

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP

Form 10-Q

August 04, 2011

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

**x      QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended June 30, 2011**

**OR**

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

**Commission file number: 1-13782**

**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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



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**Delaware**  
(State or other jurisdiction of

**25-1615902**  
(I.R.S. Employer

incorporation or organization)

Identification No.)

**1001 Air Brake Avenue**

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

**15148**  
(Zip Code)

**412-825-1000**

(Registrant's telephone number, including area code)

**N/A**

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

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

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

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

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

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

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

**Class**  
Common Stock, \$.01 par value per share

**Outstanding at August 1, 2011**  
48,249,927 shares



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**WESTINGHOUSE AIR BRAKE  
TECHNOLOGIES CORPORATION**

**June 30, 2011**

**FORM 10-Q**

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

<i>In thousands, except shares and par value</i>		Unaudited June 30, 2011	December 31, 2010
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents		\$ 221,475	\$ 236,941
Accounts receivable		336,673	258,149
Inventories		311,169	253,491
Deferred income taxes		39,437	39,573
Other current assets		23,178	13,799
Total current assets		931,932	801,953
Property, plant and equipment		505,842	478,023
Accumulated depreciation		(287,398)	(271,798)
Property, plant and equipment, net		218,444	206,225
<b>Other Assets</b>			
Goodwill		575,676	545,832
Other intangibles, net		245,703	216,913
Deferred income taxes		3,294	3,346
Other noncurrent assets		36,429	28,812
Total other assets		861,102	794,903
Total Assets		\$ 2,011,478	\$ 1,803,081
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Accounts payable		\$ 185,871	\$ 170,504
Customer deposits and advanced billings		79,013	23,810
Accrued compensation		39,139	39,870
Accrued warranty		24,033	20,510
Current portion of long-term debt		40,068	40,068
Other accrued liabilities		88,020	53,612
Total current liabilities		456,144	348,374
Long-term debt		356,190	382,007
Accrued postretirement and pension benefits		59,704	60,508
Deferred income taxes		83,175	76,505
Accrued warranty		23,945	15,003
Other long-term liabilities		14,004	17,297
Total liabilities		993,162	899,694
<b>Shareholders' Equity</b>			



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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 48,245,427 and 47,954,085 outstanding at June 30, 2011 and December 31, 2010, respectively		
	662	662
Additional paid-in capital	350,930	339,861
Treasury stock, at cost, 17,929,340 and 18,220,682 shares, at June 30, 2011 and December 31, 2010, respectively		
	(290,110)	(290,081)
Retained earnings	963,727	887,406
Accumulated other comprehensive loss	(10,393)	(38,077)
Total Westinghouse Air Brake Technologies Corporation shareholders' equity		
	1,014,816	899,771
Non-controlling interest	3,500	3,616
Total shareholders' equity		
	1,018,316	903,387
Total Liabilities and Shareholders' Equity		
	\$ 2,011,478	\$ 1,803,081

The accompanying notes are an integral part of these statements.



**Table of Contents****WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Unaudited		Unaudited	
	Three Months Ended June 30		Six Months Ended June 30	
<i>In thousands, except per share data</i>	2011	2010	2011	2010
Net sales	\$ 478,899	\$ 374,137	\$ 934,158	\$ 738,064
Cost of sales	(336,155)	(260,673)	(658,219)	(516,211)
Gross profit	142,744	113,464	275,939	221,853
Selling, general and administrative expense	(73,943)	(51,243)	(128,759)	(95,874)
Engineering expense	(9,132)	(10,425)	(18,020)	(21,120)
Amortization expense	(3,307)	(2,144)	(6,421)	(4,031)
Total operating expenses	(86,382)	(63,812)	(153,200)	(121,025)
Income from operations	56,362	49,652	122,739	100,828
Other income and expenses				
Interest expense, net	(3,793)	(4,092)	(7,477)	(8,004)
Other income (expense), net	(410)	1,086	50	365
Income from operations before income taxes	52,159	46,646	115,312	93,189
Income tax expense	(15,825)	(15,435)	(38,026)	(31,614)
Net income attributable to Wabtec shareholders	\$ 36,334	\$ 31,211	\$ 77,286	\$ 61,575
<b>Earnings Per Common Share</b>				
Basic				
Net income attributable to Wabtec shareholders	\$ 0.75	\$ 0.65	\$ 1.61	\$ 1.29
Diluted				
Net income attributable to Wabtec shareholders	\$ 0.75	\$ 0.65	\$ 1.60	\$ 1.28
Weighted average shares outstanding				
Basic	47,950	47,725	47,805	47,539
Diluted	48,463	48,089	48,303	47,911

The accompanying notes are an integral part of these statements.



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	<b>Unaudited</b>	
	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>
<i>In thousands</i>		
<b>Operating Activities</b>		
Net income attributable to Wabtec shareholders	\$ 77,286	\$ 61,575
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	20,774	17,176
Stock-based compensation expense	9,370	5,640
Loss on disposal of property, plant and equipment	122	207
Excess income tax benefits from exercise of stock options	(3,689)	(2,066)
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	(65,579)	(66,263)
Inventories	(46,806)	(5,496)
Accounts payable	6,462	5,024
Accrued income taxes	3,823	6,633
Accrued liabilities and customer deposits	76,538	(2,845)
Other assets and liabilities	(12,255)	4,803
Net cash provided by operating activities	66,046	24,388
<b>Investing Activities</b>		
Purchase of property, plant and equipment	(12,816)	(7,007)
Proceeds from disposal of property, plant and equipment	291	55
Acquisitions of business, net of cash acquired	(51,777)	(39,943)
Acquisition purchase price adjustment	40	2,368
Net cash used for investing activities	(64,262)	(44,527)
<b>Financing Activities</b>		
Proceeds from debt	79,000	166,400
Payments of debt	(104,817)	(150,230)
Proceeds from exercise of stock options and other benefit plans	4,168	2,647
Stock repurchase	(6,187)	(6,311)
Excess income tax benefits from exercise of stock options	3,689	2,066
Cash dividends (\$0.02 and \$0.02 per share for the six months ended June 30, 2011 and 2010, respectively)	(965)	(949)
Net cash (used for) provided by financing activities	(25,112)	13,623
Effect of changes in currency exchange rates	7,862	(15,634)
Decrease in cash	(15,466)	(22,150)
Cash, beginning of year	236,941	188,659
Cash, end of period	\$ 221,475	\$ 166,509

The accompanying notes are an integral part of these statements.



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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011 (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 approximately 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 17 countries. In the first six months of 2011, about 47% 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 the quarters end on or about March 31, June 30, September 30 and December 31.

The notes included herein should be read in conjunction with the audited consolidated financial statements included in Wabtec's Annual Report on Form 10-K for the year ended December 31, 2010. The December 31, 2010 information has been derived from the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

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

**Revenue Recognition** Revenue is recognized in accordance with Accounting Standards Codification (ASC) 605 Revenue Recognition. Revenue is recognized when products have been shipped to the respective customers, title has passed and the price for the product has been determined.

In general, 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 \$14.2 million and \$11.9 million at June 30, 2011 and December 31, 2010, 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



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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011 (UNAUDITED)**

amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from the estimates. On an ongoing basis, management reviews its estimates based on currently available information. Changes in facts and circumstances may result in revised estimates.

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

**Financial Derivatives and Hedging Activities** The Company has periodically entered into foreign currency forward contracts to reduce the impact of changes in currency exchange rates. Forward contracts are agreements with a counter-party 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, 2011, the Company had forward contracts for the sale of South African Rand (ZAR) and the purchase of U.S. Dollars (USD). The Company concluded that these foreign currency forward contracts qualify for cash flow hedge accounting which permits the recording of the fair value of the forward contract and corresponding adjustment to other comprehensive income (loss), net of tax, on the balance sheet. As of June 30, 2011, the Company had forward contracts with a notional value of 16.7 million ZAR (or \$2.3 million U.S.) with an average exchange rate of 7.23 ZAR per \$1 USD, resulting in the recording of a current liability of \$140,000 and a corresponding offset in accumulated other comprehensive income of \$89,000, net of tax.

To reduce the impact of interest rate changes on a portion of its variable-rate debt, the Company entered into interest rate swaps which effectively converted a portion of the debt from variable to fixed-rate borrowings during the term of the swap contracts. The Company is exposed to credit risk in the event of nonperformance by the counterparties. However, since only the cash interest payments are exchanged, exposure is significantly less than the notional amount. The counterparties are large financial institutions with an excellent credit ratings and history of performance. The Company currently believes the risk of nonperformance is negligible. The Company concluded that these interest rate swap agreements qualify for cash flow hedge accounting which permits the recording of the fair value of the interest rate swap agreements and corresponding adjustment to other comprehensive income (loss), net of tax, on the balance sheet. As of June 30, 2011, the Company had interest rate swap agreements with a notional value of \$137.0 million and which effectively changed the Company's interest rate on bank debt at June 30, 2011 from a variable rate to a fixed rate of 2.24%. The interest rate swap agreements mature at various times through December 2012. As of June 30, 2011, the Company has recorded a current liability of \$2.3 million and a corresponding offset in accumulated other comprehensive loss of \$1.4 million, net of tax, related to these agreements.

**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 weighted average rates of exchange prevailing during the year. Foreign currency gains and losses resulting from transactions, and the translation of financial statements are recorded in the Company's consolidated financial statements based upon the provisions of ASC 830

**Foreign Currency Matters.** The effects of currency exchange rate changes on intercompany transactions and balances of a long-term investment nature are accumulated and carried as a component of shareholders' equity. The effects of currency exchange rate changes on transactions that are denominated in a currency other than an entity's functional currency are charged or credited to earnings. Foreign exchange transaction losses recognized in other income (expense), net were \$589,000 for the three months ended June 30, 2011. Foreign exchange transaction gains recognized in other income (expense), net were \$893,000 for the three



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months ended June 30, 2010. Foreign exchange transaction losses recognized in other income (expense), net were \$266,000 for the six months ended June 30, 2011. Foreign exchange transaction gains recognized in other income (expense), net were \$296,000 for the six months ended June 30, 2010.

**Non-controlling Interests** In accordance with ASC 810, the Company has classified non-controlling interests as equity on our condensed consolidated balance sheets as of June 30, 2011 and December 31, 2010. Net income attributable to non-controlling interests for the three and six months ended June 30, 2011 and 2010 was not material.

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

<i>In thousands</i>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net income attributable to Wabtec shareholders	\$ 36,334	\$ 31,211	\$ 77,286	\$ 61,575
Foreign currency translation gain (loss)	6,676	(27,787)	27,095	(37,715)
Unrealized gain on foreign exchange contracts, net of tax	10	37	33	71
Unrealized (loss) gain on interest rate swap contracts, net of tax	(68)	(722)	138	(1,173)
Change in pension and post retirement benefit plans, net of tax	585	1,083	418	1,378
Total comprehensive income	\$ 43,537	\$ 3,822	\$ 104,970	\$ 24,136

The components of accumulated other comprehensive loss were:

<i>In thousands</i>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Foreign currency translation gain	\$ 37,362	\$ 10,267
Unrealized loss on foreign exchange contracts, net of tax	(89)	(122)
Unrealized loss on interest rate swap contracts, net of tax	(1,395)	(1,533)
Pension benefit plans and post retirement benefit plans, net of tax	(46,271)	(46,689)
Total accumulated comprehensive loss	\$ (10,393)	\$ (38,077)

**3. ACQUISITIONS AND DISCONTINUED OPERATIONS**

The Company made the following acquisitions within the Transit Group:

On June 29, 2011, the Company acquired an aftermarket transit parts business ( ATP ) from GE Transportation, a parts supply business for propulsion and control systems for the passenger transit car aftermarket in North America for a net purchase price of



\$21.1 million, resulting in no additional goodwill, on a preliminary basis.

On February 25, 2011, the Company acquired Brush Traction Group ( Brush Traction ), a UK-based provider of locomotive overhauls, services and aftermarket components for a net purchase price of approximately \$30.7 million, resulting in additional goodwill of \$20.5 million, on a preliminary basis, which will be deductible for tax purposes.



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On November 5, 2010, the Company acquired substantially all of the assets of Swiger Coil Systems ( Swiger ), a manufacturer of traction motors and electric coils for the rail and power generation markets for a net purchase price of approximately \$43.0 million, resulting in additional goodwill of \$18.7 million, on a preliminary basis, which will be deductible for tax purposes.

The Company made the following acquisitions within the Freight Group:

On August 20, 2010, the Company acquired Bach-Simpson Corporation ( Bach-Simpson ), a designer and manufacturer of electronic instrumentation devices for rail and transit markets, for a net purchase price of approximately \$12.0 million, resulting in additional goodwill of \$3.5 million, on a preliminary basis, of which \$2.6 million will be deductible for tax purposes.

On July 28, 2010, the Company acquired G&B Specialties, Inc. ( G&B ), a manufacturer of railroad track and signaling products, for a net purchase price of approximately \$31.8 million, net of cash received, resulting in additional goodwill of \$13.2 million, on a preliminary basis, none of which will be deductible for tax purposes.

On March 12, 2010, the Company acquired Xorail LLC ( Xorail ), a leading provider of signal engineering and design services. The purchase price was \$39.9 million, net of cash received, resulting in additional goodwill of \$29.6 million, none of which will be deductible for tax purposes.

The 2011 and 2010 acquisitions listed above include escrow deposits of \$21.8 million, which act as security for indemnity and other claims in accordance with the purchase and related escrow agreements.

For the ATP, Brush Traction, Swiger, Bach-Simpson and G&B acquisitions, the following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition. For the Xorail acquisition, the following table summarizes the final fair value of the assets acquired and liabilities assumed at the date of acquisition.

<i>In thousands</i>	<b>ATP June 29, 2011</b>	<b>Brush Traction February 25, 2011</b>	<b>Swiger November 5, 2010</b>	<b>Bach-Simpson August 20, 2010</b>	<b>G&amp;B July 28, 2010</b>	<b>Xorail March 12, 2010</b>
Current assets	\$	\$ 19,558	\$ 9,650	\$ 3,800	\$ 8,154	\$ 11,147
Property, plant & equipment		8,904	2,705	213	5,510	2,905
Goodwill and other intangible assets	21,100	30,774	33,411	8,559	29,162	35,545
Other assets					43	133
Total assets acquired	21,100	59,236	45,766	12,572	42,869	49,730
Total liabilities assumed		(28,559)	(2,759)	(574)	(11,027)	(9,787)
Net assets acquired	\$ 21,100	\$ 30,677	\$ 43,007	\$ 11,998	\$ 31,842	\$ 39,943

Of the preliminary allocation of \$21.1 million of acquired intangible assets for ATP, \$17.3 million was assigned to customer relationships, \$2.1 million was assigned to a license agreement and \$1.7 million was assigned to customer backlog. The customer relationships, as well as the license agreement, have an average useful life of 20 years.



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Of the preliminary allocation of \$10.2 million of acquired intangible assets for Brush Traction exclusive of goodwill, \$2.6 million was assigned to customer relationships, \$5.6 million was assigned to trade names and \$2.0 million was assigned to customer backlog. The trade names are considered to have an indefinite useful life while the customer relationships average useful life is 10 years.



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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011 (UNAUDITED)**

Of the preliminary allocation of \$14.7 million of acquired intangible assets for Swiger exclusive of goodwill, \$6.1 million was assigned to customer relationships, \$5.1 million was assigned to trade names, \$2.4 million was assigned to long-term contracts, \$560,000 was assigned to non-compete agreements and \$510,000 was assigned to customer backlog. The trade names are considered to have an indefinite useful life while the customer relationships average useful life is 15 years, the long term contracts average useful life is four years and the non-compete agreements average useful life is two years.

Of the preliminary allocation of \$5.1 million of acquired intangible assets for Bach-Simpson exclusive of goodwill, \$2.9 million was assigned to customer relationships, \$486,000 was assigned to long-term contracts, \$914,000 was assigned to trade names and \$752,000 was assigned to customer backlog. The trade names are considered to have an indefinite useful life while the customer relationships average useful life is 15 years and the long term contracts average useful life is two years.

Of the preliminary allocation of \$16.0 million of acquired intangible assets for G&B exclusive of goodwill, \$12.3 million was assigned to customer relationships, \$2.8 million was assigned to trade names and \$850,000 was assigned to customer backlog. The trade names are considered to have an indefinite useful life while the customer relationships average useful life is 15 years.

Of the allocation of \$5.9 million of acquired intangible assets for Xorail exclusive of goodwill, \$4.3 million was assigned to customer relationships, \$426,000 was assigned to intellectual property, \$470,000 was assigned to non-compete agreements and \$750,000 was assigned to customer backlog. The customer relationships average useful life is 20 years, the intellectual property's average useful life is six years and the non-compete agreements average useful life is six years.

In addition to the acquisitions listed above, the Company completed the following transactions:

On December 31, 2010, the Company acquired Adantech Industria e Comercio de Metal ( Adantech ), a manufacturer of a variety of brake shoes and pads for subway cars, locomotives and freight cars for a net purchase price of approximately \$1.9 million, resulting in preliminary additional goodwill of \$1.8 million, of which all will be deductible for tax purposes.

On September 15, 2010, the Company formed a joint venture in China to manufacture transformer oil coolers, generator coolers and related products for the power generation market. The Company invested \$1.5 million for a 60% interest in Hubei Dengfeng Unifin Electrical Equipment Cooling System Co., Ltd. ( Unifin DF ). Operating results have been included in the consolidated statement of operations from the date of acquisition forward.

On December 31, 2008, the Company invested \$2.8 million in Shenyang CNR Wabtec Railway Brake Technology Company, Ltd. ( Shenyang ) for an interest in a joint venture Company. On September 9, 2010, the Company invested an additional \$8.0 million in this joint venture. Shenyang manufactures braking equipment for the freight car market in China. The Company does not consolidate the results of operations for Shenyang.



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The following unaudited pro forma financial information presents income statement results as if the acquisitions listed above had occurred on January 1, 2010:

<i>In thousands</i>	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net sales	\$ 481,399	\$ 411,922	\$ 947,828	\$ 806,580
Gross profit	144,154	128,142	280,951	246,115
Net income attributable to Wabtec shareholders	37,086	36,235	79,686	70,018
Diluted earnings per share				
As Reported	\$ 0.75	\$ 0.65	\$ 1.60	\$ 1.28
Pro forma	\$ 0.77	\$ 0.75	\$ 1.65	\$ 1.46

**4. INVENTORIES**

The components of inventory, net of reserves, were:

<i>In thousands</i>	June 30, 2011	December 31, 2010
Raw materials	\$ 137,302	\$ 108,768
Work-in-process	98,494	81,254
Finished goods	75,373	63,469
Total inventories	\$ 311,169	\$ 253,491

**5. INTANGIBLES**

Goodwill was \$575.7 million and \$545.8 million at June 30, 2011 and December 31, 2010, respectively. The adjustment of \$0.9 million to goodwill for preliminary purchase allocation is due to the Xorail, G&B Specialties, Bach-Simpson, Adantech and Swiger acquisitions. The change in the carrying amount of goodwill by segment for the six months ended June 30, 2011 is as follows:

<i>In thousands</i>	Freight Group	Transit Group	Total
Balance at December 31, 2010	\$ 364,604	\$ 181,228	\$ 545,832
Adjustment to preliminary purchase allocation	627	238	865
Acquisition		20,474	20,474
Foreign currency impact	313	8,192	8,505
Balance at June 30, 2011	\$ 365,544	\$ 210,132	\$ 575,676







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As of June 30, 2011 and December 31, 2010, the Company's trademarks had a net carrying amount of \$111.1 million and \$103.5 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, 2011</b>	<b>December 31, 2010</b>
Patents and other, net of accumulated amortization of \$38,217 and \$29,613	\$ 17,654	\$ 14,363
Customer relationships, net of accumulated amortization of \$17,681 and \$13,614	116,929	99,039
<b>Total</b>	<b>\$ 134,583</b>	<b>\$ 113,402</b>

The weighted average remaining useful life of patents, customer relationships and intellectual property were six years, 16 years and 18 years, respectively. Amortization expense for intangible assets was \$3.3 million and \$6.4 million for the three and six months ended June 30, 2011, respectively and \$2.1 million and \$4.0 million for the three and six months ended June 30, 2010, respectively.

Amortization expense for the five succeeding years is as follows (in thousands):

2011	\$ 14,393
2012	11,581
2013	10,147
2014	9,932
2015	9,437

**6. LONG-TERM DEBT**

Long-term debt consisted of the following:

<i>In thousands</i>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
6.875% Senior Notes, due 2013	\$ 150,000	\$ 150,000
Term Loan Facility	107,500	137,500
Revolving Credit Facility	138,000	134,000
Capital Leases	758	575
<b>Total</b>	<b>396,258</b>	<b>422,075</b>
Less current portion	40,068	40,068
<b>Long-term portion</b>	<b>\$ 356,190</b>	<b>\$ 382,007</b>

*2008 Refinancing Credit Agreement*



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On November 4, 2008, the Company refinanced its existing unsecured revolving credit agreement with a consortium of commercial banks. This 2008 Refinancing Credit Agreement provides the company with a \$300 million five-year revolving credit facility and a \$200 million five-year term loan facility. The Company incurred \$2.9 million of deferred financing cost related to the 2008 Refinancing Credit Agreement. Both facilities expire in January 2013. The 2008 Refinancing Credit Agreement borrowings bear variable interest rates indexed



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to the indices described below. At June 30, 2011, the Company had available bank borrowing capacity, of approximately \$113.1 million, net of \$48.9 million of letters of credit, subject to certain financial covenant restrictions.

Under the 2008 Refinancing Credit Agreement, the Company may elect a Base Rate of interest or an interest rate based on the London Interbank Offered Rate ( LIBOR ) of interest ( the Alternate Rate ). The Base Rate adjusts on a daily basis and is the greater of the PNC, N.A. prime rate, 30-day LIBOR plus 150 basis points or the Federal Funds Effective Rate plus 0.5% per annum, plus a margin that ranges from 25 to 50 basis points. The Alternate Rate is based on quoted LIBOR rates plus a margin that ranges from 125 to 200 basis points. Both the Base Rate and Alternate Rate margins are dependent on the Company's consolidated total indebtedness to cash flow ratios. The initial Base Rate margin is 25 basis points and the Alternate Rate margin is 125 basis points. At June 30, 2011 the weighted average interest rate on the Company's variable rate debt was 1.45%. To reduce the impact of interest rate changes on a portion of this variable-rate debt, the Company entered into interest rate swaps which effectively converted a portion of the debt from variable to fixed-rate borrowings during the term of the swap contracts. On June 30, 2011, the notional value of the interest rate swaps outstanding was \$137.0 million and effectively changed the Company's interest rate on bank debt at June 30, 2011 from a variable rate to a fixed rate of 2.24%. The interest rate swap agreements mature at various times through December 2012. The Company is exposed to credit risk in the event of nonperformance by the counterparties. However, since only the cash interest payments are exchanged, exposure is significantly less than the notional amount. The counterparties are large financial institutions with an excellent credit rating and history of performance. The Company currently believes the risk of nonperformance is negligible.

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

On January 28, 2011, the Company entered into Amendment No. 1 to the 2008 Refinancing Credit Agreement. The amendment increased the limit on surety bonds, performance bonds, bid bonds, or similar obligations arising in the ordinary course of business from \$350 million to \$500 million in the aggregate. The amendment also expanded the definition of Issuing Lender to allow additional banks to issue Letters of Credit.

*6.875% Senior Notes Due August 2013*

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

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



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

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

The Company uses a December 31 measurement date for the plans. The following tables provide information regarding the Company's defined benefit pension plans summarized by U.S. and international components.

<i>In thousands, except percentages</i>	<b>U.S.</b>		<b>International</b>	
	<b>Three months ended</b>		<b>Three months ended</b>	
	<b>2011</b>	<b>June 30, 2010</b>	<b>2011</b>	<b>June 30, 2010</b>
<b>Net periodic benefit cost</b>				
Service cost	\$ 74	\$ 80	\$ 820	\$ 734
Interest cost	619	648	1,951	1,862
Expected return on plan assets	(851)	(775)	(2,166)	(1,936)
Net amortization/deferrals	607	479	513	457
Curtailment loss recognized				845
Settlement loss recognized			304	108
<b>Net periodic benefit cost</b>	<b>\$ 449</b>	<b>\$ 432</b>	<b>\$ 1,422</b>	<b>\$ 2,070</b>

**Assumptions**

Discount rate	5.20%	5.75%	5.43%	6.11%
Expected long-term rate of return	8.00%	8.00%	6.72%	6.94%
Rate of compensation increase	3.00%	3.00%	3.17%	3.28%

<i>In thousands, except percentages</i>	<b>U.S.</b>		<b>International</b>	
	<b>Six months ended</b>		<b>Six months ended</b>	
	<b>2011</b>	<b>June 30, 2010</b>	<b>2011</b>	<b>June 30, 2010</b>
<b>Net periodic benefit cost</b>				
Service cost	\$ 148	\$ 160	\$ 1,622	\$ 1,472
Interest cost	1,238	1,296	3,849	3,744
Expected return on plan assets	(1,702)	(1,551)	(4,294)	(3,877)
Net amortization/deferrals	1,213	958	1,018	910
Curtailment loss recognized				933
Settlement loss recognized			588	349
<b>Net periodic benefit cost</b>	<b>\$ 897</b>	<b>\$ 863</b>	<b>\$ 2,783</b>	<b>\$ 3,531</b>

**Assumptions**



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Discount rate	5.20%	5.75%	5.43%	6.11%
Expected long-term rate of return	8.00%	8.00%	6.72%	6.94%
Rate of compensation increase	3.00%	3.00%	3.17%	3.28%



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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.

The Company uses a December 31 measurement date for all post retirement plans. The following tables provide information regarding the Company's post retirement benefit plans summarized by U.S. and international components.

<i>In thousands, except percentages</i>	<b>U.S.</b>		<b>International</b>	
	<b>Three months ended</b>		<b>Three months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Net periodic benefit cost</b>				
Service cost	\$ 10	\$ 13	\$ 14	\$ 17
Interest cost	399	404	59	76
Net amortization/deferrals	(245)	(263)	(98)	(62)
<b>Net periodic benefit cost</b>	<b>\$ 164</b>	<b>\$ 154</b>	<b>\$ (25)</b>	<b>\$ 31</b>

**Assumptions**

Discount rate	5.20%	5.75%	5.50%	6.40%
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<i>In thousands, except percentages</i>	<b>U.S.</b>		<b>International</b>	
	<b>Six months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Net periodic benefit cost</b>				
Service cost	\$ 20	\$ 25	\$ 28	\$ 34
Interest cost	798	808	117	151
Net amortization/deferrals	(489)	(526)	(195)	(123)
<b>Net periodic benefit cost</b>	<b>\$ 329</b>	<b>\$ 307</b>	<b>\$ (50)</b>	<b>\$ 62</b>

**Assumptions**

Discount rate	5.20%	5.75%	5.50%	6.40%
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**8. STOCK-BASED COMPENSATION**

As of June 30, 2011, the Company maintains employee stock-based compensation plans for stock options, restricted stock, and incentive stock awards as governed by the 2011 Stock Incentive Compensation Plan (the "2011 Plan") and the 2000 Stock Incentive Plan, as amended (the "2000 Plan"). The 2011 Plan was approved by stockholders of Wabtec on May 11, 2011. The Company also maintains a Non-Employee Directors' Fee and Stock Option Plan (the "Directors Plan"). No awards may be made under the 2000 Plan or the Directors Plan subsequent to October 31, 2016. The 2011 Plan has a 10 year term through March 27, 2021 and provides a maximum of 1,900,000 shares for grants or awards.



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Stock-based compensation expense was \$9.4 million and \$5.6 million for the six months ended June 30, 2011 and 2010, respectively. Included in the stock-based compensation expense for 2011 above is \$1.3 million of expense related to stock options, \$2.1 million related to restricted stock, \$5.5 million related to incentive stock



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awards and \$450,000 related to awards issued for Directors' fees. At June 30, 2011, unamortized compensation expense related to stock options, restricted stock and incentive stock awards expected to vest totaled \$27.2 million and will be recognized over a weighted average period of 1.8 years.

**Stock Options** Stock options are granted to eligible employees and directors at the fair market value, which is the average of the high and low Wabtec stock price on the date of grant. Under the 2011 Plan and the 2000 Plan, options become exercisable over a four-year vesting period and expire 10 years from the date of grant. Under the Directors Plan, options become exercisable over a three-year vesting period and expire 10 years from the date of grant.

The following table summarizes the Company's stock option activity and related information for the 2011 Plan, the 2000 Plan and the Directors Plan for the six months ended June 30, 2011:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2010	998,389	\$ 27.83	6.2	\$ 25,018
Granted	115,946	57.46		1,142
Exercised	(211,827)	19.68		(10,090)
Canceled	(8,213)	26.17		(338)
Outstanding at June 30, 2011	894,295	\$ 33.62	7.0	\$ 30,127
Exercisable at June 30, 2011	495,779	\$ 27.88	6.3	\$ 19,550

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,	
	2011	2010
Dividend yield	.07%	.10%
Risk-free interest rate	3.03%	3.16%
Stock price volatility	45.6%	46.1%
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** Beginning in 2006 the Company adopted a restricted stock program. As provided for under the 2011 and 2000 Plans, eligible employees are granted restricted stock that generally vests over four years from the date of grant. Under the Directors Plan, restricted stock awards vest one year from the date of grant.



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In addition, the Company has issued incentive stock awards to eligible employees that vest upon attainment of certain cumulative three-year performance goals. The incentive stock awards included in the table below represent the number of shares that may vest if the performance targets are met. As of June 30, 2011, based on



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the Company's performance, we estimate that 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 or increased and will be recognized over the remaining vesting period.

Compensation expense for the restricted stock and incentive stock awards is based on the average of the high and low Wabtec stock price on the date of grant and recognized over the applicable vesting period.

The following table summarizes the restricted stock activity for the 2011 Plan, the 2000 Plan and the Directors Plan, and incentive stock awards activity for the 2011 Plan and the 2000 Plan with related information for the six months ended June 30, 2011:

		<b>Incentive</b>	<b>Weighted</b>
	<b>Restricted</b>	<b>Stock</b>	<b>Average</b>
	<b>Stock</b>	<b>Awards</b>	<b>Grant</b>
			<b>Date Fair</b>
			<b>Value</b>
Outstanding at December 31, 2010	276,627	356,327	\$ 35.90
Granted	110,082	316,409	52.47
Vested	(109,330)	(67,342)	36.33
Canceled	(2,500)	(1,999)	33.29
Outstanding at June 30, 2011	274,879	603,395	\$ 43.87

**9. INCOME TAXES**

The overall effective income tax rate was 30.3% and 33.0% for the three and six months ended June 30, 2011, respectively, and 33.1% and 33.9% for the three and six months ended June 30, 2010, respectively. The decrease in the effective rate is due primarily to a \$1.7 million benefit recorded in the second quarter of 2011 relating to settlements with taxing authorities and the expiration of statutory review periods in various taxing jurisdictions.

As of June 30, 2011, the liability for income taxes associated with uncertain tax positions is \$7.8 million, of which \$1.7 million, if recognized would favorably affect the Company's effective tax rate. As of December 31, 2010 the liability associated with uncertain tax positions was \$10.0 million, of which \$3.1 million, if recognized, would favorably affect the Company's effective tax rate.

The Company includes interest and penalties related to uncertain tax positions in income tax expense. As of June 30, 2011 the total accrued interest and penalties are \$2.6 million and \$1.3 million, respectively. As of December 31, 2010 the total accrued interest and penalties were \$3.1 million and \$1.7 million, respectively.

With limited exception, the Company is no longer subject to examination by various U.S. and foreign taxing authorities for the years before 2009.

At this time, the Company believes that it is reasonably possible that unrecognized tax benefits of approximately \$1.5 million may change within the next 12 months due to the expiration of statutory review periods and current examinations.







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**10. EARNINGS PER SHARE**

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

<i>In thousands, except per share</i>	<b>Three Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Numerator</b>		
Numerator for basic and diluted earnings per common share net income attributable to Wabtec shareholders	\$ 36,334	\$ 31,211
Less: dividends declared common shares and non-vested restricted stock	(484)	(481)
Undistributed earnings	35,850	30,730
Percentage allocated to common shareholders(1)	99.5%	99.5%
	35,671	30,576
Add: dividends declared common shares	482	479
Numerator for basic and diluted earnings per common share	\$ 36,153	\$ 31,055
<b>Denominator</b>		
Denominator for basic earnings per common share weighted-average shares	47,950	47,725
Effect of dilutive securities:		
Assumed conversion of dilutive stock-based compensation plans	513	364
Denominator for diluted earnings per common share adjusted weighted-average shares and assumed conversion	48,463	48,089
<b>Net income per common share attributable to Wabtec shareholders</b>		
Basic	\$ 0.75	\$ 0.65
Diluted	\$ 0.75	\$ 0.65
(1) Basic weighted-average common shares outstanding	47,950	47,725
Basic weighted-average common shares outstanding and non-vested restricted stock expected to vest	48,191	47,956
Percentage allocated to common shareholders	99.5%	99.5%



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<i>In thousands, except per share</i>	<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Numerator</b>		
Numerator for basic and diluted earnings per common share net income attributable to Wabtec shareholders	\$ 77,286	\$ 61,575
Less: dividends declared common shares and non-vested restricted stock	(965)	(949)
Undistributed earnings	76,321	60,626
Percentage allocated to common shareholders(1)	99.5%	99.5%
	75,939	60,323
Add: dividends declared common shares	963	944
Numerator for basic and diluted earnings per common share	\$ 76,902	\$ 61,267
<b>Denominator</b>		
Denominator for basic earnings per common share weighted-average shares	47,805	47,539
Effect of dilutive securities:		
Assumed conversion of dilutive stock-based compensation plans	498	372
Denominator for diluted earnings per common share adjusted weighted-average shares and assumed conversion	48,303	47,911
<b>Per common share net income attributable to Wabtec shareholders</b>		
Basic	\$ 1.61	\$ 1.29
Diluted	\$ 1.60	\$ 1.28
(1) Basic weighted-average common shares outstanding	47,805	47,539
Basic weighted-average common shares outstanding and non-vested restricted stock expected to vest	48,041	47,761
Percentage allocated to common shareholders	99.5%	99.5%

The Company's non-vested restricted stock contains rights to receive nonforfeitable dividends, and thus, are participating securities requiring the two-class method of computing earnings per share. The calculation of earnings per share for common stock shown above excludes the income attributable to the non-vested restricted stock from the numerator and excludes the dilutive impact of those shares from the denominator.

**11. WARRANTIES**

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

<i>In thousands</i>	<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
Balance at December 31, 2010 and 2009, respectively	\$ 35,513	\$ 29,207
Warranty expense	9,384	10,787
Acquisition	12,008	
Warranty claim payments	(8,927)	(7,460)



Balance at June 30, 2011 and 2010, respectively	\$ 47,978	\$ 32,534
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## WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011 (UNAUDITED)

**12. FAIR VALUE MEASUREMENT**

ASC 820 Fair Value Measurements and Disclosures defines fair value, establishes a framework for measuring fair value and explains the related disclosure requirements. ASC 820 indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability and defines fair value based upon an exit price model.

**Valuation Hierarchy.** ASC 820 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following table provides the liabilities carried at fair value measured on a recurring basis as of June 30, 2011, which are included in other current liabilities on the Condensed Consolidated Balance sheet:

	Fair Value Measurements at June 30, 2011 Using			
	Quoted Prices in			
	Total Carrying	Active	Significant Other	Significant
	Value at	Markets for	Observable	Unobservable
	June 30,	Identical	Inputs	Inputs
<i>In thousands</i>	2011	Assets	(Level 2)	(Level 3)
		(Level 1)		
Foreign currency forward contracts	\$ (140)	\$	\$ (140)	\$
Interest rate swap agreements	(2,310)		(2,310)	
Total	\$ (2,450)	\$	\$ (2,450)	\$

The following table provides the liabilities carried at fair value measured on a recurring basis as of December 31, 2010, which is included in other current liabilities on the Condensed Consolidated Balance sheet:

	Fair Value Measurements at December 31, 2010 Using			
	Quoted Prices in			
	Total Carrying	Active	Significant Other	Significant
	Value at	Markets for	Observable	Unobservable
	December 31,	Identical	Inputs	Inputs
<i>In thousands</i>	2010	Assets	(Level 2)	(Level 3)
		(Level 1)		
Foreign currency forward contracts	\$ (192)	\$	\$ (192)	\$
Interest rate swap agreements	(2,538)		(2,538)	
Total	\$ (2,730)	\$	\$ (2,730)	\$



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



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**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011 (UNAUDITED)**

**13. COMMITMENTS AND CONTINGENCIES**

Claims have been filed against the Company and certain of its affiliates in various jurisdictions across the United States by persons alleging bodily injury as a result of exposure to asbestos-containing products. Most of these claims have been made against our wholly owned subsidiary, Railroad Friction Products Corporation ( RFPC ), and are based on a product sold by RFPC prior to the time that the Company acquired any interest in RFPC.

Most of these claims, including all of the RFPC claims, are submitted to insurance carriers for defense and indemnity or to non-affiliated companies that retain the liabilities for the asbestos-containing products at issue. We cannot, however, assure that all these claims will be fully covered by insurance or that the indemnitors or insurers 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 due to a variety of factors, including: (1) the 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 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. The overall number of new claims being filed against RFPC has dropped significantly in recent years; however, these new claims, and all previously filed claims, may take a significant period of time to resolve. As to Wabtec and its divisions, Management's belief that asbestos-related cases will not have a material impact is also based on its position that it has no legal liability for asbestos-related bodily injury claims, and that the former owners of Wabtec's assets retained asbestos liabilities for the products at issue. To date, Wabtec has been able to successfully defend itself on this basis, including two arbitration decisions and a judicial opinion, all of which confirmed Wabtec's position that it did not assume any asbestos liabilities from the former owners of certain Wabtec assets. Although Wabtec has incurred defense and administrative costs in connection with asbestos bodily injury actions, these costs have not been material, and the Company has no information that would suggest these costs would become material in the foreseeable future.

On October 18, 2007, Faiveley Transport Malmo AB ( Faiveley Malmo ) 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 Malmo also filed a related proceeding against the Company in the United States District Court for the Southern District of New York ( Federal Court ), requesting a preliminary injunction in aid of the arbitration. In both forums, Faiveley sought to prevent the Company from manufacturing and selling the subject components until the arbitration panel decides Faiveley's claim. In the arbitration, Faiveley also sought monetary damages.



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### **WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**

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

#### **FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011 (UNAUDITED)**

In the Federal Court action, Faiveley Malmo's request for a preliminary injunction was initially granted, in part, on August 22, 2008. That injunction was vacated by the appellate court on March 9, 2009, and the case was remanded to the District Court for further proceedings. On remand, Faiveley Malmo renewed its request for injunctive relief. The District Court denied that request on August 31, 2009, and Faiveley Malmo appealed that denial to the appellate court. Faiveley Malmo later voluntarily dismissed that appeal.

In the international arbitration proceeding, Faiveley Malmo originally alleged \$128 million in damages, but later reduced its claim to \$91 million in damages. The Company has stated that Faiveley Malmo's claims were grossly overstated, not supported by the facts or circumstances surrounding the case, and frivolous in most respects. An ICC International Court of Arbitration Arbitral Tribunal heard the case during the first half of 2009 and issued an award dated December 21, 2009. Pursuant to the Award, the Company was required to make a \$3.9 million royalty payment to Faiveley Malmo, with respect to Faiveley Malmo's claims against the Company alleging breach of contract and trade secret violations. Faiveley Malmo's parent company, Faiveley Transport, stated that other Faiveley entities were considering filing claims against the Company arising from the same allegations.

On May 14, 2010, Faiveley Transport USA, Inc., Faiveley Transport Nordic AB, Faiveley Transport Amiens S.A.S, and Ellcon National, Inc. filed a complaint against Wabtec Corporation in the U.S. District Court for the Southern District of New York. That complaint was amended on June 8, 2010. The claims in the amended complaint include misappropriation of trade secrets, unfair competition, tortious interference with prospective business relations, tortious interference with prospective economic advantage, and unjust enrichment. On June 25, 2010, the Company filed a motion to dismiss the Faiveley entities' amended complaint in its entirety. That motion to dismiss was denied. In November 2010, the plaintiffs asserted a claim for \$17.2 million in compensatory and other unspecified damages. On December 10, 2010 the Company filed a motion for summary judgment and the plaintiffs filed a motion for partial summary judgment. Briefing on those motions was completed on December 29, 2010 and oral argument was heard on January 7, 2011. On April 13, 2011, a judge issued an order, without an opinion, that granted the plaintiffs' motion for partial summary judgment on three of their four claims and denied Wabtec's motion for summary judgment. A jury trial on damages took place from June 20, 2011 to June 28, 2011, and the jury awarded the plaintiffs \$18.1 million. On July 29, 2011, after considering post-trial motions on prejudgment interest and on potential adjustments to the jury's award, the Court entered a final verdict in the amount of \$18.1 million, plus interest. The Company intends to appeal the verdict. The Company recorded a charge in the second quarter in the amount of \$18.1 million.

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, 2010, filed on February 25, 2011. During the first six months of 2011, there were no material changes other than what is discussed above to the information described in Note 18 therein.

#### **14. SEGMENT INFORMATION**

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

**Freight Group** primarily manufactures and services components for new and existing freight cars and locomotives, builds new switcher locomotives, rebuilds freight locomotives, supplies railway electronics, positive train control equipment, signal design and engineering services, friction products, and provides related heat exchange and cooling systems. Customers include large railroads, leasing companies, manufacturers of original equipment such as locomotives and freight cars, and utilities.



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**Transit Group** primarily manufactures and services components for new and existing passenger transit vehicles, typically subway cars and buses, builds new commuter locomotives, friction products, and refurbishes subway cars. Customers include public transit authorities and municipalities, leasing companies, and manufacturers of subway cars and buses around the world.

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.

Segment financial information for the three months ended June 30, 2011 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	\$ 280,036	\$ 198,863	\$	\$ 478,899
Intersegment sales/(elimination)	3,619	1,639	(5,258)	
<b>Total sales</b>	<b>\$ 283,655</b>	<b>\$ 200,502</b>	<b>\$ (5,258)</b>	<b>\$ 478,899</b>
Income (loss) from operations	\$ 52,396	\$ 26,052	\$ (22,086)	\$ 56,362
Interest expense and other, net			(4,203)	(4,203)
Income (loss) from operations before income taxes	\$ 52,396	\$ 26,052	\$ (26,289)	\$ 52,159

Segment financial information for the three months ended June 30, 2010 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	\$ 189,974	\$ 184,163	\$	\$ 374,137
Intersegment sales/(elimination)	4,637	1,476	(6,113)	
<b>Total sales</b>	<b>\$ 194,611</b>	<b>\$ 185,639</b>	<b>\$ (6,113)</b>	<b>\$ 374,137</b>
Income (loss) from operations	\$ 29,574	\$ 24,774	\$ (4,696)	\$ 49,652
Interest expense and other, net			(3,006)	(3,006)
Income (loss) from operations before income taxes	\$ 29,574	\$ 24,774	\$ (7,702)	\$ 46,646







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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011 (UNAUDITED)**

Segment financial information for the six months ended June 30, 2011 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	\$ 544,892	\$ 389,266	\$	\$ 934,158
Intersegment sales/(elimination)	7,910	2,034	(9,944)	
<b>Total sales</b>	<b>\$ 552,802</b>	<b>\$ 391,300</b>	<b>\$ (9,944)</b>	<b>\$ 934,158</b>
Income (loss) from operations	\$ 99,973	\$ 50,173	\$ (27,407)	\$ 122,739
Interest expense and other, net			(7,427)	(7,427)
Income (loss) from operations before income taxes	\$ 99,973	\$ 50,173	\$ (34,834)	\$ 115,312

Segment financial information for the six months ended June 30, 2010 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	\$ 355,118	\$ 382,946	\$	\$ 738,064
Intersegment sales/(elimination)	11,537	2,016	(13,553)	
<b>Total sales</b>	<b>\$ 366,655</b>	<b>\$ 384,962</b>	<b>\$ (13,553)</b>	<b>\$ 738,064</b>
Income (loss) from operations	\$ 50,948	\$ 58,005	\$ (8,125)	\$ 100,828
Interest expense and other, net			(7,639)	(7,639)
Income (loss) from operations before income taxes	\$ 50,948	\$ 58,005	\$ (15,764)	\$ 93,189

Sales by product are as follows:

<i>In thousands</i>	<b>Three Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
Electronics and other freight related products	\$ 205,697	\$ 123,953
Brake products	125,573	107,633
Remanufacturing, overhaul & build	82,223	73,973



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Transit products	48,994	55,525
Other	16,412	13,053
Total sales	\$ 478,899	\$ 374,137

<i>In thousands</i>	Six Months Ended June 30,	
	2011	2010
Electronics and other freight related products	\$ 390,874	\$ 221,441
Brake products	251,443	229,667
Remanufacturing, overhaul & build	161,657	146,334
Transit products	99,884	114,999
Other	30,300	25,623
Total sales	\$ 934,158	\$ 738,064



**Table of Contents****WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011 (UNAUDITED)****15. GUARANTOR SUBSIDIARIES FINANCIAL INFORMATION**

Effective August 2003, the Company issued \$150 million of Senior Notes due in 2013 (the 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, 2011:

<i>In thousands</i>	<b>Parent</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Elimination</b>	<b>Consolidated</b>
Cash and cash equivalents	\$ 4,456	\$ 8,407	\$ 208,612	\$	\$ 221,475
Accounts receivable	106	183,416	153,151		336,673
Inventories		221,307	89,862		311,169
Other current assets	47,841	3,617	11,157		62,615
<b>Total current assets</b>	<b>52,403</b>	<b>416,747</b>	<b>462,782</b>		<b>931,932</b>
Property, plant and equipment	3,517	120,908	94,019		218,444
Goodwill	7,980	396,828	170,868		575,676
Investment in subsidiaries	2,556,687	533,513	1,075,657	(4,165,857)	
Other intangibles		172,625	73,078		245,703
Other long term assets	(6,295)	4,735	41,283		39,723
<b>Total Assets</b>	<b>\$ 2,614,292</b>	<b>\$ 1,645,356</b>	<b>\$ 1,917,687</b>	<b>\$ (4,165,857)</b>	<b>\$ 2,011,478</b>
<b>Current liabilities</b>	<b>\$ 73,551</b>	<b>\$ 227,028</b>	<b>\$ 155,565</b>	<b>\$</b>	<b>\$ 456,144</b>
Intercompany	1,089,989	(1,166,815)	76,826		
Long-term debt	355,500	228	462		356,190
Other long term liabilities	76,936	32,619	71,273		180,828
<b>Total liabilities</b>	<b>1,595,976</b>	<b>(906,940)</b>	<b>304,126</b>		<b>993,162</b>
Stockholders' equity	1,018,316	2,552,296	1,613,561	(4,165,857)	1,018,316
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 2,614,292</b>	<b>\$ 1,645,356</b>	<b>\$ 1,917,687</b>	<b>\$ (4,165,857)</b>	<b>\$ 2,011,478</b>



**Table of Contents****WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011 (UNAUDITED)**

Balance Sheet as of December 31, 2010:

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Cash and cash equivalents	\$ 42,714	\$ 13,226	\$ 181,001	\$	\$ 236,941
Accounts receivable	371	149,015	108,763		258,149
Inventories		183,607	69,884		253,491
Other current assets	41,600	2,700	9,072		53,372
Total current assets	84,685	348,548	368,720		801,953
Property, plant and equipment, net	2,614	122,467	81,144		206,225
Goodwill	7,980	395,902	141,950		545,832
Investment in Subsidiaries	2,380,766	533,249	403,412	(3,317,427)	
Other intangibles, net		155,475	61,438		216,913
Other long term assets	(5,279)	(1,928)	39,365		32,158
Total assets	\$ 2,470,766	\$ 1,553,713	\$ 1,096,029	\$ (3,317,427)	\$ 1,803,081
Current liabilities	\$ 66,722	\$ 174,188	\$ 107,464	\$	\$ 348,374
Intercompany	1,043,791	(1,097,899)	54,108		
Long-term debt	381,500	258	249		382,007
Other long term liabilities	75,366	33,570	60,377		169,313
Total liabilities	1,567,379	(889,883)	222,198		899,694
Stockholders' equity	903,387	2,443,596	873,831	(3,317,427)	903,387
Total Liabilities and Stockholders' Equity	\$ 2,470,766	\$ 1,553,713	\$ 1,096,029	\$ (3,317,427)	\$ 1,803,081

Income Statement for the Three Months Ended June 30, 2011:

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination(1)	Consolidated
Net sales	\$	\$ 326,248	\$ 190,868	\$ (38,217)	\$ 478,899
Cost of sales	(380)	(211,286)	(139,706)	15,217	(336,155)
Gross profit (loss)	(380)	114,962	51,162	(23,000)	142,744
Operating expenses	(33,899)	(32,754)	(19,729)		(86,382)
Operating (loss) profit	(34,279)	82,208	31,433	(23,000)	56,362
Interest (expense) income, net	(5,593)	1,132	668		(3,793)
Other income (expense), net	173	214	(797)		(410)
Equity earnings	80,047	21,624		(101,671)	
Income (loss) from operations before income tax	40,348	105,178	31,304	(124,671)	52,159



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Income tax expense	(4,014)	(3,379)	(8,432)		(15,825)
Net income (loss) attributable to Wabtec shareholders	\$ 36,334	\$ 101,799	\$ 22,872	\$ (124,671)	\$ 36,334

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



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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011 (UNAUDITED)**

Income Statement for the Three Months Ended June 30, 2010:

<i>In thousands</i>	<b>Parent</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Elimination(1)</b>	<b>Consolidated</b>
Net sales	\$	\$ 279,053	\$ 116,154	\$ (21,070)	\$ 374,137
Cost of sales	878	(184,642)	(88,554)	11,645	(260,673)
Gross profit (loss)	878	94,411	27,600	(9,425)	113,464
Operating expenses	(12,993)	(35,206)	(15,613)		(63,812)
Operating (loss) profit	(12,115)	59,205	11,987	(9,425)	49,652
Interest (expense) income, net	(5,733)	1,594	47		(4,092)
Other income (expense), net	225	517	344		1,086
Equity earnings	54,407	9,819		(64,226)	
Income (loss) from operations before income tax	36,784	71,135	12,378	(73,651)	46,646
Income tax expense	(5,573)	(3,552)	(6,310)		(15,435)
Net income (loss) attributable to Wabtec shareholders	\$ 31,211	\$ 67,583	\$ 6,068	\$ (73,651)	\$ 31,211

(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, 2011:

<i>In thousands</i>	<b>Parent</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Elimination(1)</b>	<b>Consolidated</b>
Net sales	\$	\$ 653,507	\$ 344,624	\$ (63,973)	\$ 934,158
Cost of sales	(379)	(428,830)	(258,973)	29,963	(658,219)
Gross profit (loss)	(379)	224,677	85,651	(34,010)	275,939
Operating expenses	(47,981)	(68,748)	(36,471)		(153,200)
Operating (loss) profit	(48,360)	155,929	49,180	(34,010)	122,739
Interest (expense) income, net	(10,963)	2,285	1,201		(7,477)
Other income (expense), net	7,394	(1,027)	(6,317)		50
Equity earnings	148,831	28,033		(176,864)	
Income (loss) from operations before income tax	96,902	185,220	44,064	(210,874)	115,312
Income tax expense	(19,616)	(7,029)	(11,381)		(38,026)
Net income (loss) attributable to Wabtec shareholders	\$ 77,286	\$ 178,191	\$ 32,683	\$ (210,874)	\$ 77,286



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



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**WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011 (UNAUDITED)**

Income Statement for the Six Months Ended June 30, 2010:

<i>In thousands</i>	<b>Parent</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Elimination(1)</b>	<b>Consolidated</b>
Net sales	\$	\$ 541,731	\$ 235,662	\$ (39,329)	\$ 738,064
Cost of sales	1,058	(361,774)	(180,775)	25,280	(516,211)
Gross profit (loss)	1,058	179,957	54,887	(14,049)	221,853
Operating expenses	(21,684)	(68,576)	(30,765)		(121,025)
Operating (loss) profit	(20,626)	111,381	24,122	(14,049)	100,828
Interest (expense) income, net	(11,378)	3,199	175		(8,004)
Other (expense) income, net	1,314	1,496	(2,445)		365
Equity earnings	108,448	14,645		(123,093)	
Income (loss) from operations before income tax	77,758	130,721	21,852	(137,142)	93,189
Income tax expense	(16,183)	(7,142)	(8,289)		(31,614)
Net income (loss) attributable to Wabtec shareholders	\$ 61,575	\$ 123,579	\$ 13,563	\$ (137,142)	\$ 61,575

(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, 2011:

<i>In thousands</i>	<b>Parent</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Elimination</b>	<b>Consolidated</b>
Net cash (used for) provided by operating activities	\$ (11,754)	\$ 199,900	\$ 88,774	\$ (210,874)	\$ 66,046
Net cash used for investing activities	(1,209)	(26,498)	(36,555)		(64,262)
Net cash (used for) provided by financing activities	(25,295)	(178,221)	(32,470)	210,874	(25,112)
Effect of changes in currency exchange rates			7,862		7,862
(Decrease) increase in cash	(38,258)	(4,819)	27,611		(15,466)
Cash, beginning of year	42,714	13,226	181,001		236,941
Cash, end of period	\$ 4,456	\$ 8,407	\$ 208,612	\$	\$ 221,475



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Condensed Statement of Cash Flows for the Six Months Ended June 30, 2010:

<i>In thousands</i>	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net cash (used for) provided by operating activities	\$ (10,719)	\$ 155,418	\$ 16,831	\$ (137,142)	\$ 24,388
Net cash used for investing activities	(89)	(42,092)	(2,346)		(44,527)
Net cash provided by (used for) financing activities	14,078	(123,618)	(13,979)	137,142	13,623
Effect of changes in currency exchange rates			(15,634)		(15,634)
Increase (decrease) in cash	3,270	(10,292)	(15,128)		(22,150)
Cash, beginning of year	12,026	12,124	164,509		188,659
Cash, end of period	\$ 15,296	\$ 1,832	\$ 149,381	\$	\$ 166,509

**16. OTHER INCOME (EXPENSE), NET**

The components of other income (expense) are as follows:

<i>In thousands</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Foreign currency (loss) gain	\$ (589)	\$ 893	\$ (266)	\$ 296
Other miscellaneous income	179	193	316	69
Total other income (expense), net	\$ (410)	\$ 1,086	\$ 50	\$ 365



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

*The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and Westinghouse Air Brake Technologies Corporation's Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in its Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission on February 25, 2011.*

#### **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 approximately 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 17 countries. In the first six months of 2011, about 47% of the Company's revenues came from customers outside the U.S.

#### *Management Review and Future Outlook*

Wabtec's long-term financial goals are to generate cash flow in excess of net income, maintain a strong credit profile while minimizing our overall cost of capital, increase margins through strict attention to cost controls and implementation of the Wabtec Performance System, 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 current 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 North America 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 locomotives and freight cars. In 2010, U.S. freight rail traffic increased due to the improving overall economy. According to the Association of American Railroads, in 2010, revenue ton-miles increased 8.5%, carloadings increased 7.3% and intermodal loadings increased 14.2%, compared to the same period of 2009, as rail traffic rebounded strongly from the 2008-09 economic recession. Through mid-July 2011, revenue ton-miles were up 3.5%, carloadings were up 2.4% and intermodal loadings were up 7.2%, compared to the same period of 2010. This has had a favorable effect on the Company's Freight Group, with increased demand for new locomotives and freight cars, and for aftermarket products and services. About 15% of the Company's revenues are directly related to deliveries of new freight cars, so the improvement in that market has had a favorable effect on the Company's financial results. Whether demand continues to improve will depend largely on continued strength in the overall economy and in rail traffic volumes.

In 2008, the U.S. government enacted rail safety legislation that requires certain freight and passenger railroads to equip certain locomotives with positive train control technology by the end of 2015. This technology includes an on-board locomotive computer and related software, which are being developed by Wabtec. As the industry leader, Wabtec expects to benefit from increased sales of train control-related products and engineering services as the technology is deployed throughout the industry. PTC revenue was about \$20.0 million for the six months ended June 30, 2011.

The North American transit rail industry is driven by government spending and ridership. According to the American Public Transportation Association, spending under SAFETEA-LU, the federal government's transportation funding bill increased about 6% in 2009 and remained consistent in 2010, while ridership



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decreased about 4% and 1% in 2009 and 2010, respectively, due to the recession and its impact on employment levels. Ridership increased 1.6% in the first quarter of 2011, the first quarterly increase since the fourth quarter of 2008. Although SAFETEA-LU expired in September 2009, the bill has been extended through September 2011, with funding at about 2009 levels. Spending in 2011 is expected to remain at about current levels at least until a new bill has been passed.

In 2011, market conditions have improved in the North America freight rail market and are stable in the North America passenger transit market. Demand for new freight cars and locomotives is higher, due to increasing freight rail traffic. In the passenger transit market, the Company believes that stable federal funding and ridership has resulted in stable demand for new equipment and aftermarket parts; however, most government entities at all levels are facing budget issues, which could have a negative effect on demand for the Company's products and services.

Wabtec continues to expand its presence in freight rail and passenger transit markets outside the U.S., particularly in Europe, Asia-Pacific and South America. In Europe, the majority of the rail system serves the passenger transit market, which is larger than the transit market in the U.S. Our presence in the U.K., Germany and Italy has positioned the Company to take advantage of this market. Asia-Pacific is a growth market and our various joint ventures and direct exports to China have positioned the Company to take advantage of this growth. Economic growth in Australia has been an area of expansion for the Company as commodity suppliers use our products to meet the demands of their regional customers. Recently, the Company has announced a contract and an acquisition in Brazil, allowing us to expand our presence in that market.

In 2011 and beyond, unfavorable general economic and market conditions in the United States and internationally could have a negative impact on our sales and operations. To the extent that these factors cause instability of capital markets, shortages of raw materials or component parts, longer sales cycles, deferral or delay of customer orders or an inability to market our products effectively, our business and results of operations could be materially adversely affected. In addition, we face risks associated with our four-point growth strategy including 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.

**RESULTS OF OPERATIONS**

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

<i>In millions</i>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net sales	\$ 478.9	\$ 374.1	\$ 934.1	\$ 738.0
Cost of sales	(336.2)	(260.7)	(658.2)	(516.2)
Gross profit	142.7	113.4	275.9	221.8
Selling, general and administrative expenses	(73.9)	(51.3)	(128.8)	(95.9)
Engineering expenses	(9.1)	(10.4)	(18.0)	(21.1)
Amortization expense	(3.3)	(2.1)	(6.4)	(4.0)
Total operating expenses	(86.3)	(63.8)	(153.2)	(121.0)
Income from operations	56.4	49.6	122.7	100.8
Interest expense, net	(3.8)	(4.1)	(7.5)	(8.0)
Other income (expense), net	(0.4)	1.1	0.1	0.4
Income from operations before income taxes	52.2	46.6	115.3	93.2
Income tax expense	(15.8)	(15.4)	(38.0)	(31.6)
Net income attributable to Wabtec shareholders	\$ 36.4	\$ 31.2	\$ 77.3	\$ 61.6



**Table of Contents****SECOND QUARTER 2011 COMPARED TO SECOND QUARTER 2010**

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

<i>In thousands</i>	Three months ended June 30,		
	2011	2010	Percent Change
Freight Group	\$ 280,036	\$ 189,974	47.4%
Transit Group	198,863	184,163	8.0%
Net sales	478,899	374,137	28.0%
Income from operations	56,362	49,652	13.5%
Net income attributable to Wabtec shareholders	\$ 36,334	\$ 31,211	16.4%

Net sales increased by \$104.8 million to \$478.9 million from \$374.1 million for the three months ended June 30, 2011 and 2010, respectively. The increase is due to increased freight original equipment and aftermarket sales of \$75.8 million and sales related to acquisitions of \$37.1 million. Partially offsetting this increase was primarily lower sales for the build of transit locomotives of \$29.4 million. The Company realized a net sales increase of \$16.0 million and an income from operations increase of \$2.5 million due to favorable effects of foreign exchange. Net income for the three months ended June 30, 2011 was \$36.4 million or \$0.75 per diluted share. Net income for the three months ended June 30, 2010 was \$31.2 million or \$0.65 per diluted share. Net income increased due to higher sales volume.

Freight Group sales increased by \$90.0 million, or 47.4%, due to higher sales of \$59.4 million for electronics and specialty products, \$9.3 million for brake products and \$9.2 million from acquisitions. For the Freight Group, net sales increased by \$5.0 million due to favorable effects of foreign exchange on sales mentioned above.

Transit Group sales increased by \$14.7 million, or 8.0%, due to increased sales of \$27.9 million from acquisitions and \$10.3 million for electronics and specialty products, partially offset by decreased sales of \$29.4 million for the build of locomotives and a \$7.3 million decrease for transit products, due to the completion of major contracts, as well as project delays and budget constraints at municipal transit authorities. For the Transit Group, net sales were increased by \$11.0 million due to favorable effects of foreign exchange on sales mentioned above.

**Gross profit** Gross profit, which is dependent on a number of factors including pricing, sales volume and product mix, increased to \$142.7 million in the second quarter of 2011 compared to \$113.4 million in the same period of 2010. Gross profit, as a percentage of sales, was 29.8% for the second quarter of 2011 compared to 30.3%, for the second quarter of 2010, mainly due to mix of products. The provision for warranty expense is generally established for specific losses, along with historical estimates of customer claims as a percentage of sales, which can cause variability in warranty expense between quarters. Warranty expense was \$3.1 million lower in the second quarter of 2011 compared to the same period of 2010 due primarily to decreased warranty expense related to certain transit contracts. The warranty reserve recorded on the balance sheet was \$15.4 million higher at June 30, 2011 compared to June 30, 2010. This is due to assuming opening balance sheet warranty reserves of \$12.0 million from 2011 acquisitions.



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

<i>In thousands</i>	Three months ended June 30,		
	2011	2010	Percent Change
Selling, general and administrative expenses	\$ 73,943	\$ 51,243	44.3%
Engineering expenses	9,132	10,425	(12.4)%
Amortization expense	3,307	2,144	54.2%
Total operating expenses	\$ 86,382	\$ 63,812	35.4%

Selling, general, and administrative expenses increased \$22.7 million in the second quarter of 2011 compared to the same period of 2010 because of an \$18.1 million charge for a court ruling, acquisitions, and incentive and non-cash compensation, partially offset by a benefit of \$2.4 million from a settlement related to a prior acquisition. Engineering expense decreased by \$1.3 million in the second quarter of 2011 compared to the same period of 2010 as the company focused engineering resources on completing original equipment contracts which caused the related engineering costs to be charged to cost of sales. Amortization expense increased in the second quarter of 2011 compared to the same period in 2010 due to amortization of intangibles associated with acquisitions. Total operating expenses were 18.0% and 17.1% of sales for the second quarter of 2011 and 2010, respectively.

**Income from operations** Income from operations totaled \$56.4 million (or 11.8% of sales) in the second quarter of 2011 compared with \$49.6 million (or 13.3% of sales) in the same period of 2010. Income from operations increased due to higher sales volume and operating margins, and a benefit from a settlement related to a prior acquisition, partially offset by a charge for a court ruling.

**Interest expense, net** Overall interest expense, net, decreased due to higher interest income on higher invested cash balances.

**Other income (expense), net** The Company recorded foreign exchange losses of \$0.6 million in the second quarter of 2011 and foreign exchange gains of \$0.9 million in the second quarter of 2010, due to the effect of currency exchange rate changes on intercompany transactions that are non U.S. dollar denominated and charged or credited to earnings.

**Income taxes** The effective income tax rate was 30.3% and 33.1% for the second quarter of 2011 and 2010, respectively. The decrease in the effective rate is due primarily to a \$1.7 million benefit recorded in the second quarter of 2011 relating to settlements with taxing authorities and the expiration of statutory review periods in various taxing jurisdictions.

**Net income** Net income for the second quarter of 2011 increased \$5.1 million, compared with the same period of 2010. The increase in net income is due to higher sales volume, a benefit from a settlement related to a prior acquisition, and a tax benefit from the successful resolution of certain outstanding tax issues from prior years, partially offset by a charge for a court ruling.



**Table of Contents****FIRST SIX MONTHS OF 2011 COMPARED TO FIRST SIX MONTHS OF 2010**

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

<i>In thousands</i>	Six months ended June 30,		Percent Change
	2011	2010	
Freight Group	\$ 544,892	\$ 355,118	53.4%
Transit Group	389,266	382,946	1.7%
Net sales	934,158	738,064	26.6%
Income from operations	122,739	100,828	21.7%
Net income attributable to Wabtec shareholders	\$ 77,286	\$ 61,575	25.5%

Net sales increased by \$196.1 million to \$934.1 million from \$738.0 million for the six months ended June 30, 2011 and 2010, respectively. The increase is due to increased freight original equipment and aftermarket sales of \$150.9 million and sales related to acquisitions of \$70.6 million. Partially offsetting this increase was primarily lower sales for the build of transit locomotives of \$39.6 million. The Company realized a net sales increase of \$18.0 million and an income from operations increase of \$2.5 million due to favorable effects of foreign exchange. Net income for the six months ended June 30, 2011 was \$77.3 million or \$1.60 per diluted share. Net income for the six months ended June 30, 2010 was \$61.6 million or \$1.28 per diluted share. Net income increased due to higher sales volume.

Freight Group sales increased by \$189.7 million, or 53.4%, due to higher sales of \$121.6 million for electronics and specialty products, \$30.4 million from acquisitions and \$21.4 million for brake products. For the Freight Group, net sales increased by \$8.4 million due to favorable effects of foreign exchange on sales mentioned above.

Transit Group sales increased by \$6.4 million, or 1.7%, due to increased sales of \$40.2 million from acquisitions and \$12.5 million for electronics and specialty products, partially offset by decreased sales of \$39.6 million for the build of locomotives and a \$15.7 million decrease for transit products, due to the completion of major contracts, as well as project delays and budget constraints at municipal transit authorities. For the Transit Group, net sales increased by \$9.6 million due to favorable effects of foreign exchange on sales as mentioned above.

**Gross profit** Gross profit, which is dependent on a number of factors including pricing, sales volume and product mix, increased to \$275.9 million for the first six months of 2011 compared to \$221.8 million in the same period of 2010. Gross profit, as a percentage of sales, was 29.5% for the first six months of 2011 compared to 30.1%, for the first six months of 2010, primarily because of mix of products. The provision for warranty expense is generally established for specific losses, along with historical estimates of customer claims as a percentage of sales, which can cause variability in warranty expense between quarters. Warranty expense was \$1.4 million lower for the first six months of 2011 compared to the same period of 2010 due primarily to decreased warranty expense related to certain transit contracts.

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

<i>In thousands</i>	Six months ended June 30,		Percent Change
	2011	2010	
Selling, general and administrative expenses	\$ 128,759	\$ 95,874	34.3%
Engineering expenses	18,020	21,120	(14.7)%
Amortization expense	6,421	4,031	59.3%
Total operating expenses	\$ 153,200	\$ 121,025	26.6%



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Selling, general, and administrative expenses increased \$32.9 million in the first six months of 2011 compared to the same period of 2010 because of an \$18.1 million charge for a court ruling, acquisitions, and incentive and non-cash compensation, partially offset by a benefit of \$2.4 million from a settlement related to a prior acquisition. Engineering expense decreased by \$3.1 million in the first six months of 2011 compared to the same period of 2010 as the Company focused engineering resources on completing original equipment contracts which caused the related engineering costs to be charged to cost of sales. Amortization expense increased in the first six months of 2011 compared to the same period in 2010 due to amortization of intangibles associated with acquisitions. Total operating expenses were 16.4% of sales for the first six months of 2011 and 2010.

**Income from operations** Income from operations totaled \$122.7 million (or 13.1% of sales) in the first six months of 2011 compared with \$100.8 million (or 13.7% of sales) in the same period of 2010. Income from operations increased due to higher sales volume and operating margins, a benefit from a settlement related to a prior acquisition, partially offset by a charge for a court ruling.

**Interest expense, net** Overall interest expense, net, decreased due to higher interest income on higher invested cash balances.

**Other income (expense), net** The Company recorded foreign exchange losses of \$0.3 million in the first six months of 2011 and foreign exchange gains of \$0.3 million in the first six months of 2010, due to the effect of currency exchange rate changes on intercompany transactions that are non U.S. dollar denominated and charged or credited to earnings.

**Income taxes** The effective income tax rate was 33.0% and 33.9% for the first six months of 2011 and 2010, respectively. The decrease in the effective rate is due primarily to a \$1.7 million benefit recorded in the second quarter of 2011 relating to settlements with taxing authorities and the expiration of statutory review periods in various taxing jurisdictions.

**Net income** Net income for the first six months of 2011 increased \$15.7 million, compared with the same period of 2010. The increase in net income is due to higher sales volume, a benefit from a settlement related to a prior acquisition, and a tax benefit from the successful resolution of certain outstanding tax issues from prior years, partially offset by a charge for a court ruling and higher income tax expense.

**Liquidity and Capital Resources**

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

<i>In thousands</i>	Six months ended	
	June 30,	
	2011	2010
Cash provided by (used for):		
Operating activities	\$ 66,046	\$ 24,388
Investing activities	(64,262)	(44,527)
Financing activities	(25,112)	13,623
Decrease in cash	\$ (15,466)	\$ (22,150)

**Operating activities** In the first six months of 2011 and 2010, cash provided by operations was \$66.0 million and \$24.4 million, respectively. In comparison to first six months of 2010, cash provided by operations in 2011 resulted from higher net income and higher non-cash items, partially offset by a net increase in working capital. In 2011, accounts receivable increased by \$65.6 million, primarily due to higher sales, and inventory increased by \$46.8 million from the prior year. Accounts payable decreased by \$6.5 million. All other operating assets and



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liabilities, net, provided cash of \$68.1 million due primarily to the payment timing of certain accrued liabilities, the accrual of \$18.1 million for a court ruling and a \$47.1 million increase in customer deposits for certain contracts. In 2010, accounts receivable increased by \$66.3 million and inventory increased by \$5.5 million from the prior year. These increases were partially offset by an increase in accounts payable of \$5.0 million. All other operating assets and liabilities, net, provided cash of \$8.6 million due primarily to the payment timing of certain accrued liabilities.

**Investing activities** In the first six months of 2011 and 2010, cash used in investing activities was \$64.3 million and \$44.5 million, respectively. Net cash paid for acquisitions was \$51.8 million and \$39.9 million for the first six months of 2011 and 2010, respectively. Refer to Note 3 of the Notes to Consolidated Financial Statements for additional information on acquisitions. Capital expenditures were \$12.8 million and \$7.0 million in the first six months of 2011 and 2010, respectively.

**Financing activities** In the first six months of 2011, cash used in financing activities was \$25.1 million, which included \$79.0 million in proceeds from debt and \$75.0 million of repayments of debt on the revolving credit facility, \$29.8 million of debt repayments on the term loan and other debt, \$1.0 million of dividend payments and \$6.2 million for the repurchase of 95,000 shares of stock. In the first six months of 2010, cash provided by financing activities was \$13.6 million, which included \$166.4 million in proceeds from debt and \$125.4 million of repayments of debt on the revolving credit facility, \$24.8 million of debt repayments on the term loan and other debt, \$1.0 million of dividend payments and \$6.3 million for the repurchase of 154,600 shares of stock.

The following table shows outstanding indebtedness at June 30, 2011 and December 31, 2010.

<i>In thousands</i>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
6.875% Senior Notes, due 2013	\$ 150,000	\$ 150,000
Term Loan Facility	107,500	137,500
Revolving Credit Facility	138,000	134,000
Capital Leases	758	575
<b>Total</b>	<b>396,258</b>	<b>422,075</b>
Less current portion	40,068	40,068
<b>Long-term portion</b>	<b>\$ 356,190</b>	<b>\$ 382,007</b>

Cash balance at June 30, 2011 and December 31, 2010 was \$221.5 million and \$236.9 million, respectively.

**2008 Refinancing Credit Agreement**

On November 4, 2008, the Company refinanced its existing unsecured revolving credit agreement with a consortium of commercial banks. This 2008 Refinancing Credit Agreement provides the company with a \$300 million five-year revolving credit facility and a \$200 million five-year term loan facility. The Company incurred \$2.9 million of deferred financing cost related to the 2008 Refinancing Credit Agreement. Both facilities expire in January 2013. The 2008 Refinancing Credit Agreement borrowings bear variable interest rates. At June 30, 2011, the Company had available bank borrowing capacity of approximately \$113.1 million, net of \$48.9 million of letters of credit, subject to certain financial covenant restrictions.

Refer to Note 6 of the Notes to Consolidated Financial Statements for additional information regarding the 2008 Refinancing Credit Agreement.



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### *6.875% Senior Notes Due August 2013*

In August 2003, the Company issued \$150 million of Senior Notes due in 2013 ( the Notes ). The Notes were issued at par. Interest on the Notes accrues at a rate of 6.875% per annum and is payable semi-annually on January 31 and July 31 of each year. The proceeds were used to repay debt outstanding under the Company's existing credit agreement, and for general corporate purposes. The principal balance is due in full at maturity. The Company is in compliance with the restrictions and covenants in the indenture under which the Notes were issued and expects that these restrictions and covenants will not be any type of limiting factor in executing our operating activities. Refer to Note 6 of the Notes to Consolidated Financial Statements for additional information regarding the Notes.

Management believes that based on current levels of operations and forecasted earnings, cash flow and liquidity will be sufficient to fund working capital and capital equipment needs as well as meeting debt service requirements. If sources of funds were to fail to satisfy the Company's cash requirements, the Company may need to refinance our 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, may be more costly and burdensome than the debt agreements currently in place.

### *Company Stock Repurchase Plan*

On May 11, 2011, the Board of Directors increased its stock repurchase authorization to \$150 million of the Company's outstanding shares. Through June 30, 2011 purchases have totaled \$6.2 million, leaving \$143.8 million under the authorization. The new share repurchase authorization supersedes the previous authorization of \$150 million of which \$39.4 million was remaining.

The Company intends to purchase shares on the open market or in negotiated or block trades. No time limit was set for the completion of the programs which conforms to the requirements under the 2008 Refinancing Credit Agreement, as well as the 6.875% Senior Notes currently outstanding.

During the first six months of 2011, the Company repurchased 95,000 shares of its stock at an average price of \$65.14 per share. During 2010, the Company repurchased 206,560 shares of its stock at an average price of \$40.57 per share. All purchases were on the open market.

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

As of June 30, 2011, the Company has recognized a total liability of \$7.8 million for unrecognized tax benefits related to uncertain tax positions. At this time, the Company is unable to make a reasonably reliable estimate of the timing of cash settlement for any of the unrecognized tax benefits due to the uncertainty of the timing and outcome of its audits and other factors.

Since December 31, 2010, 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, 2010.

## **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 that our assumptions and expectations are correct.



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

Economic and industry conditions

prolonged unfavorable economic and industry conditions in the markets served by us, including North America, South America, Europe, Australia, Asia and South Africa;

decline in 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, cancelled, not returning to historical levels, or reduced or any combination of the foregoing;

consolidations in the rail industry;

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

fluctuations in interest rates and foreign currency exchange rates; or

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; or

the development and use of new technology;

Competitive factors

the actions of competitors;

Political/governmental factors

political stability in relevant areas of the world;

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

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

political developments, laws and regulations and federal and state income tax legislation; or

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



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Transaction or commercial factors

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

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

### **Critical Accounting Policies**

A summary of critical accounting policies is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. 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, 2010.

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

#### **Interest Rate Risk**

In the ordinary course of business, Wabtec is exposed to risks that increases in interest rates may adversely affect funding costs associated with its variable-rate debt. The Company's variable rate debt represents 27% and 32% of total long-term debt at June 30, 2011 and December 31, 2010, respectively. On an annual basis a 1% change in the interest rate for variable rate debt at June 30, 2011 would increase or decrease interest expense by \$1.1 million. To reduce the impact of interest rate changes on a portion of this variable-rate debt, the Company entered into interest rate swaps which effectively converted a portion of the debt from variable to fixed-rate borrowings during the term of the swap contracts. Refer to Financial Derivatives and Hedging Activities in Note 2 of Notes to Condensed Consolidated Financial Statements for additional information regarding interest rate risk.

#### **Foreign Currency Exchange Risk**

The Company is 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 first six months of 2011, approximately 53% of Wabtec's net sales were to customers in the United States, 10% in the United Kingdom, 8% in Canada, 5% in Australia, 5% in Mexico, 2% in Germany and 17% in other international locations. To reduce the impact of changes in currency exchange rates, the Company has periodically entered into foreign currency forward contracts. Refer to Financial Derivatives and Hedging Activities in Note 2 of Notes to Consolidated Financial Statements for more information regarding foreign currency exchange risk.

### **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, 2011. 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, 2011, that has materially affected, or is reasonably likely to materially affect, Wabtec's internal control over financial reporting.



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

Except as described in Note 13 of the Notes to Condensed Consolidated Financial Statements, 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, 2010.

**Item 1A. RISK FACTORS**

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010.

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

On May 11, 2011, the Board of Directors increased its stock repurchase authorization to \$150 million of the Company's outstanding shares. Through June 30, 2011 purchases have totaled \$6.2 million, leaving \$143.8 million under the authorization. The new share repurchase authorization supersedes the previous authorization of \$150 million, of which \$39.4 million was remaining.

The Company intends to purchase shares on the open market or in negotiated or block trades. No time limit was set for the completion of the programs which conforms to the requirements under the 2008 Refinancing Credit Agreement, as well as the Notes currently outstanding.

During the first six months of 2011, the Company repurchased 95,000 shares of its stock at an average price of \$65.14 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
April 3, 2011 to April 30, 2011				\$ 39,406,513
May 1, 2011 to May 28, 2011	95,000	65.14	95,000	\$ 143,811,782
May 29, 2011 to July 2, 2011				\$ 143,811,782
Total	95,000	\$ 65.14	95,000	\$ 143,811,782



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### **Item 6. EXHIBITS**

The following exhibits are being filed with this report:

3.1	Restated Certificate of Incorporation of the Company dated January 30, 1995, as amended December 31, 2003.
3.2	Amended and Restated By-Laws of the Company, effective February 15, 2011.
10.1	2011 Stock Incentive Plan. **
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.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

\* Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

\*\* Management contract or compensatory plan.



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**SIGNATURES**

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

WESTINGHOUSE AIR BRAKE

TECHNOLOGIES CORPORATION

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

DATE: August 4, 2011



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**EXHIBIT INDEX**

3.1	Restated Certificate of Incorporation of the Company dated January 30, 1995, as amended December 31, 2003, filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K (File No. 033-90866) for the period ended December 31, 2010, and incorporated herein by reference.
3.2	Amended and Restated By-Laws of the Company, effective February 15, 2011, filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 033-90866), dated February 22, 2011, and incorporated herein by reference.
10.1	2011 Stock Incentive Plan., filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 033-90866), dated May 16, 2011, and incorporated herein by reference. **
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.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

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\*\* Management contract or compensatory plan.