

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP
Form 10-Q
May 07, 2009
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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 March 31, 2009

OR

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

Commission file number: 1-13782

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of

25-1615902
(I.R.S. Employer

incorporation or organization)

Identification No.)

1001 Air Brake Avenue

Wilmerding, PA
(Address of principal executive offices)

15148
(Zip Code)

412-825-1000

(Registrant's telephone number, including area code)

N/A

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

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

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

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

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

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

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

| Class | Outstanding at May 4, 2009 |
|---|----------------------------|
| Common Stock, \$.01 par value per share | 47,764,141 shares |

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**WESTINGHOUSE AIR BRAKE
TECHNOLOGIES CORPORATION**

March 31, 2009 FORM 10-Q

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

| <i>In thousands, except shares and par value</i> | Unaudited March 31, 2009 | December 31, 2008 |
|--|---|------------------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 98,092 | \$ 141,805 |
| Accounts receivable | 259,607 | 273,560 |
| Inventories | 253,329 | 264,158 |
| Deferred income taxes | 31,100 | 31,133 |
| Other current assets | 9,470 | 14,693 |
| Total current assets | 651,598 | 725,349 |
| Property, plant and equipment | 419,297 | 431,604 |
| Accumulated depreciation | (225,968) | (224,056) |
| Property, plant and equipment, net | 193,329 | 207,548 |
| Other Assets | | |
| Goodwill | 396,840 | 319,449 |
| Other intangibles, net | 159,921 | 236,740 |
| Deferred income taxes | 1,072 | 1,052 |
| Other noncurrent assets | 18,175 | 17,382 |
| Total other assets | 576,008 | 574,623 |
| Total Assets | \$ 1,420,935 | \$ 1,507,520 |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities | | |
| Accounts payable | \$ 126,287 | \$ 162,633 |
| Accrued income taxes | 7,103 | |
| Customer deposits | 61,141 | 80,353 |
| Accrued compensation | 27,180 | 36,483 |
| Accrued warranty | 20,638 | 20,933 |
| Current portion of long-term debt | 30,727 | 30,381 |
| Other accrued liabilities | 38,761 | 57,268 |
| Total current liabilities | 311,837 | 388,051 |
| Long-term debt | 331,753 | 356,699 |
| Reserve for postretirement and pension benefits | 66,936 | 69,343 |
| Deferred income taxes | 13,877 | 12,870 |
| Accrued warranty | 10,778 | 9,743 |
| Other long term liabilities | 26,331 | 25,443 |
| Total liabilities | 761,512 | 862,149 |

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Shareholders Equity

| | | |
|--|--------------|--------------|
| Preferred stock, 1,000,000 shares authorized, no shares issued | | |
| Common stock, \$.01 par value; 100,000,000 shares authorized: 66,174,767 shares issued and 47,866,441 and 47,907,357 outstanding at March 31, 2009 and December 31, 2008, respectively | 662 | 662 |
| Additional paid-in capital | 325,419 | 328,587 |
| Treasury stock, at cost, 18,308,326 and 18,267,410 shares, at March 31, 2009 and December 31, 2008, respectively | (279,908) | (276,421) |
| Retained earnings | 685,269 | 653,083 |
| Accumulated other comprehensive (loss) income | (72,019) | (60,540) |
| Total shareholders equity | 659,423 | 645,371 |
| Total Liabilities and Shareholders Equity | \$ 1,420,935 | \$ 1,507,520 |

The accompanying notes are an integral part of these statements.

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| <i>In thousands, except per share data</i> | Unaudited Three Months Ended March 31, | |
|---|---|-------------|
| | 2009 | 2008 |
| Net sales | \$ 377,960 | \$ 383,327 |
| Cost of sales | (271,475) | (278,112) |
| Gross profit | 106,485 | 105,215 |
| Selling, general and administrative expense | (38,787) | (40,445) |
| Engineering expense | (10,559) | (9,981) |
| Amortization expense | (1,391) | (903) |
| Total operating expenses | (50,737) | (51,329) |
| Income from operations | 55,748 | 53,886 |
| Other income and expenses | | |
| Interest (expense) income, net | (4,936) | (1,481) |
| Other expense, net | 389 | (383) |
| Income from continuing operations before income taxes | 51,201 | 52,022 |
| Income tax expense | (18,535) | (19,509) |
| Income from continuing operations | 32,666 | 32,513 |
| Discontinued operations | | |
| Income (loss) from discontinued operations (net of tax) | | (3) |
| Net income | \$ 32,666 | \$ 32,510 |
| Earnings Per Common Share | | |
| Basic | | |
| Income from continuing operations | \$ 0.68 | \$ 0.67 |
| Income from discontinued operations | | |
| Net income | \$ 0.68 | \$ 0.67 |
| Diluted | | |
| Income from continuing operations | \$ 0.68 | \$ 0.66 |
| Income from discontinued operations | | |
| Net income | \$ 0.68 | \$ 0.66 |
| Weighted average shares outstanding | | |
| Basic | 47,645 | 48,379 |
| Diluted | 48,131 | 49,037 |

The accompanying notes are an integral part of these statements.

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| <i>In thousands</i> | Unaudited Three Months Ended March 31, | |
|--|---|-------------|
| | 2009 | 2008 |
| Operating Activities | | |
| Net income | \$ 32,666 | \$ 32,510 |
| Stock-based compensation expense | 797 | 1,750 |
| (Gain) loss on disposal of property, plant and equipment | (2,688) | 60 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Discontinued operations | | (38) |
| Depreciation and amortization | 8,402 | 7,332 |
| Excess income tax benefits from exercise of stock options | | (117) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 10,629 | (61,543) |
| Inventories | 8,286 | (9,070) |
| Accounts payable | (35,025) | (8,168) |
| Accrued income taxes | 7,903 | 13,576 |
| Accrued liabilities and customer deposits | (43,647) | (9,551) |
| Other assets and liabilities | 6,939 | (630) |
| Net cash (used for) operating activities | (5,738) | (33,889) |
| Investing Activities | | |
| Purchase of property, plant and equipment and other | (3,439) | (3,891) |
| Proceeds from disposal of property, plant and equipment | 3,638 | 53 |
| Net cash provided by (used for) investing activities | 199 | (3,838) |
| Financing Activities | | |
| Proceeds from debt | 6,000 | |
| Payments of debt | (31,058) | (19) |
| Issuance of treasury stock for stock options and other benefit plans | (180) | 285 |
| Stock repurchase | (7,272) | (24,466) |
| Excess income tax benefits from exercise of stock options | | 117 |
| Cash dividends (\$0.01 per share for the three months ended March 31, 2009 and 2008) | (480) | (488) |
| Net cash (used for) financing activities | (32,990) | (24,571) |
| Effect of changes in currency exchange rates | (5,184) | 2,442 |
| Decrease in cash | (43,713) | (59,856) |
| Cash, beginning of year | 141,805 | 234,689 |
| Cash, end of period | \$ 98,092 | \$ 174,833 |

The accompanying notes are an integral part of these statements.

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009 (UNAUDITED)

1. BUSINESS

Wabtec is one of the world's largest providers of value-added, technology-based products and services for the global rail industry. Our products are found on virtually all U.S. locomotives, freight cars and passenger transit vehicles, as well as in more than 100 countries throughout the world. Our products enhance safety, improve productivity and reduce maintenance costs for customers, and many of our core products and services are essential in the safe and efficient operation of freight rail and passenger transit vehicles. Wabtec is a global company with operations in 16 countries. In the first three months of 2009, about 36% of the Company's revenues came from customers outside the U.S.

2. ACCOUNTING POLICIES

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

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

The notes included herein should be read in conjunction with the audited consolidated financial statements included in Wabtec's Annual Report on Form 10-K for the year ended December 31, 2008. The December 31, 2008 information has been derived from the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

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

Certain pre-production costs relating to long-term production and supply contracts have been deferred and will be recognized over the life of the contracts. Deferred pre-production costs were \$11.2 million and \$11.0 million at March 31, 2009 and December 31, 2008, respectively.

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

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009 (UNAUDITED)

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

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

At March 31, 2009, the Company had forward contracts for the sale of South African Rand (ZAR) and the purchase of U.S. Dollars (USD). The Company concluded that these foreign currency forward contracts qualify for cash flow hedge accounting which permits the recording of the fair value of the forward contract and corresponding adjustment to other comprehensive income (loss), net of tax, on the balance sheet. As of March 31, 2009, the Company had forward contracts with a notional value of 4.4 million ZAR (or \$436,000 USD), with an average exchange rate of 10.11 ZAR per \$1USD, resulting in the recording of a current liability of \$86,000 and a corresponding offset in accumulated other comprehensive loss of \$55,000, net of tax.

To reduce the impact of interest rate changes on a portion of its variable-rate debt, the Company entered into interest rate swaps which effectively convert a portion of the debt from variable to fixed-rate borrowings during the term of the swap contracts. The Company is exposed to credit risk in the event of nonperformance by the counterparties. However, since only the cash interest payments are exchanged, exposure is significantly less than the notional amount. The counterparties are large financial institutions and the Company does not anticipate nonperformance. The Company concluded that these interest rate swap agreements qualify for special cash flow hedge accounting which permits the recording of the fair value of the interest rate swap agreements and corresponding adjustment to other comprehensive income (loss), net of tax, on the balance sheet. As of March 31, 2009, the Company had interest rate swap agreements with a notional value of \$177.5 million and which effectively changed the Company's interest rate on bank debt at March 31, 2009 from a variable rate to a fixed rate of 2.14%. The interest rate swap agreements mature at various times through January 2010. As of March 31, 2009, the Company recorded a current liability of \$321,000 and a corresponding offset in accumulated other comprehensive loss of \$194,000, 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 transactions that are denominated in a currency other than an entity's functional currency are charged or credited to earnings. Foreign exchange transaction gain recognized in income were \$422,000 for the three months ended March 31, 2009 and foreign exchange transaction losses recognized in income were \$342,000 for the three months ended March 31, 2008.

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

| <i>In thousands</i> | Three Months Ended | |
|--|---------------------------|------------------|
| | March 31, | |
| | 2009 | 2008 |
| Net income | \$ 32,666 | \$ 32,510 |
| Foreign currency translation (loss) gain | (11,565) | 8,381 |
| Unrealized (loss) gain on foreign exchange contracts and interest rate swaps, net of tax | (275) | 150 |
| Change in pension and post retirement benefit plans, net of tax | 361 | 255 |
| Total comprehensive income | \$ 21,187 | \$ 41,296 |

The components of accumulated other comprehensive (loss) income were:

| <i>In thousands</i> | March 31, | December 31, |
|--|--------------------|---------------------|
| | 2009 | 2008 |
| Foreign currency translation loss | \$ (30,705) | \$ (19,140) |
| Unrealized (loss) gain on foreign exchange contracts and interest rate swaps, net of tax | (249) | 26 |
| Pension benefit plans and post retirement benefit plans, net of tax | (41,065) | (41,426) |
| Total accumulated comprehensive (loss) income | \$ (72,019) | \$ (60,540) |

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

Recent Accounting Pronouncements In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The statement indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. SFAS 157 defines fair value based upon an exit price model. Relative to SFAS 157, the FASB issued FASB Staff Positions (FSP) 157-1, 157-2, and 157-3. FSP 157-1 amends SFAS 157 to exclude SFAS 13 and its related interpretive accounting pronouncements that address leasing transactions, while FSP 157-2 delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. FSP 157-3 clarifies the application of SFAS 157 as it relates to the valuation of financial assets in a market that is not active for those financial assets. This FSP is effective immediately and includes those periods for which financial statements have not been issued. The Company does not have any financial assets that are valued using inactive markets, and as such is not impacted by the issuance of this FSP. The Company adopted SFAS 157 as of January 1, 2008, with the exception of the application of the statement to non-recurring nonfinancial assets and nonfinancial liabilities. The Company adopted SFAS 157 as of January 1, 2009 for all non-recurring nonfinancial assets and nonfinancial liabilities. This standard did not have a material impact on the Company's financial condition and results of operations. Refer to Note 13 to the Condensed Consolidated Financial Statements for additional discussion on fair value measurements.

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009 (UNAUDITED)

In December 2007, the FASB issued SFAS No. 141 (Revised), *Business Combinations* (SFAS 141(R)), replacing SFAS No. 141, *Business Combinations* (SFAS 141), and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an Amendment of ARB No. 51* (SFAS 160). SFAS 141(R) retains the fundamental requirements of SFAS 141, broadens its scope by applying the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses, and requires, among other things, that assets acquired and liabilities assumed be measured at fair value as of the acquisition date, that liabilities related to contingent consideration be recognized at the acquisition date and remeasured at fair value in each subsequent reporting period, that acquisition-related costs be expensed as incurred, and that income be recognized if the fair value of the net assets acquired exceeds the fair value of the consideration transferred. SFAS 160 establishes accounting and reporting standards for noncontrolling interests (i.e., minority interests) in a subsidiary, including changes in a parent's ownership interest in a subsidiary and requires, among other things, that noncontrolling interests in subsidiaries be classified as a separate component of equity. Except for the presentation and disclosure requirements of SFAS 160, which are to be applied retrospectively for all periods presented, SFAS 141(R) and SFAS 160 are to be applied prospectively in financial statements issued for fiscal years beginning after December 15, 2008. This standard was effective for the Company for business combination transactions for which the acquisition date was on or after January 1, 2009. No business combination transactions occurred during the three months ended March 31, 2009.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an Amendment FASB Statement No. 133* (SFAS 161). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS 161 applies to all derivative instruments within the scope of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133) as well as related hedged items, bifurcated derivatives, and nonderivative instruments that are designated and qualify as hedging instruments. Entities with instruments subject to SFAS 161 must provide more robust qualitative disclosures and expanded quantitative disclosures. SFAS 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The adoption of SFAS 161 did not have a material impact on the Company's financial condition and results of operations. In June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). FSP EITF 03-6-1 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. Upon adoption, a company is required to retrospectively adjust its earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform with the provisions of FSP EITF 03-6-1. The Company adopted FSP EITF 03-6-1 as of January 1, 2009, and has computed earnings per share based on the two-class method. Refer to Note 11 to the Condensed Consolidated Financial Statements for additional discussion on earnings per share.

In December 2008, the FASB issued FSP SFAS No. 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP SFAS 132(R)-1). FSP SFAS 132(R)-1 amends SFAS No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, (SFAS 132(R)), to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The additional disclosure requirements under this FSP include expanded disclosures about an entity's investment policies and strategies, the categories of plan assets, concentrations of credit risk and fair value measurements of plan assets. The adoption of FSP SFAS 132(R)-1 did not have a material impact on the Company's financial condition and results of operations.

Table of Contents**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009 (UNAUDITED)****3. ACQUISITIONS AND DISCONTINUED OPERATIONS**

On December 5, 2008, the Company acquired Standard Car Truck Company (SCT), a manufacturer and designer of stabilization systems for freight cars, including engineered truck (undercarriage) components such as springs, friction wedges and wear plates. Its Barber® brand truck design is used throughout the world and holds a leading share of the North American market. The company also manufactures and services locomotives components, including compressors and pumps. The purchase price was \$302.5 million, net of cash received, resulting in preliminary additional goodwill of \$148.6 million, of which all will be deductible for tax purposes. Included in the purchase price of \$302.5 million is \$25.0 million related to an escrow deposit, which may be released to the Company for working capital adjustments or indemnity claims in accordance with the purchase and escrow agreements. On December 5, 2008, the Company acquired a majority of Beijing Wabtec Huaxia Technology Company, Ltd. (Huaxia) for \$5.6 million and invested \$2.8 million in Shenyang CNR Wabtec Railway Brake Technology Company, Ltd. (Shenyang) for a minority interest in the joint venture Company. Huaxia and Shenyang manufacture braking equipment, including brake shoes, pads and friction linings for the freight car market in China. On October 27, 2008, the Company acquired certain assets related to the development, sale, service, and maintenance of software programs used in train management systems for \$4.5 million. On June 30, 2008, the Company acquired 100% of the stock of Poli S.p.A. (Poli), a European-based manufacturer of rail braking equipment including brake discs for high speed applications, as well as tread brake units and pneumatic brake valves that meet International Union of Railways (UIC) standards. Poli will primarily operate as a business of Wabtec's Transit Group. The purchase price was \$22.6 million (about \$82.4 million USD), net of cash received, resulting in preliminary additional goodwill of \$22.6 million, of which none will be deductible for tax purposes. Included in the purchase price is \$11.8 million related to an escrow deposit, which may be released to the Company for indemnity claims, environmental claims or allocation of tax liabilities in accordance with the purchase and escrow agreements.

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

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

| <i>In thousands</i> | SCT December 5, 2008 | Poli June 30, 2008 |
|--------------------------------------|----------------------------|--------------------------|
| Current assets | \$ 83,286 | \$ 25,053 |
| Property, plant & equipment | 23,776 | 12,044 |
| Goodwill and other intangible assets | 221,470 | 59,982 |
| Other assets | 1,123 | 316 |
| Total assets acquired | 329,655 | 97,395 |
| Total liabilities assumed | (27,140) | (14,956) |
| Net assets acquired | \$ 302,515 | \$ 82,439 |

Of the preliminary allocation of \$72.9 million of acquired intangible assets for SCT exclusive of goodwill, \$28.9 million was assigned to trade name, \$37.3 million was assigned to customer relationships, \$743,000 was assigned to patents, \$1.0 million was assigned to customer backlog and \$5.0 million was assigned to long term contracts. The trade name is considered to have an indefinite useful life while the customer relationships average useful life is 25 years and patents average useful life is nine years. Of the preliminary allocation of \$37.4 million

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of acquired intangible assets for Poli, exclusive of goodwill, \$18.8 million was assigned to trade name, \$17.8 million was assigned to customer relationships, \$449,000 was assigned to patents and \$312,000 was assigned to customer backlog. The trade name is considered to have an indefinite useful life while the customer relationships average useful life is 15 years and patents average useful life is eight years.

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

| <i>In thousands, except per share</i> | Three months ended March 31, 2008 |
|---------------------------------------|--|
| Net sales | \$ 447,540 |
| Gross profit | 124,071 |
| Net income | \$ 38,850 |
| Diluted earnings per share | |
| As reported | \$ 0.66 |
| Pro forma | \$ 0.79 |

4. INVENTORIES

The components of inventory, net of reserves, were:

| <i>In thousands</i> | March 31, 2009 | December 31, 2008 |
|---------------------|---------------------------|------------------------------|
| Raw materials | \$ 99,390 | \$ 95,270 |
| Work-in-process | 89,931 | 89,474 |
| Finished goods | 64,008 | 79,414 |
| Total inventory | \$ 253,329 | \$ 264,158 |

5. RESTRUCTURING AND IMPAIRMENT CHARGES

Since 2006, Wabtec has downsized its Canadian operations by moving certain products to lower-cost facilities and outsourcing. In the Freight segment, no charges were taken for the three months ended March 31, 2009 and 2008. Total expenses for restructuring and other expenses recorded since 2006 have been \$16.5 million, comprised of the \$5.6 million for employee severance costs for approximately 400 salaried and hourly employees; \$5.5 million of pension and postretirement benefit curtailment for those employees; \$4.8 million related to asset impairments for structures, machinery, and equipment; and \$541,000 for goodwill impairment. The goodwill impairment was recorded as amortization expense and most of the other charges were recorded in cost of sales. Severance costs are contractual liabilities and payment is dependent on the waiver by or expiration of certain seniority rights of those employees. As of March 31, 2009, \$3.7 million of this amount had been paid.

6. INTANGIBLES

Goodwill was \$396.8 million and \$319.4 million at March 31, 2009 and December 31, 2008, respectively. The change in the carrying amount of goodwill by segment for the three months ended March 31, 2009 is as follows:

| <i>In thousands</i> | Freight Group | Transit Group | Total |
|---|--------------------------|--------------------------|--------------|
| Balance at December 31, 2008 | \$ 182,247 | \$ 137,202 | \$ 319,449 |
| Adjustment to preliminary purchase allocation | 81,001 | (1,012) | 79,989 |
| Foreign currency impact | (47) | (2,551) | (2,598) |
| Balance at March 31, 2009 | \$ 263,201 | \$ 133,639 | \$ 396,840 |

Table of Contents**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009 (UNAUDITED)**

As of March 31, 2009 and December 31, 2008, the Company's trademarks had a net carrying amount of \$78.6 million and \$75.6 million, respectively, and the Company believes these intangibles have an indefinite life. Intangible assets of the Company, other than goodwill and trademarks, consist of the following:

| <i>In thousands</i> | March 31, 2009 | December 31, 2008 |
|--|---------------------------|------------------------------|
| Patents and other, net of accumulated amortization of \$27,052 and \$28,294 | \$ 16,731 | \$ 19,409 |
| Customer relationships, net of accumulated amortization of \$3,984 and \$3,399 | 64,601 | 141,739 |
| Total | \$ 81,332 | \$ 161,148 |

The weighted average remaining useful life of patents, customer relationships and intellectual property were eight years, 19 years and 20 years, respectively. Amortization expense for intangible assets was \$1.4 million and \$887,000 for the three months ended March 31, 2009 and 2008, respectively.

7. LONG-TERM DEBT

Long-term debt consisted of the following:

| <i>In thousands</i> | March 31, 2009 | December 31, 2008 |
|-------------------------------|---------------------------|------------------------------|
| 6.875% Senior Notes, due 2013 | \$ 150,000 | \$ 150,000 |
| Term Loan Facility | 192,500 | 200,000 |
| Revolving Credit Facility | 19,000 | 36,000 |
| Capital Leases | 980 | 1,080 |
| Total | 362,480 | 387,080 |
| Less current portion | 30,727 | 30,381 |
| Long-term portion | \$ 331,753 | \$ 356,699 |

2008 Refinancing Credit Agreement

On November 4, 2008, the Company refinanced its existing unsecured revolving credit agreement with a consortium of commercial banks. This 2008 Refinancing Credit Agreement provides the company with a \$300 million five-year revolving credit facility and a \$200 million five-year term loan facility. The Company incurred \$2.9 million of deferred financing cost related to the 2008 Refinancing Credit Agreement. Both facilities expire in January 2013. The 2008 Refinancing Credit Agreement borrowings bear variable interest rates indexed to the indices described below. At March 31, 2009 the weighted average interest rate on the Company's variable rate debt was 1.81%. At March 31, 2009, the Company had available bank borrowing capacity, net of \$56.9 million of letters of credit, of approximately \$262.1 million, subject to certain financial covenant restrictions.

Under the 2008 Refinancing Credit Agreement, the Company may elect a Base Rate of interest or an interest rate based on the London Interbank Offered Rate (LIBOR) of interest (the Alternate Rate). The Base Rate adjusts on a daily basis and is the greater of the PNC, N.A. prime rate,

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30-day LIBOR plus 150 basis points or the Federal Funds Effective Rate plus 0.5% per annum, plus a margin that ranges from 25 to 50 basis points. The Alternate rate is based on quoted LIBOR rates plus a margin that ranges from 125 to 200 basis points. Both the

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009 (UNAUDITED)

Base Rate and Alternate Rate margins are dependent on the Company's consolidated total indebtedness to cash flow ratios. The Base Rate margin is zero basis points and the initial Alternate Rate margin is 125 basis points. To reduce the impact of interest rate changes on a portion of this variable-rate debt, the Company entered into interest rate swaps which effectively convert a portion of the debt from variable to fixed-rate borrowings during the term of the swap contracts. On March 31, 2009, the notional value of interest rate swaps outstanding totaled \$177.5 million and effectively changed the Company's interest rate on bank debt at March 31, 2009 from a variable rate to a fixed rate of 2.14%. The interest rate swap agreements mature at various times through January 2010. The Company is exposed to credit risk in the event of nonperformance by the counterparties. However, since only the cash interest payments are exchanged, exposure is significantly less than the notional amount. The counterparties are large financial institutions and the Company does not anticipate nonperformance.

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

6.875% Senior Notes Due August 2013

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

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

8. EMPLOYEE BENEFIT PLANS

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

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009 (UNAUDITED)

Defined Benefit Pension Plans

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

| <i>In thousands, except percentages</i> | U.S. Three months ended March 31, | | International Three months ended March 31, | |
|---|---|---------------|--|-----------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net periodic benefit cost | | | | |
| Service cost | \$ 75 | \$ 76 | \$ 631 | \$ 888 |
| Interest cost | 693 | 691 | 1,578 | 1,921 |
| Expected return on plan assets | (808) | (833) | (1,439) | (2,220) |
| Net amortization/deferrals | 391 | 339 | 485 | 369 |
| Curtailement loss recognized | | | 437 | 132 |
| Net periodic benefit cost | \$ 351 | \$ 273 | \$ 1,692 | \$ 1,090 |

Assumptions

| | | | | |
|-----------------------------------|-------|-------|-------|-------|
| Discount rate | 6.25% | 6.35% | 6.69% | 5.62% |
| Expected long-term rate of return | 8.00% | 8.00% | 7.34% | 7.17% |
| Rate of compensation increase | 3.00% | 3.00% | 3.47% | 3.84% |

The Company's funding methods are based on governmental requirements and differ from those methods used to recognize pension expense, which is primarily based on the projected unit credit method applied in the accompanying financial statements. The Company does not expect to contribute to the U.S. plans and expects to contribute \$9.1 million to the international plans during 2009.

Post Retirement Benefit Plans

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

| <i>In thousands, except percentages</i> | U.S. Three months ended March 31, | | International Three months ended March 31, | |
|---|---|---------------|--|----------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net periodic benefit cost | | | | |
| Service cost | \$ 62 | \$ 50 | \$ 9 | \$ 13 |
| Interest cost | 470 | 495 | 50 | 53 |
| Net amortization/deferrals | (221) | (226) | (57) | (103) |
| Net periodic benefit cost | \$ 311 | \$ 319 | \$ 2 | \$ (37) |

Assumptions

| | | | | |
|---------------|-------|-------|-------|-------|
| Discount rate | 6.25% | 6.35% | 7.50% | 5.50% |
|---------------|-------|-------|-------|-------|

9. STOCK-BASED COMPENSATION

As of March 31, 2009, the Company maintains employee stock-based compensation plans for stock options, restricted stock, and incentive stock awards as governed by the 2000 Stock Incentive Plan, as amended (the 2000 Plan). The Company also maintains a Non-Employee Directors Fee and Stock Option Plan (Directors Plan).

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009 (UNAUDITED)

Stock-based compensation expense was \$0.8 million and \$1.8 million for the three months ended March 31, 2009 and 2008, respectively. Included in the stock-based compensation expense for 2009 above is \$384,000 of expense related to stock options and \$747,000 related to restricted stock, offset by a reduction in expense of \$334,000 related to incentive stock awards. At March 31, 2009, unamortized compensation expense related to those stock options, restricted shares and incentive stock awards expected to vest totaled \$20.0 million and will be recognized over a weighted average period of 2.5 years.

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

The following table summarizes the Company's stock option activity and related information for both the 2000 Plan and Directors Plan for the three months ended March 31, 2009:

| | Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate intrinsic value (in thousands) |
|----------------------------------|-----------|--|---|--|
| Outstanding at December 31, 2008 | 1,054,244 | \$ 20.16 | 5.5 | \$ 20,655 |
| Granted | 313,000 | 30.23 | | (881) |
| Exercised | | | | |
| Canceled | (12,500) | 32.51 | | (64) |
| Outstanding at March 31, 2009 | 1,354,744 | \$ 22.37 | 6.4 | \$ 6,839 |
| Exercisable at March 31, 2009 | 836,110 | \$ 16.02 | 4.6 | \$ 9,530 |

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 months ended March 31, | |
|-------------------------|---------------------------------|-------|
| | 2009 | 2008 |
| Dividend yield | .13% | .11% |
| Risk-free interest rate | 2.05% | 3.7% |
| Stock price volatility | 43.8% | 33.9% |
| Expected life (years) | 5.0 | 5.0 |

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

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

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In addition, the Company has issued incentive stock awards to eligible employees that vest upon attainment of certain cumulative three year performance goals. The incentive stock awards included in the table below represent the maximum number of shares that may ultimately vest. As of March 31, 2009, based on the

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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.

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

The following table summarizes the restricted stock and incentive stock awards activity and related information for the three months ended March 31, 2009:

| | Restricted Stock | Incentive Stock Awards | Weighted Average Grant Date Fair Value |
|----------------------------------|-----------------------------|---------------------------------------|---|
| Outstanding at December 31, 2008 | 279,792 | 699,666 | \$ 35.12 |
| Granted | 89,500 | 174,000 | 29.00 |
| Vested | (102,334) | (170,334) | 36.28 |
| Canceled | (10,750) | (7,000) | 32.72 |
| Outstanding at March 31, 2009 | 256,208 | 696,332 | \$ 33.14 |

10. INCOME TAXES

The overall effective income tax rate was 36.2% and 37.5% for the three months ended March 31, 2009 and 2008, respectively. The decrease in effective rate is primarily due to the legislative extension of the research and development tax credit through 2009.

As of January 1, 2009, the liability for income taxes associated with uncertain tax positions was \$17.1 million. If the benefits of the uncertain tax positions are realized, \$10.1 million would favorably affect the Company's effective tax rate. The total liability related to uncertain tax positions as of March 31, 2009 is \$17.4 million. If the benefits of the uncertain tax positions are realized, \$10.3 million would favorably affect the Company's effective tax rate.

The Company includes interest and penalties related to uncertain tax positions in income tax expense. As of January 1, 2009, the Company had accrued interest and penalties related to uncertain tax positions of approximately \$4.4 million and \$2.4 million, respectively. The total interest and penalties accrued as of March 31, 2009 are approximately \$4.8 million and \$2.6 million, respectively.

The Internal Revenue Service is currently auditing the 2005 and 2006 tax years. With limited exception, the Company is no longer subject to examination by various U.S. and foreign taxing authorities for years before 2004.

At this time, the Company believes that it is reasonably possible that unrecognized tax benefits of approximately \$6.7 million may change within the next 12 months due to the expiration of statutory review periods and current examinations.

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009 (UNAUDITED)

11. EARNINGS PER SHARE

The computation of basic and diluted earnings per share for income from continuing operations is as follows:

| <i>In thousands, except per share</i> | Three Months Ended March 31, | |
|---|---|-------------|
| | 2009 | 2008 |
| Numerator | | |
| Numerator for basic and diluted earnings per common share income from continuing operations applicable to common shareholders | \$ 32,666 | \$ 32,513 |
| Less: dividends declared common shares and non-vested restricted stock | (480) | (488) |
| Undistributed earnings | 32,186 | 32,025 |
| Percentage allocated to common shareholders(1) | 99.5% | 99.4% |
| | 32,024 | 31,848 |
| Add: dividends declared common shares | 478 | 486 |
| Numerator for basic and diluted earnings per common share | \$ 32,502 | \$ 32,334 |
| Denominator | | |
| Denominator for basic earnings per common share weighted-average shares | 47,645 | 48,379 |
| Effect of dilutive securities: | | |
| Assumed conversion of dilutive stock-based compensation plans | 486 | 658 |
| Denominator for diluted earnings per common share adjusted weighted-average shares and assumed conversion | 48,131 | 49,037 |
| Per common share income from continuing operations | | |
| Basic | \$ 0.68 | \$ 0.66 |
| Diluted | \$ 0.68 | \$ 0.66 |
| (1) Basic weighted-average common shares outstanding | 47,645 | 48,379 |
| Basic weighted-average common shares outstanding and non-vested restricted stock expected to vest | 47,887 | 48,647 |
| Percentage allocated to common shareholders | 99.5% | 99.4% |

As described in Note 2, "Recent Accounting Pronouncements", the Company adopted FSP 03-6-1 on January 1, 2009. The Company's non-vested restricted stock contains rights to receive nonforfeitable dividends, and thus, are participating securities requiring the two-class method of computing earnings per share. The calculation of earnings per share for common stock shown above excludes the income attributable to the non-vested restricted stock from the numerator and excludes the dilutive impact of those shares from the denominator.

12. WARRANTIES

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

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| <i>In thousands</i> | Three Months Ended | |
|---|--------------------|-----------|
| | March 31, | |
| | 2009 | 2008 |
| Balance at December 31, 2008 and 2007, respectively | \$ 30,676 | \$ 22,314 |
| Warranty provision | 4,909 | 6,463 |
| Acquisition | | |
| Warranty claim payments | (4,169) | (2,437) |
| Balance at March 31, 2009 and 2008, respectively | \$ 31,416 | \$ 26,340 |

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009 (UNAUDITED)

13. FAIR VALUE MEASUREMENT

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, (SFAS 157), which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. This statement is also applicable under other accounting pronouncements that require or permit fair value measurements. The statement indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. SFAS 157 defines fair value based upon an exit price model.

Valuation Hierarchy. SFAS 157 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of March 31, 2009:

| <i>In thousands</i> | Total Carrying Value at March 31, 2009 | Fair Value Measurements at March 31, 2009 Using Quoted Prices in Active Markets for | | |
|------------------------------------|---|---|---|--|
| | | Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Foreign currency forward contracts | \$ (86) | \$ | \$ (86) | \$ |
| Interest rate swap agreements | (321) | | (321) | |
| Total | \$ (407) | \$ | \$ (407) | \$ |

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2008:

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

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

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009 (UNAUDITED)

14. COMMITMENTS AND CONTINGENCIES

Claims have been filed against the Company and certain of its affiliates in various jurisdictions across the United States by persons alleging bodily injury as a result of exposure to asbestos-containing products. Over the last four years, the overall number of new claims filed has significantly decreased as compared to the previous four-year period; however, the resolution of these new claims, and all previously filed claims, may take a significant period of time. Most of these claims have been made against our wholly owned subsidiary, Railroad Friction Products Corporation (RFPC), and are based on a product sold by RFPC prior to the time that the Company acquired any interest in RFPC.

Most of these claims, including all of the RFPC claims, are submitted to insurance carriers for defense and indemnity or to non-affiliated companies that retain the liabilities for the asbestos-containing products at issue. We cannot, however, assure that all these claims will be fully covered by insurance or that the indemnitors will remain financially viable. Our ultimate legal and financial liability with respect to these claims, as is the case with other pending litigation, cannot be estimated.

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

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

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

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009 (UNAUDITED)

Federal Court action on jurisdictional grounds was denied on May 2, 2008. During the week of July 28, 2008, the Federal Court conducted a hearing on Faiveley's injunction request. On August 22, 2008 the Federal Court issued an order denying in part and granting in part Faiveley's injunction request. Under the order, Wabtec was permitted to perform under all contracts entered into prior to August 22, 2008, including a New York City Transit contract that was the parties main focus during the hearing. However, Wabtec was not permitted to enter into any future contracts for the supply of one of the products at issue, or its components, until the international arbitrators decided the merits of the dispute. Wabtec requested, and was granted, an expedited appeal on the merits of the Federal Court action; that appeal was argued on February 9, 2009. On March 9, 2009, the Second Circuit Court of Appeals vacated the injunction. On October 1, 2008 in a filing before the international arbitration panel, Faiveley alleged \$128 million in damages. On March 20, 2009, the Claimant filed a revised damages claim reducing its claim to \$91 million in damages. The Company believes that this claim is grossly overstated, is not supported by the facts or circumstances surrounding the case, and is frivolous in most respects. On February 11, 2009, the international arbitration panel completed the first part of a hearing on the underlying breach of contract and trade secret issues. The second part of the hearing was conducted April 26-29, 2009. Closing arguments are scheduled for May 18 and 19, 2009. The Company denies Faiveley's allegations and does not believe that it has any material legal liability in this matter; it is vigorously contesting all claims.

The Company is subject to a number of other commitments and contingencies as described in its Annual Report on Form 10-K for the year ended December 31, 2008, filed on February 27, 2009. During the first three months of 2009, there were no material changes to the information described in Note 19 therein.

15. SEGMENT INFORMATION

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

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

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009 (UNAUDITED)

Segment financial information for the three months ended March 31, 2009 is as follows:

| <i>In thousands</i> | Freight Group | Transit Group | Corporate Activities and Elimination | Total |
|--|--------------------------|--------------------------|---|-------------------|
| Sales to external customers | \$ 179,947 | \$ 198,013 | \$ | \$ 377,960 |
| Intersegment sales/(elimination) | 6,612 | 1,044 | (7,656) | |
| Total sales | \$ 186,559 | \$ 199,057 | \$ (7,656) | \$ 377,960 |
| Income (loss) from operations | \$ 25,546 | \$ 34,103 | \$ (3,901) | \$ 55,748 |
| Interest expense and other, net | | | (4,547) | (4,547) |
| Income (loss) from continuing operations before income taxes | \$ 25,546 | \$ 34,103 | \$ (8,448) | \$ 51,201 |

Segment financial information for the three months ended March 31, 2008 is as follows:

| <i>In thousands</i> | Freight Group | Transit Group | Corporate Activities and Elimination | Total |
|--|--------------------------|--------------------------|---|-------------------|
| Sales to external customers | \$ 191,766 | \$ 191,561 | \$ | \$ 383,327 |
| Intersegment sales/(elimination) | 4,543 | 444 | (4,987) | |
| Total sales | \$ 196,309 | \$ 192,005 | \$ (4,987) | \$ 383,327 |
| Income (loss) from operations | \$ 36,009 | \$ 22,432 | \$ (4,555) | \$ 53,886 |
| Interest expense and other, net | | | (1,864) | (1,864) |
| Income (loss) from continuing operations before income taxes | \$ 36,009 | \$ 22,432 | \$ (6,419) | \$ 52,022 |

Sales by product are as follows:

| <i>In thousands</i> | Three Months Ended March 31, | |
|--|---|-------------|
| | 2009 | 2008 |
| Brake products | \$ 126,748 | \$ 130,410 |
| Freight electronics & specialty products | 102,078 | 94,693 |
| Remanufacturing, overhaul & build | 69,151 | 94,692 |
| Transit products | 59,867 | 49,073 |
| Other | 20,116 | 14,459 |

Total sales

\$ 377,960 \$ 383,327

Table of Contents**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009 (UNAUDITED)****16. GUARANTOR SUBSIDIARIES FINANCIAL INFORMATION**

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

Balance Sheet as of March 31, 2009:

| <i>In thousands</i> | Parent | Guarantors | Non-Guarantors | Elimination | Consolidated |
|---|---------------------|---------------------|-------------------|-----------------------|---------------------|
| Cash and cash equivalents | \$ 5,754 | \$ 389 | \$ 91,949 | \$ | \$ 98,092 |
| Accounts receivable | 274 | 166,631 | 92,702 | | 259,607 |
| Inventories | | 180,463 | 72,866 | | 253,329 |
| Other current assets | 32,591 | 2,959 | 5,020 | | 40,570 |
| Total current assets | 38,619 | 350,442 | 262,537 | | 651,598 |
| Property, plant and equipment | 1,603 | 120,633 | 71,093 | | 193,329 |
| Goodwill | 7,980 | 300,027 | 88,833 | | 396,840 |
| Investment in subsidiaries | 1,842,872 | 341,289 | 287,671 | (2,471,832) | |
| Other intangibles | 363 | 119,650 | 39,908 | | 159,921 |
| Other long term assets | (3,491) | 1,075 | 21,663 | | 19,247 |
| Total Assets | \$ 1,887,946 | \$ 1,233,116 | \$ 771,705 | \$ (2,471,832) | \$ 1,420,935 |
| Current liabilities | \$ 25,277 | \$ 204,380 | \$ 82,180 | \$ | \$ 311,837 |
| Intercompany | 810,877 | (887,729) | 76,852 | | |
| Long-term debt | 330,875 | 373 | 505 | | 331,753 |
| Other long term liabilities | 61,494 | 23,267 | 33,161 | | 117,922 |
| Total liabilities | 1,228,523 | (659,709) | 192,698 | | 761,512 |
| Stockholders' equity | 659,423 | 1,892,825 | 579,007 | (2,471,832) | 659,423 |
| Total Liabilities and Stockholders' Equity | \$ 1,887,946 | \$ 1,233,116 | \$ 771,705 | \$ (2,471,832) | \$ 1,420,935 |

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009 (UNAUDITED)

Balance Sheet as of December 31, 2008:

| <i>In thousands</i> | Parent | Guarantors | Non-Guarantors | Elimination | Consolidated |
|---|---------------------|---------------------|-------------------|-----------------------|---------------------|
| Cash and cash equivalents | \$ 37,941 | \$ 4,272 | \$ 99,592 | \$ | \$ 141,805 |
| Accounts receivable | 396 | 180,990 | 92,174 | | 273,560 |
| Inventories | | 186,761 | 77,397 | | 264,158 |
| Other current assets | 36,300 | 4,397 | 5,129 | | 45,826 |
| Total current assets | 74,637 | 376,420 | 274,292 | | 725,349 |
| Property, plant and equipment | 1,598 | 129,092 | 76,858 | | 207,548 |
| Goodwill | 7,980 | 219,062 | 92,407 | | 319,449 |
| Investment in subsidiaries | 1,794,010 | 323,131 | 290,783 | (2,407,924) | |
| Other intangibles | 561 | 194,841 | 41,338 | | 236,740 |
| Other long term assets | (2,139) | 650 | 19,923 | | 18,434 |
| Total Assets | \$ 1,876,647 | \$ 1,243,196 | \$ 795,601 | \$ (2,407,924) | \$ 1,507,520 |
| Current liabilities | \$ 36,418 | \$ 248,245 | \$ 103,388 | \$ | \$ 388,051 |
| Intercompany | 776,708 | (856,059) | 79,351 | | |
| Long-term debt | 356,000 | 394 | 305 | | 356,699 |
| Other long term liabilities | 62,150 | 22,590 | 32,659 | | 117,399 |
| Total liabilities | 1,231,276 | (584,830) | 215,703 | | 862,149 |
| Stockholders' equity | 645,371 | 1,828,026 | 579,898 | (2,407,924) | 645,371 |
| Total Liabilities and Stockholders' Equity | \$ 1,876,647 | \$ 1,243,196 | \$ 795,601 | \$ (2,407,924) | \$ 1,507,520 |

Income Statement for the Three Months Ended March 31, 2009:

| <i>In thousands</i> | Parent | Guarantors | Non-Guarantors | Elimination(1) | Consolidated |
|--------------------------------|----------------|---------------|----------------|-----------------|----------------|
| Net sales | \$ | \$ 293,529 | \$ 109,699 | \$ (25,268) | \$ 377,960 |
| Cost of sales | 833 | (195,360) | (88,971) | 12,023 | (271,475) |
| Gross profit (loss) | 833 | 98,169 | 20,728 | (13,245) | 106,485 |
| Operating expenses | (8,182) | (29,485) | (13,070) | | (50,737) |
| Operating (loss) profit | (7,349) | 68,684 | 7,658 | (13,245) | 55,748 |
| Interest (expense) income, net | (6,169) | 1,100 | 133 | | (4,936) |
| Other (expense) income, net | (168) | (645) | 1,202 | | 389 |
| Equity earnings | 56,195 | (808) | | (55,387) | |
| | 42,509 | 68,331 | 8,993 | (68,632) | 51,201 |

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| | | | | | |
|--|-----------|-----------|----------|-------------|-----------|
| Income (loss) from continuing operations before income tax | | | | | |
| Income tax expense | (9,843) | (2,946) | (5,746) | | (18,535) |
| Net income (loss) | \$ 32,666 | \$ 65,385 | \$ 3,247 | \$ (68,632) | \$ 32,666 |

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

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009 (UNAUDITED)

Income Statement for the Three Months Ended March 31, 2008:

| <i>In thousands</i> | Parent | Guarantors | Non-Guarantors | Elimination(1) | Consolidated |
|--|-----------|------------|----------------|----------------|--------------|
| Net sales | \$ | \$ 287,231 | \$ 126,201 | \$ (30,105) | \$ 383,327 |
| Cost of sales | (219) | (196,777) | (104,233) | 23,117 | (278,112) |
| Gross profit (loss) | (219) | 90,454 | 21,968 | (6,988) | 105,215 |
| Operating expenses | (15,945) | (24,951) | (10,433) | | (51,329) |
| Operating (loss) profit | (16,164) | 65,503 | 11,535 | (6,988) | 53,886 |
| Interest (expense) income, net | (4,825) | 2,391 | 953 | | (1,481) |
| Other (expense) income, net | (223) | 1,592 | (1,752) | | (383) |
| Equity earnings | 65,014 | 7,035 | | (72,049) | |
| Income (loss) from continuing operations before income tax | 43,802 | 76,521 | 10,736 | (79,037) | 52,022 |
| Income tax expense | (11,292) | (3,744) | (4,473) | | (19,509) |
| Income (loss) from continuing operations | 32,510 | 72,777 | 6,263 | (79,037) | 32,513 |
| Income (loss) from discontinued operations (net of tax) | | | (3) | | (3) |
| Net income (loss) | \$ 32,510 | \$ 72,777 | \$ 6,260 | \$ (79,037) | \$ 32,510 |

(1) Includes elimination of gross profit realized with certain intercompany transactions between Guarantor and Non-Guarantor subsidiaries.
Condensed Statement of Cash Flows for the Three Months Ended March 31, 2009:

| <i>In thousands</i> | Parent | Guarantors | Non-Guarantors | Elimination | Consolidated |
|--|----------|------------|----------------|-------------|--------------|
| Net cash provided by (used for) operating activities | \$ 1,160 | \$ 63,280 | \$ (1,546) | \$ (68,632) | \$ (5,738) |
| Net cash (used for) provided by investing activities | (178) | (1,757) | 2,134 | | 199 |
| Net cash (used for) provided by financing activities | (33,169) | (65,406) | (3,047) | 68,632 | (32,990) |
| Effect of changes in currency exchange rates | | | (5,184) | | (5,184) |
| Decrease in cash | (32,187) | (3,883) | (7,643) | | (43,713) |
| Cash, beginning of year | 37,941 | 4,272 | 99,592 | | 141,805 |
| Cash, end of period | \$ 5,754 | \$ 389 | \$ 91,949 | \$ | \$ 98,092 |

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009 (UNAUDITED)

Condensed Statement of Cash Flows for the Three Months Ended March 31, 2008:

| <i>In thousands</i> | Parent | Guarantors | Non-Guarantors | Elimination | Consolidated |
|--|-------------|------------|----------------|-------------|--------------|
| Net cash provided by (used for) operating activities | \$ (26,112) | \$ 69,686 | \$ 1,574 | \$ (79,037) | \$ (33,889) |
| Net cash used for investing activities | (2,181) | (1,583) | (74) | | (3,838) |
| Net cash provided by (used for) financing activities | (24,571) | (72,777) | (6,260) | 79,037 | (24,571) |
| Effect of changes in currency exchange rates | | | 2,442 | | 2,442 |
| (Decrease) increase in cash | (52,864) | (4,674) | (2,318) | | (59,856) |
| Cash, beginning of year | 82,911 | 10,004 | 141,774 | | 234,689 |
| Cash, end of period | \$ 30,047 | \$ 5,330 | \$ 139,456 | \$ | \$ 174,833 |

17. OTHER EXPENSE, NET

The components of other expense are as follows:

| <i>In thousands</i> | Three Months Ended March 31, | |
|------------------------------|---------------------------------|----------|
| | 2009 | 2008 |
| Foreign currency gain (loss) | \$ 422 | \$ (342) |
| Other miscellaneous expense | (33) | (41) |
| Total other expense | \$ 389 | \$ (383) |

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

The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and Westinghouse Air Brake Technologies Corporation's Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in its Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission on February 27, 2009.

OVERVIEW

Wabtec is one of the world's largest providers of value-added, technology-based products and services for the global rail industry. Our products are found on virtually all U.S. locomotives, freight cars and passenger transit vehicles, as well as in more than 100 countries throughout the world. Our products enhance safety, improve productivity and reduce maintenance costs for customers, and many of our core products and services are essential in the safe and efficient operation of freight rail and passenger transit vehicles. Wabtec is a global company with operations in 16 countries. In the first three months of 2009, about 36% of the Company's revenues came from customers outside the U.S.

Management Review and Future Outlook

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

The Company monitors a variety of factors and statistics to gauge market activity. The freight rail industry is largely driven by general economic conditions, which can cause fluctuations in rail traffic. Based on those fluctuations, railroads can increase or decrease purchases of new locomotive and freight cars.

In 2009, the Company expects conditions to remain generally favorable in its passenger transit rail markets and expects conditions in its freight rail markets to decline significantly, due to overall economic conditions. Through mid-April 2009, revenue ton-miles, in the freight industry, decreased 16%. Demand for new locomotives and freight cars is expected to be significantly lower than in 2008. Less than 20% of the Company's revenues are directly related to deliveries of new freight cars. At March 31, 2009, the industry backlog of freight cars ordered was 26,171, compared to 31,921 at the end of the prior quarter. In the passenger transit rail market, the Company believes that increases in ridership and federal funding will continue to have a positive effect on the demand for new equipment and aftermarket parts. In addition, the Company has a strong backlog of transit-related projects.

In 2009 and beyond, we will continue to face many challenges, including economic uncertainty in the markets in which we operate, fluctuations in the costs for raw materials, higher costs for medical and insurance premiums, and foreign currency fluctuations. In addition, we face general economic risks, as well as the risk that our customers could curtail spending on new and existing equipment. Risks associated with our four-point growth strategy include the level of investment that customers are willing to make in new technologies developed by the industry and the Company, and risks inherent in global expansion. When necessary, we will modify our financial and operating strategies to reflect changes in market conditions and risks.

Since 2006, Wabtec has downsized its Canadian operations by moving certain products to lower-cost facilities and outsourcing. In the Freight segment, no charges were taken for the three months ended March 31, 2009 and 2008. Total expenses for restructuring and other expenses recorded since 2006 have been \$16.5 million,

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comprised of the \$5.6 million for employee severance costs for approximately 400 salaried and hourly employees; \$5.5 million of pension and postretirement benefit curtailment for those employees; \$4.8 million related to asset impairments for structures, machinery, and equipment; and \$0.6 million for goodwill impairment. The goodwill impairment was recorded as amortization expense and most of the other charges were recorded in cost of sales. Severance costs are contractual liabilities and payment is dependent on the waiver by or expiration of certain seniority rights of those employees. As of March 31, 2009, \$3.7 million of this amount had been paid.

RESULTS OF OPERATIONS

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

| <i>In millions</i> | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2009 | 2008 |
| Net sales | \$ 378.0 | \$ 383.3 |
| Cost of sales | (271.5) | (278.1) |
| Gross profit | 106.5 | 105.2 |
| Selling, general and administrative expenses | (38.8) | (40.4) |
| Engineering expenses | (10.6) | (10.0) |
| Amortization expense | (1.4) | (0.9) |
| Total operating expenses | (50.8) | (51.3) |
| Income from operations | 55.7 | 53.9 |
| Interest (expense) income, net | (4.9) | (1.5) |
| Other expense, net | 0.4 | (0.4) |
| Income from continuing operations before income taxes | 51.2 | 52.0 |
| Income tax expense | (18.5) | (19.5) |
| Income from continuing operations | 32.7 | 32.5 |
| Discontinued operations | | |
| Net income | \$ 32.7 | \$ 32.5 |

FIRST QUARTER 2009 COMPARED TO FIRST QUARTER 2008

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

| <i>In thousands</i> | Three months ended March 31, | | |
|------------------------|------------------------------|------------|-------------------|
| | 2009 | 2008 | Percent Change |
| Freight Group | \$ 179,947 | \$ 191,766 | (6.2)% |
| Transit Group | 198,013 | 191,561 | 3.3% |
| Net sales | 377,960 | 383,327 | (1.4)% |
| Income from operations | 55,748 | 53,886 | 3.5% |
| Net income | 32,666 | 32,510 | 0.5% |

Net sales decreased by \$5.3 million to \$378.0 million from \$383.3 million for the three months ended March 31, 2009 and 2008, respectively. The decrease is primarily due to the current economic conditions. The Company also realized a net sales reduction of \$22.6 million due to unfavorable effects of foreign exchange, but net earnings were generally not impacted by foreign exchange. Net income for the three months ended March 31, 2009 was \$32.7 million or \$0.68 per diluted share. Net income for the three months ended March 31, 2008 was \$32.5 million

or \$0.66 per diluted share. Net income improved primarily due to decreased operating costs and administrative expenses.

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Freight Group sales decreased by \$11.8 million or 6.2% primarily due to decreased sales of \$22.2 million for brake products, \$21.6 million for freight electronics and specialty products, and \$2.4 million for remanufacturing, overhaul and build of locomotives. Offsetting those decreases were increases of \$33.2 million from acquisitions and \$7.5 million for other products. For the Freight Group, net sales were reduced by \$6.3 million of the total impact due to unfavorable effects of foreign exchange on sales mentioned above.

Transit Group sales increased by \$6.4 million or 3.3% primarily due to increased sales of \$15.9 million for brake products, \$11.5 million for other transit-related products for certain transit contracts and \$7.4 million from acquisitions. Offsetting those increases was a decrease of \$12.1 million for remanufacturing, overhaul and build of locomotives. For the Transit Group, net sales were reduced by \$16.3 million of the total impact due to unfavorable effects of foreign exchange on sales mentioned above.

Gross profit Gross profit increased to \$106.5 million in the first quarter of 2009 compared to \$105.2 million in the same period of 2008. Gross profit is dependent on a number of factors including pricing, sales volume and product mix. Gross profit, as a percentage of sales, was 28.2% compared to 27.4%, for the first quarter of 2009 and 2008, respectively. The gross profit percentage increased due to ongoing efficiency and cost-saving initiatives during the current economic conditions. The provision for warranty expense is generally established for specific losses, along with historical estimates of customer claims as a percentage of sales. The provision for warranty expense was \$0.8 million less in 2009 compared to the same period of 2008 because of decreased sales. The warranty reserve increased at March 31, 2009 compared to March 31, 2008 by \$0.7 million due primarily to transit authority contracts.

Operating expenses The following table shows our operating expenses:

| <i>In thousands</i> | Three months ended March 31, | | |
|--|------------------------------|-----------|----------------|
| | 2009 | 2008 | Percent Change |
| Selling, general and administrative expenses | \$ 38,787 | \$ 40,445 | (4.1)% |
| Engineering expenses | 10,559 | 9,981 | 5.8% |
| Amortization expense | 1,391 | 903 | 54.0% |
| Total operating expenses | \$ 50,737 | \$ 51,329 | (1.2)% |

Selling, general, and administrative expenses decreased \$1.7 million in the first quarter of 2009 compared to the same period of 2008 due to cost-saving initiatives. Engineering expenses increased by \$578,000 in the first quarter of 2009 compared to the same period of 2008. Amortization expense increased in the first quarter of 2009 compared to the same period in 2008 due primarily to the acquisitions that occurred in 2008. During the quarter ended March 31, 2009 the Company sold a facility for net cash proceeds of \$3.6 million to an unrelated third party. While certain portions of the building are being leased back, this transaction resulted in a gain of \$2.1 million and deferred gain of \$0.6 million. The deferred gain will be recognized over five years. Total operating expenses were 13.4% and 13.4% of sales for the first quarter of 2009 and 2008, respectively.

Income from operations Income from operations totaled \$55.7 million (or 14.7% of sales) in the first quarter of 2009 compared with \$53.9 million (or 14.1% of sales) in the same period of 2008. Income from operations improved primarily due to improved margins and decreases in administrative expenses.

Interest expense, net Interest expense, net increased \$3.4 million in the first quarter of 2009 compared to the same period of 2008 primarily due to interest expense related to the Company's new revolving credit facility and term loan.

Other expense, net The Company recorded foreign exchange gain of \$0.4 million in the first quarter of 2009 and foreign exchange loss of \$0.3 million in the first quarter of 2008, 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.

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Income taxes The effective income tax rate was 36.2% and 37.5% for first quarter of 2009 and 2008, respectively. The decrease in the effective rate is primarily due to the legislative extension of the research and development tax credit through 2009.

Net income Net income for the first quarter of 2009 increased \$0.2 million, compared with the same period of 2008. Net income improved primarily due to decreases in operating costs and administrative expenses.

Liquidity and Capital Resources

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

| <i>In thousands</i> | Three months ended | |
|------------------------------|--------------------|-------------|
| | March 31, | |
| | 2009 | 2008 |
| Cash provided by (used for): | | |
| Operating activities | \$ (5,738) | \$ (33,889) |
| Investing activities | 199 | (3,838) |
| Financing activities | (32,990) | (24,571) |
| Decrease in cash | \$ (43,713) | \$ (59,856) |

Operating activities Cash used for operations in the first three months of 2009 was \$5.7 million as compared to \$33.9 million for the same period of 2008. This \$28.2 million decrease in cash used for operations primarily resulted from a decrease in working capital. The accounts receivable decrease resulted in a \$72.2 million improvement, which was due to timely collections and decreased sales. The inventory decrease resulted in a \$17.4 million improvement, which was due to depletion of inventory on hand. Accounts payables used cash of \$26.9 million due to timing of payments and a reduction in purchasing. Accrued liabilities and customer deposits used cash of \$34.1 million primarily due to a reduction in customer deposits. Other assets and liabilities, including accrued income taxes, used cash of \$0.4 million.

Investing activities Cash provided by investing activities in the first three months of 2009 was \$0.2 million as compared to cash used for operations of \$3.8 million for the same period of 2008. Capital expenditures were \$3.4 million and \$3.9 million in the first three months of 2009 and 2008, respectively. During the quarter ended March 31, 2009 the Company sold a facility for net cash proceeds of \$3.6 million to an unrelated third party. While certain portions of the building are being leased back, this transaction resulted in a gain of \$2.1 million and deferred gain of \$0.6 million. The deferred gain will be recognized over five years.

Financing activities In the first three months of 2009, cash used by financing activities was \$33.0 million, which included \$23.0 million of debt repayments and \$6.0 million in proceeds from debt on the revolving credit facility, \$8.1 million of debt repayments on the term loan and other debt, \$0.5 million of dividend payments and \$7.3 million for the repurchase of 290,000 shares of stock. In the first three months of 2008, cash used for financing activities was \$24.6 million, which included \$0.4 million of proceeds from the exercise of stock options and other benefit plans, offset by \$0.5 million of dividend payments and \$24.5 million for the repurchase of 712,900 shares of stock.

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

| <i>In thousands</i> | March 31, 2009 | December 31, 2008 |
|-------------------------------|-------------------|----------------------|
| 6.875% Senior Notes, due 2013 | \$ 150,000 | \$ 150,000 |
| Term Loan Facility | 192,500 | 200,000 |
| Revolving Credit Facility | 19,000 | 36,000 |
| Capital Leases | 980 | 1,080 |
| Total | 362,480 | 387,080 |
| Less current portion | 30,727 | 30,381 |
| Long-term portion | \$ 331,753 | \$ 356,699 |

Cash balance at March 31, 2009 and December 31, 2008 was \$98.1 and \$141.8 million, respectively.

2008 Refinancing Credit Agreement

On November 4, 2008, the Company refinanced its existing unsecured revolving credit agreement with a consortium of commercial banks. This 2008 Refinancing Credit Agreement provides the company with a \$300 million five-year revolving credit facility and a \$200 million five-year term loan facility. The Company incurred \$2.9 million of deferred financing cost related to the 2008 Refinancing Credit Agreement. Both facilities expire in January 2013. The 2008 Refinancing Credit Agreement borrowings bear variable interest rates indexed to the indices described below. At March 31, 2009 the weighted average interest rate on the Company's variable rate debt was 1.81%. At March 31, 2009, the Company had available bank borrowing capacity, net of \$56.9 million of letters of credit, of approximately \$262.1 million, subject to certain financial covenant restrictions.

Under the 2008 Refinancing Credit Agreement, the Company may elect a Base Rate of interest or an interest rate based on the London Interbank Offered Rate (LIBOR) of interest (the Alternate Rate). The Base Rate adjusts on a daily basis and is the greater of the PNC, N.A. prime rate, 30-day LIBOR plus 150 basis points or the Federal Funds Effective Rate plus 0.5% per annum, plus a margin that ranges from 25 to 50 basis points. The Alternate rate is based on quoted LIBOR rates plus a margin that ranges from 125 to 200 basis points. Both the Base Rate and Alternate Rate margins are dependent on the Company's consolidated total indebtedness to cash flow ratios. The Base Rate margin is zero basis points and the initial Alternate Rate margin is 125 basis points. To reduce the impact of interest rate changes on a portion of this variable-rate debt, the Company entered into interest rate swaps which effectively convert a portion of the debt from variable to fixed-rate borrowings during the term of the swap contracts. On March 31, 2003, the notional value of interest rate swaps outstanding totaled \$177.5 million and effectively changed the Company's interest rate on bank debt at March 31, 2009 from a variable rate to a fixed rate of 2.14%. The interest rate swap agreements mature at various times through January 2010. The Company is exposed to credit risk in the event of nonperformance by the counterparties. However, since only the cash interest payments are exchanged, exposure is significantly less than the notional amount. The counterparties are large financial institutions and the Company does not anticipate nonperformance.

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

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6.875% Senior Notes Due August 2013

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

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

Company Stock Repurchase Plan

On July 31, 2006, the Board of Directors authorized the repurchase of up to \$50 million of the Company's outstanding shares. On February 20, 2008, the Board of Directors authorized the repurchase of up to an additional \$100 million of the Company's outstanding shares. During the first quarter of 2008, the Company completed the \$50 million authorization made in 2006. Cumulative purchases under both plans have totaled \$89.8 million, leaving \$60.2 million under the authorization.

The Company intends to purchase these shares on the open market or in negotiated or block trades. No time limit was set for the completion of the program which qualifies under the 2008 Refinancing Credit Agreement, as well as the 6⁷/₈% Senior Notes currently outstanding.

During the first quarter of 2009, the Company repurchased 290,000 shares at an average price of \$25.08 per share. During 2008, the Company repurchased 1,317,900 shares of its stock at an average price of \$34.75 per share. All purchases were on the open market.

Contractual Obligations and Off-Balance Sheet Arrangements

Since the adoption of FIN 48, the Company has recognized a total liability of \$17.4 million for unrecognized tax benefits. The Company estimates that \$6.7 million of the total unrecognized tax benefits relate to uncertain tax positions in various taxing jurisdictions that may be resolved within the next 12 months. At this time, the Company is unable to make a reasonably reliable estimate of the timing of cash settlement for the remaining balances due to the uncertainty of the timing and outcome of its audits and other factors.

Since December 31, 2008, there have been no other significant changes in the total amount of the Company's contractual obligations or the timing of cash flows in accordance with those obligations, as reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

Forward Looking Statements

We believe that all statements other than statements of historical facts included in this report, including certain statements under Business and Management's Discussion and Analysis of Financial Condition and Results of Operations, may constitute forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. Although we believe that our assumptions made in connection with the forward-looking statements are reasonable, we cannot assure you that our assumptions and expectations are correct.

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

Economic and industry conditions

materially adverse changes in economic or industry conditions generally or in the markets served by us, including North America, South America, Europe, Australia and Asia;

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

reliance on major original equipment manufacturer customers;

original equipment manufacturers' program delays;

demand for services in the freight and passenger rail industry;

demand for our products and services;

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

consolidations in the rail industry;

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

fluctuations in interest rates and foreign currency exchange rates;

availability of credit;

Operating factors

supply disruptions;

technical difficulties;

changes in operating conditions and costs;

increases in raw material costs;

successful introduction of new products;

performance under material long-term contracts;

labor relations;

completion and integration of acquisitions;

the development and use of new technology; or

the integration of recently completed or future acquisitions.

Competitive factors

the actions of competitors;

Political/governmental factors

political stability in relevant areas of the world;

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

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

political developments and laws and regulations; or

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

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Transaction or commercial factors

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

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

Critical Accounting Policies

A summary of critical accounting policies is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. In particular, judgment is used in areas such as accounts receivable and the allowance for doubtful accounts, inventories, goodwill and indefinite-lived intangibles, warranty reserves, pensions and postretirement benefits, income taxes and revenue recognition. There have been no significant changes in accounting policies since December 31, 2008.

Recent Accounting Pronouncements

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

In the ordinary course of business, Wabtec is exposed to risks that increases in interest rates may adversely affect funding costs associated with its variable-rate debt. The Company's variable rate debt represents 58% and 61% of total long-term debt at March 31, 2009 and December 31, 2008, respectively. On an annual basis a 1% change in the interest rate for variable rate debt at March 31, 2009 would increase or decrease interest expense by \$2.1 million.

To reduce the impact of interest rate changes on a portion of this variable-rate debt, the Company entered into interest rate swaps which effectively convert a portion of the debt from variable to fixed-rate borrowings during the term of the swap contracts. The Company is exposed to credit risk in the event of nonperformance by the counterparties. However, since only the cash interest payments are exchanged, exposure is significantly less than the notional amount. The counterparties are large financial institutions and the Company does not anticipate nonperformance. The Company concluded that these interest rate swap agreements qualify for special cash flow hedge accounting which permits the recording of the fair value of the interest rate swap agreements and corresponding adjustment to other comprehensive income (loss), net of tax, on the balance sheet. As of March 31, 2009, the Company had interest rate swap agreements with a notional value of \$177.5 million and which effectively changed the Company's interest rate on bank debt at March 31, 2009 from a variable rate to a fixed rate of 2.14%. The interest rate swap agreements mature at various times through January 2010. As of March 31, 2009, the Company recorded a current liability of \$321,000 and a corresponding offset in accumulated other comprehensive loss of \$194,000, net of tax.

Foreign Currency Exchange Risk

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

At March 31, 2009, the Company had forward contracts for the sale of South African Rand (ZAR) and the purchase of U.S. Dollars (USD). The Company concluded that these foreign currency forward contracts qualify for

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cash flow hedge accounting which permits the recording of the fair value of the forward contract and corresponding adjustment to other comprehensive income (loss), net of tax, on the balance sheet. As of March 31, 2009, the Company had forward contracts with a notional value of 4.4 million ZAR (or \$436,000 USD), with an average exchange rate of 10.11 ZAR per \$1USD, resulting in the recording of a current liability of \$86,000 and a corresponding offset in accumulated other comprehensive loss of \$55,000, net of tax.

We are also subject to certain risks associated with changes in foreign currency exchange rates to the extent our operations are conducted in currencies other than the U.S. dollar. For the three months of 2009, approximately 64% of Wabtec's net sales were to customers in the United States, 6% in Canada, 3% in Mexico, 5% in Australia, 2% in Germany, 9% in the United Kingdom, and 11% in other international locations.

Item 4. CONTROLS AND PROCEDURES

Wabtec's principal executive officer and its principal financial officer have evaluated the effectiveness of Wabtec's disclosure controls and procedures, (as defined in Exchange Act Rule 13a-15(e)) as of March 31, 2009. Based upon their evaluation, the principal executive officer and principal financial officer concluded that Wabtec's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by Wabtec in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to provide reasonable assurance that information required to be disclosed by Wabtec in such reports is accumulated and communicated to Wabtec's Management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There was no change in Wabtec's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2008, that has materially affected, or is reasonably likely to materially affect, Wabtec's internal control over financial reporting.

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

Except as described in Note 14, there have been no material changes regarding the Company's commitments and contingencies as described in Note 19 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

Item 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008.

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

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

The Company intends to purchase these shares on the open market or in negotiated or block trades. No time limit was set for the completion of the program which qualifies under the Refinancing Credit Agreement and the 2008 Refinancing Credit Agreement, as well as the 6^{7/8}% Senior Notes currently outstanding.

During the first quarter of 2009, the Company repurchased 290,000 shares at an average price of \$25.08 per share. During 2008, the Company repurchased 1,317,900 shares of its stock at an average price of \$34.75 per share. All purchases were on the open market.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Number of Shares Purchased for Announced Program | Approximate Dollar Value of Shares that May Yet Be Purchased |
|---------------------------------------|---|---|---|---|
| January 1, 2009 to January 24, 2009 | | | | \$ 67,441,754 |
| January 25, 2008 to February 21, 2009 | | | | \$ 67,441,754 |
| February 22, 2009 to March 28, 2009 | 290,000 | 25.08 | 290,000 | \$ 60,169,985 |
| Total | 290,000 | \$ 25.08 | 290,000 | \$ 60,169,985 |

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Item 6. EXHIBITS

The following exhibits are being filed with this report:

- 3.1 Restated Certificate of Incorporation of the Company dated January 30, 1995, as amended March 30, 1995.
- 3.2 Amended and Restated By-Laws of the Company, effective December 13, 2007.
- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer.
- 32.1 Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.

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SIGNATURES

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

WESTINGHOUSE AIR BRAKE

TECHNOLOGIES CORPORATION

By: */s/* ALVARO GARCIA-TUNON
Alvaro Garcia-Tunon,
Senior Vice President,
Chief Financial Officer and Secretary
(Duly Authorized Officer and Principal Financial Officer)

DATE: May 7, 2009

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EXHIBIT INDEX

Exhibit

| Number | Description and Method of Filing |
|---------------|---|
| 3.1 | Restated Certificate of Incorporation of the Company dated January 30, 1995, as amended March 30, 1995, filed as an exhibit to the Company's Registration Statement on Form S-1 (No. 33-90866), and incorporated herein by reference. |
| 3.2 | Amended and Restated By-Laws of the Company, effective December 13, 2007, filed as Exhibit 3.1 to Form 8-K filed on December 14, 2007, and incorporated herein by reference. |
| 31.1 | Rule 13a-14(a) Certification of Chief Executive Officer, filed herewith. |
| 31.2 | Rule 13a-14(a) Certification of Chief Financial Officer, filed herewith. |
| 32.1 | Section 1350 Certification of Chief Executive Officer and Chief Financial Officer, filed herewith. |