

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP  
Form 10-Q  
August 08, 2008  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2008

**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)

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

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

**25-1615902**  
(I.R.S. Employer  
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 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 August 4, 2008
Common Stock, \$.01 par value per share	48,434,741 shares

**Table of Contents**

**WESTINGHOUSE AIR BRAKE  
TECHNOLOGIES CORPORATION**

**June 30, 2008 FORM 10-Q**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>PART I FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	
<u>Condensed Consolidated Balance Sheets as of June 30, 2008 and December 31, 2007</u>	3
<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2008 and 2007</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2008 and 2007</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	38
Item 4. <u>Controls and Procedures</u>	39
<b>PART II OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	40
Item 1A. <u>Risk Factors</u>	40
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	40
Item 6. <u>Exhibits</u>	41
<u>Signatures</u>	42

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

<i>In thousands, except shares and par value</i>	<b>Unaudited June 30, 2008</b>	<b>December 31, 2007</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 241,680	\$ 234,689
Accounts receivable	284,145	222,235
Inventories	196,331	175,977
Deferred income taxes	24,471	24,766
Other current assets	10,857	8,100
Total current assets	757,484	665,767
Property, plant and equipment	416,857	417,157
Accumulated depreciation	(237,701)	(234,720)
Property, plant and equipment, net	179,156	182,437
<b>Other Assets</b>		
Goodwill	237,842	232,593
Other intangibles, net	57,710	58,673
Deferred income taxes	4,536	4,316
Other noncurrent assets	19,372	14,916
Total other assets	319,460	310,498
Total Assets	\$ 1,256,100	\$ 1,158,702
<b>Liabilities and Shareholders Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 142,925	\$ 137,226
Accrued income taxes	1,255	3,625
Customer deposits	94,761	67,291
Accrued compensation	30,400	30,519
Accrued warranty	16,399	14,390
Other accrued liabilities	39,484	42,184
Total current liabilities	325,224	295,235
Long-term debt	150,135	150,177
Reserve for postretirement and pension benefits	54,375	53,539
Deferred income taxes	10,781	9,834
Accrued warranty	10,362	7,924
Other long term liabilities	26,572	24,725
Total liabilities	577,449	541,434
<b>Shareholders Equity</b>		

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

Preferred stock, 1,000,000 shares authorized, no shares issued		
Common stock, \$.01 par value; 100,000,000 shares authorized: 66,174,767 shares issued and 48,426,541 and 48,698,344 outstanding at June 30, 2008 and December 31, 2007, respectively	662	662
Additional paid-in capital	322,488	320,928
Treasury stock, at cost, 17,748,226 and 17,476,423 shares, at June 30, 2008 and December 31, 2007, respectively	(256,455)	(238,131)
Retained earnings	589,769	524,538
Accumulated other comprehensive income	22,187	9,271
<b>Total shareholders' equity</b>	<b>678,651</b>	<b>617,268</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,256,100</b>	<b>\$ 1,158,702</b>

The accompanying notes are an integral part of these statements.

**Table of Contents**

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

<i>In thousands, except per share data</i>	Unaudited		Unaudited	
	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
Net sales	\$ 390,194	\$ 325,722	\$ 773,521	\$ 639,986
Cost of sales	(281,693)	(234,872)	(559,805)	(462,570)
Gross profit	108,501	90,850	213,716	177,416
Selling, general and administrative expense	(42,036)	(34,915)	(82,481)	(69,860)
Engineering expense	(9,631)	(9,026)	(19,612)	(17,842)
Amortization expense	(912)	(992)	(1,815)	(1,533)
Total operating expenses	(52,579)	(44,933)	(103,908)	(89,235)
Income from operations	55,922	45,917	109,808	88,181
Other income and expenses				
Interest expense, net	(1,293)	(686)	(2,774)	(1,469)
Other expense, net	(696)	(1,637)	(1,079)	(2,446)
Income from continuing operations before income taxes	53,933	43,594	105,955	84,266
Income tax expense	(20,171)	(15,469)	(39,680)	(30,587)
Income from continuing operations	33,762	28,125	66,275	53,679
Discontinued operations				
Income (loss) from discontinued operations (net of tax)		5	(3)	(27)
Net income	\$ 33,762	\$ 28,130	\$ 66,272	\$ 53,652
<b>Earnings Per Common Share</b>				
<b>Basic</b>				
Income from continuing operations	\$ 0.70	\$ 0.58	\$ 1.37	\$ 1.11
Loss from discontinued operations				
Net income	\$ 0.70	\$ 0.58	\$ 1.37	\$ 1.11
<b>Diluted</b>				
Income from continuing operations	\$ 0.69	\$ 0.57	\$ 1.35	\$ 1.09
Loss from discontinued operations				
Net income	\$ 0.69	\$ 0.57	\$ 1.35	\$ 1.09
<b>Weighted average shares outstanding</b>				
Basic	48,095	48,666	48,306	48,413
Diluted	48,655	49,294	48,924	49,022

The accompanying notes are an integral part of these statements.

**Table of Contents**

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

<i>In thousands</i>	<b>Unaudited Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating Activities</b>		
Net income	\$ 66,272	\$ 53,652
Stock-based compensation expense	5,024	4,645
Adjustments to reconcile net income to net cash provided by operations:		
Discontinued operations	(38)	114
Depreciation and amortization	14,468	13,676
Excess income tax benefits from exercise of stock options	(1,188)	(1,402)
Changes in operating assets and liabilities		
Accounts receivable	(58,422)	(12,265)
Inventories	(18,873)	(22,067)
Accounts payable	4,360	7,639
Accrued income taxes	(459)	6,181
Accrued liabilities and customer deposits	26,781	(21,379)
Other assets and liabilities	(7,748)	(2,571)
Net cash provided by operating activities	30,177	26,223
<b>Investing Activities</b>		
Purchase of property, plant and equipment and other	(7,852)	(8,342)
Proceeds from disposal of property, plant and equipment	64	139
Acquisitions of business, net of cash acquired		(73,264)
Net cash used for investing activities	(7,788)	(81,467)
<b>Financing Activities</b>		
Repayments of other borrowings	(47)	
Proceeds from the issuance of treasury stock for stock options and other benefit plans	1,677	4,310
Stock repurchase	(24,653)	(3,421)
Excess income tax benefits from exercise of stock options	1,188	1,402
Cash dividends (\$0.02 per share for the six months ended June 30, 2008 and 2007)	(969)	(986)
Net cash (used for) provided by financing activities	(22,804)	1,305
Effect of changes in currency exchange rates	7,406	7,186
Increase (decrease) in cash	6,991	(46,753)
Cash, beginning of year	234,689	187,979
Cash, end of period	\$ 241,680	\$ 141,226

The accompanying notes are an integral part of these statements.

**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (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 12 countries. In the first six months of 2008, about 42% 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 acquisition of POLI S.p.A. ( POLI ) occurred on June 30, 2008, subsequent to the close of our four-four-five week accounting quarter.

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, 2007. The December 31, 2007 information has been derived from the Company's December 31, 2007 Annual Report on Form 10-K.

**Revenue Recognition** Revenue is recognized in accordance with Staff Accounting Bulletins (SABs) 101, Revenue Recognition in Financial Statements and 104 Revision of Topic 13. Revenue is recognized when products have been shipped to the respective customers, title has passed and the price for the product has been determined.

The Company recognizes revenues on long-term contracts based on the percentage of completion method of accounting. The units-of-delivery method or other 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 \$10.2 million and \$9.5 million at June 30, 2008 and December 31, 2007, 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.



**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (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 June 30, 2008, the Company had forward contracts for the sale of USD and the purchase of Euro with a notional value of 1.2 million Euro (or \$1.6 million USD), with an average exchange rate of \$1.33 USD per 1 Euro. These forward contracts are used to mitigate the variability in cash flows from the payment of liabilities denominated in currencies other than the USD. Since the Company does not treat these derivatives as hedges, the change in fair value of both the forward contracts and the related liabilities are recorded in the income statement. For the six months ended June 30, 2008, the Company recorded a fair value gain in the amount of \$295,000.

At June 30, 2008, the Company had forward contracts for the sale of USD and the purchase of South African Rand (ZAR). 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 June 30, 2008, the Company had forward contracts with a notional value of R18.7 million ZAR (or \$2.4 million USD), with an average exchange rate of R7.78 ZAR per USD, resulting in the recording of a current asset of \$68,000 and a corresponding offset in accumulated other comprehensive loss of \$43,000, net of tax.

At December 31, 2006, the Company had forward contracts for the sale of U.S. Dollars (USD) and the purchase of Canadian Dollars (CAD). 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 December 31, 2006, the Company had forward contracts with a notional value of \$48 million CAD (or \$42.7 million U.S.) with an average exchange rate of \$0.89 USD per \$1 CAD, resulting in the recording of a current liability of \$1.3 million and a corresponding offset in accumulated other comprehensive loss of \$825,000, net of tax. During 2007, these foreign currency forward contracts were settled.

**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 losses recognized as other expense were \$854,000 and \$1.3 million for the three months ended June 30, 2008 and 2007, respectively, and \$1.2 million and \$2.1 million for the six months ended June 30, 2008 and 2007, respectively.

**Other Comprehensive Income** Comprehensive income is defined as net income and all other non-owner changes in shareholders' equity. The Company's accumulated other comprehensive income consists of foreign

**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (UNAUDITED)**

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 June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income	\$ 33,762	\$ 28,130	\$ 66,272	\$ 53,652
Foreign currency translation gain	4,010	9,937	12,391	12,963
Unrealized (loss) gain on foreign exchange contracts, net of tax	(107)	1,232	43	1,581
Change in pension and post retirement benefit plans, net of tax	227		482	
<b>Total comprehensive income</b>	<b>\$ 37,892</b>	<b>\$ 39,299</b>	<b>\$ 79,188</b>	<b>\$ 68,196</b>

The components of accumulated other comprehensive loss were:

<i>In thousands</i>	June 30, 2008	December 31, 2007
Foreign currency translation gain	\$ 52,973	\$ 40,582
Unrealized gain on foreign exchange contracts, net of tax	43	
Pension benefit plans and post retirement benefit plans, net of tax	(30,829)	(31,311)
<b>Total accumulated comprehensive income</b>	<b>\$ 22,187</b>	<b>\$ 9,271</b>

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

**Recent Accounting Pronouncements** In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. 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 proposed 157-c. 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-c clarifies the principles in SFAS 157 on the fair value measurement of liabilities. Public comments on FSP 157-c were due in February 2008, and responses and recommendations were presented to the board on April 9, 2008. 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. Refer to Note 13 to the Condensed Consolidated Financial Statements for additional discussion on fair value measurements.

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



**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (UNAUDITED)**

and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS 159 and has elected not to measure any additional financial instruments and other items at fair value.

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. The Company is currently evaluating the impact of adopting these statements.

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 Company is currently evaluating the disclosure implications of adopting this statement.

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 is currently evaluating the impact of adopting FSP EITF 03-6-1.

**3. ACQUISITIONS AND DISCONTINUED OPERATIONS**

On June 30, 2008, subsequent to the close of our four-four-five accounting quarter, the Company acquired POLI S.p.A., a European based manufacturer of rail braking equipment, for a net price of \$53 million (about \$80 million USD) in cash. POLI's products include 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 operate as a business of Wabtec's Transit Group.

**Table of Contents****WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (UNAUDITED)**

On June 8, 2007, the Company acquired 100% of the stock of Ricon Corporation (Ricon), a manufacturer of a variety of electro-mechanical wheelchair lifts and ramps and windows, primarily for passenger bus and rail applications. The purchase price was \$73.7 million resulting in additional goodwill of \$50.4 million, of which none will be deductible for tax purposes. Included in the purchase price is \$6.5 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.

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

<i>In thousands</i>	<b>Ricon June 8, 2007</b>
Current assets	\$ 21,100
Property, plant & equipment	3,000
Goodwill and other intangible assets	72,000
Other assets	100
<b>Total assets acquired</b>	<b>96,200</b>
Total liabilities assumed	(22,500)
<b>Net assets acquired</b>	<b>\$ 73,700</b>

Of the allocation of \$21.6 million of acquired intangible assets, exclusive of goodwill, \$9.7 million was assigned to the trade name, \$9.3 million was assigned to customer relationships, \$1.8 million was assigned to patents, and \$760,000 was assigned to customer backlog. The trade name is considered to have an indefinite useful life while the customer relationships and patents average useful life is 10 years.

The following unaudited pro forma financial information presents income statement results as if the acquisition of Ricon had occurred on January 1, 2007:

<i>In thousands</i>	<b>Three Months Ended June 30, 2007</b>	<b>Six Months Ended June 30, 2007</b>
Net sales	\$ 337,219	\$ 668,025
Gross profit	94,362	185,492
Net income	28,034	52,944
Diluted earnings per share		
As Reported	\$ 0.57	\$ 1.09
Pro forma	0.57	1.08

At March 31, 2006, the sale of a non-core product division was completed for approximately \$1.4 million in cash, including a working capital adjustment of approximately \$600,000 which was established with the buyer in the fourth quarter of 2006. The assets sold primarily included transit car interior products and services for customers located in Europe. This sale resulted in a loss of approximately \$1.7 million including the working capital adjustment. This adjustment is subject to litigation and a resolution is expected sometime in late 2008.

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



**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (UNAUDITED)**

**4. INVENTORIES**

The components of inventory, net of reserves, were:

<i>In thousands</i>	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Raw materials	\$ 77,367	\$ 68,542
Work-in-process	80,072	71,282
Finished goods	38,892	36,153
 Total inventory	 \$ 196,331	 \$ 175,977

**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, Wabtec recorded charges of \$3.1 million and \$3.0 million for the three months ended June 30, 2008 and 2007, respectively. Wabtec recorded charges of \$3.1 million and \$4.0 million for the six months ended June 30, 2008 and 2007, respectively. Total expenses for restructuring and other expenses recorded since 2006 have been \$14.9 million, comprised of the \$4.8 million for employee severance costs for approximately 370 salaried and hourly employees; \$4.8 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 specific to one location. The goodwill impairment was recorded as amortization expense and most of the other charges were recorded to 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 June 30, 2008, \$2.3 million of this amount had been paid. In the Transit segment, Wabtec recorded charges of \$1.1 million for the six months ended June 30, 2007. Total expenses for restructuring and other expenses recorded since 2006 have been \$1.5 million, comprised of severance, pension, and asset impairment. All charges were recorded to cost of sales. As of June 30, 2008, all but \$68,000 of these costs has been paid.

**6. INTANGIBLES**

Goodwill was \$237.8 million and \$232.6 million at June 30, 2008 and December 31, 2007, respectively. The change in the carrying amount of goodwill by segment for the three months ended June 30, 2008 is as follows:

<i>In thousands</i>	<b>Freight Group</b>	<b>Transit Group</b>	<b>Total</b>
Balance at December 31, 2007	\$ 114,829	\$ 117,764	\$ 232,593
Adjustment to preliminary purchase allocation		654	654
Foreign currency impact	1,005	3,590	4,595
 Balance at June 30 2008	 \$ 115,834	 \$ 122,008	 \$ 237,842

**Table of Contents****WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (UNAUDITED)**

As of June 30, 2008 and December 31, 2007, the Company's trademarks had a net carrying amount of \$34.8 million and \$34.5 million, respectively, and the Company believes these intangibles have an indefinite life. Intangible assets of the Company, other than goodwill and trademarks, consist of the following:

<i>In thousands</i>	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Patents and other, net of accumulated amortization of \$27,153 and \$25,620	\$ 7,681	\$ 8,702
Customer relationships, net of accumulated amortization of \$2,013 and \$1,320	15,191	15,450
<b>Total</b>	<b>\$ 22,872</b>	<b>\$ 24,152</b>

The weighted average remaining useful life of patents is 7 years and customer relationships is 13 years. Amortization expense for intangible assets was \$903,000 and \$1.8 million for the three and six months ended June 30, 2008, respectively, and \$993,000 and \$1.5 million for the three and six months ended June 30, 2007, respectively.

**7. LONG-TERM DEBT**

Long-term debt consisted of the following:

<i>In thousands</i>	<b>June 30, 2008</b>	<b>December 31, 2007</b>
6.875% senior notes, due 2013	\$ 150,000	\$ 150,000
Capital Leases	203	250
<b>Total</b>	<b>150,203</b>	<b>150,250</b>
Less current portion	68	73
<b>Long-term portion</b>	<b>\$ 150,135</b>	<b>\$ 150,177</b>

*Refinancing Credit Agreement*

In January 2004, the Company refinanced its existing unsecured revolving credit agreement with a consortium of commercial banks. This Refinancing Credit Agreement provided a \$175 million five-year revolving credit facility expiring in January 2009. In November 2005, the Company entered into an amendment to the Refinancing Credit Agreement which, among other things, extended the expiration of the agreement until December 2010. The Company entered into an amendment to its Refinancing Credit Agreement in February 2007 which permits the Company to complete any acquisitions without prior approval of the bank consortium as long as certain financial parameters and ratios are met. At June 30, 2008, the Company had available bank borrowing capacity, net of \$58.7 million of letters of credit, of approximately \$116.3 million, subject to certain financial covenant restrictions.

Refinancing Credit Agreement borrowings bear variable interest rates indexed to the indices described below. The Company did not borrow under the Refinancing Credit Agreement during the six months ended June 30, 2008 or during the year ended December 31, 2007.



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

Under the Refinancing Credit Agreement, the Company may elect a base interest rate or an interest rate based on the London Interbank Offered Rates of Interest ( LIBOR ). The base interest rate is the greater of

**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (UNAUDITED)**

LaSalle Bank National Association's prime rate or the federal funds effective rate plus 0.5% per annum. The LIBOR rate is based on LIBOR plus a margin that ranges from 62.5 to 175 basis points depending on the Company's consolidated total indebtedness to cash flow ratios. The current margin is 62.5 basis points.

The Refinancing Credit Agreement limits the Company's ability to declare or pay cash dividends and prohibits the Company from declaring or making other distributions, subject to certain exceptions. The Refinancing Credit Agreement contains various other covenants and restrictions including the following limitations: incurrence of additional indebtedness; mergers, consolidations and sales of assets and acquisitions; additional liens; sale and leasebacks; permissible investments, loans and advances; certain debt payments; capital expenditures; and imposes a minimum interest expense coverage ratio and a maximum debt to cash flow ratio.

The Refinancing Credit Agreement contains customary events of default, including payment defaults, failure of representations or warranties to be true in any material respect, covenant defaults, defaults with respect to other indebtedness of the Company, bankruptcy, certain judgments against the Company, ERISA defaults and change of control of the Company. The Refinancing Credit Agreement includes the following covenants: a minimum interest coverage ratio of 3, maximum debt to cash flow ratio of 3.25 and a minimum net worth of \$180 million plus 50% of consolidated net income since September 30, 2003. The Company is in compliance with these measurements and covenants 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 our existing and future subordinated indebtedness of the Company. The indenture under which the Notes were issued contains covenants and restrictions which limit among other things, the following: the incurrence of indebtedness, payment of dividends and certain distributions, sale of assets, change in control, mergers and consolidations and the incurrence of liens.

During 2007, 509,800 shares were repurchased at an average price of \$35.06 per share. During the first quarter of 2008, the Company repurchased 712,900 shares of Wabtec stock at an average price of \$34.29 per share. During the second quarter of 2008, the Company repurchased 5,200 shares of Wabtec stock at an average price of \$35.97 per share. All purchases were on the open market.

**Table of Contents****WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (UNAUDITED)****8. EMPLOYEE BENEFIT PLANS**

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 \$72,000, net of tax. There was no effect on the results of operations.

**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 June 30,		International Three months ended June 30,	
	2008	2007	2008	2007
<b>Net periodic benefit cost</b>				
Service cost	\$ 77	\$ 88	\$ 887	\$ 962
Interest cost	690	671	1,918	1,688
Expected return on plan assets	(832)	(775)	(2,208)	(1,873)
Net amortization/deferrals	338	404	366	408
Curtailment loss recognized			2,122	
Settlement loss recognized			388	
Net periodic benefit cost	\$ 273	\$ 388	\$ 3,473	\$ 1,185

**Assumptions**

Discount rate	6.35%	5.80%	5.62%	5.11%
Expected long-term rate of return	8.00%	8.00%	7.17%	6.70%
Rate of compensation increase	3.00%	3.00%	3.84%	3.62%

<i>In thousands, except percentages</i>	U.S. Six months ended June 30,		International Six months ended June 30,	
	2008	2007	2008	2007
<b>Net periodic benefit cost</b>				
Service cost	\$ 153	\$ 176	\$ 1,775	\$ 1,884
Interest cost	1,381	1,343	3,839	3,314
Expected return on plan assets	(1,665)	(1,550)	(4,428)	(3,675)
Net amortization/deferrals	677	807	735	799
Curtailment loss recognized			2,122	
Settlement loss recognized			520	
Net periodic benefit cost	\$ 546	\$ 776	\$ 4,563	\$ 2,322

**Assumptions**

Discount rate	6.35%	5.80%	5.62%	5.11%
Expected long-term rate of return	8.00%	8.00%	7.17%	6.70%
Rate of compensation increase	3.00%	3.00%	3.84%	3.62%

**Table of Contents****WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (UNAUDITED)**

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. plan and expects to contribute \$6.7 million to the international plans during 2008.

**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>	<b>U.S.</b>		<b>International</b>	
	<b>Three months ended June 30,</b>		<b>Three months ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Net periodic benefit cost</b>				
Service cost	\$ 50	\$ 59	\$ 14	\$ 60
Interest cost	495	527	52	93
Net amortization/deferrals	(226)	(83)	(102)	61
Curtailment gain recognized			(954)	
Special termination benefit recognized			32	
<b>Net periodic benefit cost</b>	<b>\$ 319</b>	<b>\$ 503</b>	<b>\$ (958)</b>	<b>\$ 214</b>

**Assumptions**

Discount rate	6.35%	5.80%	5.50%	5.25%
---------------	-------	-------	-------	-------

<i>In thousands, except percentages</i>	<b>U.S.</b>		<b>International</b>	
	<b>Six months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Net periodic benefit cost</b>				
Service cost	\$ 100	\$ 117	\$ 27	\$ 117
Interest cost	990	1,055	105	181
Net amortization/deferrals	(452)	(166)	(205)	118
Curtailment gain recognized			(954)	
Special termination benefit recognized			32	
<b>Net periodic benefit cost</b>	<b>\$ 638</b>	<b>\$ 1,006</b>	<b>\$ (995)</b>	<b>\$ 416</b>

**Assumptions**

Discount rate	6.35%	5.80%	5.50%	5.25%
---------------	-------	-------	-------	-------

**9. STOCK-BASED COMPENSATION**

As of June 30, 2008, 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).

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

Stock-based compensation expense was \$5.0 million and \$4.6 million for the six months ended June 30, 2008 and 2007, respectively. Included in the stock-based compensation expense for 2008 above is \$448,000 of

**Table of Contents****WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (UNAUDITED)**

expense related to stock options, \$1.5 million related to restricted stock, \$2.5 million related to incentive stock awards, and \$603,000 as compensation for Directors' fees. At June 30, 2008, unamortized compensation expense related to those stock options, restricted shares and incentive stock awards expected to vest totaled \$16.5 million and will be recognized over a weighted average period of 2.0 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 ten years from the date of grant. Options issued under the Directors Plan become exercisable over a three-year vesting period and expire ten 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 six months ended June 30, 2008:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2007	1,009,494	\$ 14.61	5.2	\$ 20,022
Granted	253,500	34.78		3,310
Exercised	(132,384)	12.53		(4,675)
Canceled	(16,250)	19.49		(461)
<b>Outstanding at June 30, 2008</b>	<b>1,114,360</b>	<b>\$ 19.37</b>	<b>5.9</b>	<b>\$ 31,724</b>
Exercisable at June 30, 2008	821,852	\$ 14.08	4.7	\$ 27,747

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:

	Six months ended June 30,	
	2008	2007
Dividend yield	.3%	.3%
Risk-free interest rate	3.5%	4.7%
Stock price volatility	33.9	40.7
Expected life (years)	5.0	5.0

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

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

In addition, the Company has issued incentive stock awards to eligible employees that vest upon attainment of certain cumulative three year performance goals. The incentive stock awards included in the table below represent the maximum number of shares that may ultimately vest. As of June 30, 2008, based on the Company's performance, we estimate that the majority of these stock awards will vest and have recorded

compensation expense accordingly. If our estimate of the number of these stock awards expected to vest changes in a future accounting period, compensation expense could be reduced and will be recognized over the remaining vesting period.



**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (UNAUDITED)**

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

The following table summarizes the restricted stock and incentive stock awards activity and related information for the three months ended June 30, 2008:

	<b>Restricted Stock</b>	<b>Incentive Stock Awards</b>	<b>Weighted Average Grant Date Fair Value</b>
Outstanding at December 31, 2007	301,500	694,049	\$ 29.65
Granted	73,000	293,000	34.92
Vested	(82,958)	(243,913)	20.51
Canceled	(16,500)	(51,470)	27.16
Outstanding at June 30, 2008	275,042	691,666	\$ 34.91

**10. INCOME TAXES**

The overall effective income tax rate was 37.4% for both the three and six months ended June 30, 2008 and 35.5% and 36.3% for the three and six months ended June 30, 2007, respectively.

The Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48) an interpretation of FASB Statement No. 109 on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes.

As of January 1, 2008, the liability for income taxes associated with uncertain tax positions was \$17.2 million, of which \$10.6 million, if recognized, would favorably affect the Company's effective tax rate. The total liability related to uncertain tax positions as of June 30, 2008 is \$17.7 million, of which \$10.9 million, if recognized, would favorably affect the Company's effective income tax rate.

The Company includes interest and penalties related to uncertain tax positions in income tax expense. As of January 1, 2008, the Company had accrued interest and penalties related to uncertain tax positions of approximately \$3.3 and \$1.8 million, respectively. The total interest and penalties accrued as of June 30, 2008 are approximately \$4.1 and \$2.2 million, respectively.

In April 2008, the Internal Revenue Service completed its audit of the tax year ended December 31, 2004 without change to the tax as reported by the Company. With limited exception, the Company is no longer subject to examination by various U.S. and foreign taxing authorities for years before 2003.

At this time, the Company believes that it is reasonably possible that unrecognized tax benefits may significantly change within the next twelve months. The approximate range is \$3.0 million to \$4.0 million based on the expiration of statutory review periods and current examinations.

**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (UNAUDITED)**

**11. EARNINGS PER SHARE**

The computation of earnings per share is as follows:

<i>In thousands, except per share</i>	<b>Three Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Basic earnings per share</b>		
Income from continuing operations applicable to common shareholders	\$ 33,762	\$ 28,125
Divided by		
Weighted average shares outstanding	48,095	48,666
Basic earnings from continuing operations per share	\$ 0.70	\$ 0.58
<b>Diluted earnings per share</b>		
Income from continuing operations applicable to common shareholders	\$ 33,762	\$ 28,125
Divided by sum of the		
Weighted average shares outstanding	48,095	48,666
Conversion of dilutive stock options and non-vested stock	560	628
Diluted shares outstanding	48,655	49,294
Diluted earnings from continuing operations per share	\$ 0.69	\$ 0.57
<i>In thousands, except per share</i>	<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Basic earnings per share</b>		
Income from continuing operations applicable to common shareholders	\$ 66,275	\$ 53,679
Divided by		
Weighted average shares outstanding	48,306	48,413
Basic earnings from continuing operations per share	\$ 1.37	\$ 1.11
<b>Diluted earnings per share</b>		
Income from continuing operations applicable to common shareholders	\$ 66,275	\$ 53,679
Divided by sum of the		
Weighted average shares outstanding	48,306	48,413
Conversion of dilutive stock options and non-vested stock	618	609
Diluted shares outstanding	48,924	49,022
Diluted earnings from continuing operations per share	\$ 1.35	\$ 1.09

**12. WARRANTIES**

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

<i>In thousands</i>	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>
Balance at December 31, 2007 and 2006, respectively	\$ 22,314	\$ 17,399
Warranty provision	9,752	5,329
Acquisition		1,399
Warranty claim payments	(5,305)	(5,489)
Balance at June 30, 2008 and 2007, respectively	\$ 26,761	\$ 18,638

**Table of Contents****WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (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.

Relative to SFAS 157, the FASB issued FASB Staff Positions (FSP) 157-1 and 157-2. FSP 157-1 amends SFAS 157 to exclude SFAS No. 13, Accounting for Leases, (SFAS 13) and its related interpretive accounting pronouncements that address leasing transactions, while FSP 157-2 delays the effective date of the application of SFAS 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

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. Non-recurring nonfinancial assets and nonfinancial liabilities for which the Company has not applied the provisions of SFAS 157 include those measured at fair value in goodwill impairment testing, indefinite lived intangible assets measured at fair value for impairment testing, asset retirement obligations initially measured at fair value, and those initially measured at fair value in a business combination. The implementation of SFAS 157 for financial assets and financial liabilities did not have a material impact on the Company's consolidated financial position and results of operations. The Company is currently evaluating the impact of adopting SFAS 157 for nonfinancial assets and nonfinancial liabilities.

**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 June 30, 2008:

<i>In thousands</i>	Total Carrying Value at June 30, 2008	Fair Value Measurements at June 30, 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	\$ 349	\$	\$ 349	\$
Total	\$ 349	\$	\$ 349	\$

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



**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (UNAUDITED)**

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.

**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. Since 2000, the number of such claims has increased and the resolution of these claims may take a significant period of time. Most of these claims have been made against our wholly owned subsidiary, Railroad Friction Products Corporation (RFPC), and are based on a product sold by RFPC prior to the time that the Company acquired any interest in RFPC. On April 17, 2005, a claim against the Company by a former stockholder of RFPC contending that the Company assumed that entity's liability for asbestos claims arising from exposure to RFPC's product was resolved in the Company's favor.

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

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

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

In March 2006, Management began an internal investigation related to business transactions conducted by a subsidiary, Pioneer Friction Limited (Pioneer), in West Bengal, India. Through an internal compliance review,

**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (UNAUDITED)**

Management discovered that disbursements were made which may be in violation of applicable laws and regulations. Pioneer is a fourth-tier subsidiary of Wabtec; two of the intermediate subsidiaries are Australian companies which are, in turn, owned by a U.S. holding company. The Company has entered into a non-prosecution agreement with the United States Department of Justice and has paid a penalty of \$300,000. The Company has reached a civil settlement with the Securities and Exchange Commission and will pay a penalty of \$377,000.

On October 18, 2007, Faiveley Transport Malmo AB filed a request for arbitration with the International Chamber of Commerce alleging breach of contract and trade secret violations relating to the Company's manufacture and sale of certain components. The components at issue are limited in number and used in the transit industry. On that same day, Faiveley also filed a related proceeding against the Company in the United States District Court for the Southern District of New York, requesting a preliminary injunction in aid of the arbitration. In both forums, Faiveley seeks to prevent the Company from manufacturing and selling the subject components until the arbitration panel decides Faiveley's claim. In the arbitration, Faiveley also seeks an unspecified amount of damages. The Company's motion and subsequent appeal to dismiss the federal court action on jurisdictional grounds were denied. During the week of July 28, 2008, the federal court conducted a hearing on Faiveley's injunction request. A decision is expected in mid-August 2008. The arbitration panel expects to conduct its hearing on the underlying breach of contract issue in February 2009. The Company denies Faiveley's allegations and does not believe that it has any material legal liability in this matter; it will vigorously contest both proceedings.

The Company is subject to a number of other commitments and contingencies as described in its Annual Report on Form 10-K for the Year Ended December 31, 2007, filed on February 29, 2008. During the first six months of 2008, there were no material changes to the information described in Note 18 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.

**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (UNAUDITED)**

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

<i>In thousands</i>	<b>Freight Group</b>	<b>Transit Group</b>	<b>Corporate Activities and Elimination</b>	<b>Total</b>
Sales to external customers	\$ 199,631	\$ 190,563	\$	\$ 390,194
Intersegment sales/(elimination)	5,354	557	(5,911)	
<b>Total sales</b>	<b>\$ 204,985</b>	<b>\$ 191,120</b>	<b>\$ (5,911)</b>	<b>\$ 390,194</b>
Income (loss) from operations	\$ 36,154	\$ 25,102	\$ (5,334)	\$ 55,922
Interest expense and other, net			(1,989)	(1,989)
Income (loss) from continuing operations before income taxes	\$ 36,154	\$ 25,102	\$ (7,323)	\$ 53,933

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

<i>In thousands</i>	<b>Freight Group</b>	<b>Transit Group</b>	<b>Corporate Activities and Elimination</b>	<b>Total</b>
Sales to external customers	\$ 180,986	\$ 144,736	\$	\$ 325,722
Intersegment sales/(elimination)	3,703	231	(3,934)	
<b>Total sales</b>	<b>\$ 184,689</b>	<b>\$ 144,967</b>	<b>\$ (3,934)</b>	<b>\$ 325,722</b>
Income (loss) from operations	\$ 31,054	\$ 18,981	\$ (4,118)	\$ 45,917
Interest expense and other, net			(2,323)	(2,323)
Income (loss) from continuing operations before income taxes	\$ 31,054	\$ 18,981	\$ (6,441)	\$ 43,594

Segment financial information for the six months ended June 30, 2008 is as follows:

<i>In thousands</i>	<b>Freight Group</b>	<b>Transit Group</b>	<b>Corporate Activities and Elimination</b>	<b>Total</b>
Sales to external customers	\$ 391,397	\$ 382,124	\$	\$ 773,521
Intersegment sales/(elimination)	9,897	1,001	(10,898)	
<b>Total sales</b>	<b>\$ 401,294</b>	<b>\$ 383,125</b>	<b>\$ (10,898)</b>	<b>\$ 773,521</b>



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

Income (loss) from operations	\$ 72,163	\$ 47,534	\$ (9,889)	\$ 109,808
Interest expense and other, net			(3,853)	(3,853)
Income (loss) from continuing operations before income taxes	\$ 72,163	\$ 47,534	\$ (13,742)	\$ 105,955

**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (UNAUDITED)**

Segment financial information for the six months ended June 30, 2007 is as follows:

<i>In thousands</i>	Freight Group	Transit Group	Corporate Activities and Elimination	Total
Sales to external customers	\$ 365,653	\$ 274,333	\$	\$ 639,986
Intersegment sales/(elimination)	7,407	453	(7,860)	
<b>Total sales</b>	<b>\$ 373,060</b>	<b>\$ 274,786</b>	<b>\$ (7,860)</b>	<b>\$ 639,986</b>
Income (loss) from operations	\$ 66,539	\$ 29,596	\$ (7,954)	\$ 88,181
Interest expense and other, net			(3,915)	(3,915)
Income (loss) from continuing operations before income taxes	\$ 66,539	\$ 29,596	\$ (11,869)	\$ 84,266

Sales by product is as follows:

<i>In thousands</i>	Three Months Ended June 30,	
	2008	2007
Brake products	\$ 131,852	\$ 112,876
Freight electronics & specialty products	96,339	87,568
Remanufacturing, overhaul & build	84,519	75,903
Transit products	55,304	34,104
Other	22,180	15,271
<b>Total sales</b>	<b>\$ 390,194</b>	<b>\$ 325,722</b>

<i>In thousands</i>	Six Months Ended June 30,	
	2008	2007
Brake products	\$ 262,262	\$ 229,027
Freight electronics & specialty products	190,353	175,234
Remanufacturing, overhaul & build	179,211	147,263
Transit products	103,379	59,980
Other	38,316	28,482
<b>Total sales</b>	<b>\$ 773,521</b>	<b>\$ 639,986</b>

**Table of Contents****WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (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 June 30, 2008:

<i>In thousands</i>	<b>Parent</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Elimination</b>	<b>Consolidated</b>
Cash and cash equivalents	\$ 51,255	\$ 3,152	\$ 187,273	\$	\$ 241,680
Accounts receivable	241	194,328	89,576		284,145
Inventories		122,360	73,971		196,331
Other current assets	26,135	3,852	5,341		35,328
<b>Total current assets</b>	<b>77,631</b>	<b>323,692</b>	<b>356,161</b>		<b>757,484</b>
Property, plant and equipment	1,996	98,217	78,943		179,156
Goodwill	7,980	150,926	78,936		237,842
Investment in subsidiaries	1,450,306	271,037	180,807	(1,902,150)	
Other intangibles	958	45,476	11,276		57,710
Other long term assets	(948)	310	24,546		23,908
<b>Total Assets</b>	<b>\$ 1,537,923</b>	<b>\$ 889,658</b>	<b>\$ 730,669</b>	<b>\$ (1,902,150)</b>	<b>\$ 1,256,100</b>
Current liabilities	\$ (2,809)	\$ 228,029	\$ 100,004	\$	\$ 325,224
Intercompany	658,425	(731,920)	73,495		
Long-term debt	150,000	135			150,135
Other long term liabilities	53,656	15,494	32,940		102,090
<b>Total liabilities</b>	<b>859,272</b>	<b>(488,262)</b>	<b>206,439</b>		<b>577,449</b>
Stockholders' equity	678,651	1,377,920	524,230	(1,902,150)	678,651
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 1,537,923</b>	<b>\$ 889,658</b>	<b>\$ 730,669</b>	<b>\$ (1,902,150)</b>	<b>\$ 1,256,100</b>

**Table of Contents****WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (UNAUDITED)**

Balance Sheet as of December 31, 2007:

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Cash and cash equivalents	\$ 82,911	\$ 10,004	\$ 141,774	\$	\$ 234,689
Accounts receivable	135	150,662	71,438		222,235
Inventories		108,958	67,019		175,977
Other current assets	24,703	3,530	4,633		32,866
<b>Total current assets</b>	<b>107,749</b>	<b>273,154</b>	<b>284,864</b>		<b>665,767</b>
Property, plant and equipment	2,493	100,806	79,138		182,437
Goodwill	7,980	151,297	73,316		232,593
Investment in subsidiaries	1,311,343	223,145	59,850	(1,594,338)	
Other intangibles	1,354	46,602	10,717		58,673
Other long term assets	(1,526)	693	20,065		19,232
<b>Total Assets</b>	<b>\$ 1,429,393</b>	<b>\$ 795,697</b>	<b>\$ 527,950</b>	<b>\$ (1,594,338)</b>	<b>\$ 1,158,702</b>
Current liabilities	\$ 1,576	\$ 203,938	\$ 89,721	\$	\$ 295,235
Intercompany	608,282	(644,920)	36,638		
Long-term debt	150,000	177			150,177
Other long term liabilities	52,267	13,445	30,310		96,022
<b>Total liabilities</b>	<b>812,125</b>	<b>(427,360)</b>	<b>156,669</b>		<b>541,434</b>
Stockholders' equity	617,268	1,223,057	371,281	(1,594,338)	617,268
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 1,429,393</b>	<b>\$ 795,697</b>	<b>\$ 527,950</b>	<b>\$ (1,594,338)</b>	<b>\$ 1,158,702</b>

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

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination(1)	Consolidated
Net sales	\$	\$ 287,801	\$ 141,222	\$ (38,829)	\$ 390,194
Cost of sales	(151)	(192,171)	(119,059)	29,688	(281,693)
<b>Gross (loss) profit</b>	<b>(151)</b>	<b>95,630</b>	<b>22,163</b>	<b>(9,141)</b>	<b>108,501</b>
Operating expenses	(11,047)	(30,692)	(10,840)		(52,579)
<b>Operating (loss) profit</b>	<b>(11,198)</b>	<b>64,938</b>	<b>11,323</b>	<b>(9,141)</b>	<b>55,922</b>
Interest (expense) income, net	(4,718)	2,103	1,322		(1,293)
Other (expense) income, net	(188)	346	(854)		(696)
Equity earnings	61,738	9,022		(70,760)	
	45,634	76,409	11,791	(79,901)	53,933

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

Income (loss) from continuing operations before income tax					
Income tax expense	(11,872)	(3,589)	(4,710)		(20,171)
Income (loss) from continuing operations	33,762	72,820	7,081	(79,901)	33,762
Discontinued operations (net of tax)					
Net income (loss)	\$ 33,762	\$ 72,820	\$ 7,081	\$ (79,901)	\$ 33,762

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

**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (UNAUDITED)**

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

<i>In thousands</i>	<b>Parent</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Elimination(1)</b>	<b>Consolidated</b>
Net sales	\$	\$ 245,363	\$ 109,024	\$ (28,665)	\$ 325,722
Cost of sales	(628)	(164,474)	(88,878)	19,108	(234,872)
Gross (loss) profit	(628)	80,889	20,146	(9,557)	90,850
Operating expenses	(12,078)	(21,835)	(11,020)		(44,933)
Operating (loss) profit	(12,706)	59,054	9,126	(9,557)	45,917
Interest (expense) income, net	(4,348)	2,791	871		(686)
Other (expense) income, net	(202)	601	(2,036)		(1,637)
Equity earnings	54,858	7,237		(62,095)	
Income (loss) from continuing operations before income tax	37,602	69,683	7,961	(71,652)	43,594
Income tax expense	(9,502)	(3,636)	(2,331)		(15,469)
Income (loss) from continuing operations	28,100	66,047	5,630	(71,652)	28,125
Income (loss) from discontinued operations (net of tax)	30		(25)		5
Net income (loss)	\$ 28,130	\$ 66,047	\$ 5,605	\$ (71,652)	\$ 28,130

(1) Includes elimination of gross profit realized with certain intercompany transactions between Guarantor and Non-Guarantor subsidiaries.  
Income Statement for the Six Months Ended June 30, 2008:

<i>In thousands</i>	<b>Parent</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Elimination(1)</b>	<b>Consolidated</b>
Net sales	\$	\$ 575,032	\$ 267,423	\$ (68,934)	\$ 773,521
Cost of sales	(370)	(388,948)	(223,292)	52,805	(559,805)
Gross (loss) profit	(370)	186,084	44,131	(16,129)	213,716
Operating expenses	(26,992)	(55,643)	(21,273)		(103,908)
Operating (loss) profit	(27,362)	130,441	22,858	(16,129)	109,808
Interest (expense) income, net	(9,543)	4,494	2,275		(2,774)
Other (expense) income, net	(411)	1,938	(2,606)		(1,079)
Equity earnings	126,752	16,057		(142,809)	
	89,436	152,930	22,527	(158,938)	105,955

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

Income (loss) from continuing operations before income tax					
Income tax expense	(23,164)	(7,333)	(9,183)		(39,680)
Income (loss) from continuing operations	66,272	145,597	13,344	(158,938)	66,275
Loss from discontinued operations (net of tax)			(3)		(3)
Net income (loss)	\$ 66,272	\$ 145,597	\$ 13,341	\$ (158,938)	\$ 66,272

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

**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (UNAUDITED)**

Income Statement for the Six Months Ended June 30, 2007:

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination(1)	Consolidated
Net sales	\$	\$ 487,742	\$ 213,574	\$ (61,330)	\$ 639,986
Cost of sales	417	(326,524)	(178,737)	42,274	(462,570)
Gross profit (loss)	417	161,218	34,837	(19,056)	177,416
Operating expenses	(23,267)	(44,862)	(21,106)		(89,235)
Operating (loss) profit	(22,850)	116,356	13,731	(19,056)	88,181
Interest (expense) income, net	(8,415)	5,500	1,446		(1,469)
Other (expense) income, net	(601)	1,039	(2,884)		(2,446)
Equity earnings	103,439	8,943		(112,382)	
Income (loss) from continuing operations before income tax	71,573	131,838	12,293	(131,438)	84,266
Income tax expense	(17,951)	(7,686)	(4,950)		(30,587)
Income (loss) from continuing operations	53,622	124,152	7,343	(131,438)	53,679
Income (loss) from discontinued operations (net of tax)	30		(57)		(27)
Net income (loss)	\$ 53,652	\$ 124,152	\$ 7,286	\$ (131,438)	\$ 53,652

(1) Includes elimination of gross profit realized with certain intercompany transactions between Guarantor and Non-Guarantor subsidiaries.  
Condensed Statement of Cash Flows for the Six Months Ended June 30, 2008:

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net cash (used for) provided by operating activities	\$ (4,416)	\$ 141,926	\$ 51,605	\$ (158,938)	\$ 30,177
Net cash used for investing activities	(4,483)	(3,134)	(171)		(7,788)
Net cash (used for) provided by financing activities	(22,757)	(145,644)	(13,341)	158,938	(22,804)
Effect of changes in currency exchange rates			7,406		7,406
(Decrease) increase in cash	(31,656)	(6,852)	45,499		6,991
Cash, beginning of year	82,911	10,004	141,774		234,689
Cash, end of period	\$ 51,255	\$ 3,152	\$ 187,273	\$	\$ 241,680





**Table of Contents**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008 (UNAUDITED)**

Condensed Statement of Cash Flows for the Six Months Ended June 30, 2007:

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net cash provided by (used for) operating activities	\$ 7,940	\$ 131,479	\$ 18,242	\$ (131,438)	\$ 26,223
Net cash used for investing activities	(73,335)	(4,525)	(3,607)		(81,467)
Net cash provided by (used for) financing activities	1,305	(124,152)	(7,286)	131,438	1,305
Effect of changes in currency exchange rates			7,186		7,186
(Decrease) increase in cash	(64,090)	2,802	14,535		(46,753)
Cash, beginning of year	106,233	(231)	81,977		187,979
Cash, end of period	\$ 42,143	\$ 2,571	\$ 96,512	\$	\$ 141,226

**17. OTHER EXPENSE, NET**

The components of other expense are as follows:

<i>In thousands</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Foreign currency loss	\$ 854	\$ 1,345	\$ 1,196	\$ 2,095
Other miscellaneous (income) expense	(158)	292	(117)	351
Total other expense	\$ 696	\$ 1,637	\$ 1,079	\$ 2,446

## **Table of Contents**

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

*The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and Westinghouse Air Brake Technologies Corporation's Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in its 2007 Annual Report on Form 10-K, filed February 29, 2008.*

#### **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 12 countries. In the first six months of 2008, about 42% 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 2008, the Company expects conditions to remain generally favorable in its passenger transit rail markets and expects its freight rail markets to remain stable, but subject to changes in overall economic conditions. Through mid-July 2008, revenue ton-miles increased 1.6%, compared to the same period in 2007. Demand for new locomotives is expected to be slightly higher than in 2007, while demand for new freight cars is expected to be lower. Less than 20% of the Company's revenues are directly related to deliveries of new freight cars. At June 30, 2008, the industry backlog of freight cars ordered was 61,573, compared to 65,223 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, some of which are expected to generate increased revenues in 2008.

In 2008 and beyond, we will continue to face many challenges, including increased costs for raw materials, higher costs for medical and insurance premiums, and foreign currency fluctuations. In addition, we face general economic risks, as well as the risk that our customers could curtail spending on new and existing equipment. Risks associated with our four-point growth strategy include the level of investment that customers are willing to make in new technologies developed by the industry and the Company, and risks inherent in global expansion. When necessary, we will modify our financial and operating strategies to reflect changes in market conditions and risks.

Since 2006, Wabtec has downsized its Canadian operations by moving certain products to lower-cost facilities and outsourcing. In the Freight segment, Wabtec recorded charges of \$3.1 million and \$3.0 million for

**Table of Contents**

the three months ended June 30, 2008 and 2007, respectively. Wabtec recorded charges of \$3.1 million and \$4.0 million for the six months ended June 30, 2008 and 2007, respectively. Total expenses for restructuring and other expenses recorded since 2006 have been \$14.9 million, comprised of the \$4.8 million for employee severance costs for approximately 370 salaried and hourly employees; \$4.8 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 specific to one location. The goodwill impairment was recorded as amortization expense and most of the other charges were recorded to 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 June 30, 2008, \$2.3 million of this amount had been paid. In the Transit segment, Wabtec recorded charges of \$1.1 million for the six months ended June 30, 2007. Total expenses for restructuring and other expenses recorded since 2006 have been \$1.5 million, comprised of severance, pension, and asset impairment. All charges were recorded to cost of sales. As of June 30, 2008, all but \$68,000 of these costs has been paid.

**RESULTS OF OPERATIONS**

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

<i>In millions</i>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net sales	\$ 390.2	\$ 325.7	\$ 773.5	\$ 640.0
Cost of sales	(281.7)	(234.9)	(559.8)	(462.6)
Gross profit	108.5	90.8	213.7	177.4
Selling, general and administrative expenses	(42.1)	(34.9)	(82.5)	(69.9)
Engineering expenses	(9.6)	(9.0)	(19.6)	(17.8)
Amortization expense	(0.9)	(1.0)	(1.8)	(1.5)
Total operating expenses	(52.6)	(44.9)	(103.9)	(89.2)
Income from operations	55.9	45.9	109.8	88.2
Interest income (expense), net	(1.3)	(0.7)	(2.7)	(1.5)
Other expense, net	(0.7)	(1.6)	(1.1)	(2.4)
Income from continuing operations before income taxes	53.9	43.6	106.0	84.3
Income tax expense	(20.1)	(15.5)	(39.7)	(30.6)
Income from continuing operations	33.8	28.1	66.3	53.7
Discontinued operations				
Net income	\$ 33.8	\$ 28.1	\$ 66.3	\$ 53.7

**SECOND QUARTER 2008 COMPARED TO SECOND QUARTER 2007**

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

<i>In thousands</i>	<b>Three months ended June 30,</b>		<b>Percent Change</b>
	<b>2008</b>	<b>2007</b>	
Net sales	\$ 390,194	\$ 325,722	19.8%
Income from operations	55,922	45,917	21.8%
Net income	33,762	28,130	20.0%

Net sales increased by \$64.5 million to \$390.2 million from \$325.7 million for the three months ended June 30, 2008 and 2007, respectively. The increase is primarily due to internal growth from increased sales of \$13.7 million for combined freight and transit brake products, \$9.0 million for remanufacturing, overhaul and



**Table of Contents**

build of cars and locomotives in the freight and transit groups, \$8.8 million for freight electronics and specialty products, \$5.2 million for other transit related products and \$5.2 million for other products. Net sales increased \$15.4 million from an acquisition completed in the second quarter of 2007. The Company also realized net sales improvements of \$7.2 million due to foreign exchange, but net earnings were generally not impacted by foreign exchange. Net income for the three months ended June 30, 2008 was \$33.8 million or \$0.69 per diluted share. Net income for the three months ended June 30, 2007 was \$28.1 million or \$0.57 per diluted share. Net income improved primarily due to sales increases and consistent operating costs.

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

<i>In thousands</i>	Three months ended June 30,	
	2008	2007
Freight Group	\$ 199,631	\$ 180,986
Transit Group	190,563	144,736
Net sales	\$ 390,194	\$ 325,722

Freight Group sales increased by \$18.7 million or 10.3% primarily due to increased sales of \$8.8 million for freight electronics and specialty products, \$3.6 for brake products, \$5.4 for other products, and \$2.5 million due to foreign exchange. Offsetting those increases was a decrease of \$1.6 million for remanufacturing, overhaul and build of cars and locomotives. Transit Group sales increased by \$45.8 million or 31.7% primarily due to increased sales of \$10.6 million for remanufacturing, overhaul and build of cars and locomotives, \$10.1 for brake products, \$5.2 for other transit related products, \$15.4 million from an acquisition completed in the second quarter of 2007, and \$4.7 million due to foreign exchange, partially offset by a \$0.2 million decrease for other products.

**Gross profit** Gross profit increased to \$108.5 million in the second quarter of 2008 compared to \$90.8 million in the same period of 2007. Gross profit is dependent on a number of factors including pricing, sales volume and product mix. In the second quarter of 2008, gross profit, as a percentage of sales, was 27.8% compared to 27.9% the same period of 2007. The gross profit percentage was flat due to the changing mix of revenues from Freight to Transit as Transit margins tend to be lower than Freight. This was offset by ongoing efficiency and cost saving initiatives.

The provision for warranty expense was \$710,000 higher for the second quarter of 2008 compared to the same period of 2007, which had a negative impact on gross profit. These provisions, which are established based on historical claims as a percentage of revenue, were slightly higher due to increased sales resulting in higher reserve compared to the second quarter of 2007.

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

<i>In thousands</i>	Three months ended June 30,		
	2008	2007	Percent Change
Selling, general and administrative expenses	\$ 42,036	\$ 34,915	20.4%
Engineering expenses	9,631	9,026	6.7%
Amortization expense	912	992	(8.1)%
Total operating expenses	\$ 52,579	\$ 44,933	17.0%

Selling, general, and administrative expenses increased \$7.1 million in the second quarter of 2008 compared to the same period of 2007 due to \$3.3 million from increased legal expenses and \$1.5 million from an acquisition completed during the second quarter of 2007. Engineering expenses increased by \$605,000 in the second quarter of 2008 compared to the same period of 2007 mostly due to the same acquisition. Total operating expenses were 13.5% and 13.8% of sales for the second quarters of 2008 and 2007, respectively.

**Table of Contents**

**Income from operations** Income from operations totaled \$55.9 million (or 14.3% of sales) in the second quarter of 2008 compared with \$45.9 million (or 14.1% of sales) in the same period of 2007. Income from operations improved primarily due to sales increases and higher operating margins.

**Interest expense, net** Interest expense, net increased \$607,000 in the second quarter of 2008 compared to the same period of 2007 primarily due to the Company's overall lower cash balances, resulting in lower interest income.

**Other expense, net** The Company recorded foreign exchange expense of \$854,000 and \$1.3 million in the second quarter of 2008 and 2007, respectively, due to the effect of currency exchange rate changes on intercompany transactions that are non U.S. dollar denominated amounts and charged or credited to earnings.

**Income taxes** The overall effective income tax rate was 37.4% and 35.5% for second quarters of 2008 and 2007, respectively. The increase in effective tax rate is primarily due to approximately \$1.3 million of tax benefit recognized during the second quarter of 2007 related to the reversal of a state deferred tax valuation allowance.

**Net income** Net income for the second quarter of 2008 increased \$5.6 million, compared with the same period of 2007. Net income improved primarily due to sales increases and higher operating margins.

**FIRST SIX MONTHS OF 2008 COMPARED TO FIRST SIX MONTHS OF 2007**

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

<i>In thousands</i>	Six months ended June 30,		Percent Change
	2008	2007	
Net sales	\$ 773,521	\$ 639,986	20.9%
Income from operations	109,808	88,181	24.5%
Net income	66,272	53,652	23.5%

Net sales increased by \$133.5 million to \$773.5 million from \$640.0 million for the six months ended June 30, 2008 and 2007, respectively. The increase is primarily due to internal growth from increased sales of \$31.8 million for remanufacturing, overhaul and build of cars and locomotives in the freight and transit groups, \$22.5 for combined freight and transit brake products, \$15.1 million for freight electronics and specialty products, \$9.2 million for other transit related products and \$6.6 million for other products. Net sales increased \$33.0 million from an acquisition completed in the second quarter of 2007. The Company also realized net sales improvements of \$15.3 million due to foreign exchange, but net earnings were generally not impacted by foreign exchange. Net income for the six months ended June 30, 2008 was \$66.3 million or \$1.35 per diluted share. Net income for the six months ended June 30, 2007 was \$53.7 million or \$1.09 per diluted share. Net income improved primarily due to sales increases and consistent operating costs.

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

<i>In thousands</i>	Six months ended June 30,	
	2008	2007
Freight Group	\$ 391,397	\$ 365,653
Transit Group	382,124	274,333
Net sales	\$ 773,521	\$ 639,986

Freight Group sales increased by \$25.7 million or 7.0% primarily due to increased sales of \$15.1 for freight electronics and specialty products, \$7.4 for brake products, \$6.8 for other products and \$5.2 million due to foreign exchange. Offsetting those increases was a decrease of \$8.8 million for remanufacturing, overhaul and build of





**Table of Contents**

cars and locomotives. Transit Group sales increased by \$107.8 million or 39.3% primarily due to increased sales of \$40.6 million for remanufacturing, overhaul and build of cars and locomotives, \$15.1 for brake products, \$9.2 for other transit related products, \$33.0 million from an acquisition completed in the second quarter of 2007, and \$10.1 million due to foreign exchange, partially offset by a \$0.2 million decrease for other products.

**Gross profit** Gross profit increased to \$213.7 million for the first six months of 2008 compared to \$177.4 million in the same period of 2007. Gross profit is dependent on a number of factors including pricing, sales volume and product mix. For the first six months of 2008, gross profit, as a percentage of sales, was 27.6% compared to 27.7% the same period of 2007. The gross profit percentage was flat due to the changing mix of revenues from Freight to Transit as Transit margins tend to be lower than Freight. This was offset by ongoing efficiency and cost saving initiatives.

In addition, for the first six months of 2008 the provision for warranty expense was \$4.4 million higher compared to the same period of 2007, which had a negative impact on gross profit and margin. These increases relate to specific reserves. In addition, these provisions, which are established based on historical claims as a percentage of revenue, were slightly higher due to increased sales resulting in a higher reserve compared to the first six months of 2007.

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

<i>In thousands</i>	Six months ended June 30,		
	2008	2007	Percent Change
Selling, general and administrative expenses	\$ 82,481	\$ 69,860	18.1%
Engineering expenses	19,612	17,842	9.9%
Amortization expense	1,815	1,533	18.4%
Total operating expenses	\$ 103,908	\$ 89,235	16.4%

Selling, general, and administrative expenses increased \$12.6 million for the first six months of 2008 compared to the same period of 2007 due to \$5.5 million from increased legal expenses and \$4.2 million from an acquisition completed during the second quarter of 2007 offset by \$2.5 million for expenses related to the Bombardier settlement that were recorded in the first quarter of 2007. Engineering expenses increased by \$1.8 million for the first six months of 2008 compared to the same period of 2007 mostly due to the same acquisition. Total operating expenses were 13.4% and 13.9% of sales for the first quarters of 2008 and 2007, respectively.

**Income from operations** Income from operations totaled \$109.8 million (or 14.2% of sales) for the first six months of 2008 compared with \$88.2 million (or 13.8% of sales) in the same period of 2007. Income from operations improved primarily due to sales increases and higher operating margins.

**Interest expense, net** Interest expense, net increased \$1.3 million for the first six months of 2008 compared to the same period of 2007 primarily due to the Company's overall lower cash balances, resulting in lower interest income.

**Other expense, net** The Company recorded foreign exchange expense of \$1.2 million and \$2.1 million during the first six months of 2008 and 2007, respectively, due to the effect of currency exchange rate changes on intercompany transactions that are non U.S. dollar denominated amounts and charged or credited to earnings.

**Income taxes** The overall effective income tax rate was 37.4% and 36.3% for the six months ended June 30, 2008 and 2007, respectively. The increase in effective tax rate is primarily due to approximately \$1.3 million of tax benefit recognized during the second quarter of 2007 related to the reversal of a state deferred tax valuation allowance.

**Net income** Net income for the first six months of 2008 increased \$12.6 million, compared with the same period of 2007. Net income improved primarily due to sales increases and higher operating margins.

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

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

<i>In thousands</i>	Six months ended	
	2008	June 30, 2007
Cash provided by (used for):		
Operating activities	\$ 30,177	\$ 26,223
Investing activities	(7,788)	(81,467)
Financing activities	(22,804)	1,305
Increase (decrease) in cash	\$ 6,991	\$ (46,753)

**Operating activities** Cash provided by operations in the first six months of 2008 was \$30.2 million as compared to cash provided by operations of \$26.2 million for the same period of 2007. This \$4.0 million increase was the result of increased earnings offset by certain changes in operating assets and liabilities. Net income for the Company increased \$12.6 million primarily as a result of increased sales. Accounts receivable decreased operating cash flows by \$46.2 million due to large customer billings for certain transit contracts. Accrued liabilities and customer deposits increased operating cash flows by \$48.2 million due to the progress of customer billing for certain contracts. Accrued taxes used cash of \$6.6 million primarily due to the adoption of FIN48 during the first quarter of 2007.

**Investing activities** In the first six months of 2008 and 2007, cash used in investing activities was \$7.8 million and \$81.5 million, respectively. During the second quarter of 2007, Wabtec acquired Ricon Corporation, a manufacturer of wheelchair lifts and ramps, for \$73.3 million. Capital expenditures were \$7.9 million and \$8.3 million in the first six months of 2008 and 2007, respectively.

On June 30, 2008, subsequent to the close of our four-four-five accounting quarter, the Company acquired POLI S.p.A., a European based manufacturer of rail braking equipment, for a net price of \$53 million (about \$80 million USD) in cash. POLI's products include 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 operate as a business of Wabtec's Transit Group.

**Financing activities** In the first six months of 2008, cash used by financing activities was \$22.8 million, which included \$2.9 million of proceeds from the exercise of stock options and other benefit plan activity, offset by \$969,000 of dividend payments and \$24.7 million for the repurchase of 718,100 shares of stock. In the first six months of 2007, cash provided by financing activities was \$1.3 million, which included \$5.7 million of proceeds from the exercise of stock options and other benefit plans, offset by \$986,000 of dividend payments and \$3.4 million for the repurchase of 92,700 shares of stock.

The following table shows outstanding indebtedness at June 30, 2008 and December 31, 2007.

<i>In thousands</i>	June 30, 2008	December 31, 2007
6.875% senior notes, due 2013	\$ 150,000	\$ 150,000
Capital Leases	203	250
<b>Total</b>	<b>150,203</b>	<b>150,250</b>
Less current portion	68	73
<b>Long-term portion</b>	<b>\$ 150,135</b>	<b>\$ 150,177</b>

Cash balance at June 30, 2008 and December 31, 2007 was \$241.7 million and \$234.7 million, respectively.



---

**Table of Contents**

*Refinancing Credit Agreement*

In January 2004, the Company refinanced its existing unsecured revolving credit agreement with a consortium of commercial banks. This Refinancing Credit Agreement provided a \$175 million five-year revolving credit facility expiring in January 2009. In November 2005, the Company entered into an amendment to the Refinancing Credit Agreement which, among other things, extended the expiration of the agreement until December 2010. The Company entered into an amendment to its Refinancing Credit Agreement in February 2007 which permits the Company to complete any acquisitions without prior approval of the bank consortium as long as certain financial parameters and ratios are met. At June 30, 2008, the Company had available bank borrowing capacity, net of \$58.7 million of letters of credit, of approximately \$116.3 million, subject to certain financial covenant restrictions.

Refinancing Credit Agreement borrowings bear variable interest rates indexed to the indices described below. The Company did not borrow under the Refinancing Credit Agreement during the six months ended June 30, 2008 or during the year ended December 31, 2007.

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

The Refinancing Credit Agreement limits the Company's ability to declare or pay cash dividends and prohibits the Company from declaring or making other distributions, subject to certain exceptions. The Refinancing Credit Agreement contains various other covenants and restrictions including the following limitations: incurrence of additional indebtedness; mergers, consolidations and sales of assets and acquisitions; additional liens; sale and leasebacks; permissible investments, loans and advances; certain debt payments; capital expenditures; and imposes a minimum interest expense coverage ratio and a maximum debt to cash flow ratio.

The Refinancing Credit Agreement contains customary events of default, including payment defaults, failure of representations or warranties to be true in any material respect, covenant defaults, defaults with respect to other indebtedness of the Company, bankruptcy, certain judgments against the Company, ERISA defaults and change of control of the Company. The Refinancing Credit Agreement includes the following covenants: a minimum interest coverage ratio of 3, maximum debt to cash flow ratio of 3.25 and a minimum net worth of \$180 million plus 50% of consolidated net income since September 30, 2003. The Company is in compliance with these measurements and covenants and expects that these measurements will not be any type of limiting factor in executing our operating activities.

*6.875% Senior Notes Due August 2013*

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

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

## **Table of Contents**

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 \$61.4 million, leaving \$88.6 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 Refinancing Credit Agreement, as well as the 6<sup>7/8</sup>% Senior Notes currently outstanding.

During 2007, 509,800 shares were repurchased at an average price of \$35.06 per share. During the first quarter of 2008, the Company repurchased 712,900 shares of Wabtec stock at an average price of \$34.29 per share. During the second quarter of 2008, the Company repurchased 5,200 shares of Wabtec stock at an average price of \$35.97 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 \$17.7 million for unrecognized tax benefits. The Company estimates that \$3.0 million to \$4.0 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, 2007, 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, 2007.

## **Forward Looking Statements**

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

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

Economic and industry conditions

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

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

reliance on major original equipment manufacturer customers;

original equipment manufacturers' program delays;

demand for services in the freight and passenger rail industry;

demand for our products and services;

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

**Table of Contents**

consolidations in the rail industry;

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

fluctuations in interest rates and foreign currency exchange rates;

availability of credit;

Operating factors

supply disruptions;

technical difficulties;

changes in operating conditions and costs;

increases in raw material costs;

successful introduction of new products;

performance under material long-term contracts;

labor relations;

completion and integration of acquisitions;

the development and use of new technology; or

the integration of recently completed or future acquisitions.

Competitive factors

the actions of competitors;

Political/governmental factors

political stability in relevant areas of the world;

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

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

political developments and laws and regulations; or

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

Transaction or commercial factors

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

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

#### **Critical Accounting Policies**

A summary of critical accounting policies is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. 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, 2007.



## **Table of Contents**

### **Recent Accounting Pronouncements**

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

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

#### **Interest Rate Risk**

In the ordinary course of business, Wabtec is exposed to risks that increases in interest rates may adversely affect funding costs associated with its variable-rate debt. There was no outstanding variable-rate debt at June 30, 2008.

#### **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 June 30, 2008, the Company had forward contracts for the sale of USD and the purchase of Euro with a notional value of 1.2 million Euro (or \$1.6 million USD), with an average exchange rate of \$1.33 USD per 1 Euro. These forward contracts are used to mitigate the variability in cash flows from the payment of liabilities denominated in currencies other than the USD. Since the Company does not treat these derivatives as hedges, the change in fair value of both the forward contracts and the related liabilities are recorded in the income statement. For the six months ended June 30, 2008, the Company recorded a fair value gain in the amount of \$295,000.

At June 30, 2008, the Company had forward contracts for the sale of USD and the purchase of South African Rand (ZAR). 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 June 30, 2008, the Company had forward contracts with a notional value of R18.7 million ZAR (or \$2.4 million USD), with an average exchange rate of R7.78 ZAR per USD, resulting in the recording of a current asset of \$68,000 and a corresponding offset in accumulated other comprehensive loss of \$43,000, net of tax.

At December 31, 2006, the Company had forward contracts for the sale of U.S. Dollars (USD) and the purchase of Canadian Dollars (CAD). 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 December 31, 2006, the Company had forward contracts with a notional value of \$48 million CAD (or \$42.7 million U.S.) with an average exchange rate of \$0.89 USD per \$1 CAD, resulting in the recording of a current liability of \$1.3 million and a corresponding offset in accumulated other comprehensive loss of \$825,000, net of tax. During 2007, these foreign currency forward contracts were settled.

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 six months of 2008, approximately 58% of Wabtec's net sales were to customers in the United States, 10% in Canada, 3% in Mexico, 5% in Australia, 2% in Germany, 12% in the United Kingdom, and 10% in other international locations.

**Table of Contents**

**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 June 30, 2008. 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 June 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**

There have been no material changes regarding the Company's commitments and contingencies as described in Note 18 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 2007.

**Item 1A. RISK FACTORS**

There have been no material changes in our risk factors from those disclosed in our 2007 Annual Report on Form 10-K.

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

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

During 2007, 509,800 shares were repurchased at an average price of \$35.06 per share. During the first quarter of 2008, the Company repurchased 712,900 shares of Wabtec stock at an average price of \$34.29 per share. During the second quarter of 2008, the Company repurchased 5,200 shares of Wabtec stock at an average price of \$35.97 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
March 30, 2008 to April 26, 2008	5,200	\$ 35.97	5,200	\$ 88,584,329
April 27, 2008 to May 24, 2008				\$ 88,584,329
May 25, 2008 to June 28, 2008				\$ 88,584,329
Total	5,200	\$ 35.97	5,200	\$ 88,584,329

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The Annual Meeting of Stockholders of Wabtec was held May 14, 2008. One matter was considered and voted upon at the Annual Meeting: the election of three persons to serve as Directors.

**Election of Directors** Nominations of Emilio A. Fernandez, Lee B. Foster II, and James V. Napier to serve as Directors for a term expiring in 2011 were considered and each nominee was elected.

The voting was as follows:

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

Nominee	Title	Votes For	Votes Against	Votes Withheld
Emilio A. Fernandez	Director and Vice Chairman	41,124,193		2,972,451
Lee B. Foster II	Director	40,831,715		3,264,929
James V. Napier	Director	41,532,897		2,563,747

The terms of office of Robert J. Brooks, Brian P. Hehir, Michael W. D. Howell, William E. Kassling, Albert J. Neupaver, Nickolas W. Vande Steeg, and Gary C. Valade continued after the Annual Meeting. They will serve as directors until their terms expire and until their successors have been duly elected and qualified.

**Table of Contents**

**Item 6. EXHIBITS**

The following exhibits are being filed with this report:

- 3.1 Restated Certificate of Incorporation of the Company dated January 30, 1995, as amended March 30, 1995.
- 3.2 Amended and Restated By-Laws of the Company, effective December 13, 2007.
- 10.1 Stock Purchase Agreement dated May 16, 2008 between the Company and Polinvest S.r.l.
- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer.
- 32.1 Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.

**Table of Contents**

**SIGNATURES**

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

WESTINGHOUSE AIR BRAKE

TECHNOLOGIES CORPORATION

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

DATE: August 8, 2008

**Table of Contents**

**EXHIBIT INDEX**

**Exhibit**

<b>Number</b>	<b>Description and Method of Filing</b>
3.1	Restated Certificate of Incorporation of the Company dated January 30, 1995, as amended March 30, 1995, filed as an exhibit to the Company's Registration Statement on Form S-1 (No. 33-90866), and incorporated herein by reference.
3.2	Amended and Restated By-Laws of the Company, effective December 13, 2007, filed as Exhibit 3.1 to Form 8-K filed on December 14, 2007, and incorporated herein by reference.
10.1	Stock Purchase Agreement dated May 16, 2008 between the Company and Polinvest S.r.l., filed herewith.
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.