the United Kingdom, and 9% in other international locations.

## **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, 2007. 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,

**Table of Contents**

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, 2007, that has materially affected, or is reasonably likely to materially affect, Wabtec's internal control over financial reporting.

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

Except as disclosed in Note 13 of the Company's Notes to Condensed Consolidated Financial Statements for the Quarterly Period Ended September 30, 2007, there have been no other material changes to report regarding the Company's commitments and contingencies as described in Note 18 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 2006.

**Item 1A. RISK FACTORS**

There have been no material changes in our risk factors from those disclosed in our 2006 Annual Report on Form 10-K.

**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. 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 qualifies under the Refinancing Credit Agreement, as well as the 6<sup>7/8</sup>% Senior Notes currently outstanding.

During the third quarter 2006, 502,400 shares were repurchased at an average price of \$26.90 per share. During the fourth quarter 2006, 171,500 shares were repurchased at an average price of \$31.13 per share. No shares were purchased during the first quarter of 2007. During the second quarter 2007, the Company repurchased 92,700 shares of Wabtec stock at an average price of \$36.87 per share. During the third quarter 2007, the Company repurchased 38,500 shares of Wabtec stock at an average price of \$36.22 per share. All purchases were open market.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Number of Shares Purchased for Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased
July 1, 2007 to July 28, 2007	38,500	\$ 36.22	38,500	\$ 26,309,778
July 29, 2007 to August 25, 2007				26,309,778
August 26, 2007 to September 29, 2007				26,309,778
Total	38,500	\$ 36.22	38,500	\$ 26,309,778

**Table of Contents**

**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, dated as of January 6, 2006.
- 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.



**Table of Contents**

**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**

DATE: November 9, 2007

**Table of Contents**

**EXHIBIT INDEX**

**Exhibit**

<b>Number</b>	<b>Description and Method of Filing</b>
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, dated as of January 6, 2006, filed as an exhibit to Form 8-K filed on January 9, 2006, 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.