

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP
Form 10-Q
November 09, 2006
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2006

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 7, 2006
[Common Stock, \$.01 par value per share]	48,996,775 shares

Table of Contents

**WESTINGHOUSE AIR BRAKE
TECHNOLOGIES CORPORATION**

September 30, 2006 FORM 10-Q

TABLE OF CONTENTS

	Page
<u>PART I FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2006 and December 31, 2005</u>	3
<u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2006 and 2005</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2006 and 2005</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>	26
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	40
Item 4. <u>Controls and Procedures</u>	40
<u>PART II OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	41
Item 1A. <u>Risk Factors</u>	41
Item 2. <u>Unregistered Sale of Equity Securities and Use of Proceeds</u>	41
Item 6. <u>Exhibits</u>	41
<u>Signatures</u>	42

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>	Unaudited September 30, 2006	December 31, 2005
Assets		
Current Assets		
Cash and cash equivalents	\$ 247,585	\$ 141,365
Accounts receivable	157,215	206,891
Inventories	135,893	110,873
Deferred income taxes	15,617	15,838
Other current assets	9,900	7,959
Total current assets	566,210	482,926
Property, plant and equipment	375,600	358,759
Accumulated depreciation	(215,394)	(197,158)
Property, plant and equipment, net	160,206	161,601
Other Assets		
Goodwill	118,698	118,181
Other intangibles, net	37,439	39,129
Deferred income taxes	18,523	18,428
Other noncurrent assets	9,185	16,092
Total other assets	183,845	191,830
Total Assets	\$ 910,261	\$ 836,357
Liabilities and Shareholders Equity		
Current Liabilities		
Accounts payable	\$ 78,752	\$ 93,551
Accrued income taxes	9,786	4,427
Customer deposits	77,536	71,098
Accrued compensation	25,099	25,274
Accrued warranty	19,194	16,158
Other accrued liabilities	27,308	30,971
Total current liabilities	237,675	241,479
Long-term debt	150,000	150,000
Reserve for postretirement and pension benefits	44,376	44,428
Deferred income taxes	7,585	7,381
Other long-term liabilities	8,700	13,862
Total liabilities	448,336	457,150
Shareholders Equity		
Preferred stock, 1,000,000 shares authorized, no shares issued		

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

Common stock, \$.01 par value; 100,000,000 shares authorized: 66,174,767 shares issued and 48,358,702 and 48,002,819 outstanding at September 30, 2006 and December 31, 2005, respectively.	662	662
Additional paid-in capital	313,033	294,209
Treasury stock, at cost, 17,816,065 and 18,171,948 shares, at September 30, 2006 and December 31, 2005, respectively	(228,290)	(225,483)
Retained earnings	393,739	336,744
Accumulated other comprehensive loss	(17,219)	(26,925)
Total shareholders' equity	461,925	379,207
Total Liabilities and Shareholders' Equity	\$ 910,261	\$ 836,357

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		Unaudited	
	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2006	2005	2006	2005
Net sales	\$ 268,889	\$ 255,670	\$ 793,200	\$ 763,767
Cost of sales	(202,691)	(188,701)	(575,171)	(573,611)
Gross profit	66,198	66,969	218,029	190,156
Selling, general and administrative expense	(31,293)	(30,813)	(97,591)	(90,448)
Engineering expense	(8,068)	(7,995)	(24,206)	(24,848)
Amortization expense	(1,362)	(896)	(3,088)	(2,940)
Total operating expenses	(40,723)	(39,704)	(124,885)	(118,236)
Income from operations	25,475	27,265	93,144	71,920
Other income and expenses				
Interest income (expense), net	196	(2,235)	(1,348)	(6,884)
Other expense, net	(139)	(1,234)	(1,285)	(3,070)
Income from continuing operations before income taxes	25,532	23,796	90,511	61,966
Income tax expense	(7,791)	(8,300)	(30,920)	(22,194)
Income from continuing operations	17,741	15,496	59,591	39,772
Discontinued operations				
Loss from discontinued operations (net of tax)	(370)	(420)	(1,029)	(297)
Net income	\$ 17,371	\$ 15,076	\$ 58,562	\$ 39,475
Earnings Per Common Share				
Basic				
Income from continuing operations	\$ 0.36	\$ 0.33	\$ 1.23	\$ 0.85
Loss from discontinued operations		(0.01)	(0.02)	
Net income	\$ 0.36	\$ 0.32	\$ 1.21	\$ 0.85
Diluted				
Income from continuing operations	\$ 0.36	\$ 0.32	\$ 1.22	\$ 0.84
Loss from discontinued operations	(0.01)	(0.01)	(0.02)	(0.01)
Net income	\$ 0.35	\$ 0.31	\$ 1.20	\$ 0.83
Weighted average shares outstanding				
Basic	48,689	47,574	48,309	46,664
Diluted	49,293	48,311	48,905	47,409

The accompanying notes are an integral part of these statements.

Table of Contents

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Unaudited	
	Nine Months Ended	
	September 30,	
<i>In thousands</i>	2006	2005
Operating Activities		
Net income	\$ 58,562	\$ 39,475
Stock-based compensation expense	7,696	1,580
Adjustments to reconcile net income to net cash provided by operations:		
Discontinued operations	(1,178)	41
Depreciation and amortization	21,630	19,577
Excess income tax benefits from exercise of stock options	(4,389)	
Changes in operating assets and liabilities		
Accounts receivable	53,901	(24,520)
Inventories	(22,757)	(23,518)
Accounts payable	(16,954)	11,518
Accrued income taxes	9,802	15,301
Accrued liabilities and customer deposits	5,541	8,765
Other assets and liabilities	(1,946)	(916)
Net cash provided by operating activities	109,908	47,303
Investing Activities		
Purchase of property, plant and equipment	(13,503)	(16,464)
Disposals of property, plant and equipment	672	975
Acquisition of business, net of cash received		(36,344)
Sale of discontinued operations	3,018	
Discontinued operations		(2)
Net cash used for investing activities	(9,813)	(51,835)
Financing Activities		
Repayments of long term debt		(120)
Proceeds from the issuance of treasury stock for stock options and other benefit plans	13,586	19,656
Repurchase of stock (502,400 shares at an average price of \$26.90 per share)	(13,528)	
Excess income tax benefits from exercise of stock options	4,389	
Cash dividends (\$0.03 per share for the nine months ended September 30, 2006 and 2005)	(1,458)	(1,416)
Net cash provided by financing activities	2,989	18,120
Effect of changes in currency exchange rates	3,136	(2,753)
(Decrease) increase in cash	106,220	10,835
Cash, beginning of year	141,365	95,257
Cash, end of period	\$ 247,585	\$ 106,092

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, 2006 (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 90 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 2006, about 34 percent of the Company's revenues came from outside the U.S.

2. ACCOUNTING POLICIES

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

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

The notes included herein should be read in conjunction with the audited consolidated financial statements included in Wabtec's Annual Report on Form 10-K for the year ended December 31, 2005. The December 31, 2005 information has been derived from the Company's December 31, 2005 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 long-term contracts based on the percentage of completion method of accounting. The units-of-delivery method or other 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 \$6.1 million and \$4.9 million at September 30, 2006 and December 31, 2005, respectively.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted 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.

Table of Contents**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006 (UNAUDITED)**

Stock-Based Compensation Effective January 1, 2006, Wabtec adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment, which requires the company to recognize compensation expense for stock-based compensation based on the grant date fair value. This expense must be recognized ratably over the requisite service period following the date of grant. Wabtec has elected the modified prospective transition method for adoption, and prior periods financial statements have not been restated. Prior to January 1, 2006, Wabtec accounted for stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees, and related interpretations.

Pro Forma Effect Prior to the Adoption of SFAS No. 123(R) Wabtec's net income and earnings per share for 2005 would have been reduced to the pro forma amounts shown below if compensation expense had been determined based on the fair value at the grant dates in accordance with SFAS No. 123, Accounting for Stock-Based Compensation .

	Three months ended	Nine months ended
<i>In thousands, except per share</i>	September 30, 2005	September 30, 2005
Net income as reported	\$ 15,076	\$ 39,475
Stock based compensation expense under FAS123, net of tax of \$150 and \$498	277	881
Pro forma	\$ 14,799	\$ 38,594
Basic earnings per share		
As reported	\$ 0.32	\$ 0.85
Pro forma	0.31	0.83
Diluted earnings per share		
As reported	\$ 0.31	\$ 0.83
Pro forma	0.31	0.81

Stock-Based Plans 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 2006, Wabtec granted 32,000 stock options to certain individuals. The Company has now adopted a non-vested stock plan and issued 200,500 awards to executives in February 2006. The non-vested stock generally vests over four years from the date of grant. In addition, the Company established in 2004, a stock-based incentive plan for eligible employees. The plan provides stock awards which vest upon attainment of certain three year performance targets. Wabtec also sponsors an employee stock purchase plan, whereby participants can purchase the Company's common stock at a discount of about 15% of the lesser of fair market value on the first or last day of each offering period.

Stock based compensation was \$7.7 million and \$1.6 million for the nine months ended September 30, 2006 and 2005, 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 addition, compensation expense of \$849,000 was recorded for the nine months ended September 30, 2006 related to the expensing of stock options in accordance with FAS 123(R). At September 30, 2006, unamortized compensation expense related to those stock options, non-vested shares and stock awards expected to vest totaled \$12.9 million and will be recognized over a weighted average period of 1.5 years.

Table of Contents

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006 (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,	
	2006	2005
Dividend yield	.3%	.3%
Risk-free interest rate	4.21%	4.5%
Stock price volatility	43.3	43.9
Expected life (years)	5.0	5.0

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

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, 2006	2,204,065	\$ 13.98			\$ 28,477
Granted	32,000	26.66			344
Exercised	(796,306)	15.44			13,677
Canceled	(3,334)	16.33			66
Year to date September 30, 2006	1,436,425	\$ 13.44	5.9		\$ 19,665
Exercisable	1,162,373	\$ 12.32	5.5		\$ 17,215
Weighted average fair value of options granted during 2006	\$ 11.19				

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

	Non-Vested	Stock	Weighted
	Stock	Awards	Average FMV
Outstanding at January 1, 2006		518,666	\$ 15.83

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

Granted	200,500	187,000		34.06
Canceled	(3,000)	(4,000)		23.16
Outstanding at September 30, 2006	197,500	701,666	\$	23.63

As of September 30, 2006, stock awards issued 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, 2006, 2007 and 2008, respectively. The stock awards included in the table above represent the maximum number of shares that may ultimately vest. As of September 30, 2006, based on the Company's performance, we estimate that the majority of these stock awards will vest and have recorded compensation expense accordingly. If our estimate of the number of these stock awards expected to vest changes in a future accounting period, compensation expense could be reduced and will be recognized over the remaining vesting period.

Table of Contents**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006 (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 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. All outstanding forward contracts are for the sale of U.S. Dollars (USD) and the purchase of Canadian Dollars (CAD). As of September 30, 2006, the Company had forward contracts with a notional value of \$15.0 million CAD (or \$12.6 million U.S.), with an average exchange rate of \$.84 USD per \$1 CAD, resulting in the recording of a current asset and an increase in comprehensive income of \$732,000, net of tax.

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 loss was \$124,000 and \$1.5 million for the three months ended September 30, 2006 and 2005, respectively, and \$1.1 million and \$3.1 million for the nine months ended September 30, 2006 and 2005, respectively.

Other Comprehensive Income (Loss) Comprehensive income (loss) is defined as net income and all other non-owner changes in shareholders' equity. The Company's accumulated other comprehensive income (loss) consists of foreign currency translation adjustments, foreign currency hedges and pension related adjustments. Changes in the table below, adjust components of accumulated other comprehensive income (loss). Total comprehensive income was:

<i>In thousands</i>	Three Months Ended		Nine Months Ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Net income	\$ 17,371	\$ 15,076	\$ 58,562	\$ 39,475
Foreign currency translation adjustment	(176)	2,455	10,044	(4,826)
Unrealized (loss) gain on foreign exchange contracts, net of tax	(562)	717	(338)	(1,375)
Total comprehensive income	\$ 16,633	\$ 18,248	\$ 68,268	\$ 33,274

As reflected on the balance sheet, components of accumulated other comprehensive (loss) income consist of the following:

<i>In thousands</i>	September 30, 2006	December 31, 2005
Foreign currency translation adjustment	\$ 8,568	\$ (1,476)
Unrealized gains on foreign exchange contracts, net of tax	539	877
Additional minimum pension liability, net of tax	(26,326)	(26,326)
Total accumulated comprehensive loss	\$ (17,219)	\$ (26,925)

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

Table of Contents**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006 (UNAUDITED)**

Recent Accounting Pronouncements In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes* an Interpretation of FASB Statement No. 109. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. FIN 48 is effective in the first quarter of 2007. The company is currently evaluating the impact of this statement on its financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued 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). SFAS 158 requires an employer to recognize the funded status of each of its defined pension and postretirement benefit plans as a net asset or liability in its statement of financial position with an offsetting amount in accumulated other comprehensive income, and to recognize changes in that funded status in the year in which changes occur through comprehensive income. This requirement becomes effective for the Company for its December 31, 2006 year-end. The provisions of SFAS 158 are to be applied on a prospective basis; therefore, prior periods presented will not be restated. The Company is currently evaluating the impact of this pronouncement on its statement of financial position.

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 adoption of SFAS 157 is not expected to have a material impact on the Company's consolidated financial statements.

3. ACQUISITIONS AND DISCONTINUED OPERATIONS

On February 1, 2005, the Company completed the acquisition of the assets of Rütgers Rail S.p.A, a business with operations in Italy, Germany, France and Spain. The acquisition was accounted for as a purchase and accordingly, the purchase price was allocated to the respective assets and liabilities based upon their estimated fair values as of the acquisition date. Operating results were included in the consolidated statement of operations from the acquisition date forward. The new company formed to hold the newly purchased assets of Rütgers Rail S.p.A. is named CoFren S.r.l. (CoFren). CoFren is one of the leading manufacturers of brake shoes, disc pads and interior trim components for rail applications in Europe. The purchase price was \$35.9 million, net of cash received, resulting in additional goodwill of \$5.7 million.

For pro forma purposes, this acquisition would only impact the results for the nine months ended September 30, 2005, as CoFren was included in its entirety for all periods beginning afterwards. The following unaudited pro forma financial information presents income statement results as if the acquisition had occurred January 1, 2005:

<i>In thousands, except per share</i>	Nine months ended September 30, 2005
Net sales	\$ 766,727
Gross profit	191,317
Net income	39,716
Diluted earnings per share	
As reported	\$ 0.83
Pro forma	0.84

Table of Contents

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006 (UNAUDITED)

With the acquisition of Rütgers Rail, S.p.A., the Company decided to offer for sale a non-core product division. As part of the purchase accounting, the net amount of this division had been revalued to its estimated net realizable value and had been classified as assets held for sale, which is included in other noncurrent assets on the balance sheet.

At March 31, 2006, the sale of this division was completed for approximately \$2.0 million in cash, subject to a working capital adjustment which is expected to be finalized with the buyer in the fourth quarter. The assets sold primarily included transit car interior products and services for customers located in Europe. This sale resulted in a loss of approximately \$740,000 subject to the working capital adjustment mentioned earlier. Also, in the fourth quarter of 2005, the Company decided to liquidate its bus door joint venture in China.

In accordance with SFAS 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, the operating results of these businesses have been classified as discontinued operations for all years presented and are summarized as of December 31, as follows:

<i>In thousands</i>	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Net sales	\$	\$ 2,607	\$ 2,600	\$ 8,942
Loss before income taxes		(373)	(870)	(364)
Income tax income (expense)		3	(159)	67
Loss from discontinued operations		\$ (370)	\$ (1,029)	\$ (297)

Effective October 9, 2006, Wabtec acquired Schaefer Equipment, Inc., manufacturer of forged brake rigging components, for \$36.0 million in cash. Schaefer's products include a wide variety of forged components for body-mounted and truck-mounted braking systems. Schaefer Equipment will operate as a business of Wabtec's Freight Group.

4. INVENTORIES

The components of inventory, net of reserves, were:

<i>In thousands</i>	September 30, 2006	December 31, 2005
Raw materials	\$ 43,701	\$ 38,724
Work-in-process	69,093	54,953
Finished goods	23,099	17,196
Total inventory	\$ 135,893	\$ 110,873

5. RESTRUCTURING AND IMPAIRMENT CHARGES

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

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. Wabtec recorded expenses of \$6.8 million in the 2006 third quarter for restructuring and other expenses, as a result of the approval of this plan. These expenses were comprised of the following components: \$1.5 million for employee severance

Table of Contents**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006 (UNAUDITED)**

costs associated with approximately 240 salaried and hourly employees located at our Wallaceburg and Stoney Creek locations; \$2.0 million of pension curtailment for those employees; \$2.9 million related to asset impairments for structures, machinery, and equipment; and \$540,000 for goodwill impairment specific to the Wallaceburg facility. As of September 30, 2006, the employees associated with the restructuring program had been terminated and none of the severance has been paid. Severance costs are contractual liabilities and payment is dependent on the waiver by, or expiration of certain seniority rights of, those employees.

The restructuring plan will result in additional expenses in the first half of 2007 of \$1.5 million, pre-tax, primarily for pension-related settlement charges. Pension funding will be subject to regulatory review and approval, and funding is anticipated to be made in the first half of 2007.

In the first six months of 2005, the Company recorded restructuring and asset impairment charges totaling \$2.3 million related to consolidating two U.K. facilities into one, relocating a product line from Canada to the U.S., and completion of a data center migration. These charges consisted of severance costs of \$593,000 for 43 employees, relocation and other costs of \$469,000 and asset impairment of \$1.2 million. All but \$418,000 of these costs were paid for in the first nine months of 2005.

In the fourth quarter of 2005, the Company recorded restructuring charges of about \$800,000 relating to consolidating two Australian facilities into one. As of September 30, 2006, these costs have not been paid.

6. INTANGIBLES

Goodwill on the balance sheet is \$118.7 million at September 30, 2006 and \$118.2 million at December 31, 2005.

As of September 30, 2006 and December 31, 2005, the Company's trademarks had a net carrying amount of \$20.0 million and \$19.9 million, respectively, and the Company believes these intangibles have an indefinite life. Intangible assets of the Company, other than goodwill and trademarks, consist of the following:

<i>In thousands</i>	September 30, 2006	December 31, 2005
Patents and other, net of accumulated amortization of \$26,834 and \$24,923	\$ 7,909	\$ 9,987
Customer relationships, net of accumulated amortization of \$283 and \$145	3,106	3,018
Covenants not to compete, net of accumulated amortization of \$8,324 and \$8,304		20
Intangible pension asset	6,457	6,457
Total	\$ 17,472	\$ 19,182

The weighted average useful life of patents was 13 years, customer relationships were 20 years and covenants not to compete was five years. Amortization expense for intangible assets was \$1.1 million and \$2.5 million for the three and nine months ended September 30, 2006, and \$704,000 and \$2.3 million for the three and nine months ended September 30, 2005.

Table of Contents

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006 (UNAUDITED)

The change in the carrying amount of goodwill by segment for the nine months ended September 30, 2006 is as follows:

<i>In thousands</i>	Freight Group	Transit Group	Total
Balance at December 31, 2005	\$ 100,055	\$ 18,126	\$ 118,181
Goodwill Impairment	(541)		(541)
Foreign currency impact	579	479	1,058
Balance at September 30, 2006	\$ 100,093	\$ 18,605	\$ 118,698

7. LONG-TERM DEBT

Long-term debt consisted of the following:

<i>In thousands</i>	September 30, 2006	December 31, 2005
6.875% Senior Notes	\$ 150,000	\$ 150,000
Total	\$ 150,000	\$ 150,000
Less current portion		
Long-term portion	\$ 150,000	\$ 150,000

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. At September 30, 2006, the Company had available borrowing capacity, net of \$23.7 million of letters of credit, of approximately \$151.3 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, 2006 or during the year ended December 31, 2005.

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 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.

Table of Contents

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006 (UNAUDITED)

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.

6⁷/₈% Senior Notes Due August 2013

In August 2003, the Company issued \$150 million of Senior Notes due in 2013 (Notes). The Notes were issued at par. Interest on the Notes will accrue 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 Notes are senior unsecured obligations of the Company and rank pari passu with all existing and future senior debt and are 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.

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 is permitted under the Refinancing Credit Agreement, as well as the 6⁷/₈% Senior Notes currently outstanding. During the third quarter 2006, 502,400 shares were repurchased at an average price of \$26.90 per share.

8. EMPLOYEE BENEFIT PLANS

The Company sponsors defined benefit pension plans that cover certain U.S., Canadian 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>	Pension Plans		Postretirement Plan	
	Three months ended September 30,		Three months ended September 30,	
	2006	2005	2006	2005
Net periodic benefit cost				
Service cost	\$ 1,092	\$ 805	\$ 325	\$ 229
Interest cost	2,008	1,957	656	595
Expected return on plan assets	(2,182)	(1,978)		
Net amortization/deferrals	922	734	273	155
Net periodic benefit cost	\$ 1,840	\$ 1,518	\$ 1,254	\$ 979
Assumptions				
Discount rate	5.21%	5.94%	5.43%	6.19%
Expected long-term rate of return	6.96%	7.25%	NA	NA
Rate of compensation increase	3.38%	4.01%	NA	NA

Table of Contents

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006 (UNAUDITED)

<i>In thousands, except percentages</i>	Pension Plans		Postretirement Plan	
	Nine months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Net periodic benefit cost				
Service cost	\$ 3,245	\$ 2,452	\$ 973	\$ 705
Interest cost	5,975	5,860	1,966	1,801
Expected return on plan assets	(6,494)	(5,936)		
Net amortization/deferrals	2,750	2,636	816	637
Net periodic benefit cost	\$ 5,476	\$ 5,012	\$ 3,755	\$ 3,143

Assumptions

Discount rate	5.21%	5.94%	5.43%	6.18%
Expected long-term rate of return	6.96%	7.24%	NA	NA
Rate of compensation increase	3.38%	4.02%	NA	NA

The Company's funding methods are based on governmental requirements and differ from those methods used to recognize pension expense. The Company expects to contribute \$9.4 million to the pension plans during 2006 but expects that this level of funding will decrease in future periods. Rebalancing of the asset allocation occurs on a quarterly basis.

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.

9. INCOME TAXES

The overall effective income tax rate was 30.5% and 34.2% for the three and nine months ended September 30, 2006 and 34.9% and 35.8% for the three and nine months ended September 30, 2005, respectively. During the quarter ended September 30, 2006, approximately \$1.4 million of tax benefit was recognized related to the release of tax contingency reserves.

Table of Contents

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006 (UNAUDITED)

10. EARNINGS PER SHARE

The computation of earnings per share is as follows:

<i>In thousands, except per share</i>	Three Months Ended September 30,	
	2006	2005
Basic earnings per share		
Income from continuing operations applicable to common shareholders	\$ 17,741	\$ 15,496
Divided by		
Weighted average shares outstanding	48,689	47,574
Basic earnings from continuing operations per share	\$ 0.36	\$ 0.33
Diluted earnings per share		
Income from continuing operations applicable to common shareholders	\$ 17,741	\$ 15,496
Divided by sum of the		
Weighted average shares outstanding	48,689	47,574
Conversion of dilutive stock options / non-vested stock	604	737
Diluted shares outstanding	49,240	48,311
Diluted earnings from continuing operations per share	\$ 0.36	\$ 0.32
<i>In thousands, except per share</i>	Nine Months Ended September 30,	
	2006	2005
Basic earnings per share		
Income from continuing operations applicable to common shareholders	\$ 59,591	\$ 39,772
Divided by		
Weighted average shares outstanding	48,309	46,664
Basic earnings from continuing operations per share	\$ 1.23	\$ 0.85
Diluted earnings per share		
Income from continuing operations applicable to common shareholders	\$ 59,591	\$ 39,772
Divided by sum of the		
Weighted average shares outstanding	48,309	46,664
Conversion of dilutive stock options / non-vested stock	596	745
Diluted shares outstanding	48,905	47,409
Diluted earnings from continuing operations per share	\$ 1.22	\$ 0.84

11. WARRANTIES

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

<i>In thousands</i>	Nine Months Ended	
	September 30,	
	2006	2005
Balance at December 31, 2005 and 2004, respectively	\$ 16,158	\$ 17,413
Warranty provision	9,263	5,089
Warranty claim payments	(6,227)	(6,711)
Balance at September 30, 2006 and 2005, respectively	\$ 19,194	\$ 15,791

Table of Contents

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006 (UNAUDITED)

12. 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, Railroad Friction Products Corporation (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.

The GETS-GS litigation described in the Company's Annual Report on Form 10-K for the Year Ended December 31, 2005 was settled in April of 2006 for \$3.8 million, which had been reserved for in prior years.

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

Table of Contents

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006 (UNAUDITED)

Faiveley Transport. Wabtec did provide and machined 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.

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. Wabtec does not believe that it has any material legal liability with regard to this matter.

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.

While the transactions are inconsequential and not material to the overall operations of Wabtec, they may result in potential penalties. Management has concluded its investigation, and has notified Wabtec's Audit Committee, Board of Directors, and the appropriate authorities of its findings. Wabtec has not recorded a reserve related to this matter as of September 30, 2006; because the Company's potential exposure cannot be estimated based on management's assessment of the situation.

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, 2005, filed on March 16, 2006. During the first nine months of 2006, there were no material changes other than what is discussed above to the information described in Note 18 therein.

13. 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 to the production and operation of freight cars and locomotives, including braking control equipment, on-board electronic components and train coupler equipment. Revenues are derived from OEM sales, aftermarket sales and freight car repairs and services.

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. Revenues are derived from OEM and aftermarket sales as well as from repairs and services.

Table of Contents**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006 (UNAUDITED)**

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 with the first quarter of 2006, the Company transferred certain operations from the Freight to the Transit Group to reflect a shift in the markets and customers served by those operations. For the three month period ended September 30, 2005, this reclassification increased Transit Group sales by about \$22 million and income from continuing operations before income taxes by \$2.7 million. For the nine month period ended September 30, 2005, this reclassification increased Transit Group sales by about \$63 million and income from continuing operations before income taxes by \$8.0 million. Prior period results have been adjusted for comparability purposes.

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

<i>In thousands</i>	Freight Group	Transit Group	Corporate Activities and Elimination	Total
Sales to external customers	\$ 179,474	\$ 89,415	\$	\$ 268,889
Intersegment sales/(elimination)	3,410	166	(3,576)	
Total sales	\$ 182,884	\$ 89,581	\$ (3,576)	\$ 268,889
Income (loss) from operations	\$ 31,136	\$ 5,724	\$ (11,385)	\$ 25,475
Interest income (expense) and other			57	57
Income (loss) from continuing operations before income taxes	\$ 31,136	\$ 5,724	\$ (11,328)	\$ 25,532

Freight Group income from continuing operations before income taxes included the \$6.8 million restructuring expense recorded in the three months ended September 30, 2006.

Segment financial information for the three months ended September 30, 2005 is as follows:

<i>In thousands</i>	Freight Group	Transit Group	Corporate Activities and Elimination	Total
Sales to external customers	\$ 178,083	\$ 77,587	\$	\$ 255,670
Intersegment sales/(elimination)	4,514	49	(4,563)	
Total sales	\$ 182,597	\$ 77,636	\$ (4,563)	\$ 255,670
Income (loss) from operations	\$ 30,354	\$ 3,679	\$ (6,768)	\$ 27,265
Interest income (expense) and other			(3,469)	(3,469)
Income (loss) from continuing operations before income taxes	\$ 30,354	\$ 3,679	\$ (10,237)	\$ 23,796

Table of Contents

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006 (UNAUDITED)

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

<i>In thousands</i>	Freight Group	Transit Group	Corporate Activities and Elimination	Total
Sales to external customers	\$ 555,576	\$ 237,624	\$	\$ 793,200
Intersegment sales/(elimination)	10,935	428	(11,363)	
Total sales	\$ 566,511	\$ 238,052	\$ (11,363)	\$ 793,200
Income (loss) from operations	\$ 113,870	\$ 12,781	\$ (33,507)	\$ 93,144
Interest income (expense) and other			(2,633)	(2,633)
Income (loss) from continuing operations before income taxes	\$ 113,870	\$ 12,781	\$ (36,140)	\$ 90,511

Freight Group income from continuing operations before income taxes included the \$6.8 million restructuring expense recorded in the nine months ended September 30, 2006.

Segment financial information for the nine months ended September 30, 2005 is as follows:

<i>In thousands</i>	Freight Group	Transit Group	Corporate Activities and Elimination	Total
Sales to external customers	\$ 525,322	\$ 238,445	\$	\$ 763,767
Intersegment sales/(elimination)	9,137	189	(9,326)	
Total sales	\$ 534,459	\$ 238,634	\$ (9,326)	\$ 763,767
Income (loss) from operations	\$ 78,616	\$ 15,468	\$ (22,164)	\$ 71,920
Interest income (expense) and other			(9,954)	(9,954)
Income (loss) from continuing operations before income taxes	\$ 78,616	\$ 15,468	\$ (32,118)	\$ 61,966

Sales by product for the three months ended September 30, is as follows:

<i>In thousands</i>	Three Months Ended September 30,	
	2006	2005
Brake Products	\$ 89,681	\$ 89,029
Freight Electronics & Specialty Products	87,061	85,036

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

Remanufacturing, Overhaul & Build	57,350	50,013
Transit Products	25,109	25,844
Other	9,688	5,748
Total Sales	\$ 268,889	\$ 255,670

Table of Contents

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006 (UNAUDITED)

Sales by product for the nine months ended September 30, is as follows:

<i>In thousands</i>	Nine Months Ended September 30,	
	2006	2005
Brake Products	\$ 291,841	\$ 269,363
Freight Electronics & Specialty Products	249,594	245,143
Remanufacturing, Overhaul & Build	148,197	146,370
Transit Products	79,737	90,290
Other	23,831	12,601
Total Sales	\$ 793,200	\$ 763,767

14. 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, 2006:

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Cash	\$ 167,020	\$ (5,283)	\$ 85,848	\$	\$ 247,585
Accounts Receivable	3,398	100,604	53,213		157,215
Inventories		88,590	47,303		135,893
Other Current Assets	19,137	3,437	2,943		25,517
Total Current Assets	189,555	187,348	189,307		566,210
Net Property, Plant and Equipment	2,910	92,631	64,665		160,206
Goodwill	7,980	76,727	33,991		118,698
Investment in Subsidiaries	907,242	155,202	24,755	(1,087,199)	
Intangibles	8,801	23,969	4,669		37,439
Other Long Term Assets	12,474	1,611	13,623		27,708
Total Assets	\$ 1,128,962	\$ 537,488	\$ 331,010	\$ (1,087,199)	\$ 910,261
Current Liabilities	\$ 10,733	\$ 164,000	\$ 62,942	\$	\$ 237,675
Intercompany	459,401	(487,631)	28,230		
Long-Term Debt	150,000				150,000
Other Long Term Liabilities	46,903	3,719	10,039		60,661
Total Liabilities	667,037	(319,912)	101,211		448,336

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

Stockholders Equity	461,925	857,400	229,799	(1,087,199)	461,925
Total Liabilities and Stockholders Equity	\$ 1,128,962	\$ 537,488	\$ 331,010	\$ (1,087,199)	\$ 910,261

Table of Contents

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006 (UNAUDITED)

Balance Sheet as of December 31, 2005:

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Cash	\$ 87,899	\$ (2,758)	\$ 56,224	\$	\$ 141,365
Accounts Receivable	145	135,281	71,465		206,891
Inventories		73,419	37,454		110,873
Other Current Assets	17,519	2,195	4,083		23,797
Total Current Assets	105,563	208,137	169,226		482,926
Net Property, Plant and Equipment	3,843	93,108	64,650		161,601
Goodwill	8,521	76,728	32,932		118,181
Investment in Subsidiaries	781,663	155,201	24,755	(961,619)	
Intangibles	9,396	24,982	4,751		39,129
Other Long Term Assets	13,980	9,806	10,734		34,520
Total Assets	\$ 922,966	\$ 567,962	\$ 307,048	\$ (961,619)	\$ 836,357
Current Liabilities	\$ 19,287	\$ 155,992	\$ 66,200	\$	\$ 241,479
Intercompany	320,568	(348,912)	28,344		
Long-Term Debt	150,000				150,000
Other Long Term Liabilities	53,904	3,065	8,702		65,671
Total Liabilities	543,759	(189,855)	103,246		457,150
Stockholders' Equity	379,207	757,817	203,802	(961,619)	379,207
Total Liabilities and Stockholders' Equity	\$ 922,966	\$ 567,962	\$ 307,048	\$ (961,619)	\$ 836,357

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

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination(1)	Consolidated
Net Sales	\$	\$ 204,958	\$ 86,550	\$ (22,619)	\$ 268,889
Cost of Sales	737	(154,565)	(68,631)	19,768	(202,691)
Gross Profit (Loss)	737	50,393	17,919	(2,851)	66,198
Operating Expenses	(8,522)	(23,609)	(8,592)		(40,723)
Operating Profit (Loss)	(7,785)	26,784	9,327	(2,851)	25,475
Interest (Expense) Income	(3,823)	3,429	590		196
Other (Expense) Income	(1,740)	2,210	(609)		(139)
Equity Earnings	32,515	(4,719)		(27,796)	
	19,167	27,704	9,308	(30,647)	25,532

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

Income (Loss) From Continuing Operations Before					
Income Taxes					
Income Tax Benefit (Expense)	(1,482)	(3,432)	(2,877)		(7,791)
Income (Loss) From Continuing Operations	17,685	24,272	6,431	(30,647)	17,741
Discontinued Operations	(314)		(56)		(370)
Net Income (Loss)	\$ 17,371	\$ 24,272	\$ 6,375	\$ (30,647)	\$ 17,371

(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, 2006 (UNAUDITED)

Income Statement for the Three Months Ended September 30, 2005:

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination(1)	Consolidated
Net Sales	\$	\$ 178,580	\$ 108,804	\$ (31,714)	\$ 255,670
Cost of Sales	2,736	(130,897)	(91,511)	30,971	(188,701)
Gross Profit (Loss)	2,736	47,683	17,293	(743)	66,969
Operating Expenses	(9,956)	(21,446)	(8,302)		(39,704)
Operating Profit (Loss)	(7,220)	26,237	8,991	(743)	27,265
Interest (Expense) Income	(5,721)	2,554	932		(2,235)
Other (Expense) Income	(368)	736	(1,602)		(1,234)
Equity Earnings	30,455	5,401		(35,856)	
Income (Loss) From Continuing Operations Before Income Taxes	17,146	34,928	8,321	(36,599)	23,796
Income Tax Benefit (Expense)	(2,070)	(3,216)	(3,014)		(8,300)
Income (Loss) From Continuing Operations	15,076	31,712	5,307	(36,599)	15,496
Discontinued Operations			174		174
Net Income (Loss)	\$ 15,076	\$ 31,712	\$ 4,887	\$ (36,599)	\$ 15,076

(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, 2006:

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination(1)	Consolidated
Net Sales	\$	\$ 599,330	\$ 282,824	\$ (88,954)	\$ 793,200
Cost of Sales	1,025	(425,799)	(226,550)	76,153	(575,171)
Gross Profit (Loss)	1,025	173,531	56,274	(12,801)	218,029
Operating Expenses	(34,500)	(64,608)	(25,777)		(124,885)
Operating Profit (Loss)	(33,475)	108,923	30,497	(12,801)	93,144
Interest (Expense) Income	(12,490)	9,551	1,591		(1,348)
Other (Expense) Income	(1,763)	2,991	(2,513)		(1,285)
Equity Earnings	116,084	(9,863)		(106,221)	
Income (Loss) From Continuing Operations Before Income Taxes	68,356	111,602	29,575	(119,022)	90,511

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

Income Tax Benefit (Expense)	(9,756)	(11,444)	(9,720)		(30,920)
Income (Loss) From Continuing Operations	58,600	100,158	19,855	119,022)	59,591
Discontinued Operations	(38)		(991)		(1,029)
Net Income (Loss)	\$ 58,562	\$ 100,158	\$ 18,864	\$ (119,022)	\$ 58,562

(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, 2006 (UNAUDITED)

Income Statement for the Nine Months Ended September 30, 2005:

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination(1)	Consolidated
Net Sales	\$	\$ 549,047	\$ 318,413	\$ (103,693)	\$ 763,767
Cost of Sales	4,909	(412,083)	(259,081)	92,644	(573,611)
Gross Profit (Loss)	4,909	136,964	59,332	(11,049)	190,156
Operating Expenses	(29,060)	(62,566)	(26,610)		(118,236)
Operating Profit (Loss)	(24,151)	74,398	32,722	(11,049)	71,920
Interest (Expense) Income	(14,836)	7,105	847		(6,884)
Other (Expense) Income	(2,466)	3,266	(3,870)		(3,070)
Equity Earnings	81,563	11,311		(92,874)	
Income (Loss) From Continuing Operations					
Before Income Taxes	40,110	96,080	29,699	(103,923)	61,966
Income Tax Benefit (Expense)	(635)	(10,864)	(10,695)		(22,194)
Income (Loss) From Continuing Operations	39,475	85,216	19,004	(103,923)	39,772
Discontinued Operations			297		297
Net Income (Loss)	\$ 39,475	\$ 85,216	\$ 18,707	\$ (103,923)	\$ 39,475

(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, 2006:

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net Cash Provided by (Used in) Operating Activities	\$ 76,656	\$ 106,172	\$ 46,102	\$ (119,022)	\$ 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	(100,158)	(18,864)	119,022	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

Table of Contents

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006 (UNAUDITED)

Condensed Statement of Cash Flows for the Nine Months Ended September 30, 2005:

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net Cash Provided by (Used in) Operating Activities	\$ 6,426	\$ 103,936	\$ 40,864	\$ (103,923)	\$ 47,303
Net Cash Used in Investing Activities	(447)	(45,718)	(5,670)		(51,835)
Net Cash Provided by (Used in) Financing Activities	18,240	(85,290)	(18,753)	103,923	18,120
Effect of Changes in Currency Exchange Rates			(2,753)		(2,753)
Increase (Decrease) in Cash	24,219	(27,072)	13,688		10,835
Cash at Beginning of Period	41,117	24,849	29,291		95,257
Cash at End of Period	\$ 65,336	\$ (2,223)	\$ 42,979	\$	\$ 106,092

15. OTHER EXPENSE

The components of other expense are as follows:

<i>In thousands</i>	Three Months		Nine Months	
	Ended September 30, 2006	2005	Ended September 30, 2006	2005
Foreign currency loss	\$ 124	\$ 1,445	\$ 1,054	\$ 3,058
Other miscellaneous expense (income)	15	(211)	231	12
Total other expense	\$ 139	\$ 1,234	\$ 1,285	\$ 3,070

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 2005 Annual Report on Form 10-K, filed March 16, 2006.

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 90 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 2006, about 34 percent of the Company's revenues came from outside the U.S.

Management Review and 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. In addition, management monitors the Company's short-term operational performance through measures such as quality and on-time delivery.

Freight rail industry statistics, such as carloadings and orders for new freight cars, are continuing to improve in 2006. Through the first nine months of 2006, deliveries of new freight cars increased 12% and orders increased 40%, compared to the same period in 2005. As a result, at September 30, 2006, the backlog of freight cars ordered was 88,116. Sales in our freight segment have benefited from that trend. Following are quarterly freight car statistics for the past three years:

	Orders	Deliveries	Backlog*
First quarter 2004	17,962	10,012	42,242
Second quarter 2004	19,770	10,071	51,446
Third quarter 2004	20,315	11,790	61,052
Fourth quarter 2004	12,244	14,419	58,677
	70,291	46,292	
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

Deliveries of transit cars were 918 and 819 for the years ended December 31, 2005 and 2004, respectively. Deliveries of locomotives were 1,106 and 1,202 for the years ended December 31, 2005 and 2004, respectively.

Source: Railway Supply Institute and Management Estimates (* Figures that do not roll forward period to period reflect minor adjustments subsequent to that period from figures reported by the Railway Supply Institute.)

Table of Contents

Carloadings and Intermodal Units Originated have increased over the past three years reflecting higher rail traffic and ultimately better opportunities for maintenance and aftermarket sales for the Company:

Carloadings Originated (in thousands):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2004	4,296	4,327	4,267	4,171	17,061
2005	4,403	4,366	4,309	4,135	17,213
2006	4,338	4,453	4,345	n/a	n/a

Intermodal Units Originated (in thousands):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2004	2,585	2,750	2,810	2,849	10,994
2005	2,781	2,885	2,992	3,036	11,694
2006	2,937	3,093	3,173	n/a	n/a

Source: Association of American Railroads Weekly Rail Traffic

In addition to this cyclical rebound in orders and rail traffic, we expect to generate future increases in sales and earnings from executing our four-point growth strategy:

Global and Market Expansion;

Aftermarket Products and Services;

New Products and Technologies; and

Acquisitions.

In 2006 and beyond, we will continue to face many challenges, including increased costs for raw materials, especially steel; 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. Wabtec recorded expenses of \$6.8 million in the 2006 third quarter for restructuring and other expenses, as a result of the approval of this plan. These expenses were comprised of the following components: \$1.5 million for employee severance costs associated with approximately 240 salaried and hourly employees located at our Wallaceburg and Stoney Creek locations; \$2.0 million of pension curtailment for those employees; \$2.9 million related to asset impairments for structures, machinery, and equipment; and \$540,000 for goodwill impairment specific to the Wallaceburg facility. As of September 30, 2006, the employees associated with the restructuring program had been terminated and none of the severance has been paid. Severance costs are contractual liabilities and payment is dependent on the waiver by or expiration of certain seniority rights of those employees.

The restructuring plan will result in the additional charges in the first half of 2007 of \$1.5 million, pre-tax, primarily for pension-related settlement charges. Pension funding will be subject to regulatory review and approval and funding is anticipated to be made in the first half of

2007.

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,	
	2006	2005	2006	2005
Net sales	\$ 268.9	\$ 255.7	\$ 793.2	\$ 763.8
Cost of sales	(202.7)	(188.7)	(575.2)	(573.6)
Gross profit	66.2	67.0	218.0	190.2
Selling, general and administrative expenses	(31.2)	(30.8)	(97.6)	(90.5)
Engineering expenses	(8.1)	(8.0)	(24.2)	(24.8)
Amortization expense	(1.4)	(0.9)	(3.1)	(3.0)
Total operating expenses	(40.7)	(39.7)	(124.9)	(118.3)
Income from operations	25.5	27.3	93.1	71.9
Interest income (expense), net	0.1	(2.2)	(1.3)	(6.9)
Other expense, net	(0.1)	(1.3)	(1.3)	(3.0)
Income from continuing operations before income taxes	25.5	23.8	90.5	62.0
Income tax expense	(7.8)	(8.3)	(30.9)	(22.2)
Income from continuing operations	17.7	15.5	59.6	39.8
Discontinued operations	(0.3)	(0.4)	(1.0)	(0.3)
Net income	\$ 17.4	\$ 15.1	\$ 58.6	\$ 39.5

THIRD QUARTER 2006 COMPARED TO THIRD QUARTER 2005

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

<i>In thousands</i>	Three months ended September 30,		
	2006	2005	Percent Change
Net sales	\$ 268,889	\$ 255,670	5.2%
Income from operations	25,475	27,265	-6.6%
Net income	17,371	15,076	15.2%

Net sales increased by \$13.2 million to \$268.9 million from \$255.7 million for the three months ended September 30, 2006 and 2005, respectively. The increase is primarily related to increased sales from contracts to build locomotives of about \$14 million and increased revenues from our electronics business unit of \$17 million, partially offset by volume decreases of \$15 million for certain freight components, and \$7 million for the renovation of air conditioning units for transit cars. The Company did not realize any significant net sales improvement because of price increases or foreign exchange. Net income for the three months ended September 30, 2006 was \$17.4 million or \$0.35 per diluted share. Net income for the three months ended September 30, 2005 was \$15.1 million or \$0.31 per diluted share. As part of a restructuring plan, Wabtec recognized \$6.8 million in the 2006 third quarter for restructuring and other charges. Net income improved primarily due to sales increases, consistent operating costs, lower interest expense of \$2.2 million, reduced other expense of \$1 million, and a tax benefit of \$1.4 million that resulted from the resolution of certain tax issues from prior years. Offsetting these improvements was stock based compensation expense recognized under SFAS 123(R).

Net sales by segment Beginning with the first quarter of 2006, the Company transferred certain operations from the Freight to Transit Group to reflect a shift in the markets and customers served by those operations. Prior

Table of Contents

period results have been adjusted for comparability purposes. For the three-month period ended September 30, 2005, this reclassification increased Transit Group sales by about \$22 million. The following table shows the Company's net sales by business segment:

<i>In thousands</i>	Three months ended September 30,	
	2006	2005
Freight Group	\$ 179,474	\$ 178,083
Transit Group	89,415	77,587
Net sales	\$ 268,889	\$ 255,670

The Freight Group's increased sales reflected increased sales of aftermarket parts offset by decreased OEM sales of certain freight components and locomotive module contracts. Transit Group sales were higher due to increased commuter locomotive revenues.

Gross profit Gross profit decreased to \$66.2 million in the third quarter of 2006 compared to \$67.0 million in the same period of 2005. Gross profit is dependent on a number of factors including pricing, sales volume and product mix. In the third quarter of 2006, gross profit, as a percentage of sales, was 24.6% compared to 26.2% in 2005. The restructuring plan charges impacted gross margin, with \$6.3 million being recorded in cost of sales. Gross profit, as a percentage of sales, excluding these charges, would have been 27.0%, which improvement is due to a variety of factors including improved performance of a locomotive module contract which was profitable in the third quarter compared to a loss in the prior year same periods. For the three months ended September 30, 2006, the locomotive module contract overall improvement was \$2.1 million from the losses realized in the prior year. The remaining improvement is due to cost savings 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 \$1.8 million higher for the third quarter of 2006 compared to the same period in the prior year, which negatively impacted gross profit. The most significant reason for the increase is due to specific reserves related to certain transit door components of \$1.4 million being recognized for our North America operations. In general, reserves, which are established based on historical claims as a percentage of revenue, were higher for the locomotive manufacture and overhaul business unit. Sales have increased resulting in a higher reserve compared to prior quarter. Overall, our warranty reserve increased at September 30, 2006 compared to September 30, 2005 by \$3.4 million as reserves were established before claims were paid related to specific and general provisions discussed above.

Operating expenses The following table shows our operating expenses:

<i>In thousands</i>	Three months ended September 30, Percent		
	2006	2005	Change
Selling, general and administrative expenses	\$ 31,293	\$ 30,813	1.6%
Engineering expenses	8,068	7,995	0.9%
Amortization expense	1,362	896	52.0%
Total operating expenses	\$ 40,723	\$ 39,704	2.6%

Operating expenses increased \$1.0 million in the third quarter of 2006 compared to the same period of 2005. These expenses were 15.1% and 15.5% of sales for the quarters ended September 30, 2006 and 2005, respectively. The increase is due to expense recognized in connection with the adoption of SFAS 123(R) and certain other share-based compensation accruals for long-term incentive plans. Stock based compensation was

Table of Contents

\$1.7 million and \$955,000 for the three months ended September 30, 2006 and 2005, respectively. Amortization expense increased in 2006 due to the \$540,000 goodwill impairment related to the restructuring plan approved and implemented in the third quarter.

Income from operations Income from operations totaled \$25.5 million (or 9.5% of sales) in the third quarter of 2006 compared with \$27.3 million (or 10.7% of sales) in the same period of 2005. The decrease is due to increased sales and corresponding gross profit, offset by the \$6.8 million restructuring charge described earlier.

Interest income (expense), net Interest income, net was \$196,000 in the third quarter of 2006 compared to interest expense of \$2.2 million in the same period of 2005 primarily due to the Company's overall higher cash balances and rising interest rates, resulting in higher interest income.

Other income (expense), net The Company recorded a foreign exchange loss of \$124,000 and \$1.4 million, in the three months ended September 30, 2006 and 2005, 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 30.5% and 34.9% for the third quarter of 2006 and 2005, respectively. 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 third quarter of 2006 increased \$2.3 million, compared with the same period of 2005. This increase is the result of higher sales, decreased interest expense, net, decreased foreign exchange loss, and lower income taxes, offset by decreased gross margin because of the \$6.8 million restructuring charge and higher operating costs specific to the adoption of SFAS 123(R).

FIRST NINE MONTHS OF 2006 COMPARED TO FIRST NINE MONTHS OF 2005

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

<i>In thousands</i>	Nine months ended September 30,		
	2006	2005	Percent Change
Net sales	\$ 793,200	\$ 763,767	3.9%
Income from operations	93,144	71,920	29.5%
Net income	58,562	39,475	48.4%

Net sales increased by 3.5% from \$793.2 million in the first nine months of 2005 to \$763.8 million in the same period in 2006. The increase is primarily related to increased sales of locomotives of about \$20 million and increased revenues from our services, radiator and electronics business units of \$30 million, partially offset by volume decreases in transit related sales for doors and brakes; and certain overhaul contracts of \$21 million. Net income for the first nine months of 2006 was \$58.6 million or \$1.20 per diluted share. Net income for the same period of 2005 was \$39.5 million or \$0.83 per diluted share. As part of a restructuring plan, Wabtec recognized \$6.8 million in the 2006 third quarter for restructuring and other charges. Net income improved due to higher sales volume and gross profit on sales, lower interest expense of \$5.6 million, reduced other expense of \$1.8 million, and a tax benefit of \$1.4 million that resulted from the resolution of certain tax issues from prior years. Offsetting these improvements was the increase of stock based compensation expense of about \$6.1 million

Net sales by segment Beginning with the first quarter of 2006, the Company transferred certain operations from the Freight to the Transit Group to reflect a shift in the markets and customers served by those operations.

Table of Contents

Prior period results have been adjusted for comparability purposes. For the nine months ended September 30, 2005, this reclassification increased Transit Group sales by about \$62 million. The following table shows the Company's net sales by business segment:

<i>In thousands</i>	Nine months ended	
	September 30,	
	2006	2005
Freight Group	\$ 555,576	\$ 525,322
Transit Group	237,624	238,445
Net sales	\$ 793,200	\$ 763,767

The Freight Group's increased sales reflected higher sales of aftermarket parts. Decreases in OEM sales for certain freight components and locomotive module contracts were offset by increased freight brake sales. Transit Group sales were slightly lower due to a decline in transit revenue while certain large transit car contracts ramp up for 2007.

Gross profit Gross profit increased to \$218.0 million for the first nine months of 2006 compared to \$190.2 million in the same period of 2005. Gross profit is dependent on a number of factors including pricing, sales volume and product mix. In the first nine months of 2006, gross profit, as a percentage of sales, was 27.5% compared to 24.9% in 2005. In the third quarter of 2006, restructuring plan expense 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%, which improvement is due to a variety of factors including improved performance of a locomotive module contract which was profitable for the first nine months of 2006 compared to a loss in the prior year same periods. Also, in the first nine months of 2005, the Company recorded \$2.3 million in restructuring and asset impairment charges related to consolidating two U.K. facilities into one, relocating a product line from Canada to the U.S., and completion of a data center migration. 2005 gross profit, as a percentage of sales, excluding these charges, would have been 25.2%. The remaining improvement is due to cost savings 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 \$4.2 million higher for the nine months of 2006 compared to the same period in the prior year, which negatively impacted gross profit. The most significant reason for the increase is due to specific reserves related to certain transit door components of \$1.4 million being recognized for North America operations; and other freight components and electronic products. In general, reserves, which are established based on historical claims as a percentage of revenue, were higher for the locomotive manufacture and overhaul business unit, due to higher sales in that unit. Sales have increased resulting in a higher reserve compared to prior period. Overall, our warranty reserve increased at September 30, 2006 compared to September 30, 2005 by \$3.4 million as reserves were established before claims were paid related to specific provisions discussed above.

Operating expenses The following table shows our operating expenses:

<i>In thousands</i>	Nine months ended September 30,		
	Percent		
	2006	2005	Change
Selling, general and administrative expenses	\$ 97,591	\$ 90,448	7.9%
Engineering expenses	24,206	24,848	(2.6)%
Amortization expense	3,088	2,940	5.0%
Total operating expenses	\$ 124,885	\$ 118,236	5.6%

Table of Contents

Operating expenses increased \$6.6 million in the first nine months of 2006 compared to the same period of 2005. These expenses were 15.7% and 15.5% of sales for the first nine months ended September 30, 2006 and 2005, respectively. The increase is due primarily to expense recognized in connection with the adoption of SFAS 123(R) and certain other share-based compensation accruals for long-term incentive plans. During 2005, operating expenses included an information technology asset write-off of \$1.1 million. Stock based compensation was \$7.7 million and \$1.6 million for the nine months ended September 30, 2006 and 2005, respectively. The primary reason for the increase in stock based compensation expense between years is the issuance of shares in 2006 under a non-vested stock plan.

Income from operations Income from operations totaled \$93.1 million (or 11.7% of sales) in the first nine months of 2006 compared with \$71.9 million (or 9.4% of sales) in the same period of 2005. This increase is due to increased sales and improved gross profit described earlier.

Interest expense, net Interest expense, net decreased 80.4% in the first nine months of 2006 compared to the same period of 2005 primarily due to the Company's overall higher cash balances and rising interest rates, resulting in higher interest income.

Other income (expense), net The Company recorded a foreign exchange loss of \$1.1 million and \$3.1 million in the nine months ended September 30, 2006 and 2005, 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 34.2% and 35.8% for the first nine months of 2006 and 2005, respectively. During the third quarter of 2006, approximately \$1.4 million of tax benefit was recognized related to the release of tax contingency reserves.

Net income Net income for the first nine months of 2006 increased \$19.1 million, compared with the same period of 2005. This increase is the result of higher sales, decreased interest expense, net, decreased foreign exchange loss, and lower income taxes, offset by decreased gross margin because of the \$6.8 million restructuring charge and higher operating costs specific to the adoption of SFAS 123(R).

Liquidity and Capital Resources

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

<i>In thousands</i>	Nine months ended	
	September 30, 2006	2005
Cash provided (used) by:		
Operating activities	\$ 109,908	\$ 47,303
Investing activities	(9,813)	(51,835)
Financing activities	2,989	18,120
Net Change in Cash	106,220	10,835

Operating activities Cash provided by operations in the first nine months of 2006 was \$109.9 million as compared to \$47.3 million in the same period of 2005. This \$62.1 million increase was the result of increased earnings as well as certain changes in operating assets and liabilities. Net income for the Company increased \$19.1 million primarily as a result of improved profitability. Cash provided by accounts receivable improved operating cash flows by \$78.4 million, and was the result of the Company collecting large customer receivables in 2006 for certain locomotive contracts. In particular, customer deposits from certain locomotive contracts

Table of Contents

accounted for the majority of the cash provided from operations. Accrued income taxes decreased operating cash flows by \$5.5 million due to the timing of tax payments. Accounts payable and accrued liabilities were a use of cash by \$31.7 million compared to the prior period as accounts payable and other certain liabilities were reduced based on the timing of certain payments.

Investing activities In the first nine months of 2006 and 2005, cash used in investing activities was \$9.8 million and \$51.8 million, respectively. In 2005, the Company acquired the assets of Rütgers Rail S.p.A. for \$36.3 million, net of cash received. Capital expenditures were \$13.5 million and \$16.4 million in the first nine months of 2006 and 2005, respectively. The majority of capital expenditures for these periods related to upgrades to and replacement of existing equipment. Effective October 9, 2006, Wabtec acquired Schaefer Equipment, Inc., manufacturer of forged brake rigging components, for \$36.0 million in cash.

Financing activities In the first nine months of 2006 and 2005, cash provided by financing activities was \$3.0 million and \$18.1 million, respectively. The cash provided in 2006 included \$13.6 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. The cash provided in 2005 included \$19.6 million of proceeds from the exercise of stock options and other benefit plans, offset by \$1.4 million of dividend payments.

The following table shows our outstanding indebtedness at September 30, 2006 and December 31, 2005.

<i>In thousands</i>	September 30, 2006	December 31, 2005
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 balance at September 30, 2006 and December 31, 2005 was \$247.6 million and \$141.4 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. At September 30, 2006, the Company had available bank borrowing capacity, net of \$23.7 million of letters of credit, of approximately \$151.3 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, 2006 or during the year ended December 31, 2005.

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

Table of Contents

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.

6⁷/₈% 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 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 is permitted under the Refinancing Credit Agreement, as well as the 6⁷/₈% Senior Notes currently outstanding. During the third quarter 2006, 502,400 shares were repurchased at an average price of \$26.90 per share.

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; or

the development and use of new technology;

Competitive factors

the actions of competitors;

Political/governmental factors

political stability in relevant areas of the world;

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

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

The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make judgments, estimates and assumptions regarding uncertainties that affect the

Table of Contents

reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Areas of uncertainty that require judgments, estimates and assumptions include the accounting for derivatives, environmental matters, warranty reserves, the testing of goodwill and other intangibles for impairment, proceeds on assets to be sold, pensions and other postretirement benefits, and tax matters. Management uses historical experience and all available information to make these judgments and estimates, and actual results will inevitably differ from those estimates and assumptions that are used to prepare the Company's financial statements at any given time. Despite these inherent limitations, management believes that Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and the financial statements and related footnotes provide a meaningful and fair perspective of the Company. A discussion of the judgments and uncertainties associated with accounting for derivatives and environmental matters can be found in the Notes to Consolidated Financial Statements included elsewhere in this report.

On January 1, 2006, Wabtec adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment, which requires the company to recognize compensation expense for stock-based compensation based on the fair value of the share-based employee grants. SFAS No. 123(R) revises SFAS No. 123 Accounting for Stock-Based Compensation and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. Wabtec elected the modified prospective application method for adoption, and prior periods financial statements have not been restated.

SFAS No. 123(R) requires Wabtec to recognize compensation expense for stock-based compensation ratably over the requisite service period based on the fair value of the grant. Using the Black Scholes pricing model, determining the fair value of stock options at grant date requires judgment including estimates for the average risk-free interest rate, expected volatility, expected exercise behavior, expected dividend yield, and expected forfeitures. If any of these assumptions differ significantly from actual, stock-based compensation expense could be impacted. Compensation expense for the Employee Stock Purchase Plan, and Non-Vested Stock awards are based on fair market values determined at the date of award. Prior to the adoption of SFAS No. 123(R), the company accounted for stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations using the intrinsic value method, which resulted in no compensation cost for options granted.

Stock based compensation was \$7.7 million and \$1.6 million for the nine months ended September 30, 2006 and 2005, respectively. The primary reason for the increase in stock based compensation expense between years is the issuance of shares in 2006 under a non-vested stock plan and increased expense under a stock based incentive plan as a result of the improved performance of the Company. 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 addition, compensation expense of \$849,000 was recorded for the nine months ended September 30, 2006 related to the expensing of stock options in accordance with FAS 123(R).

The Company uses a Black-Scholes pricing model to estimate the fair value of stock options at grant date. Determining the fair value of stock options at grant date requires judgment, including estimates for the dividend yield, the average risk-free interest rate, expected volatility and expected life. The dividend yield is based on the Company's dividend rate and the current market price of the underlying common stock. The risk-free interest rate is based on the U.S. Treasury bond rate for the expected life of the option. Expected life in years is determined from historical stock option exercise data. Expected volatility is based on the historical volatility of Wabtec stock. If any of these assumptions differ significantly from actual, stock-based compensation expense could be impacted.

Stock awards under the incentive plans vest upon the achievement of certain financial goals for each three year period ending at December 31, 2006, 2007 and 2008, respectively. We estimate that the majority of stock awards granted will vest and have recorded compensation expense accordingly. If our estimate of the number of these stock awards expected to vest changes in a future accounting period, compensation expense could be reduced and will be recognized over the remaining vesting period.

Table of Contents

A summary of the Company's significant accounting policies is included in Note 2 in the Notes to Consolidated Financial Statements included elsewhere in this report. Management believes that the application of these policies on a consistent basis enables the Company to provide the users of the financial statements with useful and reliable information about the Company's operating results and financial condition.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From
Accounts Receivable and Allowance for Doubtful Accounts:		Assumptions
<p>The Company provides an allowance for doubtful accounts to cover anticipated losses on uncollectible accounts receivable.</p>	<p>The allowance for doubtful accounts receivable reflects our best estimate of probable losses inherent in our receivable portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other currently available evidence.</p>	<p>If our estimates regarding the collectibility of troubled accounts, and/or our actual losses within our receivable portfolio exceed our historical experience, we may be exposed to the expense of increasing our allowance for doubtful accounts.</p>
<p>Inventories:</p>	<p>Cost is determined under the first-in, first-out (FIFO) method. Inventory costs include material, labor and overhead.</p>	<p>If the market value of our products were to decrease due to changing market conditions, the Company could be at risk of incurring the cost of additional reserves to adjust inventory value to a market value lower than stated cost.</p>
<p>Inventory is reviewed to ensure that an adequate provision is recognized for excess, slow moving and obsolete inventories.</p>	<p>The Company compares inventory components to prior year sales history and current backlog and anticipated future requirements. To the extent that inventory parts exceed estimated usage and demand, a reserve is recognized to reduce the carrying value of inventory. Also, specific reserves are established for known inventory obsolescence.</p>	<p>If our estimates regarding sales and backlog requirements are inaccurate, we may be exposed to the expense of increasing our reserves for slow moving and obsolete inventory.</p>

Table of Contents

Description	Judgments and Uncertainties	Effect if Actual Results Differ From
Goodwill and Indefinite-Lived Intangibles:	Assumptions	
<p>Goodwill and indefinite-lived intangibles are required to be tested for impairment at least annually. The evaluation of impairment involves comparing the current fair value of the business to the recorded value (including goodwill).</p>	<p>We use a combination of a guideline public company market approach and a discounted cash flow model (DCF model) to determine the current fair value of the business. A number of significant assumptions and estimates are involved in the application of the DCF model to forecast operating cash flows, including markets and market share, sales volume and pricing, costs to produce and working capital changes.</p>	<p>Management considers historical experience and all available information at the time the fair values of its business are estimated. However, actual amounts realized may differ from those used to evaluate the impairment of goodwill.</p>
<p>Warranty Reserves:</p>	<p>In general, reserves are provided for as a percentage of sales, based on historical experience. In addition, specific reserves are established for known warranty issues and their estimable losses.</p>	<p>If actual results are not consistent with our assumptions and judgments used in estimating future cash flows and asset fair values, we may be exposed to additional impairment losses that could be material to our results of operations.</p>
<p>Accounting for Pensions and Postretirement Benefits:</p>	<p>Significant judgments and estimates are used in determining the liabilities and expenses for pensions and other postretirement benefits.</p>	<p>If actual results are not consistent with the assumptions and judgments used to calculate our warranty liability, the Company may be at risk of realizing material gains or losses.</p>
<p>These amounts are determined using actuarial methodologies and incorporate significant assumptions, including the rate used to discount the future estimated liability, the long-term rate of return on plan assets and several assumptions relating to the employee workforce (salary increases, medical costs, retirement age and mortality).</p>	<p>The rate used to discount future estimated liabilities is determined considering the rates available at year-end on debt instruments that could be used to settle the obligations of the plan. The long-term rate of return is estimated by considering historical returns and expected returns on current and projected asset allocations and is generally applied to a five-year average market value of assets.</p>	<p>If assumptions used in determining the pension and other postretirement benefits change significantly, these costs can fluctuate materially from period to period.</p>

Table of Contents

Description	Judgments and Uncertainties	Effect if Actual Results Differ From
Income Taxes:	Assumptions	
<p>As a global company, Wabtec records an estimated liability or benefit for income and other taxes based on what it determines will likely be paid in various tax jurisdictions in which it operates.</p>	<p>The estimate of our tax obligations are uncertain because management must use judgment to estimate the exposures associated with our various filing positions.</p>	<p>Management uses its best judgment in the determination of these amounts. However, the liabilities ultimately realized and paid are dependent on various matters including the resolution of the tax audits in the various affected tax jurisdictions and may differ from the amounts recorded.</p>
Revenue Recognition:		
<p>Revenue is recognized in accordance with Staff Accounting Bulletins (SABs) 101, Revenue Recognition in Financial Statements and 104 Revision of Topic 13.</p>	<p>Revenue is recognized when products have been shipped to the respective customers, title has passed and the price for the product has been determined.</p>	<p>An adjustment to the estimated liability would be recorded through income in the period in which it becomes probable that the amount of the actual liability differs from the recorded amount.</p>
<p>The Company recognizes revenues on long-term contracts based on the percentage of completion method of accounting. The units-of-delivery method or other 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.</p>	<p>For long-term contracts, 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.</p>	<p>Should market conditions and customer demands dictate changes to our standard shipping terms, the Company may be impacted by longer than typical revenue recognition cycles.</p>
<p>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.</p>	<p>Pre-production costs are recognized over the expected life of the contract usually based on the Company's progress toward the estimated number of units expected to be delivered under the production or supply contract.</p>	<p>Provisions are made currently for estimated losses on uncompleted contracts.</p>
		<p>A charge to expense for unrecognized portions of pre-production costs could be realized if the Company's estimate of the number of units to be delivered changes or the underlying contract is cancelled.</p>

Table of Contents

Recent Accounting Pronouncements

See Notes 2 and 6 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, 2006.

Foreign Currency Exchange Risk

The Company occasionally enters into several types of financial instruments for the purpose of managing its exposure to foreign currency exchange rate fluctuations in countries in which the Company has significant operations. As of September 30, 2006, we had several such instruments outstanding to hedge currency rate fluctuation in 2006.

The Company 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 we can either take delivery of the currency or settle on a net basis. All outstanding forward contracts and option agreements are for the sale of U.S. Dollars (USD) and the purchase of Canadian Dollars (CAD). As of September 30, 2006, the Company has forward contracts with a notional value of \$15.0 million CAD (or \$12.6 million U.S.), with an average exchange rate of \$0.84 USD per \$1 CAD, resulting in the recording of a current asset and an increase in comprehensive income of \$732,000 net of tax.

Wabtec is also subject to certain risks associated with changes in foreign currency exchange rates to the extent its operations are conducted in currencies other than the U.S. dollar. For the first nine months of 2006, approximately 66% of Wabtec's net sales are in the United States, 11% in Canada, 2% in Mexico, and 21% in other international locations, primarily Europe.

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, 2006. Based upon their evaluation, the principal executive officer and principal financial officer concluded that Wabtec's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by Wabtec in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to provide reasonable assurance that information required to be disclosed by Wabtec in such reports is accumulated and communicated to Wabtec's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There was no change in Wabtec's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2006, 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 AND COMMITMENTS AND CONTINGENCIES**

Except as disclosed in Note 12 of the Company's Notes to Condensed Consolidated Financial Statements for the Quarterly Period Ended September 30, 2006, 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, 2005.

Item 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in our 2005 Annual Report on Form 10-K.

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

<i>Period</i>	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 2, 2006 to July 29, 2006		\$		\$ 50,000,000
July 30, 2006 to August 26, 2006				50,000,000
August 27, 2006 to September 30, 2006	502,400	26.90	502,400	43,347,705
Total	502,400	\$ 26.90	502,400	43,347,705

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^{7/8}% Senior Notes currently outstanding. During the third quarter 2006, 502,400 shares were repurchased at an average price of \$26.90 per share.

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, 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.
- 10.1 Stock Purchase Agreement dated October 6, 2006 by and among the shareholders of Schaefer Manufacturing, Inc., Wabtec Holding Corporation, and CCP Limited Partnership.
- 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

41

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, 2006

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description and Method of Filing
3.1	Restated Certificate of Incorporation of the Company dated January 30, 1995, as amended March 30, 1995, filed as an exhibit to the Company's Registration Statement on Form S-1 (No. 33-90866), and incorporated herein by reference.
3.2	Amended and Restated By-Laws of the Company, dated as of January 6, 2006, filed as an exhibit to Form 8-K filed on January 9, 2006.
10.1	Stock Purchase Agreement dated October 6, 2006 by and among the shareholders of Schaefer Manufacturing, Inc., Wabtec Holding Corporation, and CCP Limited Partnership.
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